

UK CO-ORDINATING BODY CONSTITUTION AND PROCEDURES

1. STATUS AND RESPONSIBILITIES

1.1 The “UK Co-ordinating Body” (referred to in this document as the “Body”) exists by administrative agreement of the UK Agriculture Ministers, in particular to exercise their responsibilities under SI 2001/3020: The Common Agricultural Policy (Paying Agencies: Competent Authority and Co-ordinating Body).

1.2 The Body disposes of the following functions:

- Co-ordinating Body for the CAP, established and, as regards the processing of financial information, accredited in compliance with Article 6.3 of Council Regulation (EC) No.1290/2005 and Article 4 of Commission Regulation (EC) No. 885/2006, for the purposes of:

distributing Community texts and guidelines relating thereto to the Paying Agencies and to bodies responsible for the implementation of those texts and guidelines, as well as the promotion of their harmonised application,

communicating to the Commission the information referred to in Articles 6 and 8 of Regulation (EC) No. 1290/2005,

making available to the Commission a full record of all accounting information required for statistical and control purposes and

drawing up a synthesis to provide an overview of the statements of assurance drawn up the persons in charge of the accredited Paying Agencies and of the certificates drawn up by the Certifying Body.

The Body was formally accredited by decision of the UK Competent Authority on 11 October 2006 on the basis of an independent audit in respect of its controls and procedures used to process financial information to be made available to the Commission.

The Body provides the secretariat for the UK Paying Agency Directors' Forum, which promotes the harmonised application of the CAP within the UK and assists UK Ministers to fulfil their responsibilities as UK IACS Co-ordinating Authority under Article 20(3) of Council Regulation (EC) No. 73/2009 and SI 2009/3263: The Common Agricultural Policy Single Payment and Support Schemes (Integrated Administration and Control System) Regulations 2009.

- Secretariat to the Competent Authority, in which capacity it provides advice and support to the UK Competent Authority on the:

granting, monitoring and withdrawing Paying Agency accreditation in accordance with the requirements of Article 6 of Council Regulation (EC) No. 1290/2005 and Articles 1 and 2 of Commission Regulation (EC) No. 885/2006,

designating the Certifying Body in accordance with Article 7 of Council Regulation (EC) No. 1290/2005 and Article 5 of Commission Regulation (EC) No. 885/2006 and

communicating relevant information to the Commission in accordance with Article 8 of Council Regulation (EC) No. 1290/2005.

The Secretariat's advice to the Competent Authority is based on a range of evidence including the annual reports of the Certifying Body, reports from the Commission's services and evidence obtained by the Secretariat from the UK Paying Agencies.

- Such other functions as may, from time to time, be given it by UK Ministers.

2. **OBJECTIVES**

2.1 The Body's objectives are to:

- i) bring together the financial, audit and statistical information required by the Commission and promote the harmonised 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 to manage the Service Level Agreement with the UK Certifying Body;
- iii) promote an effective financial control environment that protects EU funds and reduces the risk of disallowance;
- iv) work with Paying Agencies, policy makers and EU institutions to promote changes that make the CAP simpler and cheaper to administer and ensure that controls are proportionate to risks and
- v) deliver services efficiently and effectively.

3. MANAGEMENT BOARD

Purpose

3.1 To oversee the discharge and performance of the work of the UK Co-ordinating Body with due regard to propriety and the need to implement a sound system of internal control.

Membership

3.2 Each of the four ministers set out in SI 2001/3020 shall appoint one representative to be a member of the Board. An individual appointed will remain on the Board until such time as a new appointment is made.

3.3 Members of the Board act jointly and are accountable collectively to Ministers. The Board will consist of Ministers' representatives and the Director of the Body. A quorum of the Board will consist of no less than the Chairman *pro tem* or another Ministers' representative appointed as Chairman for the meeting, one other Ministers' representative and the Director of the Body or, in the absence of the Director, the Body's Deputy Director.

3.4 The Chairman will act as the Director's line manager and consult with other members of the Board as necessary regarding the performance assessment of the Director.

3.5 The Board may ask other officials of the Body or the Agriculture Departments to attend as expert advisers. The Head or Deputy Head of RPA Internal Audit, which provides the Body's internal audit service, may be invited to attend meetings to assist the Board in the consideration of corporate governance issues.

Chairmanship

3.6 The Chairmanship of the Board will rotate annually between the representatives of the relevant Ministers in England, Scotland, Northern Ireland and Wales and in that order. However, Ministers' representatives will not be eligible to become Chairman until they have attended at least one Board meeting. Should the Chairman leave the Board before the end of his/her normal term of office (ending 30 April), he/she will be replaced by the next eligible candidate. If such a change occurs after 31 October, the new Chairman will remain in that role for the following year (starting 1 May). Should the serving Chairman be unable to attend a meeting, the Director will ask one of the other members of the Board to act as Chairman for that meeting.

Scope/Function

3.7 The Management Board is responsible to Ministers for the overall strategic direction and corporate governance of the UK Co-ordinating Body and for ensuring that the UK fulfils the obligations placed on the Competent

Authority and Co-ordinating Body by EU regulations. It will delegate responsibility for the day to day discharge of the Body's functions to the Director. It will:

- approve any changes to the Body's Constitution and Procedures;
- set the Body's strategic objectives and Key Performance Indicators;
- approve the Body's annual Business Plan and targets;
- review and approve an Annual Report on the Body's activities;
- scrutinise the Body's performance and success in meeting its strategic objectives;
- identify strategic risks;
- seek to resolve any unresolved disagreements that may arise, particularly in respect of recommendations by the Certifying body that may adversely affect the accreditation status of a Paying Agency;
- ensure that necessary financial and human resources, accommodation and Corporate Services are in place to allow the Body to meet its objectives;
- assure itself that robust internal systems and controls, including a Whistleblowers' Charter, are in place and consider the Director's Statement of Internal Control;
- assure itself that the Body will maintain its accreditation;
- provide advice and support to the Director, especially regarding the wider political and administrative context;
- provide advice to defra, should a vacancy arise, on the appointment of the Body's SCS Director;
- promote the success of the Body;
- review its own effectiveness as a Board in meeting its Terms of Reference;
- review periodically its Terms of Reference.

Meetings

3.8 The Board will meet at least twice yearly. Further extraordinary meetings may be called at the request of the Chairman or at the request of

one or more of the members and/or the Head of RPA IAU at the Chairman's discretion.

Secretariat

3.9 The Director of the Body will be responsible for preparation and circulation of minutes and distribution of the agenda and papers.

4. DIRECTOR

4.1 The Director will be responsible for the day to day operations of the Body. The Director will be answerable to the Board:

- for discharging the Body's Community obligations under Article 4 of Commission Regulation (EC) No. 885/2006; and
- as Secretary to the Competent Authority and for any other functions delivered under the terms of its Constitution & Procedures.

4.2 The Director will keep the Board and Paying Agencies informed of all matters affecting their interests in respect of the Body's functions. In respect of the Body's role as the sole interlocutor for the UK for all questions relating to the EAGF and EAFRD (under Article 4 of Commission Regulation (EC) No. 885/2006), the Director will consult with the Paying Agencies concerned on matters concerning:

- The distribution of Community texts and guidelines relating thereto to the paying agencies and to bodies responsible for the implementation of those texts and guidelines, as well as the promotion of their harmonised application;
- Communication to the Commission of the information referred to in Articles 6 and 8 of Regulation 1290/2005;
- Communication to the Commission of the information stipulated in Article 84 of 1122/2009 and 34 of 1975/2006;
- The availability to the Commission of a full record of all accounting information required for statistical and control purposes.

4.3 As risk owner for the UK Co-ordinating Body, the Director will maintain procedures laid down by the Board (which shall be broadly in line with central government guidelines, bearing in mind the nature and scale of the Body's operations) to facilitate the identification, evaluation and management of risks to the delivery of its business objectives.

4.3 Consequently, and in terms of the Body's strategy for risk management, the Director should, as a minimum, maintain 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 the Body and Paying Agencies by assessing risk probability and impact;
- Delivery to the Defra Accounting Officer (and the Board) of an annual SIC;
- 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 SIC.

5. **SERVICE DELIVERY**

5.1 The Body is set a number of key performance indicators (KPIs) in its annual Business Plan, which help to assess whether its objectives are being achieved. Each KPI is mapped against one of the Body's five objectives. The Body sets annual targets in respect of each of its KPIs.

5.2 The Body may, with the agreement of the Board, secure services in support of its functions from the UK Paying Agencies or any other body or individual. The delivery of services by the agencies or another body or individual will be subject to written agreements setting out respective responsibilities and the nature and quality/level of services to be provided including, where appropriate, agreements on any payments to be made.

6. **COMMITTEE STRUCTURE AND PROCEDURES**

As the Co-ordinating Body for the CAP

6.1 The Body provides the secretariat for the **Paying Agency Directors' Forum** (PADF), established in 2010 under the rotational chairmanship of the UK Paying Agencies.

6.2 The purpose of PADF is to ensure a consistent strategic approach in the implementation of the Common Agricultural Policy (CAP) across the UK, both as regards horizontal regulations and those 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 minimizing the risk of financial corrections,

6.3 PADF aims to identify changes that will make the CAP simpler and cheaper to administer and less burdensome for claimants and acts as a forum for discussion between policy and delivery colleagues on simplification principles and implementation issues. It also provides the means by which UK Agriculture Ministers fulfil their role as UK Coordinating Authority for the Integrated Administration and Control System (IACS) under Article 20 of Council Regulation 73/2009 and Regulation 4 of SI 2009/3263.

6.4 The objectives of PADF are to:-

- promote the harmonised application of EU regulations and guidelines by UK Paying Agencies and their delegated agents;
- identify and monitor risks for UK paying agencies relating to accreditation, scheme compliance and disallowance and agree appropriate mitigating actions;
- provide a forum to enable paying agencies to discuss the practical implications of CAP reform and other policy developments for delivery bodies, both as regards implementation and ongoing administration, and to discuss these matters with UK policy-makers;
- identify opportunities for the simplification of CAP regulations;
- prepare for meetings of the EU Conference of Paying Agency Directors and the EU Directors' Learning Network;
- promote common standards for controls and databases;
- exchange information and best practice between Paying Agencies; and
- undertake the executive functions of the IACS Coordinating Authority.

6.5 Membership of the Forum comprises the heads of each of the UK Paying Agencies, the Director of the UK Co-ordinating Body and one or more senior UK lead policy representatives. Defra are 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 highlight issues of potential concern.

6.6 The Body also chairs and provides the secretariat for the **Paying Agency Co-ordination Board (PACB)** which was established in 2007.

6.7 The purpose of PACB is to promote consistency in the implementation of the CAP across the UK, both as regards horizontal regulations and the regulations specific to individual schemes. PACB will consider 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.

6.8 To meet these objectives PACB will:

- 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, e.g. resources and timescales, both as regards implementation and ongoing administration;
- consider ways of improving administrative processes;
- exchange information and best practice between paying agencies;
- coordinate responses to the Commission and ECA where audits and resulting findings relate to more than one UK Paying Agency; and
- ensure the timely submission of returns to the Commission and monitor expenditure against UK and regional ceilings.

6.9 PACB will delegate functions as necessary to specialist sub-groups (e.g. Policy and Business Practitioners' Groups, AFWG and ITWG) and determine the arrangements (including relevant terms of reference) for such groups.

As Secretariat to the Competent Authority

6.10 The Body will manage the **UK Accreditation Compliance Committee (UKACC)**.

6.11 The purpose of the UKACC is to consider matters concerning the Body's functions as Secretariat to the Competent Authority, including the monitoring of Paying Agencies' corrective actions and the accreditation of Paying Agencies in accordance with agreed protocols (See Annex II). UKACC also considers matters concerning the Paying Agencies arising from the Body's responsibility for managing the SLA with the Certifying Body.

6.12 To achieve these objectives, UKACC will:

- agree schedules of Paying Agency corrective actions required following the annual certification audit
- agree deadlines for the implementation of such corrective action
- monitor implementation of corrective actions in accordance with agreed Co-ordinating Body Guidelines
- review the horizontal implications of recommendations made by the Certifying Body where they may impact on the work of other UK Paying Agencies
- consider matters relating to the granting, review, downgrading and withdrawal of Paying Agency accreditation
- discuss issues arising from the work of the Certifying Body and
- consider ways of improving the delivery of paying agency data to the Certifying Body.

7. **POLICY**

7.1 The Body will look to the Agriculture Departments to consult the Body on policy proposals relating to the Body's responsibilities. The Paying Agencies will remain responsible for prior consultation with their respective policy/sponsor departments on matters of policy concerning their communications with the Body.

7.2 The Body will maintain direct links with Defra as lead UK policy department on matters concerning the Agricultural Funds Committee.

8. **PERSONNEL MANAGEMENT**

8.1 The Director of the Body is a Defra Senior Civil Servant. The Director will be appointed by Defra after consultation with Ministers' representatives on the UK Co-ordinating Body Management Board. The Director's terms and conditions of employment will be determined by Defra and Civil Service policy. The Body's other staff are seconded employees of the Rural Payments Agency (RPA) and have the same terms and conditions of service as staff working within RPA.

8.2 The Body will aim to offer its staff a well-managed career. As well as development within the Body and RPA, this may include secondments to the UK agriculture or other departments.

8.3 The Director will be responsible for the recruitment and appointment of all staff in partnership with the RPA HR Director as part of (and in accordance with) wider recruitment arrangements for RPA, subject to the directions of the Board.

8.4 For the staff of the Body, the Director will adhere to the same promotion and appraisal arrangements in place for RPA¹. Provision will also be made for staff to participate along with RPA employees in procedures for communicating with and consulting staff and their representatives, particularly on issues relating to their terms and conditions of service. The Body will facilitate this through joint participation with RPA in agreements on facilities to be made available to trade union representatives.

9. LOCATION, PLANNING AND CONTROL

9.1 The Body will be co-located with the corporate headquarters of RPA or elsewhere by determination of the Board and in agreement with RPA. Under written arrangements approved by the Board, the Body's direct costs for salaries, non-pay administration costs and the delivery of services by the Certifying Body are met by Defra, secured through their annual Resource Estimate. RPA will continue to meet the cost of common/support services in accordance with a written Service Level Agreement (SLA).

9.2 The Body will have regard to systems of internal control. In particular, the Director will receive assurance from RPA IAU, acting as the Body's internal auditors. Results of internal audit reports and actions taken will be reported to the Board. The Body will implement accepted internal audit recommendations.

9.3 The Body will draw up an annual business plan, including performance measures and targets to be agreed by the Board. It will produce for the UK Competent Authority annually a report on the clearance of accounts for each EC financial year and an assessment of each UK Paying Agency against the Commission's accreditation criteria. It will also produce an annual report on its activities and performance levels, copies of which will be provided to all the UK paying agencies.

¹ With the exception of the appraisal and appeals arrangements (concerning countersigning of staff reporting) for the Deputy Director.

ANNEX I

COMMUNITY OBLIGATIONS CONCERNING THE PROVISION OF REGULATORY AND STATISTICAL INFORMATION

The Body is responsible for obtaining statements of expenditure and forecasts from all UK paying agencies and transmitting this information to the Commission. Separate declarations are made for the two Funds, the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD). All declarations are made in Euro.

EAGF

1. Weekly declarations showing the total expenditure from the beginning of the month to the end of the preceding week to be obtained from paying agencies by the third working day of each week and made available for the Commission if requested.
2. A monthly expenditure declaration consisting of the complete month's expenditure for each paying agency broken down by 1st and 2nd Category, and showing any significant differences between estimates and actuals. To be submitted to the Commission via E-Agrex by the third working day of the following month.
3. The 10th of the month declaration, giving budget article totals for all paying agencies, to be sent to the Commission via WUSI by the 10th day of the following month (25th October for 1st-15th October expenditure).
4. Monthly declarations to be submitted to be received at the Commission by the 20th of the following month, consisting of a Table 104 listing expenditure and assigned revenue for each budget item for each paying agency, plus Table 103 (summary of paying agency Table 104 totals); and Table 101 (differences between the total expenditure for the current month compared to that notified to the Commission on the 10th of the month declaration). All Tables are transmitted to the Commission via WUSI. In addition, the Table 104 must be converted to IDES format before sending.
5. During periods of Intervention activity "e.FAUDIT" tables accounting for expenditure and revenue relating to public storage are completed by RPA on the e.FAUDIT system and forwarded to the Body, usually by 23rd of the month, for checking and onward transmission to the Commission via WUSI.
6. Budget Discipline and Reduction of the UK Advance (late payments). The Commission will notify the Body of any proposed reductions to the monthly advance resulting from penalties applied to payments that exceed the deadlines laid down in Art. 9 of EC 883/2006. The Body must verify these reductions with paying agencies and submit to the Commission any justifications by a given deadline. To assist with this exercise the Body maintains a monitoring system. A review is carried out twice a year, on expenditure effected by 31st March and 31st July for which corrections are

made to the advance in a subsequent month. A final review is carried out as part of the clearance of accounts exercise.

EAFRD

1. Declarations of expenditure on Rural Development programmes for each paying agency to be submitted to the Commission via SFC 2007 as follows:

- By 30th April for expenditure 1st January – 31st March;
- By 31st July for expenditure 1st April – 30th June;
- By 10th November for expenditure 1st July – 15th October;
- By 31st January for expenditure 16th October – 31st December.

Expenditure for a rural development programme may only be declared to the Commission once approval has been given.

2. Six-monthly Forecasts of expenditure for the current and following years, for each rural development programme, to be sent along with the declarations of 31st January and 31st July.

CLEARANCE OF ACCOUNTS – ANNUAL ACCOUNTS

1. Copies of the following documents for each paying agency, certified by the UK Certifying Body (NAO), for the previous EAGF and EAFRD financial year. From the financial year 2011 the accounts will consist of:

- Table 104 (“the 13th T104”);
- Table of expenditure under the EAFRD;
- Summary table of outstanding irregularity debts (summary of Annex III);
- Table of multi-annual sanctions;
- Summary of amounts to be borne by member states (50%) and the Commission (100%);
- Summary of intervention operations (e.FAUDIT tables), plus written confirmation that details of stock movements are held by the paying agency;
- A statement of assurance from each of the paying agencies; and

- Certificates and reports by the Certifying Body for each paying agency and an opinion on each Statement of Assurance.

For the above documents a signed copy of the certified documents is sent to the Commission for receipt by the deadline. All documents are also sent electronically on a CD and by e-mail.

2. In addition, certain documents are sent via Stadium/Statel:

- The T104 in “standard file format”;
- X-Table data for each budget item in “standard file format”, for each individual payment made in the financial year (also known as the Matrix);
- A list of all outstanding irregularity debts (Annex III).
- A list of differences with explanations, by budget line, between the 12th and final T104, between the quarterly and final Annex XI and between the final T104/Annex XI & Matrix data; and
- Any necessary code lists.

3. An annual synthesis will be drawn up by the Body to provide an overview of the statements of assurance given by paying agencies and of the certificates provided by the Certifying Body. All the above documents to be despatched for receipt at the Commission by 1st February with the exception of the annual synthesis, which is required by 15th February.

UK CO-ORDINATING BODY: PROTOCOLS FOR THE GRANTING, MONITORING AND WITHDRAWAL OF PAYING AGENCY ACCREDITATION AND MANAGEMENT OF CORRECTIVE ACTIONS

1. COMPETENT AUTHORITY

1.1 Membership

The UK Competent Authority comprises the Secretary of State for Environment, Food and Rural Affairs, the Scottish Ministers, the Welsh Assembly Government and the Department of Agriculture and Rural Development (for Northern Ireland).

1.2 Responsibilities:

The Competent Authority is responsible for:

- Granting accreditation to paying agencies which meet the standards for financial management and scheme control laid down in Commission Regulation (EC) No. 885/2006;
- Monitoring and reviewing the fulfilment of accreditation criteria by the Paying Agencies on a regular basis, having regard to the assessments of its Secretariat and the annual reports of the Certifying Body, and ensuring the effective follow up of necessary corrective actions in respect of deficiencies identified in line with Article 2.1 of Commission Regulation (EC) No. 885/2006;
- Informing the Commission every three years of the results of its supervision of Paying Agency compliance to accreditation criteria;
- Placing Paying Agencies on probation, in line with the requirements of Article 2.3 of Commission Regulation 885/2006, where accreditation requirements are no longer met or are so seriously deficient as to affect the agency's ability to fulfil the tasks set out in Article 6.1 of Regulation 1290/2005, and, where appropriate, withdrawal of accreditation and the transfer of functions to another accredited paying agency; and
- The appointment and management of the UK Certifying Body.

2. UK CO-ORDINATING BODY

2.1 Secretariat Responsibilities

The UK Co-ordinating Body, acting as Secretariat to the Competent Authority, is responsible for:

- Providing the Competent Authority with assessments of each UK Paying Agency against the Commission's accreditation criteria.
- Reporting to the Competent Authority on the outcome of:
 - the annual certification of accounts by the Certifying Body, including details of any recommendations/findings to be addressed under Articles 2.1 and 2.3 of Commission Regulation 885/2006 and
 - reports or recommendations from the EC Commission bearing on Paying Agency accreditation
- Monitoring, via the UKACC, progress by the Paying Agencies in meeting day to day requirements arising from Community audits and corrective actions arising from the annual clearance of the EAGF and EAFRD Accounts.
- Agreeing with Paying Agencies a provisional programme and timetable for corrective actions, to be undertaken in accordance with the terms of Articles 2.1 and 2.3 of Commission Regulation (EC) No. 885/2006, including deadlines to be met; making recommendations on these actions to the Competent Authority and notifying the outcome to the paying agencies and the Certifying Body.
- Issuing, on behalf of the Competent Authority, formal probation Notices under Article 2.3 of Commission Regulation (EC) No. 885/2006, including deadlines to be met
- Monitoring Paying Agency progress in meeting the requirements of the Competent Authority for the implementation of all corrective actions and, where necessary, reporting completion and/or exceptions to the Competent Authority.
- Advising the Competent Authority on the granting, monitoring and withdrawal of paying agency accreditation in accordance with the procedures laid down in this protocol.
- Providing the EC Commission with the communications required in Article 1.5 of Commission Regulation (EC) No. 885/2006 and providing any changes in Paying Agency, Co-ordinating Body or Certifying Body details.
- Copying to the EC Commission and UK Certifying Body any directions issued to a paying agency on corrective actions required to be undertaken in accordance with Article 2.3 of Regulation 885/2006.

3. PROTOCOLS

3.1 Granting, Review, Downgrading and Withdrawal of Accreditation

3.1.1 The Competent Authority will accredit as a Paying Agency those authorities and public bodies within the UK which, in respect of payments made by them and as regards communicating and keeping information, provide sufficient guarantees that;

- the eligibility of requests and, in the framework of rural development, the procedure for allocating aid, as well as their compliance with community rules are checked before payment is made;
- accurate and exhaustive accounts are kept of the payments made;
- the checks laid down by Community legislation are made;
- the requisite documents are presented within the time-limits and in the form stipulated by Community rules;
- the documents are accessible and kept in a manner which ensures their completeness, validity and legibility over time, including with regard to electronic documents within the meaning of Community rules.

3.1.2 The Competent Authority decides on accreditation after examination of the paying agency's administrative organisation and system of internal control in respect of the following criteria:

- internal environment;
- control activities;
- information and communication; and
- monitoring.

3.1.3 In particular, such examination includes arrangements for the:

- authorisation and execution of payments;
- safeguarding of the Community budget;
- security of information systems;
- maintenance of accounting records;
- division of duties; and
- adequacy of internal and external controls in respect of transactions financed.

3.1.4 The examination shall be carried out by a body which is independent from the paying agency. In accordance with International Audit Standards, the examining body may place reliance on the work of other audit bodies.

3.1.5 “Provisional” accreditation may be granted or applied in respect of agencies that do not, or no longer, comply with the relevant requirements subject to conditions and deadlines to be met in respect of improvements to be made to administrative and accounting arrangements. This can be applied in two ways. First, newly accredited paying agencies may be granted “provisional” accreditation pending implementation of corrective action identified in the requisite pre-accreditation audit, as set out in Article 1.4 of Regulation 885/2006. Second, the accredited status of a paying agency will be automatically downgraded to “provisional” following the application of the probation period, as set out in Article 2.3 of Regulation 885/2006 (see paragraph 3.1.10).

3.1.6 In either case, the period of “provisional” accreditation should not exceed 12 months, unless, in the case of duly justified cases, an extension to this timescale is granted by the Commission. Such requests must be approved by the Competent Authority and submitted by the Body.

3.1.7 The number of accredited paying agencies will be determined by the UK’s constitutional and institutional structure but this should be limited to the minimum number necessary to effect EAGF and EAFRD expenditure under satisfactory administration and accounting conditions. The Commission will need to be consulted before any decision is taken to increase the number of accredited UK paying agencies.

3.1.8 The Competent Authority will provide written confirmation that a paying agency meets the criteria for accreditation and, in the case of the granting of initial “provisional” accreditation under the application of Article 1.4, will also include details of required corrective actions). The following information is required and must be lodged with the EC Commission before any expenditure effected is charged to either the EAGF or the EAFRD:

- The formal accreditation document (including details of their function – e.g. paying agency);
- The responsibilities vested in the paying agency;
- Its relationship with other bodies, public or private, which are responsible for implementing any measures under which the agency charges expenditure to the EAGF and the EAFRD;
- The procedures by which claims by beneficiaries are received, verified and validated and by which expenditure is authorised, paid and accounted for; and
- The provisions concerning the security of information systems.

3.1.9 The Competent Authority will review each Paying Agency's accreditation at least annually in the light of:

- assessments by the UK Co-ordinating Body;
- the annual reports of the UK Certifying Body;
- any observations from the Commission and other information made available;
- progress with any outstanding corrective actions required under Articles 2.1 and 2.3 of Commission Regulation (EC) No. 885/2006;

Notwithstanding the above, every three years, the Competent Authority will provide the Commission with written confirmation of the results of its supervision, providing confirmation as to whether each paying agency continues to comply with the accreditation criteria.

3.1.10 In cases where one or more of the accreditation criteria are no longer respected or are so seriously deficient as to affect the agency's ability to fulfil the tasks set out in Article 6.1 of Council Regulation (EC) No. 1290/2005, the Competent Authority will place the paying agency on probation under the provisions of Article 2.3 of Commission Regulation (EC) No. 885/2006. In accordance with the requirements of paragraph 3.1.5 above, during this period of probation the accredited status of a paying agency will be downgraded immediately to "Provisional". A review will subsequently be conducted by the Competent Authority to determine whether the agency has completed all corrective actions required by the Competent Authority within prescribed deadlines. In the light of this review the Competent Authority will decide whether to withdraw the agency's accreditation, restore full accreditation or, in exceptional circumstances, extend the period of provisional accreditation.

3.1.11 Accreditation will be withdrawn by the Competent Authority if accreditation criteria are no longer met and where, without reasonable cause, the agency concerned fails to comply with the Competent Authority's instructions, including meeting deadlines for making improvements in its administrative and accounting arrangements.

3.1.12 Removal of accreditation will only be considered as a last resort and will require the transfer of a paying agency's responsibilities to another accredited paying agency. Such action is unlikely to be achievable as an immediate measure and the period during which contingency plans are made for the transfer of agency functions will normally afford an agency time to make good any shortcomings in its accounting and scheme controls, bearing in mind the timescales for corrective action set during the period of probation.

3.1.13 In any cases of disagreement between the paying agencies and the Body on actions to be taken or deadlines to be met, the matter may be

referred to the Board. Where agreement still cannot be reached, the Board may refer the matter to the Competent Authority for resolution.

3.2 Application of Article 2.1 Procedures

3.2.1 In general, the application of Article 2.1 procedures is linked to the recommendations made by the Certifying Body when presenting its annual audit findings. However, they may also take into account additional observations and/or recommendations made by the Commission's Services during their review of the annual Certified Accounts and, in particular, the formal communication issued under Article 10 of Commission Regulation (EC) No. 885/2006.

3.2.2 As a result of the audit work undertaken, the Certifying Body is required to classify recommendations for improvements to controls and procedures that need to be made by paying agencies. These classifications are defined as follows:

Accreditation Recommendations

- Major Matters which require immediate attention by the Competent Authority and the Head of the Paying Agency;
- Intermediate Matters which concern the general control environment and require prompt attention at a senior level within the Paying Agency and the Competent Authority; and
- Minor Minor issues highlighted, which require attention at an appropriate level within the Paying Agency.

Conformity Recommendations

- Major Matters relating to weaknesses in the Key Controls which require immediate attention at a senior level within the Paying Agency;
- Intermediate Matters relating to weaknesses in the Ancillary Controls which require prompt attention at an appropriate level within the Paying Agency; and
- Minor Matters relating to other weaknesses which require attention at an appropriate level.

3.2.3 The nature of major accreditation recommendations is such that they automatically trigger the application of Article 2.3 procedures (see Section 3.3. below). Notwithstanding, in line with Article 2.1 of Commission Regulation (EC) No. 885/2006, the Competent Authority is required to follow-up on all other recommendations made by the Certifying Body (and/or the Commission's Services) to remedy the deficiencies identified. The monitoring and reporting requirements for recommendations subject to Article 2.1

procedures will be determined and monitored on the Competent Authority's behalf by the Body.

3.2.4 It should be noted that the Certifying Body will only include major and intermediate recommendations in their formal report submitted to the Commission. Details of all minor recommendations will be reported to paying agencies and the Body in separate Management Letters.

3.3 Application of Article 2.3 procedures

3.3.1 The application of procedures under Article 2.3 is only to be invoked where one or more of the accreditation criteria are no longer respected or are so seriously deficient as to affect the agency's ability to fulfil the tasks set out in Article 6.1 of Council Regulation (EC) No. 1290/2005.

3.3.2 In practical terms, it is envisaged that such procedures will be instigated on the basis of a major accreditation recommendation by the Certifying Body which, de facto, will be linked to a scoring assessment of "1" in the relevant accreditation matrix, as set out in Section 1 of the Certification report. By giving such an assessment, the Certifying Body is reporting that there is "clear non-respect of the accreditation criterion or serious deficiencies (the seriousness of the deficiencies is such that the PA cannot fulfil the tasks set out in Article 6(1) of Regulation 1290/2005)".

3.3.3 The Body will review this assessment, using appropriate Commission Guidelines. Where such an assessment is considered appropriate, the Body will propose to the Competent Authority that the paying agency concerned is placed on probation (and its accreditation status downgraded to "provisional") in accordance with Article 2.3 of Commission Regulation (EC) No. 885/2006. The Body will issue a formal probation notice addressed to the Head of the relevant Paying Agency, together with a detailed schedule of corrective action, copied to both the Commission and the Certifying Body for information.

3.3.4 In exceptional circumstances, the placing of an agency on probation may be considered by the Competent Authority on the basis of information brought to its attention by whatever means, in accordance with the requirements of Article 2.2 of Commission Regulation (EC) No. 885/2006, where this indicates that accreditation criteria are not being met. However, the placing of an agency on probation may not be deemed necessary where it can be demonstrated that appropriate corrective action has already been implemented or where it is judged by the Competent Authority that the corrective action would be prejudicial to a national emergency and/or would conflict with UK policy.

3.4 Setting Deadlines for Corrective Actions and Reporting Progress

3.4.1 Deadlines for corrective action required under the application of either Article 2.1 or 2.3 procedures should take account of the seriousness of the control weaknesses found and the potential or actual risk to the Fund. In practice, such assessments can only be made by the paying agencies

concerned based on knowledge of their resources, technical difficulties and the overall context of controls in place. It is preferable for paying agencies to take longer to complete actions successfully than to set unrealistic deadlines that are not met. Priority should be given nevertheless to addressing corrective actions as soon as possible in respect of:

- “major” accreditation recommendations and other deficiencies in accreditation criteria that serve to invoke the application of Article 2.3 procedures.
- “major” conformity and all intermediate recommendations identified by the Certifying Body (or EC Commission); and
- other weaknesses assessed as presenting a significant risk to the Fund;

In the case of the former, depending on the severity of the deficiencies found, the deadline for implementation for corrective action under Article 2.3 must not exceed 12 months from the date that the agency is put on probation unless a duly justified application for an extension has been submitted by the Body and approved by the Commission (see paragraph 3.4.4 below).

3.4.2 The Certifying Body and Competent Authority are obliged to monitor progress against deadlines for corrective action. In the case of the former, they are obliged to include details on follow-up action from the previous year on major and intermediate recommendations in their report to the EC Commission on the annual certification of EAGF/EAFRD accounts.

3.4.3 In cases where corrective actions are not expected to meet the initially determined deadlines (including any milestones) laid down by the Competent Authority for the application of Article 2.3 procedures, or the Body on their behalf for Article 2.1 procedures, the paying agency concerned shall submit a formal request to the Body as soon as possible and, in any case before the expiry of any initial deadline including:

- An explanation for the delay;
- Details of any changes in the approach (corrective actions) it is proposed should be undertaken in the light of developments;
- A proposed revised timetable for completion of the corrective actions (including any future milestones); and
- Where any further serious risk to the Fund is expected to arise from the delay, an assessment of that risk.

Where the Competent Authority (or the Body on its behalf), considers an extension to the initial deadline is appropriate, a revised deadline will be approved.

3.4.4 In the case of the application of procedures under Article 2.3, the Body, on behalf of the Competent Authority, will require regular updates on the progress of implementing corrective action at intervals to be determined on an individual case basis. Furthermore, as any request to extend the deadline for the implementation of corrective action beyond 12 months requires the formal sanction of the Commission, any application for such an extension should be made by a paying agency to the Body giving due regard for the need for the Competent Authority to seek and obtain such sanction prior to the expiry of the initial 12 month period.

3.4.5 The Body will submit routine reports to the Competent Authority on the previous year's progress on paying agency corrective actions following publication in the OJ series of the Commission's annual decision on clearance for each financial year (due by the end of April, annually). It will provide further reports, along with proposals for further directions under Article 2.3 and recommendations on accreditation, where this is warranted by any agency's failure to comply with earlier directions.

3.5 Avoidance of financial corrections resulting from Accreditation deficiencies

3.5.1 In 2010, the Commission introduced an Addendum to Commission guideline No. 5330/97 – Guideline for the calculation of financial consequences. Part A sets out the circumstances under which the Commission may apply financial corrections following deficiencies in Paying Agencies' compliance with accreditation criteria in accordance with Articles 2 and 11 of Regulation 885/2006.

3.5.2 Financial corrections can only be triggered where both of the following conditions are fulfilled. They are:

- i) Where one or more of the accreditation criteria are assessed as a grade "1" in the accreditation matrix by the Certifying Body or via a specific Commission accreditation audit; and
- ii) Where either:
 - a) the Competent Authority does not put a paying agency on probation; or
 - b) the Competent Authority has restored full accreditation before the relevant remedial action plan has been implemented by the paying agency.

3.5.3 In order to avoid the application of any financial correction the UK Coordinating Body will advise the Competent Authority of its obligations both under Article 2.3 of Regulation 885/2006 (see Section 3.3 above) in terms of placing Paying Agencies on probation and on the restoration (or otherwise) of accredited status following a period of probation (see paragraph 3.1.10 above).