



UK Co-ordinating Body

UK Co-ordinating Body
Annual Report
2013/14

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Section 1 - Statement by the Chairman

It has been a privilege to have served on the Management Board of the Co-ordinating Body (UKCB) since January 2012 and to have been the Chairman for the past year. In this short space of time I have been hugely impressed by the high quality of output from the Body and the professionalism of staff right across the organisation.

Across all the devolved regions the UKCB has been working closely with paying agencies in a drive to minimise disallowance and the challenge of implementing what can often be very complex EU rules. This has been particularly relevant for me as the DARD representative and I have first-hand experience of the help and invaluable advice offered in respect of the concerns expressed by the Commission surrounding the implementation of the Single Payment Scheme (SPS). In particular UKCB has worked very closely with us in developing the audit of legality and regularity.

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

Yet again this report records a high level of performance with the UKCB meeting all of its performance targets for 2013/14. On behalf of my colleagues on the Management Board, I would like to offer my congratulations to all staff who have contributed to this success.

Graeme Wilkinson
Chairman
2013/14

Section 2 - Executive Summary

The UKCB has delivered high levels of performance during the year, meeting the targets set by the Management Board within the strategic framework described in the Business Plan. Working in close collaboration with policy and paying agency colleagues, EU institutions and other stakeholders, the UKCB has played a significant role in ensuring that the Common Agricultural Policy is properly administered across the UK and is ready to implement CAP reform effectively. This report provides details of how the UKCB has performed against its Business Plan targets, managed resources and risks, and delivered activities to achieve its objectives.

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

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

The UKCB acts as secretariat for the UK Competent Authority, ensuring that paying agency accounts are certified and monitoring corrective action in response to audit recommendations. It works closely with paying agencies and the Certifying Body to ensure that the UK's regulatory obligations in this area are effectively delivered. In addition to the clearance of the accounts for financial year 2013 and the audit strategy for 2014, there has been significant engagement with the Commission, the Certifying Body, paying agencies and other Member States with regard to the new certification audit regime for financial year 2015 (claim year 2014). The UKCB has been successful in influencing the content of the Commission's guidelines and has worked with the Certifying Body to develop an audit strategy for the re-verification of on-the-spot checks.

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

As set out in section 7, the Paying Agency Directors' Forum (PADF), Paying Agencies Co-ordinating Board (PACB) and Accounts & Finance Working Group (AFWG) continue to promote the harmonised implementation of the Common Agricultural Policy by the four paying agencies and their delegated agents within the UK. They have focused in particular during the year on the implications of CAP reform. Following the publication of the basic regulations and the draft delegated and implementing acts, the UKCB has worked closely with paying agencies on implementing the new regulations from 2015, with particular attention to ways of building regulatory compliance and assurance into this process from the start.

Aside from CAP reform there continues to be a very high level of audit activity by the Commission and the European Court of Auditors (ECA), involving extensive interaction with these bodies and the Conciliation Body to manage the significant risk of disallowance as far as possible. As well as co-ordinating the response to individual audits the UKCB has focused on analysing the causes of financial corrections and promoting mitigating actions. The application of flat-rate financial corrections, particularly to a scheme as large as the Single Payment Scheme (SPS), has led to significant concern that the level of proposed disallowance considerably exceeds the true risk to EU funds. The UKCB has been active with other Member States in lobbying for a more proportionate approach in this area as well as a more risk-based approach to audits.

As set out in this report and UKCB's new GOV.UK website and GSI extranet, the 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
June 2014

Section 3 - Constitution, Objectives and Performance Indicators

Ministers¹, have established the UKCB as an executive unit independent of the four UK paying agencies, to:

- carry out the functions of the UKCB, as defined in Article 7.4 of Regulation No 1306/2013, that is, bring together information to be sent to the Commission, take or co-ordinate actions with a view to resolving any deficiencies of a common nature, and promote the harmonised application of EU rules and guidelines; and
- act as secretariat to the Competent Authority for granting, maintaining and withdrawing paying agency accreditation under Article 7 and designating the certification body under Article 9 of Regulation No 1306/2013.

The UKCB reports to a Management Board consisting of four individuals nominated by the ministers, and the Director of UKCB. The chairmanship of the Management Board rotates between the four ministers' representatives on an annual basis. This Board supports ministers in carrying out their responsibilities relating to the financial management of the Common Agricultural Policy and approves the UKCB Business Plan. It also delegates to the director the day-to-day management of UKCB functions and oversees this.

The purpose of UKCB is 'to work with paying agencies to ensure that they maintain their accreditation status and effectively administer the Common Agricultural Policy, thereby mitigating the risk of disallowance'. UKCB's vision is to be a highly-motivated and skilled team that is recognised as helping paying agencies to achieve these outcomes.

In 2013/14, UKCB's objectives were to:

- i. bring together the financial, audit and statistical information required by the Commission and promote the harmonised application of Commission rules and guidelines in the UK.
- ii. provide the UK Competent Authority with advice and recommendations on paying agencies' corrective action 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.

The above objectives were designed to cover business and corporate management outcomes and to build capability (financial/people/efficiency) that supports business outcomes, now and in the future. They used the skills and experience of staff within UKCB to maximum effect.

¹ The Secretary of State for Environment, Food and Rural Affairs; the Scottish Ministers; the Welsh Ministers and the Minister of Agriculture and Rural Development in the Northern Ireland Executive, acting collectively under Statutory Instrument 2001 No. 3020: The Common Agricultural Policy (Paying Agencies: Competent Authority and Co-ordinating Body) Regulations 2001 (ISBN 0 11 0299442).

UKCB's key performance indicators (KPI), which helped to assess whether its objectives were being achieved, were to:

- i. submit accurate monthly/annual accounting returns in support of European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD) reimbursement claims within EU regulatory deadlines
- ii. co-ordinate EU and European Court of Auditors (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 on the internet in accordance with the requirements of the Commission's transparency regulation (259/2008, as amended)
- iv. provide advice and assist in 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 delivering UKCB's services, including delivering the annual certification audit by the Certifying Body
- viii. ensure that all UKCB staff have work objectives linked to the unit's objectives and are performing against their objectives to a high standard.

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

Table 1 - Key performance indicators

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

Section 4 - Resources and Staffing

As in previous years, funding for UKCB's direct running costs was provided by the Department for Environment, Food and Rural Affairs (Defra). UKCB's initial budget for the financial year 2013/14 (year ended 31 March 2014) was £1,695,000, comprising £480,000 for pay, £32,000 for non-pay running costs and £1,183,000 for work undertaken by the National Audit Office (as UK Certifying Body) and its consortium partners. In view of a £100,000 in-year re-classification by the NAO of charges from the Rural Payments Agency (RPA) Exchequer Audit to the Certification Audit, Defra authorized UKCB to incur additional expenditure up to this amount. However, this reclassification was partially offset by efficiency savings of £30,000.

£	2013/14 Budget	2013/14 Actual	2013/14 Variance	2012/13 Actual
Pay	480,000	496,298	-16,298	478,000
Non-Pay	32,000	32,066	-66	28,000
IT Contracts	0	-21,739	21,739	0
Certifying Body Fees*	1,283,000	1,253,000	30,000	1,184,000
Total expenditure	1,795,000	1,759,625	35,375	1,690,000

* Includes reclassification of £100k from Exchequer audit to certification audit

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, who is a core-Defra Senior Civil Servant, UKCB staff are RPA employees in terms of their contracts of employment, pay and conditions of service, including retirement and redundancy policies.

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

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

1 Director (SCS), 1 Deputy Director (Grade 6), 1 Grade 7, 2 SEOs, 3 HEOs, 0.6 EOs and 1.6 AOs. During the year the three posts that had been filled on temporary promotion were filled substantively following an open competition across the Civil Service.

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

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

Section 5 - Corporate Governance and Risk Management

The UKCB is the executive arm of the UK Competent Authority. It acts as a link between the UK on the one hand and the Commission and ECA on the other in matters concerning the EAGF/EAFRD and manages the relationship with the UK Certifying Body.

The UKCB's direct costs are funded by Defra and there is recognition that these are substantially influenced by the requirements of the certification audit. The UKCB's budget is set with due regard to the demand-led nature of the Certifying Body's audit work and the UKCB's limited staff resources. Nevertheless, there is an expectation within Defra that the Body should look for efficiency savings where these can be achieved.

The UKCB's size and nature are such that corporate governance arrangements do not need to be complex. However, as its objectives are designed to ensure that UK paying agencies maintain their accreditation status and effectively administer the CAP, thereby mitigating the risk of disallowance, the UKCB's risk register includes certain key risks owned by paying agencies. The UKCB's staff identifies and manages risks and reports accordingly to the Board and to the Defra Accounting Officer via an annual Governance Statement.

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

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

In January 2014 RPA IAU undertook a review of the processes underpinning the UKCB's interim Governance Statement. This review focused on providing the UKCB's Management Board with independent assurance on the interim Governance for 2013/2014.

RPA IAU found there was reasonable evidence of an appropriate and proportionate control environment in both the processes that support how the UKCB Governance Statement was drawn up and the quality of evidence on governance, risk management and control supporting it. The key areas for management to address in conjunction with the year-end Governance Statement for 2013-14 were:

- The current UKCB risk register focuses mainly on the risks and issues arising through the nature of its work which are not always within its direct control. It should give greater weight to the risks to meeting its objectives, including for example budgetary pressures which impact resource
- The need to record that all UKCB people have undertaken the 'Protecting Information' online courses and are currently undertaking the 'Responsible for Information' module provided by Civil Service Learning. These reinforce its understanding and commitment to data governance practices which are important given the sensitivity of data it handles.

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

In accordance with the Body's strategy for risk management the Director maintains the following systems and procedures for internal controls and for accountability as regards corporate governance:

- Ownership of risk by the Director;
- Accountability to the Board and Ministers for corporate governance through routine and annual reporting;
- Consideration jointly of risks to the UKCB and paying agencies by assessing risk probability and impact;
- Delivery to the Defra Accounting Officer (and the Board) of an annual Governance Statement;
- Maintenance of routine and regular review and assessment of risk by the Director and management team;
- Internal audit by RPA IAU, and;
- Maintenance of procedures for monitoring and managing performance against targets and for managing risks at all levels to support the Governance Statement.

Section 6 - Performance against Business Plan Targets

The Business Plan for 2013/14 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 EAGF and EAFRD expenditure reports and reimbursement claims to the Commission within regulatory deadlines.	Target met. All expenditure reports and reimbursement claims were sent within Commission deadlines.
ii a) Provide formal responses to Commission/ECA audit letters and	ii a) Target met. All formal audit responses were sent within prescribed timescales.
ii b) Submit regulatory statistical returns within the relevant deadlines.	ii b) Target met. All the statistical returns were submitted by the deadline of 15 July 2013.
iii) Process CAP beneficiary transactions for financial year (FY) 2013 in preparing for the publication of aggregated data by the regulatory deadline of 30 April 2014.	Target met. FY 2013 data was processed in preparation for publication by the regulatory deadline of 30 April 2014, including a downloadable spreadsheet for all payments, including anonymised data for natural persons.
iv) Provide effective advice to paying agencies on interpreting regulations and managing the risk of disallowance, particularly in relation to implementing CAP reform.	Target met. UKCB provided responses to individual queries, attended paying agencies' disallowance and accreditation committees and convened meetings of UK groups. Positive feedback was received.
v) For all UK paying agencies, submit certified accounts and Matrix data for FY 2013 to the Commission by the regulatory deadline in February 2014 or alternative deadlines as may be agreed with the Commission.	Target met. All paying agency Certified Accounts were submitted to the Commission by the deadline of 1st February 2014.
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.	Target met. The Commission's decision was published in the Official Journal on 30th April 2013. The submission was sent to the Competent Authority on 9th May 2013.
vii) Negotiate a fee with the Certifying Body for delivering the FY 2013 certification audit and obtain agreement from Defra on funding.	Target met with £30,000 efficiency saving. Defra Finance authorized additional expenditure of £100,000 to cover a re-classification of costs from the RPA Exchequer Audit to the EU Certification Audit.
viii) Ensure that all staff have work objectives and receive in-year appraisals under the performance management system.	Target met. All staff had agreed work objectives and in-year appraisal meetings under the performance management system.

Section 7 - Harmonisation and Competent Authority Activity

Harmonisation Activity

Paying Agency Director's Forum (PADF)

Details of PADF including its objectives can be found in Appendix III. Membership of PADF comprises the heads of each of the UK paying agencies, the Director of UKCB and one or more senior UK policy representatives. Defra is represented on the forum to ensure that there is a close working relationship between policy and delivery. Whilst the lead for developing UK policy remains with Defra, the forum considers the practical application of policy and highlights issues of potential concern.

During the period under report PADF had 3 formal meetings. These were held on 27 July 2013 and 8 November 2013 at North Gate House, Reading and on 12 February 2014 at The Glasshouse, Stormont Castle, Belfast.

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

- CAP reform – implementing and delegated acts and implementation issues;
- IACS mapping issues;
- customer registration;
- the mandatory audit of legality and regularity;
- proactive management of disallowance; and
- CAP simplification.

Paying Agency Co-ordination Board (PACB)

Details of PACB, including its purpose and objectives, can be found in Appendix III. During the period under report PACB focused on operational issues arising from the implementation of CAP reform. In November 2013, due to the number and complexity of CAP reform issues, PADF mandated PACB to meet fortnightly to enable more coherent discussion on the main areas of concern. The key issues covered included:

- LPIS challenges;
- active farmers;
- the negative list;
- young farmers;
- ecological focus areas;
- cross border applications;
- dual use of land; and
- crop diversification.

Initial feedback has been that these more focused meetings have been of great benefit to all participants and it is therefore planned for PACB to continue to operate on this basis throughout 2014/15.

Accounts and Finance Working Group (AFWG)

Details of AFWG, including its purposes and objectives can be found in Appendix III. During the year under report, the group met on 2 October 2013. Representatives from all paying agencies as well as the Forestry Commission and Defra attended. The main discussion topics included:

- Certifying Body requirements;
- Issues identified during the accounts clearance process;
- Concerns over EAFRD re-imburement and the impact on cash-flow management for the Funding Body;
- Impact of new Horizontal Regulation, including changes to irregularity reporting;
- Application of Financial Discipline for scheme year 2013; and
- EAFRD closure process for the 2007-2013 programme.

Information Technology Working Group (ITWG)

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

- Panta Rhei¹ - updates on the meeting including UK tour-de-table and presentations; and
- IT Security - feedback on 2013 Certification of Accounts audit findings and implementation of IT recommendations.

Conferences of Directors of EU Paying Agencies

Each Presidency hosts a Conference of Directors of EU Paying Agencies during its six-month period of office, where senior officials from all Members States and the main EU institutions meet to discuss key issues through plenary sessions and targeted workshops. UKCB is represented at all such conferences. During the period under report, one conference was held. This was in Vilnius, Lithuania (23-25 October 2013) where the main key focus was on:

- CAP Reform
- Cost effectiveness of controls
- Declaration of assurance versus opinion on legality and regularity
- Error rates for direct payments

¹ Panta Rhei is the EU forum for paying agencies for the exchange of ideas and experiences with regard to IT questions and implementation of CAP measures.

Learning Network

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

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

The Learning Network operates at several levels. A number of plenary sessions are held each year in Brussels. Over the last year meetings have been hosted by the Italian, German, Swedish, Dutch and Portuguese Permanent Representations. In addition, regular meetings are held between the Learning Network Steering Group and DG AGRI officials. Ad hoc meetings of experts are also held to discuss particular subjects. During the year under report, key areas of discussion included:-

- CAP reform delegated/implementing acts
- CAP reform implementation, particularly control of greening measures,
- LPIS (mapping requirements),
- Simplification
- eServices
- clearance of accounts, including the new certification audit regime,
- EU's approach to audits.

Panta Rhei

Two meetings of Panta Rhei were held during the period under report. These took place in Nicosia, Cyprus (May 2013) and Hooks Herrgard, Sweden (October 2013). UKCB participated along with representatives from the four UK paying agencies.

The main issues discussed were:

- implementation of CAP reform;
- electronic applications;
- enterprise architecture;
- cloud computing;
- information security; and
- testing of IT systems.

Agricultural Funds Committee (AFC) and Experts Meetings

Following political agreement between the European Council and Parliament on the four basic CAP regulations, the main focus of AFC during the year under report has been negotiating the Delegated Acts (DA), covering public storage, horizontal and control issues, and the Implementing Act (IA) which underpins the Horizontal Regulation (1306/2013).

As the name suggests, for DAs, the Commission has been delegated the authority to introduce legislation in its own right and as such, no formal Committees are involved. However, in practice, the Commission consults Experts Groups, made up of representatives of all Member States. For IAs the process is similar to past practice, in that decisions are made by qualified majority vote in committees of Member State representatives chaired by the Commission. In practice therefore, for all matters concerning the Horizontal DAs and IAs, discussions were held at AFC with the group being constituted as an experts' forum for discussions on the DAs.

UKCB (accompanied by Defra) led the UK representation at these meetings, which were held on: 24/25 October; 7 & 18 November; 4 & 17 December, 23/24 January, 20 February and 20 March. Key issues on the DAs covered in the Experts meetings included:

- revised criteria and methodology for applying financial corrections;
- changes to IT Security requirements; and
- accreditation provisions for delegated agents.

For the latter, confirmation was obtained on the status of Customs as a non-delegated agent.

For the IAs, key issues included:

- Revised requirements for the publication of CAP beneficiary data;
- New debt reporting requirements;
- Criteria required for reducing the levels of on-the-spot controls; and
- Revised conformity clearance and certification of accounts procedures.

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

- RD Programme closure procedures;
- Continuing delay of RD reimbursement by the Commission;
- Controls Statistics, costs of control and quality of matrix data;
- Late payment proposals;
- Financial Discipline procedures;
- Simplification of the monthly reporting of EAGF expenditure;
- Commission Ad Hoc Clearance Decisions;

On the latter, two Commission ad hoc clearance decisions were formally adopted during the period under report. From the UK perspective, these contained a total of just under €58m disallowance relating to financial years 2008 – 2010. The main corrections concerned: RPA (Entitlements) €16.5m; and SGRPID (SPS and RD Axis II) €41m. A further proposed correction (SGRPID Agri-Environment) was withdrawn by the Commission after UKCB challenged the underlying calculations. A revised correction, some €107k lower than originally calculated, was subsequently proposed for adoption in 2014.

EU Audits

UKCB continues to coordinate, facilitate and where practical, attend EU audit missions (EAGF and EAFRD) in the UK by the Commission and the European Court of Auditors (ECA). During the period under report there were 3 missions by the Commission and 4 by the ECA (including the annual statement of assurance). UKCB also provided, or arranged for, secretariat support at all start-up and wash-up meetings and accompanied paying agency officials at an additional 5 Commission bilateral meetings during this period. The audits and bilateral meetings covered the following:

Commission Audits

- Conformity Audit (Clawback/Irregularities) (RPA)
- Legality and Regularity (DARD)
- Certification of Accounts (WG)

ECA Audits

- Statement of Assurance 2013 (EAGF) – 4 visits (RPA/SGRPID)

Bilateral Meetings

- Area Aids (DARD)
- Area Aids (WG)
- Area Aids (RPA)
- Cross Compliance (RPA)
- Fruit & Vegetables (RPA)

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

Publication of CAP beneficiary data.

UKCB continues to manage the UK's website for the publication of CAP beneficiary data. In November 2010 the European Court of Justice (ECJ) ruled that the publication of data for individual beneficiaries (natural persons) exceeded the limits imposed by the principle of proportionality. The Commission subsequently issued Regulation No 410/2011 on 27 April 2011, amending the requirements to publish beneficiary data about legal persons only.

Subsequent years' data exercises have been undertaken on the same basis, with paying agencies providing data and identifying any changes to the legal status of beneficiaries. In addition, the opportunity has been taken to increase transparency, within the ECJ's restrictions, by making available on the public website a downloadable spreadsheet of all payments, but with anonymised natural person details.

The FY 2013 data project began in January 2014. The same contractor was used for the data load exercise as for 2012, with the UKCB holding regular project board meetings with the developer. The UKCB also chaired user group meetings with paying agencies to ensure the project was kept on track. The project progressed to plan with the aim to meet the regulatory publication date of 30 April 2014.

The Horizontal Regulation published in December 2013 provides the necessary legislation to extend transparency. The new requirements will be:

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

Although the new website will fall short of the full transparency supported by the UK, the removal of the need to identify the legal status of beneficiaries means that the regulation will be simpler to implement than the current legislation.

Further details will be included in the implementing regulations due to be published in the second half of 2014, and will first apply to data for the 2014 financial year to be published by 31st May 2015. Discussions with Defra procurement have begun concerning the contractual changes required to redevelop the website.

Control Statistics

Article 84 of Commission Regulation (EC) No 1122/2009 and Article 31 of Commission Regulation (EC) No 65/2011 require Member States to provide key 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 upmost importance by the Commission, not least because they indicate the underlying error rates in claims submitted by farmers. It is therefore essential that the data contained in the returns is both quality assured and submitted on a timely basis.

The Pillar I returns cover SPS eligibility, cross compliance, information on the number of claims made, areas/amounts covered by claims and associated control measures and sanctions imposed. The Pillar II returns cover schemes under all four axes. In 2013, the Commission piloted a trial exercise whereby paying agencies were required to produce the Pillar I control statistics in "Matrix" format. The four individual "Matrix" files were successfully submitted to the Commission by UKCB via the dedicated Commission portal. All UK returns for the 2012 claim year were collated and sent to the Commission by UKCB by the deadline of 15 July 2013.

Other issues

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

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

Competent Authority Activity

Clearance of the Financial Year 2013 Accounts.

The outcome of certification audits are required to be reported to Brussels by 1st 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 2013 accounts documentation in respect of WAG and DARD was submitted to Brussels on 30 January 2014 and that for RPA and SGRPID on 31 January 2014. The subsequent Commission Decisions adopted on 29 April 2014 confirmed clearance of all four UK paying agencies accounts for both the EAGF and EAFRD Funds.

The clearance decisions included two proposals for financial correction. These concerned the RPA (€0.147m) and SGRPID (€1.490m). For the RPA, the proposal relates to the application of incorrect co-financing rates to recoverable EAFRD debts. For SGRPID, the proposed correction concerns an alleged material error in the non-IACS EAFRD population.

In the latter case the Certifying Body had identified 17 financial errors during substantive testing. However, 5 of these had already been subject to review and correction by the paying agency before testing was conducted. Consequently, these errors were not required to be extrapolated across the full audited population in accordance with auditing standards. After taking account of this, the Most-Likely Error (MLE) fell below the materiality level enabling the Certifying Body to issue a clean audit opinion. However, the Upper-Error Limit (UEL) was above materiality (at population rather than Fund level). The Commission has applied a correction equal to the UEL (€1,489,814). However, the UK authorities consider this to be incorrect for two reasons. Firstly, Commission rules state that any financial correction based on a breach of materiality should be directly linked to the MLE (i.e. €591,389) not the UEL. Secondly, should the Commission suggest a correction due to the breach of the UEL at population rather than Fund level, this will also be challenged.

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

- RPA: Manually-validated payments; debt management and debtors;
- SGRPID: LEADER; LPIS improvement work;
- DARD: SPS Area Aid disallowance

UKCB's synthesis report provided an overview of the contents of the individual Statements of Assurance and a summary of the relevant opinions of the Certifying Body on both the Statements of Assurance and the accounts submitted. The UK Synthesis for 2013 was submitted on 11 February 2014.

Certifying Body

For FY 2013, the UK Certifying Body conducted transaction testing in line with the requirements of Commission Certification Guideline Number 3. The total cost of the audit was £1,253,000. Whilst this was some £70,000 more than the FY 2012 exercise, it included a reclassification of £100k costs from the RPA Exchequer audit to the certification audit. Therefore, on a like-for-like basis, savings of £30,000 were made. This was due mainly to continued improvements within the RPS SPS control environment and the fact that the RPA EAGF IACS and non-IACS populations could be merged, thus allowing the level of substantive testing to be reduced. The forecast for the FY 2014 audit fee is a 0.57% reduction from FY 2013 levels.

Management of the SLA was handled in-year by meetings and correspondence. For 2013/14 the SLA therefore continued to be underpinned by targets to be met as a condition of performance related payments. These targets were unchanged from previous years, with the timely submission of Interim Management Letters and Draft Reports the main priority. All targets were met and all performance-related payments were made in full.

The audit report on legality and regularity, entered into on a voluntary basis by DARD for SPS claim year 2012, was submitted to the Commission on 12 December 2013. As with the previous exercise for claim year 2011, the findings were positive with the Certifying Body determining that the error rate in the randomly-selected on-the-spot checks was materially correct. The Commission also undertook its own audit of the 2011 exercise and subsequently concluded that the findings were reliable and will be taken into account when assessing any risk to the Fund.

United Kingdom Accreditation Compliance Committee (UKACC)

Background to UKACC including its objectives can be found in Appendix III. Due to the change in the reporting year end, no meetings of UKACC were held during the period under review.

APPENDIX I

Management Board Membership 2013/14

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

The Management Board met on 7 June 2013, 21 November 2013 and (by conference call) on 17 February 2014.

APPENDIX II

Director's governance statement 2013/14

Corporate governance framework

The UKCB is an independent unit, established by the administrative agreement of Ministers responsible for agriculture in England, Scotland, Wales and Northern Ireland ("the Ministers"). It operates under the provisions of EU Regulation 1306/2013, which replaced Regulation 1290/2005, SI 2001 No 3020 and its written Constitution and Procedures as lodged with the EC Commission. It is subject to oversight by a Management Board, comprising the Director and a representative of each of the Ministers.

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

Funding of the UKCB's administration costs is provided by Defra (direct costs, including the cost of the annual Certification Audit) and RPA (common support services). These resources are secured through the Defra Resource Estimate. The Defra Permanent Secretary, as Departmental Accounting Officer, is ultimately responsible to Parliament for this expenditure. The Director is the Body's budget holder and receives a delegated budget from Defra.

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

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

System of internal control and risk management

The system of internal control is designed to identify and prioritize risks to the achievement of UKCB objectives and targets, to evaluate the likelihood of those risks materializing and the impact should they be realized and to manage risks effectively. It is designed to manage risk to a reasonable level rather than to eliminate all risk. The system of internal control has been in place throughout the year in question and accords with Treasury guidance.

Within the UKCB, the Grade 7 has recently taken over responsibility for ensuring that the risk register is updated on a regular basis, having been responsible previously for Defra's CAP reform implementation risk register. However, all staff are regularly reminded of their responsibilities for identifying and managing risks.

The UKCB risk management strategy is designed to:

- Help prevent business failure;
- Facilitate timely decision making to prevent or manage threats to business success and
- Provide an up-to-date picture of the Body's exposure to risk in achieving its objectives and targets.

The key elements of this provide for:-

Training and communication This is to promote risk awareness, ensure appropriate skilled resources are available and encourage risk awareness by all staff;

- **Risk appetite** This is largely determined by the regulatory nature of the Common Agricultural Policy. In the main, exposure to risk is minimized through countermeasures and pro-active management.
- **Risk identification** This is a continuous process in which managers and staff are encouraged to identify risks to the business.
- **Risk assessment** This is undertaken mostly in the Risk Management Review Team and is against probability and impact.
- **Risk management** Appropriate counter measures are implemented and monitored by named managers for each risk and sub-risk.
- **Contingency planning** A contingency plan has been developed to ensure that disruption to services is minimized in the event of unforeseen circumstances.

The UKCB is a small team and through internal communication and regular team meetings it ensures that all staff are actively involved in risk management. All staff participate in the monthly review of risks and are, as appropriate, assigned ownership of relevant risks.

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

In January 2014 an internal audit was carried out by RPA Internal Audit Unit on behalf of the UKCB. The report concluded that sufficient, effective controls were in place and that UKCB staff adhered to these. Plans are in place to continue this exercise to ensure that controls remain effective.

Key Business Risks

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

- Inconsistent implementation of regulations within the UK leads to EU criticism.
- Failure by paying agencies to implement scheme/control requirements effectively leads to high error rates, audit criticism, financial corrections and suspension of reimbursements.
- Inaccurate or incomplete accounting by paying agencies.
- Delays in submitting annual accounts or certification audit reports.
- Certifying Body's recommendations not implemented.
- Paying Agencies fail to supply information requested by EU auditors.
- Paying Agencies fail to act on EU audit findings and, where relevant, to implement Commission action plans.
- Paying Agencies fail to comply with LPIS quality assurance framework.
- Failure by paying agencies to supply accurate statistical or irregularity returns on a timely basis.
- Failure by Commission to reimburse expenditure within regulatory deadlines.
- CAP administration is overly complex and expensive to administer.

- Failure to carry out mandatory audit of legality and regularity in accordance with Commission guidelines.
- Crisis management measures invoked at short notice.
- Rural development schemes not verifiable and controllable.
- Insufficient budget allocation to meet UKCB objectives/targets.
- Failure to publish CAP beneficiary data within deadline.
- Deterioration in working relations between UK and EU.

Weaknesses in the implementation of CAP regulations by the UK paying agencies create a significant risk to the UKCB's objective to promote an effective financial control environment which protects EU funds and thereby reduces the risk of disallowance. The ECA's report on the EU budget for 2012, which showed an EU error rate of 3.8% for Pillar 1 and of 7.9% for Pillar 2, has increased the pressure on the Commission and Member States. Paying agencies will need to develop action plans where required by the Commission setting out how improvements will be delivered. The risk of disallowance is managed in a number of ways. UKCB works with paying agencies during audit missions and subsequent stages (correspondence, bilateral meetings etc) as well as through regular meetings and conference calls. The Paying Agency Directors Forum (PADF) meets regularly and takes a strategic view of steps that will mitigate the risk of disallowance. The Paying Agency Co-ordination Board (PACB) focuses on specific CAP reform implementation challenges. This forum includes all UK paying agencies as well as Defra policy experts and is making good progress in ensuring an effective and harmonized approach to the implementation of the new regulations.

The continued challenges of CAP reform, particularly new features such as greening, an active farmer test, capping and a young farmers' scheme are likely to increase the administrative burden both to beneficiaries and paying agencies, and the increased complexities could lead to a greater risk of disallowance. This is being managed through close co-operation between the UKCB and the relevant Defra policy teams and with other Member States via the Learning Network of EU paying agencies and Co-ordinating Bodies. During the past year the Learning Network has grown to include all Member States and, as the current Chair of the group, I will utilize the network's influence to stress the need for clarity and simplicity. A further initiative saw the secondment of the UKCB Grade 7 to lead Defra's CAP reform risk management work. This arrangement proved beneficial to both parties.

The Commission's LPIS quality assurance framework was completed by UK paying agencies for the fourth time in respect of 2013. Member States are required to undertake an annual comparison of data against the most current remote sensing imagery data (termed the Execution Test Suite or ETS). The outputs of the exercise are supplied to the Commission on an annual basis. UK paying agencies are not yet fully compliant with the seven regulatory quality measures. The risk of disallowance is not yet known and the results of the exercise for 2013 will be monitored by PADF.

The annual certification audit will be extended to cover legality and regularity on a mandatory basis from financial year 2015 (claim year 2014). This will lead to a substantial increase in the workload and costs of the Certifying Body, with an associated impact on paying agencies and beneficiaries. There has been considerable activity in the formulation of Commission proposals. Initial Draft Guidelines were issued and revised to incorporate comments made by Member States. To maintain a dialogue with Member States, the Commission also made a presentation to a Learning Network Experts' group on 10 September 2013 prior to an Experts' Group Meeting in Brussels on 28 October 2013. Subsequently a further revision of the guidelines was issued which incorporated further improvements. Nevertheless the Commission's proposals remain challenging. However tangible progress has been made in ensuring the impact is less onerous than originally feared. The focus has now turned to the practical implementation of the new audit regime in the UK by the Certifying Body.

The resource implications of the new certification audit regime in 2014/15 and subsequent years have been logged with Defra Finance. Discussions are being held with NAO on the resources that will be required to undertake the necessary work and a business case for the funding will be submitted to the Defra Approvals Panel.

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

UKCB's monitoring of direct aid ceilings shows that although the gross entitlements ceiling has not been exceeded at UK Member State level in recent years, the size of the undershoot was small for two years and that this was only the case because regional undershoots exceed regional overshoots. Whilst this exercise was specifically examined by the ECA as part of a systems audit on SPS carried out in England and Northern Ireland and did not lead to any adverse findings, the UKCB continues to liaise with all paying agencies to ensure that the UK ceiling is not breached.

The UKCB's website successfully transferred to the new Government Digital Service (GDS) platform at the end of March 2014. UKCB also set up a secure community on the GSI Collaborate site, hosted by The National Archives (TNA), to replace the secure area on the old website. This site also provides additional functionality to share information and ideas between UK paying agencies and policy colleagues.

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

Significant internal control problems

There were no material internal control weaknesses.

Michael Cooper
Director - UK Co-ordinating Body
May 2014

APPENDIX III

Details of Key UK Co-ordinating Body Groups

Paying Agency Director's Forum (PADF)

PADF was established in 2010 under the rotational chairmanship of the UK paying agencies. It meets three times a year and is timetabled to follow the Paying Agency 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.

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

To achieve its objectives PADF:

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

Paying Agency Co-ordination Board (PACB)

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

To meet these objectives PACB is mandated to:

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

Accounts and Finance Working Group (AFWG)

The purpose of AFWG is to:

- provide a forum for accredited UK paying agencies to consider and resolve issues arising from EAGF and EAFRD finance and accounting requirements;
- provide a lead on the interpretation of these requirements and the implementation of suitable systems and procedures; and
- promote the harmonised application of the regulations across all paying agencies.

Information Technology Working Group (ITWG)

The purpose of ITWG is to:

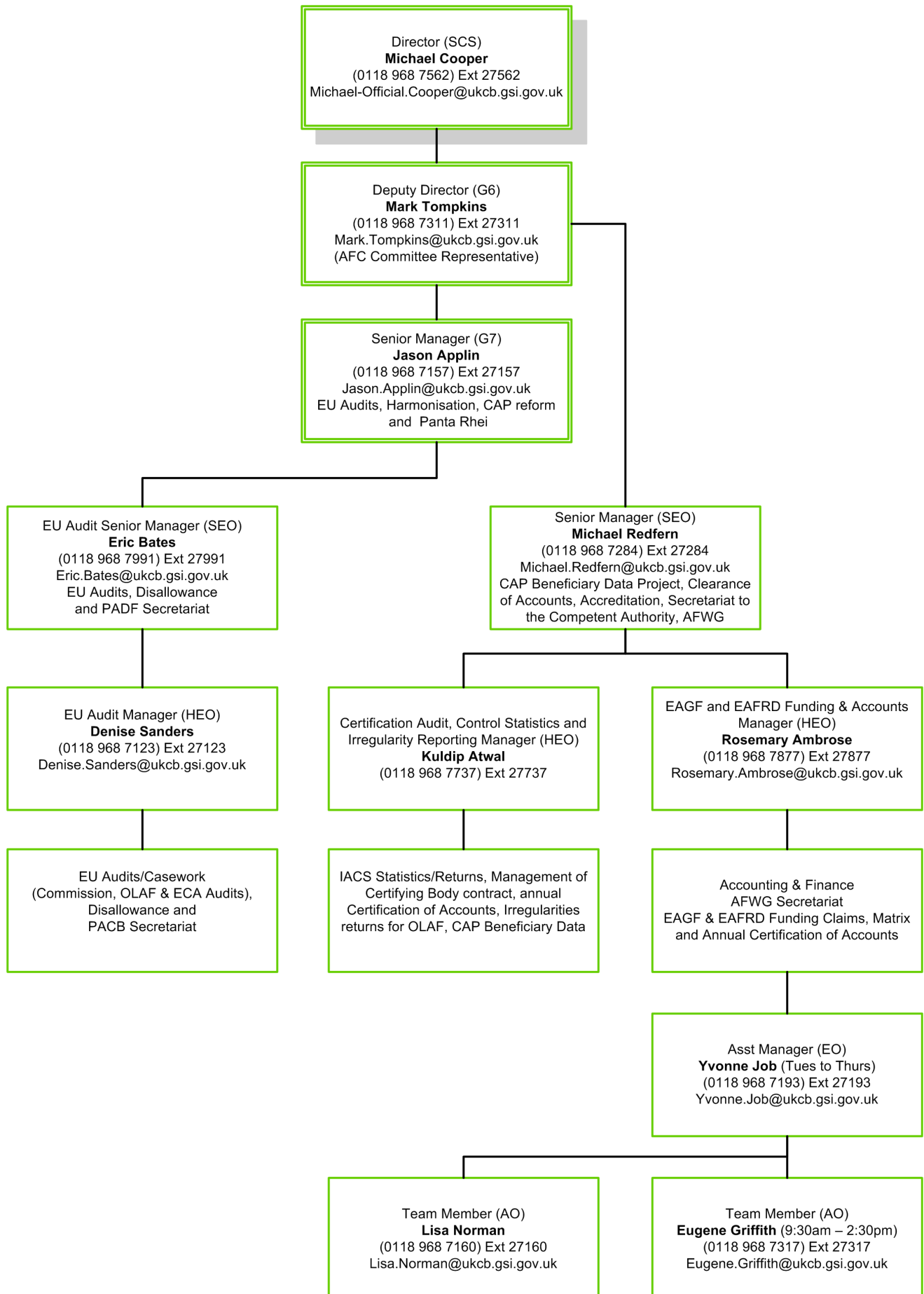
- encourage the efficient and effective exchange and dissemination of information concerning the development and implementation of E-Commerce and IT Security initiatives within accredited UK paying agencies;
- promote the development of practical, sensible and cost-effective solutions that deliver paying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

United Kingdom Accreditation Compliance Committee (UKACC)

UKACC was established in 2008 to consider matters concerning 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 IV



UK Co-ordinating Annual Report

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