



**UK Co-ordinating Body**

## **Business Plan**

**1 April 2016 to 31 March 2017**

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## **Foreword by the Director**

This business plan sets out the strategy for the UK Co-ordinating Body (UKCB), including its high-level objectives, performance indicators and associated targets for 2016/17. However, these were agreed before the referendum on the UK's membership of the EU. Whilst the UK will continue to meet its obligations under EU regulations, the vote to leave the EU will inevitably change the UKCB's priorities.

The performance indicators and targets make it straightforward to assess whether UKCB is successfully achieving its objectives. These, set out in chapter 1, cover coordinating CAP administration, supporting the Competent Authority, mitigating the risk of disallowance and suspension of reimbursements, maintaining the UK CAP beneficiary website, carrying out the functions of the EFF/EMFF Certifying Authority and managing resources efficiently and effectively.

The new CAP regime took effect in claim year 2015 and transactions under the new schemes will be accounted for in the financial year ending 15 October 2016. The scope of the annual certification audit increased significantly with the introduction of the audit of legality and regularity from financial year 2015 and will change again for financial year 2016 in the light of CAP reform. In addition, closure audits for the 2007 – 2013 Rural Development Programmes will be completed by 30 June 2016.

UKCB will continue to meet its regulatory responsibilities in respect of co-ordination, including EU audit enquiries, financial and statistical returns, the Agricultural Funds Committee and UK harmonization groups. UKCB will work closely with UK Paying Agencies and other Member States to identify issues arising from the implementation of CAP reform in areas such as greening, mapping requirements and rural development programmes. UKCB is also the nominated body in charge of setting up and maintaining the single UK CAP beneficiary website. Further details are given in section 2.2 below.

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 significantly extended the scope of the annual certification audit from financial year 2015 and first audit opinions under the new regime were submitted to the Commission in February 2016. UKCB has engaged with the Commission to ensure that future audit requirements are proportionate and fully-understood. The certification audit opinions and reports for financial year 2016, due for submission in February 2017, will be the first to cover the new schemes implemented under CAP reform.

UKCB will continue to engage with other Member States (see section 2.4), though its focus is now on matters that will be relevant for the remaining

duration of the UK's membership of the EU (likely to end in the first half of 2019). The UK will not now host the Presidency of the Council of the EU in 2017. Rather than contribute to longer-term CAP planning, e.g. for the 2020 reform, UKCB will provide input to domestic planning for the UK's exit from the EU (see section 2.5).

UKCB will continue to seek efficiency savings both in respect of its own staffing and in the work carried out by the Certification Body, the latter comprising the largest element of UKCB's budget. However, the mandatory and prescriptive nature of EU requirements means that savings are difficult to achieve without putting at risk the reimbursement of expenditure to the UK from the Commission. Further details are set out in section 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.

**Michael Cooper - Director,**

**UK Co-ordinating Body**

**May 2016,**

**(Revised August 2016)**

## 1. Strategic framework and 2016/17 targets

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, Environment and Rural Affairs in Northern Ireland, acting collectively under statutory instrument, 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 7(4) of the Horizontal Regulation (Regulation 1306/2013),

act as **Secretariat to the Competent Authority** for the granting, maintenance and withdrawing of Paying Agency accreditation under Article 7 of the Horizontal Regulation, based on the annual reports of the UK Certification Body and reports from the European Commission's services, and

set up and maintain the single UK website publishing details of payments made to **CAP beneficiaries** under Article 111 of Regulation 1306/2013.

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.

1.3 UKCB took on the UK Certifying Authority role for the European Fisheries Fund (EFF) and European Maritime and Fisheries Fund (EMFF) from 1 April 2015. EFF and, for the new programming period, EMFF are the funds for EU fisheries grants.

1.4 EFF was established by Council Regulation 1198/2006 (as amended by Regulation 387/2012). The Certifying Authority (CA), under Article 60 Regulation 1198/2006, is responsible for the certification of statements of expenditure before they are sent to the European Commission and for completing the applications for payment. The EMFF was established by Regulation 508/2014 and the CA role is set out in Article 126 of the Common Provisions Regulation 1303/2013.

1.5 As CA, UKCB works in conjunction with the UK Managing Authority (the Marine Management Organisation), the four Intermediate Bodies (for England, Scotland, Wales and Northern Ireland) and the UK Audit Authority (Defra Internal Audit).

## **Purpose and Vision**

1.6 UKCB's purpose is "to effectively administer EU CAP and fisheries funds, thereby mitigating the risk of disallowance and suspension of reimbursements". UKCB's **vision** is to be a highly-motivated and skilled team that is recognized as helping the above outcome.

## **Objectives**

1.7 UKCB's objectives are to:-

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

## **Performance Indicators**

1.8 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 CAP reimbursement claims within EU regulatory deadlines;

- ii) co-ordinate EU and ECA audits of the CAP within agreed deadlines, working with Paying Agencies to provide the information requested by the Commission, and thereby mitigate the risk of disallowance;
- iii) co-ordinate regulatory statistical returns for the CAP and submit these to the Commission within agreed deadlines;
- iv) represent the UK at the Agricultural Funds Committee, facilitate the harmonized implementation of CAP regulations in the UK (recognizing that devolved administrations have discretion in this area) and co-ordinate actions to resolve deficiencies of a common nature; thereby supporting UK Paying Agencies to meet regulatory requirements and minimize disallowance;
- v) manage the SLA for the certification audit of the CAP Paying Agencies and seek to ensure that all relevant documents are submitted to the Commission to allow clearance of the Paying Agencies' accounts;
- vi) seek endorsement from the Competent Authority of CAP Paying Agencies' proposals for corrective action in response to recommendations agreed with the Certification Body and monitor Paying Agencies' progress against these plans;
- vii) publish CAP beneficiary data online in accordance with the requirements of the Commission's transparency regulation;
- viii) contribute to the successful closure of the EFF and effective administration of the EMFF;
- ix) manage financial resources effectively, including the delivery of the annual certification audit by the Certification Body;
- x) ensure that all of the Co-ordinating Body's staff have work objectives linked to the unit's objectives and are performing against their objectives to a high standard.

1.9 Table 1 maps these key performance indicators against UKCB's six objectives:

**Table 1** Key performance indicators

	i)	ii)	iii)	iv)	v)	vi)	vii)	viii)	xi)	x)
Objective 1	✓	✓	✓	✓						
Objective 2					✓	✓				
Objective 3		✓	✓	✓		✓		✓		
Objective 4							✓			
Objective 5								✓		
Objective 6									✓	✓

**Targets for 2016/17**

1.10 The following targets have been set for 2016/17 in respect of each of UKCB's key performance indicators:

<b>KPI</b>	<b>Target for 2016/17</b>
i	Submit expenditure reports and reimbursement claims to the Commission for Pillars 1 and 2 within regulatory deadlines.
ii	Provide formal responses to EU audit letters and minimize the level of financial corrections arising from Commission audit enquiries.
iii	Submit regulatory statistical returns within the relevant deadlines.
iv	Contribute effectively to the Agricultural Funds Committee and arrange regular meetings of UK harmonization groups to exchange best practice and identify issues that need to be raised with the Commission.
v	Submit certified accounts and Matrix data for financial year (FY) 2016 for all UK Paying Agencies to the Commission by the regulatory deadline in February 2017, 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 2015, or such alternative dates as may be agreed with Ministers' offices.
vii	Publish aggregated CAP beneficiary data for FY 2015 by the regulatory deadline of 31 May 2016.
viii	Certify fisheries funds expended by the four UK intermediate (delivery) bodies and submit reimbursement claims to the Commission on a timely basis.



ix	Negotiate a fee with the Certification Body for the delivery of the FY 2017 certification audit.
x	Ensure that all staff have work objectives and receive in-year appraisal in accordance with the performance management system.

### **Critical Success Factors**

1.11 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. CAP Paying Agencies and Certification Body; EMFF Managing Authority, Intermediate Bodies and Audit Authority, policy makers, and EU institutions (Commission and Court of Auditors),
- 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**

1.12 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 2016/17**

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 new requirements and issues as they arise, particularly in respect of the UK's exit from the EU.

### **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 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 2015 budget and in the subsequent discharge of the budget. Significant activity is particularly anticipated in the following areas.

#### **2.2.1 EU audit enquiries**

DG AGRI is now required to complete all stages of its conformity audit enquiries within two years. The stages include the initial audit mission, letter of observation, UK response, bilateral meeting, conciliation hearing (where applicable) 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. In addition, UKCB will work closely with Paying Agencies who have been required to submit action plans to the Commission to minimize the risk of the suspension of reimbursements.

UKCB will also co-ordinate ECA audits, including enquiries relating to DAS 2015 and 2016, and the introduction of the Basic Payment

Scheme. The ECA's annual report has a significant effect on the Commission's decisions. UKCB will continue to press for a risk-based approach to controls and audit, coupled with simplification of EU Regulations.

### **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 issues arising from the implementation of the new schemes as well as the implications of the UK's exit from the EU. The Paying Agency Co-ordination Board (PACB) will 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, Defra's Disallowance Steering and Working groups, and the inter-departmental internal audit group (IDAG). It will also meet bilaterally with Paying Agencies.

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 monitor any significant variances.

### **2.2.3 CAP scheme delivery**

The new direct payments regime took effect in claim year 2015. UKCB will continue to provide advice and support to Paying Agencies on interpreting the regulations with a view to ensuring regulatory compliance and mitigating disallowance risks in areas such as:-

- Land eligibility
- Greening, particularly EFA and equivalent practices
- Entitlements

- Financial discipline/ crisis reserve, including threshold of €2,000
- Active farmers (negative list and optional provisions)
- Capping/degressivity for payments over €150,000; salary mitigation
- Cross-compliance
- Transfers between Pillars 1 and 2
- Verifiability and controllability of rural development programmes.

#### **2.2.4 CAP simplification**

The Commission enacted a number of CAP simplification measures in 2015 and in 2016 it introduced a simplified system of administrative penalties and a new 'yellow card' system for farmers who make a first minor error when claiming their CAP direct payment. The Commission has also announced a number of simplifications in respect of the rules for greening. UKCB will contribute to this process in conjunction with Paying Agencies and Defra Policy.

#### **2.2.5 CAP beneficiary data**

UKCB manages the online publication of amounts paid to CAP beneficiaries, see [www.cap-payments.defra.gov.uk](http://www.cap-payments.defra.gov.uk), in line with the requirements in the Horizontal Regulation 1306/2013 (Articles 111 to 114) and Commission Implementing Regulation 908/2014 (Articles 57 to 62). UKCB will manage the contractual arrangements for the website and database, including the data processing and hosting. The current contract with Mouchel expires in September 2017.

#### **2.2.6 Control statistics**

UKCB will collate control statistics as required by Article 9 of Commission Implementing Regulation 809/2014 and work with Paying Agencies to ensure that these are accurate and submitted to the Commission within the 15 July deadline. The control statistics are particularly important given the requirement for the Certification Body to give an audit opinion on the assertions in the management declaration and by implication the accuracy of the control statistics. It is essential that paying agencies submit control statistics on time given the power that the Commission has under Article 42 of the Horizontal Regulation to suspend the reimbursement of payments if control statistics are not submitted by the deadline.

### **2.2.7 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.

### **2.2.8 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 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 Declaration of Expenditure re-imburement claims submitted accurately reflect the different funding streams within the EAFRD (convergence, non-convergence and new voluntary modulation).

### **2.2.9 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 also carried out a debt management audit of RPA in January 2014. Proposed financial corrections of €0.4m and €2.8m were made in November 2015. The former amount was cleared in ad hoc clearance decision 51 and the latter amount was reduced to €0.4m following a Conciliation Body hearing in April 2016.

## **2.3 Competent Authority work**

UKCB has a Service Level Agreement with the National Audit Office (NAO) in respect of its work as UK Certification Body. NAO, UKCB and each of the Paying Agencies have also signed letters of engagement setting out the roles and responsibilities of each party. UKCB will attend

the Certification Body's 'countries conference' (comprising NAO, Audit Scotland, WAO and NIAO).

### **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 2015, UKCB will closely monitor corrective actions by Paying Agencies to implement the recommendations made by the Certification 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 a certification experts' meeting in November 2016 to discuss changes to the certification guidelines and its annual meeting of heads of paying agencies and Co-ordinating bodies in December 2016 to discuss the clearance of accounts. UKCB will attend these meetings.

### **2.3.3 Certification audit for financial years 2016 and 2017**

An audit strategy and fee quotation for the financial year 2016 certification audit has been agreed with the Certification Body on the basis of the Commission's guidelines and discussions at the certification experts' group meetings. Work on this FY 2016 audit is well advanced, having commenced with the re-verification of 2015 on-the-spot checks. Re-verification of on-the-spot checks for the FY 2017 audit will start in the summer of 2016.

UKCB will liaise closely with the Certification Body and Paying Agencies throughout the FY 2016 audit up to the submission of certified accounts and management declarations in February 2017. 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. UKCB will seek to ensure that the results of the new audit regime lead to reductions in the level of on-the-spot checks and in the size of financial corrections. It will also encourage the Commission and ECA to place maximum reliance on the work of national audit bodies.

### **2.3.4 Rural Development Programme 2007 – 2013 closure audit**

The deadline for the submission to the Commission of the EAFRD 2007-2013 certified closure accounts is 30 June 2016. Under Article 37(3) of Regulation (EU) No 1306/2013, any Member State which has not submitted the documents for closure by this date will have any balance automatically de-committed. The Certification Body is required under the terms of the current SLA to issue the final certified reports by 15 June 2016. The UK Co-ordinating Body will liaise with the Certification Body to ensure that its work on the accounts and reports is completed in good time.

In addition to the provision of the certified EAFRD reports and accounts, the Co-ordinating Body will submit paying agencies' Matrix data, and other electronic returns to the Commission as an integral part of the EAFRD 2007 - 2013 clearance of accounts process. The Commission's deadline for submission of this data is also 30 June 2016.

## **2.4 Working with other Member States**

UKCB will work with other Member States through a number of fora to share best practice and influence the Commission's thinking on CAP administration. In particular, UKCB will work with other Member States to share experiences of CAP reform implementation, identify ways in which the regulations and guidelines can be simplified, and promote a proportionate and risk-based approach to controls and audit.

### **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 next conference will be held in Slovakia in October 2016.

### **2.4.2 Learning Network**

The Learning Network of 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. The network, which was chaired by the Director until June 2016, holds several plenary sessions each year as well as Steering Group meetings with the Commission. Constant exchanges also take place via the Learning Network's online portal.

### 2.4.3 **Panta Rhei**

UKCB represents the UK at meetings of the EU Panta Rhei (IT) group.

## 2.5 **Referendum on the UK's membership of the EU**

Following the outcome of the referendum in June 2016, both the UK Government and the devolved administrations have created governance structures to manage the implications of Brexit, although these are continuing to develop. The UK Government has created the department for Exiting the EU and the Department for International Trade. Defra has established an EU Exit Programme.

Apart from the wider implications, e.g. for trading relationships, legislation and labour, there will be significant implications in respect of agricultural support schemes including:

- Negotiation of transitional arrangements as part of the UK's withdrawal agreement.
- Funding for agricultural support after the UK leaves the EU.
- Design, implementation, control and audit of new agricultural support measures.
- Process for transition from EU-funded to domestic schemes, including legislative provisions.
- Future relations between the four parts of the UK.

Once the UK leaves the EU, the Competent Authority, UKCB and Certification Body will cease to exist, although it has yet to be determined whether they will need to continue for a short while after Brexit to deal with any residual EU matters. In the meantime the UKCB will provide input to work relating to the UK's exit from the EU and the development of plans for future domestic agricultural support.



### 3. Resources and Staff Development

- 3.1 UKCB is mainly co-located with the Rural Payments Agency (RPA) at its offices in Reading, although two members of staff are based in London. 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 Funding for UKCB's direct costs (salaries, non-pay running costs and payments to the UK Certification Body) is provided primarily by Defra, with funding being secured through Defra's Resource Estimate. Following the introduction of the audit of legality and regularity, the devolved administrations have made a contribution towards the cost of the certification audit.
- 3.3 The Director of the Co-ordinating Body is 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 2016/17 is £3.3m, comprising £0.7m for pay and non-pay running costs, £2.5m for the cost of the certification audit (including the rural development closure audit) - net of a £0.6m contribution from the devolved administrations - and £0.1m for the CAP beneficiary system. Whilst the Body continues to look both internally and to the Certifying Body to deliver efficiency savings, the mandatory and prescriptive nature of EU requirements means that savings are difficult to achieve without putting at risk the reimbursement of expenditure to the UK from the Commission.
- 3.5 UKCB staff are drawn from core-Defra and RPA. UKCB's complement at 1 April 2016 comprised 12.6 full-time equivalents:
- 1 Director (SCS)
  - 1 Deputy Director (Grade 6)
  - 1 Grade 7
  - 3 SEO
  - 4 HEOs
  - 1 EO
  - 1.6 AOs

- 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. Staff appraisals are based on the relevant Performance Management Framework. All staff will receive in-year review and end-of-year appraisals with line managers.
- 3.7 UKCB is committed to the principles set out in the Civil Service Leadership Statement:
- Inspiring about our work and its future
  - Confident in our engagement
  - Empowering our teams to deliver
- 3.8 UKCB will implement these principles in a variety of ways, including:
- Promoting professional excellence and expertise
  - Rewarding initiative
  - Understanding the objectives and priorities of stakeholders
  - Giving clear and honest feedback
  - Recognizing the value of different experience
  - Developing the capabilities of all staff, taking account of individuals' personal development plans

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

- 4.1 Although not constituted as a separate legal entity 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 2016/17 with overall ownership of risk resting with the Director.
  
- 4.3 Risks include non-compliance with and inconsistent application of EU Regulations, high levels of disallowance and slow progress in following-up recommendations made by the Certification Body. Additional risks now arise due to the UK's exit from the EU. UKCB is 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, and have been retained by Regulation 1306/2013.

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 28 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 the Horizontal Regulation delegated act. 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.

4 In order to gain reasonable assurance that the accounts transmitted to the Commission are true, complete and accurate; that the internal control procedures have operated satisfactorily and that the expenditure for which reimbursement has been requested from the Commission is legal and regular, the Member State must appoint an independent body to draw up a certificate stating whether it has gained reasonable assurance in this respect (Article 9 of Regulation 1306/2013). That opinion shall also state whether the examination puts in doubt the assertions made in the management declaration made by the head of the paying agency.

5 The audit certificate of the Certification Body is based on an examination of the paying agency's administrative structures and procedures as well as a sample of transactions. This examination is carried out according to International Standards on Auditing and Commission guidelines.

6 The Certification Body's report states whether the:-

(a) the paying agency complies with the accreditation criteria;

- (b) the paying agency's procedures are such as to give reasonable assurance that the expenditure charged to the EAGF and the EAFRD was effected in compliance with Union rules, thus ensuring that the underlying transactions are legal and regular, and that recommendations for improvements, if any, have been followed-up;
- (c) the annual accounts are in accordance with the books and records of the paying agency;
- (d) the statements of expenditure and of intervention operations are a materially true, complete and accurate record of the operations charged to the EAGF and the EAFRD;
- (e) the financial interests of the Union are properly protected as regards advances paid, guarantees obtained, intervention stocks and amounts to be collected.

7 The head of the paying agency is required to give a management declaration as to the completeness, accuracy and veracity of the accounts and the proper functioning of the internal control systems, based on objective criteria, as well as to the legality and regularity of the underlying transactions. The accuracy of that statement is then verified by the Certification Body and by the Commission as part of the clearance of accounts.

8 The Commission clears a paying agency's accounts taking account of the Certification Body's findings and opinion, the head of the paying agency's management declaration 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 52 of Regulation 1306/2013).

9 Where a Member State accredits more than one paying agency it must also accredit a Co-ordinating Body under Article 7(4) of Regulation 1306/2013 to:-

- a) collect the information to be made available to the Commission and to send that information to the Commission;
- b) take or coordinate, as the case may be, actions with a view to resolving any deficiencies of a common nature and keep the Commission informed of any follow-up; and
- c) promote and, where possible, ensure harmonised application of the Union rules.

10 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.

11 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 5 of Regulation 907/2014) and subsequent corrections (disallowance) under the Commission's conformity clearance procedure (Article 34 of Regulation 908/2014).

12 As summarized in the table below, the CAP is subject to multiple levels of audit and assurance. This reinforces 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.

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 Certification Body
Certification 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

13 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.

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