

UK Co-ordinating Body

Business Plan

1 May 2013 – 31 March 2014

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Foreword by the Director

The current strategic framework for the UK Co-ordinating Body (UKCB), including high-level objectives and performance indicators with associated targets, was introduced in 2008 and has been updated annually as necessary. This framework has provided greater clarity in respect of the Body's direction and made it easier to assess whether the Body is successfully achieving its objectives. UKCB's objectives, set out in chapter 1, cover the co-ordination and harmonisation of CAP administration, work in support of the Competent Authority, mitigation of the risk of disallowance through ensuring compliance with CAP regulations and managing resources efficiently and effectively.

UKCB will continue to meet its specific regulatory responsibilities in respect of co-ordination and harmonization, including EU audit enquiries, financial and statistical returns and the Agricultural Funds Committee. Under the new CAP Horizontal Regulation UKCB will also have a responsibility to "take or co-ordinate actions with a view to resolving any deficiencies of a common nature and to keep the Commission informed of the follow-up". It will work closely with UK Paying Agencies and other Member States to identify problems arising from the implementation of CAP reform in areas such as greening, mapping requirements and rural development programmes. Further details are given in section 2.2 below.

Audit and assurance of the Common Agricultural Policy

European Council/European Parliament	Annual discharge of EU budget
European Court of Auditors	Annual statement of assurance audit (DAS)
European Commission (DG AGRI)	Annual clearance of accounts
Competent Authority (Member State)	Accredits/designates Paying Agencies, Co-ordinating Body and Certifying Body
Certifying Body	Annual certification audit
Head of the Paying Agency	Annual management declaration
Paying Agency	Internal audit and quality assurance
Paying Agency and delegated bodies	Management checks
Paying Agency and delegated bodies	Operational controls

As summarized in the table above, the CAP is subject to multiple levels of audit and assurance. This has brought into focus the need for regulatory compliance and strong controls. UKCB will work with policy and paying agency colleagues to strengthen regulatory compliance as a means of mitigating the risk of future disallowance. The table below summarizes the ways in which compliance is built into each stage of CAP implementation.

EU regulations and Commission guidelines	Interpret the regulatory requirements and guidelines
National decisions and legislation	Ensure selected measures and eligibility criteria are deliverable, verifiable and controllable
Administrative organization and system of internal control	Comply with accreditation criteria. Obtain evidence of compliance via audit and assurance. Understand drivers of non-compliance and respond effectively to audit findings. Manage inherent (irregularity) and control risks.
Horizontal controls (e.g. IACS)	Develop systems (e.g. registers for land, customers and entitlements) to meet requirements for administrative and on-the-spot checks
Scheme design/business rules	Develop scheme rules and controls for the Paying Agency and guidance for claimants.
Scheme implementation/business processes	Process, pay and account for claims. Apply pre-payment controls, penalties and post-payment corrections/recoveries. Compile control statistics and management information.

In its role as Secretariat to the Competent Authority (see section 2.3 below) UKCB will continue to oversee the Certification Audit and monitor the implementation of corrective actions by Paying Agencies. The introduction of the mandatory audit of legality and regularity of expenditure for which reimbursement has been claimed from the EU will significantly extend the scope of the annual certification audit and is the subject of detailed discussions with the Commission.

UKCB is engaging with the Commission, other Member States and UK policy colleagues to try to ensure that the audit requirements are proportionate and that Member States retain as much flexibility as possible within the framework of international standards on auditing. In the meantime the Department of Agriculture and Rural Development in Northern Ireland is conducting a voluntary audit for the Single Payment Scheme for the 2012 scheme year, repeating the exercise that was conducted for the previous year. DARD has appointed the Northern Ireland Audit Office (NIAO) to undertake this work. UKCB will continue to manage the SLA with NIAO for this work on behalf of DARD and liaise with the Commission regarding the audit.

UKCB will continue to engage with other Member States on the above themes, particularly through the Conference of Paying Agency Directors, the Learning Network of EU Paying Agencies and Panta Rhei (see section 2.4).

UKCB has achieved significant efficiency savings both in respect of its own staffing and in the work carried out by the Certifying Body. UKCB's budget was reduced from £1,852k in 2009/10 to £1,695k for each of the four years from 2011/12 to 2014/15, of which £1,183k relates to the certification audit. Further details regarding resources are set out in chapter 3 below.

Risks to the achievement of this plan will be kept under close review and reported to the Management Board. Details regarding UKCB's risk management procedures are set out in chapter 4.

A summary of the framework for the financial management of the CAP is given in the Appendix. As 30 April will cease to be the deadline for the clearance of Paying Agency accounts, UKCB's targets will now be set for the year ending 31 March. Accordingly this business plan covers the 11 months from 1 May 2013 to 31 March 2014.

Michael Cooper
Director, UK Co-ordinating Body
May 2013

1. **Strategic framework and targets for 2013/14**

1.1 Agriculture Ministers, i.e. 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 in accordance with Statutory Instrument (S.I. 2001/3020), have established the UK Co-ordinating Body 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 6.3 of Council Regulation 1290/2005, i.e. bring together information to be sent to the Commission and promote the harmonised application of Community rules and guidelines; and

act as **Secretariat to the Competent Authority** for the granting, maintenance and withdrawing of Paying Agency accreditation under Article 6.4 of Council Regulation 1290/2005, based on the annual reports of the UK Certifying Body and reports from the European Commission's services.

1.2 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.

Purpose and Vision

1.3 UKCB's purpose is "to work with Paying Agencies to ensure that they maintain their accreditation status and effectively administer the CAP, thereby mitigating the risk of disallowance". UKCB's **vision** is to be a highly-motivated

and skilled team that is recognized as helping Paying Agencies to achieve the above outcomes.

Objectives

1.4 UKCB'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) deliver services efficiently and effectively.

Performance Indicators

1.5 UKCB's key performance indicators (KPI), which help to assess whether the above objectives are being achieved, are to:-

- i) submit accurate monthly/annual accounting returns in support of EAGF and EAFRD reimbursement claims within EU regulatory deadlines;
- ii) co-ordinate EU and ECA audits and relevant statistical returns within agreed deadlines, working with Paying Agencies to provide the information requested by the Commission;
- iii) publish CAP beneficiary data online in accordance with the requirements of the Commission's transparency regulation (259/2008, as amended);
- iv) provide advice and facilitate discussions on the interpretation and application of current and new CAP regulations to support 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) manage financial resources effectively and demonstrate year-on-year efficiency gains in the delivery of the Co-ordinating Body's services, including the delivery of the annual certification audit by the Certifying Body;
- viii) 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.

1.6 Table 1 maps these key performance indicators against UKCB's four objectives:

Table 1 Key performance indicators

	i)	ii)	iii)	iv)	v)	vi)	vii)	viii)
Objective 1	✓	✓	✓	✓				
Objective 2					✓	✓		
Objective 3		✓		✓		✓		
Objective 4							✓	✓

Targets for 2013/14

1.7 The following targets have been set for 2013/14 in respect of each of UKCB's key performance indicators:

KPI	Target for 2013/14
i	Submit EAGF and EAFRD expenditure reports and reimbursement claims to the Commission within regulatory deadlines.
ii	Provide formal responses to Commission/ECA audit letters and submit regulatory statistical returns within the relevant deadlines.
iii	Process CAP beneficiary transactions for FY 2013 in preparation for

	the publication of aggregated data by the regulatory deadline of 30 April 2014.
iv	Provide effective advice to Paying Agencies on interpreting regulations and managing the risk of disallowance, particularly in the context of CAP reform implementation.
v	Submit certified accounts and Matrix data for financial year (FY) 2013 for all UK Paying Agencies to the Commission by the regulatory deadline in February 2014 or such alternative deadlines as may be agreed with the Commission.
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 2012.
vii	Negotiate a fee with the Certifying Body for the delivery of the FY 2013 certification audit and obtain agreement from Defra on funding.
viii	Ensure that all staff have work objectives and receive in-year appraisal in accordance with the performance management system.

Critical Success Factors

1.8 UKCB has identified the critical success factors that will help keep it on track towards meeting its objectives. Accordingly it will:

- i) engage with stakeholders, e.g. Paying Agencies, policy makers, EU institutions (Commission, Council, Parliament and Court of Auditors) and the Certifying Body,
- ii) obtain support from Ministers in Defra and the Devolved Administrations when necessary,
- iii) collaborate with other Member States,
- iv) ensure that staff have appropriate skills, including the ability to think creatively and solve problems, and achieve a high level of performance and
- v) obtain and effectively manage adequate resources.

Values

1.9 UKCB promotes the following values:-

- i) Our stakeholders matter – UKCB must seek to meet the needs and win the trust of our stakeholders.

- ii) Our people matter – UKCB must give people responsibility and opportunities for learning and development. Staff must accept responsibility for the work of UKCB and be able to achieve a reasonable work/life balance.

- iii) Collaboration matters – UKCB must work collaboratively, both internally and with external organisations, to achieve its objectives. Staff should respond positively for requests for help.

- iv) Performance matters – UKCB is clear about its purpose and objectives and consistently delivers individual and team targets.

2. Work Programme for 2013/14

2.1 UKCB will seek to achieve its objectives and targets during the coming year by focusing on the following areas. This work programme will be adapted as necessary to take account of any new requirements or issues as they arise.

2.2 Co-ordination, harmonization, financial control and risk management

UKCB will carry out the co-ordination and harmonization functions laid down in EU regulations and guidelines and proactively seek to harmonize the implementation of CAP regulations and reduce the risk of disallowance. It will continue to represent the UK at the monthly meetings of the Commission's Agricultural Funds Committee, provide advice to Paying Agencies and departments on accreditation and disallowance matters and respond to new proposals from the Commission. It will submit EAGF and EAFRD expenditure reports and reimbursement claims together with UK statistical returns and irregularity cases to the Commission and convene meetings of the Accounts and Finance Working Group and the IT Working Group as necessary during the course of the year. UKCB will provide briefing in respect of issues relating to the CAP raised in the ECA's audit opinion on the EU's 2012 budget and in the subsequent discharge of the budget. Significant activity is particularly anticipated in the following areas.

2.2.1 EU audit enquiries

It can take several years for EU audits to complete all of the relevant stages. In the case of Commission audits these include the initial audit mission, letter of observations, correspondence, bilateral meeting, conciliation hearing and clearance decision. UKCB oversees the UK's

input to this process. Through input to Commission and ECA audit missions, bi-lateral meetings and conciliation hearings and through the co-ordination of formal UK replies to EU letters of observation, UKCB plays an integral part in framing the UK's position. UKCB will seek to maintain a robust defence during the coming year on all enquiries to minimize potential disallowance and support Paying Agencies to take cases to the Conciliation Body where appropriate.

UKCB will also co-ordinate ECA audits, including enquiries relating to DAS 2012 and 2013. The DAS audit, which now gives separate assessments of the error rates in EAGF and EAFRD, receives a high level of attention from the Commission.

2.2.2 Working with Paying Agencies and departments

The Paying Agency Directors' Forum (PADF), comprising heads of Paying Agencies, UKCB and Defra policy, provides a strategic overview of CAP delivery and compliance issues and will particularly focus on the challenges of implementing CAP reform in the coming year. The Paying Agency Co-ordination Board (PACB) will continue to address operational issues.

PADF and PACB together facilitate the sharing of information between the UK Paying Agencies and promote consistency in the implementation of the CAP across the UK, both as regards horizontal control regulations and specific schemes. They provide a means for identifying regulatory changes and implementation issues that will cause problems for Paying Agencies and for raising these with UK policy and legal colleagues and, if necessary, with the Commission. They also take action to address risks of disallowance and audit criticism.

UKCB will attend Paying Agency groups on accreditation and disallowance and the inter-departmental internal audit group (IDAG).

The Director is also a member of several Defra groups, including the CAP Reform Programme Board and disallowance working group.

UKCB will maintain and update its website www.ukcb.defra.gov.uk, which is scheduled to be migrated to GOV.UK by the end of the year.

UKCB will collate monthly data from paying agencies to monitor late payments and whether expenditure and entitlements remain within relevant national and regional ceilings. PACB will take action regarding any significant variances and consider any arguments for changes to regional ceilings.

2.2.3 CAP reform

Political negotiations on CAP reform, which started in October 2011, are now moving to a conclusion. Assuming there is agreement in June 2013 on the basic regulations, allowing these to come into force from 1 January 2014 (except where provided for by the transitional regulation), CAP reform will move into a new phase. The focus will switch from policy development to the implementation of new systems and processes. UKCB will work closely with Defra policy colleagues with regard to the provisions of the implementing and delegated regulations (particularly those made under the Horizontal Regulation, where UKCB will need to attend the relevant working groups). It will seek to ensure that delivery concerns are identified and, where possible, addressed via amendments to the relevant text. It will support work under the Rural Development Regulation to ensure that programmes are verifiable and controllable. UKCB will provide advice and support to Paying Agencies on interpreting the new regulations and identify specific actions to ensure regulatory compliance and mitigate disallowance risks.

2.2.4 CAP beneficiary data

UKCB manages the online publication of amounts paid to CAP beneficiaries, see www.cap-payments.defra.gov.uk, in line with the requirements of Commission Regulation 259/2008. Following an ECJ judgement that deemed the publication of natural persons invalid, an amendment was passed in 2011 requiring publication of legal persons only. UKCB has processed and published Paying Agency data on the new basis for the last three financial years and expects to use the same format to publish beneficiary data for financial year 2013 by 30 April 2014. New transparency requirements have been proposed as part of the Horizontal Regulation and will need to be implemented for financial year 2014. UKCB will manage the contractual arrangements for this development, along with the data processing and hosting. It is anticipated that the current website will be migrated to the GOV.UK website by end of the year.

2.2.5 Control statistics

UKCB will collate control statistics for the Single Payment Scheme (Article 84 of Regulation 1122/2009) and Rural Development (Article 31 of Regulation 65/2011) and work with Paying Agencies to ensure that these are accurate and submitted to the Commission within the 15 July deadline. This is particularly important following the introduction of Annex 2 of the Statement of Assurance, which requires an assessment by the head of the Paying Agency of the quality of the control statistics and of the underlying controls. UKCB will continue to ensure a smooth transition to the Commission's new data transfer portal, the Information System for Agricultural Market Management and Monitoring (ISAMM), as this is rolled out.

2.2.6 Agricultural Funds Committee

UKCB will represent the UK along with Defra at the monthly Fund Committee meetings, which consider ad hoc clearance decisions and changes to Commission regulations and guidelines. AFC is likely to have significant input to deliberations on implementing regulations under the new horizontal regulation.

2.2.7 Reimbursement of rural development expenditure

UKCB will liaise closely with rural development policy colleagues in respect of the financial management of Pillar 2. Specific emphasis will continue to be placed on ensuring that accurate forecasts of expenditure (Annex X returns) are submitted. The Commission has warned that failure to do so may result in delays in re-imburement. Attention will also be focused on ensuring that the 'n+2' principles are understood and adhered to in order to maximize UK spend and that the Annex XI re-imburement claims submitted accurately reflect the different funding streams within the EAFRD (convergence, non-convergence and new voluntary modulation).

2.2.8 Application of Commission requirements for debt reporting

Financial year 2008 saw a change in the accounting treatment of debt due to administrative error as opposed to trader irregularity, with only the latter subject to formal Annex III reporting at the year end. All outstanding debt due to administrative error effectively transfers to the Exchequer by virtue of the amounts concerned being repaid to the Commission via an adjustment to the final certified accounts.

As part of the clearance of the Financial Year 2010 accounts the Commission challenged the 'claw back' by RPA of monies previously paid over in relation to administrative debt. The Commission undertook a conformity enquiry on this issue in October 2011 and issued a letter

of observation in July 2012. The Commission's reply to the UK's response and invitation to a bilateral meeting is awaited. UKCB will continue to argue that there must be a process whereby Paying Agencies can reclaim monies paid over to EU funds in excess of the actual debt.

2.3 Competent Authority work

UKCB has recently agreed a revised Service Level Agreement with the National Audit Office (NAO) in respect of its work as UK Certifying Body. NAO, UKCB and each of the Paying Agencies have also signed updated letters of engagement setting out the roles and responsibilities of each party. UKCB will attend the Certifying Body's 'countries conference' (comprising NAO, Audit Scotland, WAO and NIAO). Significant activity is anticipated in the following areas.

2.3.1 Monitoring corrective action by Paying Agencies

Following its submission to Ministers reporting on the results of the certification audit for financial year 2012, UKCB will closely monitor corrective actions by Paying Agencies to implement the recommendations made by the Certifying Body and Commission. UKCB will hold meetings with paying agencies where necessary to discuss progress and to seek direct evidence of the implementation of corrective actions.

2.3.2 Commission experts' meetings

The Commission is expected to convene its annual meeting of heads of paying agencies and co-ordinating bodies in November 2013 to discuss the clearance of accounts. UKCB will attend this meeting.

2.3.3 Certification audit for financial year 2013

UKCB will work with the Certifying Body to finalize and agree the Audit Strategy, under the current certification regime, for financial year 2013 and will then liaise closely with the Certifying Body and Paying agencies throughout the audit up to the submission of certified accounts and statements of assurance in early 2014. It will report on the certification process to the Competent Authority and Commission, stating whether the paying agencies continue to comply with the accreditation criteria, and convene a meeting of the UK Accreditation Compliance Committee to discuss the implementation of corrective action.

2.3.4 Audit of legality and regularity

The new requirements for a mandatory audit of legality are due to be introduced with effect from 16 October 2013 (i.e financial year 2014). UKCB is seeking a year's deferral until there is an agreed package of regulations and guidelines. The Commission issued revised draft guidelines in April 2013. UKCB and NAO will analyse these and, following a bilateral meeting with the Commission, provide detailed comments. UKCB is arguing strongly for an audit in line with international standards on auditing, placing reliance on the work of Paying Agencies where possible, rather than the reinforcement of assurance by re-performing a large number of randomly-selected on-the-spot checks. There is considerable uncertainty as to the outcome of these discussions and the Competent Authority will need to consider how to respond in the light of the final version of the Commission's guidelines.

2.4 Working with other Member States

UKCB will seek to build alliances with other Member States to influence the Commission's thinking on CAP administration.

2.4.1 Conference of Paying Agency Directors

Directors of Paying Agencies hold a conference twice a year, organized by the Presidency, to discuss the practical aspects of CAP implementation and exchange ideas on matters of mutual interest.

UKCB will continue to lead for the UK. The Irish Presidency hosted the 33rd Conference in April 2013, where the Director chaired a workshop on the audit of legality and regularity. The Lithuanian Presidency will be hosting the 34th Conference in October 2013.

2.4.2 Learning Network

The Learning Network for heads of EU Paying Agencies and Co-ordinating Bodies first met in April 2009 and is now well established as a semi-formal channel of communication between Paying Agencies and DG AGRI. Recent activity is set out in UKCB's Annual Report for 2012/13. The Director co-chairs the network, whose next plenary session is scheduled for July 2013. In the meantime exchanges are taking place via the Learning Network's online portal.

2.4.3 Panta Rhei

UKCB will represent the UK at meetings of the EU Panta Rhei (IT) group. The Director will be giving a presentation at the next conference in May 2013.

3. Resources and Staff Development

3.1 UKCB is co-located with the Rural Payments Agency (RPA) at its offices in Reading. RPA provides UKCB with common services including accommodation, IT, accounting, HR and internal audit. Provision of these services is managed under a Service Level Agreement. There is a separate arrangement with Defra Legal for the provision of legal advice.

3.2 Under an administrative agreement between Ministers, funding for UKCB's direct costs (salaries, non-pay running costs and payments to the UK Certifying Body) is provided by Defra. Funding is secured through Defra's Resource Estimate.

3.3 The Director of the Co-ordinating Body is formally accountable for UKCB's expenditure to the Defra Permanent Secretary and participates directly in Defra planning/estimating rounds. Changes to the budget allocation for UKCB are subject to consultation with and agreement by the Management Board and/or as necessary the Competent Authority.

3.4 UKCB's budget allocation for 2013/14 is £1,695,000, comprising £480,000 for pay, £32,000 for non-pay running costs and £1,183,000 for the UK Certification Audit. Whilst UKCB continues to look to the Certifying Body to deliver efficiency savings, the prescriptive nature of EU guidelines means that savings on the audit are difficult to achieve. UKCB anticipates budget pressures on the certification audit work for two reasons. Firstly, NAO is looking to reclassify certain work from the Exchequer to the certification audit. Secondly the draft transitional regulation currently states the mandatory audit of legality and regularity will apply to all expenditure incurred after 16 October 2013. However, there are reasonable prospects that the latter work will be deferred by a year. UKCB is in discussion with Defra regarding these funding pressures.

3.5 Whilst UKCB is operationally independent, its staff (except for the Director, who is a Defra Senior Civil Servant) are drawn from RPA and have RPA terms and conditions. UKCB's current complement comprises 10.6 full-time equivalents:

- 1 Director (SCS)
- 1 Deputy Director (Grade 6)
- 1 Grade 7
- 2 SEO
- 3 HEOs
- 1 EO
- 1.6 AOs

The grade 7 is currently supporting Defra's CAP reform work. One HEO post is currently filled on a loan basis and the EO works part-time. The number of permanent FTE in post is therefore below the complement. The staff structure will be reviewed before the end of the financial year.

3.6 The involvement of staff at all levels in the development and running of the unit will continue to be actively promoted. Monthly cascade and feedback meetings will be held for all staff as part of this process. Procedures and desk instructions will be subject to six-monthly review. UKCB will train and develop staff taking account of individuals' personal development plans. Staff appraisals will continue to be based on RPA's Performance Management Framework. All staff will receive in-year review and end-of-year appraisals with line managers.

4. Corporate Governance and Risk Management

- 4.1 Although not formally constituted as a separate Department or Agency, UKCB undertakes to comply with government principles laid down for corporate governance. In accordance with best practice and Treasury guidance, UKCB has in place a system of internal control designed to identify the principal risks to the business, to evaluate the nature and extent of those risks and to manage them efficiently and effectively.
- 4.2 Aside from its Statement of Policy and Strategy for Risk Management, UKCB has an established Risk Management Framework, which is reviewed periodically. The business continuity plan has been updated and is linked both to the RPA's Contingency Plan and UKCB's Risk Register. This framework will continue to be the basis for risk management during 2013/14 with overall ownership of risk resting with the Director. The Deputy Director, as the appointed Risk Management Officer, chairs UKCB's Risk Management Review Team. The team is responsible for owning, promoting, directing and reporting on risk management.
- 4.3 There is significant risk of non-compliance with and inconsistent application of EU Regulations, high levels of disallowance and slow progress in following-up recommendations made by the Certifying Body. UKCB is also heavily reliant on the skills and experience of a small number of staff. Mitigating actions will be taken to counteract these risks.

Appendix - Financial management of the Common Agricultural Policy

1 Expenditure under the CAP is financed by two funds, which form part of the EU's general budget. The European Agricultural Guarantee Fund (EAGF) finances direct payments to farmers and measures (such as intervention and export refunds) to regulate agricultural markets, while the European Agricultural Fund for Rural Development (EAFRD) finances the rural development programmes of the Member States. These two funds were created by Council Regulation 1290/2005 on the financing of the common agricultural policy, which established a single legal framework for financing CAP spending.

2 A regulatory framework has been put in place to give reasonable assurance that EU funds are spent properly and that any irregular payments are detected and recovered. Under the rules for the financial management of the CAP, the Commission is responsible for the management of the EAGF and the EAFRD. However, the Commission itself does not normally make payments to beneficiaries. According to the principle of shared management, this task is delegated to the 27 Member States who themselves work through some 80 national or regional paying agencies.

3 Before these paying agencies can claim any expenditure from the EU budget, they must be accredited by the Competent Authority for the Member State on the basis of criteria laid down in Commission Regulation 885/2006. Once a paying agency has been accredited, the Competent Authority must keep the accreditation under constant review and inform the Commission of the results of this supervision. In order to gain reasonable assurance that the accounts transmitted to the Commission are true, complete and accurate and that the internal control procedures have operated satisfactorily, the Member State must appoint an independent body to draw up a certificate stating whether it has gained reasonable assurance in this respect.

4 The audit certificate of the Certifying Body is based on an examination of the paying agency's administrative structures and procedures as well as a sample of transactions. This examination covers the question of whether the paying agency's administrative structure is capable of ensuring that compliance with Community rules is checked before any payments are made. The examination is carried out according to International Standards on Auditing and Commission guidelines, both during and after the end of each financial year.

5 The Certifying Body reports its findings and sends an opinion on the paying agency's statement of assurance to the Commission. The report states whether the:

- paying agency complies with the accreditation criteria;
- paying agency's procedures are such as to give reasonable assurance that the expenditure was effected in compliance with Community rules;
- annual accounts are in accordance with the paying agency's books and records;
- statements of expenditure and intervention operations are materially true, complete and accurate;
- financial interests of the Community are properly protected.

6 From the financial year 2007 onwards the head of the paying agency has been required to sign a statement of assurance declaring that the accounts give a true, complete and accurate view of the expenditure and receipts and that the management and control system provides reasonable assurance on the legality and regularity of the transactions. The accuracy of that statement is then verified by the Certifying Body and by the Commission as part of the clearance of accounts.

7 The Commission clears a paying agency's accounts under Article 10 of Regulation 885/2006 taking account of the Certifying Body's findings and opinion, the head of the paying agency's statement of assurance and other evidence, including the answers received to its own questions. However, the Commission may subsequently conduct audit missions and find that

expenditure has been incurred in a way that has infringed Community rules. In such cases it will assess the amounts to be excluded on the basis of the gravity of the non-conformity and the financial damage caused to the Community (Article 31 of Regulation 1290/2005).

8 Where a Member State accredits more than one paying agency it must also accredit a Co-ordinating Body to act as the Commission's sole interlocutor for all questions regarding the management and control of agricultural expenditure and to promote the harmonized application of Community rules.

9 Prior to making payments to the beneficiaries, the paying agencies must, either themselves or through delegated bodies, satisfy themselves of the eligibility of the aid applications. The exact checks to be carried out are laid down in the different sectoral regulations of the CAP and vary from one sector to another.

10 The expenditure made by the paying agencies is reimbursed by the Commission to the Member States, in the case of the EAGF on a monthly basis and in the case of EAFRD on a quarterly basis. These reimbursements are, however, subject to any late payment reductions (Article 9 of Regulation 883/2006) and subsequent corrections (disallowance) under the Commission's conformity clearance procedure (Article 11 of Regulation 885/2006).