



UK Co-ordinating Body

ANNUAL REPORT

1 APRIL 2017 – 31 MARCH 2018

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1 Executive Summary

1.1 UKCB has delivered high levels of performance during the year, meeting the targets set by the Board within the strategic framework described in the Business Plan. Working in close collaboration with policy and paying agency colleagues, EU institutions and other stakeholders, UKCB has played a significant role in ensuring that the Common Agricultural Policy is properly administered across the UK following the introduction of new schemes in 2015 following CAP reform. This report provides details of how UKCB has performed against its Business Plan targets, managed resources and risks, and delivered activities to achieve its objectives.

1.2 UKCB acts as secretariat for the UK Competent Authority, ensuring that paying agency accounts are certified and monitoring corrective action in response to audit recommendations. It works closely with paying agencies and the Certifying Body to ensure that the UK's regulatory obligations in this area are effectively delivered. In addition to the audit and clearance of the accounts for financial years 2016, 2016 and 2018, 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 2019 (claim year 2018) onwards.

1.3 As set out in section 6, the Paying Agency Directors' Forum (PADF), Paying Agency Co-ordination Board (PACB) and Accounts & Finance Working Group (AFWG) continue to promote the harmonized implementation of the Common Agricultural Policy by the four paying agencies and their delegated agents within the UK. Implementing CAP schemes continues to create a number of challenges and delays in making some payments. UKCB worked closely with paying agencies on overcoming these issues, with particular attention on improving regulatory compliance and thereby mitigating the risk of disallowance.

1.4 There continues to be a very high level of audit activity by the Commission and the European Court of Auditors (ECA), involving extensive interaction with

these bodies and the Conciliation Body to manage the significant risk of disallowance as far as possible. As well as co-ordinating the response to individual audits, UKCB has focused on analyzing the causes of financial corrections and promoting mitigating actions. The application of flat-rate financial corrections has led to significant concern that the level of proposed disallowance considerably exceeds the true risk to EU funds. UKCB has been active with other Member States in lobbying for a more proportionate approach in this area as well as a more risk-based approach to audits.

1.5 Although the UKCB continues to focus on fulfilling existing EU regulatory requirements, the outcome of the June 2016 referendum on UK membership – leading to the triggering of Article 50 of the Treaty on European Union in March 2017 – has required significant involvement in work to prepare for the UK's withdrawal from the EU and any implementation period after March 2019.

1.6 As set out in this report, UKCB fulfils a number of other important responsibilities relating to UK CAP administration and I would like to thank both my fellow members of the Board and all members of the team for their hard work during the year.

Michael Cooper

Director

June 2018

2. Constitution, Objectives and Performance Indicators

2.1 In 2017/18, UKCB's objectives were to:

- i) carry out the functions of the CAP Co-ordinating Body, i.e. to:
 - a) collect and submit the financial, audit and statistical information required by the Commission;
 - b) co-ordinate 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 Certifying Body;
- iii) promote an effective financial control environment that protects EU funds and reduces the risk of disallowance and suspension of reimbursements;
- iv) set up and maintain the single CAP beneficiary website;
- v) carry out the functions of the EFF/EMFF Certifying Authority;
- vi) deliver services efficiently and effectively.

2.2 The above objectives cover both business outcomes and the capability (financial/people/efficiency) to deliver them, now and in the future, using the skills and experience of staff within UKCB to maximum effect.

2.3 UKCB's key performance indicators (KPI), which help to assess whether the achievement of its objectives, were to:

- i) submit accurate monthly/annual accounting returns in support of CAP reimbursement claims within EU regulatory deadlines;
- ii) co-ordinate EU and ECA audits of the CAP within agreed deadlines, working with Paying Agencies to provide the information requested by the Commission, and thereby mitigate the risk of disallowance;
- iii) co-ordinate regulatory statistical returns, submitting these to the Commission within agreed deadlines;
- iv) represent the UK at the Agricultural Funds Committee, facilitate the harmonized implementation of CAP regulations in the UK (recognizing that devolved administrations have discretion in this area), co-ordinate actions to resolve deficiencies of a common nature and liaise with other Member States to share best practice and lobby for CAP simplification; 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 Certifying Body and monitor Paying Agencies' progress against these plans;
- vii) publish CAP beneficiary data online in accordance with the requirements of the Commission's transparency regulation;
- viii) contribute to the successful closure of the EFF and effective administration of the EMFF;

3. Resources and Staffing

3.1 Funding for UKCB's operations were provided by the Department for Environment, Food and Rural Affairs (Defra). The CAP-related budget for the financial year ended 31 March 2018 was £3.2m, comprising £0.6m for running costs, £0.1m for IT contracts and £2.5m (£3.1m less a contribution of £0.6m from the devolved administrations) for work in respect of the EU certification audit. Outturn for the year was within budget at £3.05m. In addition UKCB had a budget of £0.1m for fisheries-related work.

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

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

3.4 During the year under report, one EO was released under an early severance package. In the light of the UK's exit from the EU this post will remain vacant. Staff in post at 31 March 2018 therefore comprised 10.6 full-time equivalents:

1 Director (SCS), 1 Deputy Director (Grade 6), 1 Grade 7, 2 SEOs¹, 4 HEOs, and 1.6 AOs.

3.5 Monthly team meetings are attended by all staff. Procedures and desk instructions continue to be reviewed on a six-monthly basis.

3.6 All annual appraisals of staff were based on the relevant Performance Management Framework. All staff completed Personal Development Plans and were subject to both in-year and year-end appraisals with their line managers.

¹ One SEO currently on TARA to G7 covering additional responsibilities.

4. Corporate Governance and Risk Management

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

- Ownership of risk by the Director;
- Accountability to the Board and Ministers for corporate governance through routine and annual reporting;
- Consideration jointly of risks to UKCB and paying agencies by assessing risk probability and impact;
- UKCB identifies and manages risks and reports accordingly to the Board and to the Defra Accounting Officer;
- Maintenance of routine and regular review and assessment of risk by the Director and management team;
- Internal audit by the Government Internal Audit Agency; and
- Maintenance of procedures for monitoring and managing performance against targets and for managing risks at all levels to support the Governance Statement.

5. Performance against Business Plan Targets

5.1 The Business Plan for 2017/18 set a number of targets in respect of UKCB's key performance indicators. The table below records performance against each target.

Target	Outcome
i) Submit expenditure reports and reimbursement claims to the Commission for Pillars 1 and 2 within regulatory deadlines.	Target met. All expenditure reports and reimbursement claims were sent within Commission deadlines.
ii) Provide formal responses to EU audit letters and minimize the level of financial corrections arising from Commission audit enquiries.	Target met. All formal audit responses were sent within prescribed timescales.
iii) Submit regulatory statistical returns within the relevant deadlines	<p>Statistical returns were submitted to the European Commission by the deadline of 15 July 2017 with the exception of the following:</p> <p>Direct Aid (SPS) files for Scotland which were sent on 12 October 2017.</p> <p>Cross-compliance return for Wales sent on 11 August 2017.</p> <p>Rural Development return for Scotland sent on 12 September 2017.</p>
iv) Contribute effectively to the Agricultural Funds Committee, arrange regular meetings of UK harmonization groups and liaise with Paying Agencies and Co-ordinating Bodies in other Member States to exchange best practice and identify issues that need to be raised with the Commission.	Target met. UKCB made significant contributions in AFC debates and has an ongoing engagement with UK paying agencies via PADF and PACB, and with other Member States via the Learning Network and Conference of Paying Agency Directors.
v) Submit certified accounts and Matrix data for financial year (FY) 2017 for all UK paying agencies to the Commission by the regulatory deadline in February 2018, or such alternative deadlines as may be agreed with the Commission and agree the certification audit strategy for FY 2018.	Target met. All accounts documentation was submitted to the Commission by the regulatory deadline of 15 February 2018. DAERA accounts were submitted on 9 February, RPA on 12 February, WG on 13 February and SG on 15 February 2018. The draft audit strategy for FY 2018 has been agreed with the CB.
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 2016 and	Target met. Submission sent to representatives of the Competent Authority within deadline following clearance of FY 2016 accounts. Progress against plans for corrective action have been monitored.

monitor paying agencies' progress against these plans.	
vii) Publish aggregated CAP Beneficiary data for FY 2016 by the regulatory deadline of 31 May 2017 and re-tender the contract for hosting and data processing	Target met. FY 2016 data added to the website on 30 May 2017. Contract re-tendered for a further two years.
viii) Certify fisheries funds expended by the four UK intermediate (delivery) bodies and submit reimbursement claims to the Commission on a timely basis.	Target met. Statements of spend and EFF closure documentation was submitted to the Commission (see Annex III)
ix) Negotiate a fee with the Certifying Body for the delivery of the FY 2018 certification audit.	Target met. Audit fee of £3.0m agreed for FY 2018, which is within budget.
x) Ensure that all staff have work objectives and receive in-year appraisal in accordance with the performance management system.	Target met. All staff had agreed work objectives and in-year appraisal meetings under the performance management system.

6. Harmonisation and Competent Authority Activity

6.1 Harmonisation Activity

Paying Agency Director's Forum (PADF)

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

6.1.2 During the period under report, PADF had three meetings. These were held on 18 July 2017 at Saughton House, Edinburgh, 31 October 2017 at Welsh Government Offices, Cardiff and 8 March 2018 at North Gate House, Reading. Members of PADF decided on the formation of a sub-group to focus on the implications of the UK's exit from the EU on the delivery of schemes. This sub-group has been meeting monthly since November 2017.

The main issues covered during the year included:

- Direct aid and rural development schemes
- IACS/LPIS/ OTSC issues
- Managing the risk of disallowance
- EU Audits
- EU Exit
- Simplification

PADF EU exit Sub-group

6.1.3 Details of the PADF EU exit Sub-group, including its objectives, can be found in Appendix II. Membership of the ADF EU Exit Sub-group comprises

representatives from each of the UK Paying Agencies, Defra Policy and UKCB. Michael Cooper (UKCB Director) acts as Chairman and UKCB provides secretariat duties. Whilst the lead for developing UK policy regarding EU exit remains with Defra, the forum considers the practical application of policy pre and post exit and highlights issues of potential concern.

6.1.4 During the period under report, PADF EU Exit Sub-group had five dial in meetings.

The main issues covered during the year included:

- The status of the CY 2020 ceilings
- The timing of exchequer funding
- Possible changes to scheme rules
- Legal basis for EU regulations during the implementation period
- Rural Development Programmes
- Stakeholder expectations
- Disallowance after any implementation period

Paying Agency Co-ordination Board (PACB)

6.1.5 Details of PACB, including its purpose and objectives, can be found in Appendix II. During the period under report, PACB met formally on one occasion. Outside of this meeting it continued to operate as a communication network addressing issues in real time. As addressing the delivery challenges the paying agencies may face during the imminent exit from the EU is a major priority, the newly formed PADF EU exit sub group has taken precedence over PACB in the latter part of this year.

The board focused on operational issues arising from the delivery of core business, including:

- Cross compliance
- Audit information sharing

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

Accounts and Finance Working Group (AFWG)

6.1.6 The objectives of AFWG can be found in Appendix II. During 2017/18 the group met once, on 10 October 2017, with another meeting scheduled for April 2018. The meeting was attended by representatives from all the paying agencies, as well as the Forestry Commission and Defra. UKCB prepares the agenda and leads discussion on most items. The main topics covered included:

- EAGF and EAFRD accounting requirements for the FY 2017 Certification audit;
- Issues identified during the FY 2016 accounts clearance process;
- Proposed changes to Certification guidelines;
- Application of Commission irregularity debt reporting requirements;
- Application and reimbursement of Financial Discipline;
- EAFRD accounting issues, including capping;
- Calculation and application of late payment penalties;
- Basic Payment Scheme budget coding and ceiling monitoring;
- OLAF fraud and irregularity reporting arrangements; and
- Funding Body issues, including hedging and reconciliation of balances.

Conferences of Directors of EU Paying Agencies

6.1.7 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, the two conferences held

were in Gozo, Malta (17 - 19 May 2017) and Tartu, Estonia (4 – 6 October 2017). Presentations were made by the Commission and the ECA and reports on the work carried out by both the Learning Network and Panta Rhei. The main themes for consideration during the plenary sessions included:

- Error-Rate Prevention; New Techniques and Processes ;
- Reducing Control Rates;
- Implementation Challenges – Voluntary Coupled Support Schemes;
- Reporting Solutions in a Changing Need for Data Access;
- 100% Monitoring: New Ways to Perform Controls;
- Automated non-IACS processes; and
- IT Solutions

Learning Network

6.1.8 The Learning Network of EU Paying Agencies and Co-ordinating Bodies (Learning Network) was formed in 2009 with representatives from 9 Member States. It now has participants from all Member States and was previously 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.

6.1.9 A number of meetings have been held this year including three formal plenary sessions, two held in Brussels (24/4/17 and 4/12/17) and one in

Lithuania (14-15/9/17). The Commission attended the session in Lithuania and also participated in Steering Group meetings with the Learning Network to coincide with the meetings in Brussels. There was also meetings in Brussels on 31/5/17 and 11/12/17 between the Learning Network and the Commission, co-chaired by the UKCB Director, to continue discussions on the revised Certification Guidelines.

6.1.10 Other key areas of work discussed included:

- CAP simplification ;
- CAP implementation (BPS payments 2015/2016 and Active Farmer test);
- CAP Post 2020;
- Use of New Technologies;
- Future Control Systems;
- Development of a Single Audit Approach;
- PA Cross-Cutting Issues;
- Arrangements for the Conferences of paying agency Directors

Agricultural Funds Committee (AFC) and Experts Meetings

6.1.11 UKCB continued to lead UK representation at the Agricultural Funds Committee (AFC), which meets monthly in Brussels. Each month, paying agencies were offered, and responded to, the opportunity to provide views and comments from their own as well as the UK perspective. A 24 hour report was produced by UKCB after each meeting and was circulated within 2 working days in all cases.

6.1.12 In 2017/18, AFC was consulted on three Commission ad hoc Clearance of Accounts decisions, all of which were subsequently adopted. These applied just over €1billion in financial corrections. From the UK perspective, these contained just over €5.58m (gross) of disallowance. The relevant breakdown by UK paying agency was as follows:

- RPA €2.445 (RD and 2015 Financial Clearance)
- DAERA €1.222m (X/C)
- SG €1.705m (RD)
- WG €0.213m (RD Closure)

6.1.13 From the UK perspective, the main issue discussed at AFC during the year was the Commission's proposal to apply late payment corrections to CY 2015 Direct Aid Schemes. The UK's position was to:

- Acknowledge the fact that the Commission issued a derogation which effectively waived the imposition of deductions for payments made after 30/6/2016 and which exceeded the franchise.
- Note that this derogation only applied to payments made up to 15/10/2016
- Highlight that the governing legislation does not preclude the Commission from reviewing each case on its merits and the UK contended that there was no regulatory basis not to consider a further derogation for payments made after 15/10.
- Stress that the issues faced by SG impacted on their ability to make the necessary level of validated payments before 30/6, which adversely impacted the UK franchise. However, the majority of Scottish payments were validated and paid by 15/10.
- Confirm that in England, whilst the vast majority of initial payments were made by 30/6, the main issue was on the ability to make final payments by 15/10.
- Iterate that at all stages the UK Authorities acted to protect the Fund and ensured that only fully validated claims were made from the EAGF; also that the combination of issues clearly met the definition of exceptional management conditions and consider the current proposals to be disproportionate.
- Invite the Commission to review its initial proposals on the basis that because of the complex combination of the issues which affected Scotland and England, all UK payments made after 15/10, including payments subject to appeals and probate, were subject to 100% correction.

Despite support from France and Italy in particular, both of whom were also affected by significant similar correction proposals, the Commission did not amend its position. Corrections totaling some €29.4m were therefore applied, although the UK signaled its intention to take this matter through the formal clearance contradictory process as defined in Article 34 of regulation 908/2014.

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

- Revised Commission Certification Guidelines;
- Financial Clearance of Accounts;
- Revisions to Regulations 907/2014 and 908/2014;
- Financial Discipline procedures (including re-imburement);
- Updated Guidance on the provision of control data and matrix requirements; and
- Use of SFC 2014;

EU Audits

6.1.15 During the period under report there were 9 missions by the Commission and 5 by the ECA. UKCB 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 and 1 Conciliation Body hearing during this period. The audits and bilateral meetings covered the following:

Commission Audit missions:

Agri-environmental measures audit to RPA – 24/28 April 2017

Area Aids audit to Scotland - 12/16 June 2017

Public Procurement audit to RPA – 10/14 July 2017

M10 & M11 audit to Wales – 11/15 December 2017

Market Measures audit to RPA – 12/16 February 2018

IT Security audit to Wales – 12/16 February 2018

Entitlements audit to Scotland – 5/9 March 2018

Market Measures to Wales – 12/16 March 2018

Agri-environmental measures audit to DAERA – 20/23 March 2018

Bilateral Meetings:

RD IACS Measure – Scotland – 27 June 2017

Area Aids – DARD – 6 July 2017

Entitlements – RPA – 23 October 2017

RD Agri-environmental measures – RPA – 5 December 2017

Area Aids – Scotland – 25 January 2018

Conciliation Body Hearings:

Area Aids – RPA – 30 November 2017

ECA Audit missions:

DAS – to RPA – 11 August 2017

DAS – to DAERA – 4 September 2017

DAS – to Wales – 25 September 2017

DAS – to RPA – 16 October 2017

DAS – to RPA – 5 February 2018

The ECA also published Special Report 10/2018 on the Basic Payment Scheme in March 2018 following audit visits to England and Scotland.

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

Publication of CAP beneficiary data

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

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

- for payments to be published for all beneficiaries, both natural and legal;

- a breakdown of amounts paid, split by scheme or measure;
- a de minimis of €1,250 under which threshold payments will be published, but with the names of these beneficiaries anonymised.

6.1.19 The contract for the website hosting and annual data upload was re-tendered during 2017 under the government's G-cloud procurement process. Following the tender a further two-year contract was awarded to the existing contractors.

6.1.20 The FY 2016 payments data was added to the website in May 2017.

6.1.21 The project to upload the FY 2017 financial year data began in January 2018. UKCB has obtained data from paying agencies, coordinated user acceptance testing and provided liaison between the contractor and paying agencies to resolve queries. The FY 2017 data is on course to be added to the website by the end of May 2018.

Control Statistics

6.1.22 Article 9 of Regulation 809/2014 requires Member States to provide control statistics on an annual basis. Responsibility for the collation and submission of such data continues to rest with UKCB. These returns are considered of the utmost importance by the Commission, as they indicate the underlying error rates in claims submitted by farmers. It is therefore essential that the data contained in the returns is quality assured and submitted on a timely basis.

6.1.23 The Pillar I returns cover SPS eligibility and cross compliance and cover information on the number of claims made, areas/amounts covered by claims and associated control measures and sanctions imposed. The Pillar II returns cover all rural development measures. Statistical returns were submitted to the European Commission by the deadline of 15 July 2017 except as noted below:

- Direct Aid (SPS) return for for Scotland on 12 October 2017.

- Cross-compliance return for Wales on 11 August 2017.
- Rural development return for Scotland sent on 2 September 2017.

Subsequent to the receipt of the control statistics, a number of queries were raised by both the Commission and Certification Body, which in some cases necessitated the submission of updated files.

Other issues

6.1.24 During the year under report, UKCB participated in number of other groups including:

- Defra Disallowance Steering Group, Disallowance Working Group and Disallowance Forecasting Group;
- Paying Agency accreditation groups;
- Inter-Departmental Audit Group (IDAG)
- Commission seminar on the root causes for errors in the implementation of rural development programmes; and
- Annual presentation by ECA at the National Audit Office

6.1.25 Following the decision by the UK Government to invoke Article 50 of the Lisbon Treaty to give notice to leave the European Union, UKCB has provided support and advice, including statistical data, to Defra and paying agency colleagues to assist with input into policy decisions. As part of this role, UKCB is a key stakeholder on a number of cross-cutting policy working groups.

6.1.26 UKCB also represented the UK at a number of the European Commission's Anti-fraud Office (OLAF) meetings, as follows: Advisory Committee for the Co-ordination of Fraud Policy – Plenary Session (23rd May 2017), Fraud Prevention Group (9th November 2017), and the Reporting and Analysis of Fraudulent and Other Irregularities Group (7th December 2017).

6.2 Competent Authority Activity

Certification of Accounts.

i) Financial Year 2017

6.2.1 Commission legislation requires the outcomes of certification audits to be reported to Brussels by no later than 15 February each year as the basis for a Commission Decision on the clearance of the accounts for both Agricultural Funds (EAGF and EAFRD). The FY 2017 accounts documentation in respect of all paying agencies was submitted to Brussels by the deadline (DAERA on 9 February 2018, WG on 13 February 2018, RPA on 12 February 2018 and SG on 15 February 2018).

6.2.2 This was the third year for which the Commission required the Certification Body to provide an opinion on the legality and regularity of the underlying transactions. This continued to have a substantial impact on both the scope and cost of the work required, as the main focus remained the re-verification of the on-the-spot-checks initially carried out by each paying agency. Nevertheless, all UK accounts had unqualified opinions, although for a second year there was an emphasis of matter concerning DAERA's EAGF debtors' population (although once again this was very much a technical requirement and the CB stressed that this issue, as in 2016, was insignificant in terms of the value of the Fund). However, DAERA has confirmed that procedures will be further enhanced.

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

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

RPA

- Bridging Payments;
- Claim Reconciliation;
- Inspections and Control returns;
- Closure of Adjustment to EAFRD Account and
- Monitoring of Delegated Bodies

SGRPID

- EAGF – Basic Payment Scheme, Greening, Young Farmers and Voluntary Coupled Support;
- EAFRD – Scottish Rural Development Programme – monitoring of the Action Plan;
- Control Statistics;
- Internal Audit; and
- Finance

DAERA

- LFACA Debts

WG

- Work of the internal audit service;
- EAFRD Administrative Processing – action plan; and
- Quality of control statistics data

6.2.5 As is standard procedure, the Commission raised a number of queries following submission. Most of these were relatively minor and technical in nature and were all responded to swiftly. However, for the RPA EAGF Accounts, the Commission questioned the audit strategy used by NAO as Certification Body, under which the CB had specifically targeted Fruit and Vegetable transactions as ostensibly more risky and had therefore created a wholly separate population comprising these transactions. Whilst the Commission considered this to be contrary to the methodology proscribed in

Guideline 2, both UKCB and NAO strongly defended the position adopted on the basis of the use of appropriate professional judgement designed to target risk and to provide the Commission with the highest levels of assurance. As a result, the Commission proposed clearance of the RPA Accounts (as they accepted there was no material error) but requested NAO to conduct some further testing to provide additional assurance.

6.2.6 All other Article 33 letters were issued in April, confirming clearance of all UK paying agencies' accounts. However, there were potential corrections for WG and SG due to perceived weaknesses in agri-environmental schemes. These will be challenged via the standard contradictory procedures. The formal Clearance decisions were formally adopted in May 2018.

ii) Financial Year 2018

6.2.7 The introduction of the audit of legality and regularity has created a two-year audit process, with re-verification of on-the-spot checks undertaken in year 1 and financial and controls testing undertaken in year 2. Work supporting the FY 2018 certification audit started in the late summer of 2017, with the initial focus on the re-verification of land-based schemes. Whilst the outcome of both the FY 2016 and 2017 audits was generally positive, the levels of inherent risk will remain much the same for Financial Year 2018 and as such a reduction in costs is unlikely.

iii) Financial Year 2019

The Commission has introduced new certification guidelines for mandatory implementation from FY 2019, which will significantly increase the amount of audit work required, particularly re-verifications of on-the-spot checks. The Certification Body is reviewing the revised requirements as a matter of urgency as initial on-the-spot checks will need to commence in the summer of 2018. Given the extra work required, UKCB has submitted a bid for additional funding.

UKCB is liaising with the Certification Body and Paying Agencies as a matter of priority regarding the operational implications of implementing the new certification guidelines for FY 2019 and will agree a revised engagement letter with NAO.

Certification Body

6.2.8 The total gross cost of the 2017 exercise was confirmed at £3,009,267, a little higher than original forecasts, as there were fee increases for all four Certification Bodies: NAO (£63,000), AS (£58,000), WAO (£20,188) and NIAO (£144). The final total represents an increase of 2% from 2016.

United Kingdom Accreditation Compliance Committee (UKACC)

6.2.9 Details regarding UKACC, including its objectives, can be found in Appendix II. UKACC met once during the period under review, on 25th May 2017. The main issues discussed included:

Certification of Accounts (2016, 2017, 2018 and 2019 exercises);

Monitoring of corrective actions;

Management Declarations (including Control Statistics);

Commission and ECA Compliance Audit Findings;

Paying Agency Accreditation Meetings;

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

Certification Experts Meetings; and

IT Security and other Accreditation Issues.

Management Board Membership 2017/18

Michael Cooper	Director, UK Co-ordinating Body
David Reid	Department of Agriculture, Environment and Rural Affairs, Northern Ireland (DAERA)
Anna Sanders	Department for Environment, Food and Rural Affairs (Defra)
Ian Davidson	Scottish Government (SG)
Dean Medcraft	Welsh Government (WG) and Board Chair

The Management Board was chaired during the year by Dean Medcraft and met on 17th August 2017 in Reading and by tele-conference on 7th December 2017 to discuss options for the FY 2019 Certification audit and on 22nd February 2018 to consider the findings of the FY 2017 Certification exercise.

Details of Key UK Co-ordinating Body Groups

Paying Agency Director's Forum (PADF)

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

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

3. To achieve its objectives PADF:

- promotes the harmonised application of EU regulations and guidelines by UK paying agencies and their delegated agents;
- identifies and monitors risks for UK paying agencies relating to accreditation, scheme compliance and disallowance and agrees appropriate mitigating actions;
- provides a forum to enable paying agencies to discuss the practical implications of CAP reform and other policy developments for delivery bodies, both regarding implementation and ongoing administration, and to discuss these matters with UK policy-makers;

- identifies opportunities for the simplification of CAP regulations;
- prepares for meetings of the EU Conference of paying agency Directors and the Learning Network;
- promotes common standards for controls and databases; and
- exchanges information and best practice between paying agencies

Paying Agency Co-ordination Board (PACB)

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

5. To meet these objectives PACB is mandated to:

- promote the harmonised application of EU regulations and guidelines by paying agencies and any other bodies responsible for their application;
- consider and promote the application of accreditation criteria and IACS controls, including common standards for inspections and databases;
- promote, subject to variation arising from the application of regional options permitted under EU legislation, a consistent approach to the implementation of CAP schemes and programmes;
- provide a forum to enable paying agencies to be aware of policy developments and allow UK negotiators to take account of the practical

implications for delivery bodies, for example, resources and timescales, both regarding implementation and ongoing administration;

- consider ways of improving administrative processes;
- exchange information and best practice between paying agencies;
- coordinate responses to the Commission and ECA where audits and resulting findings relate to more than one UK paying agency; and
- ensure the timely submission of returns to the Commission and monitor expenditure against UK and regional ceilings.

UK Paying Agency EU Exit Sub-Group

6. The purpose of the UK Paying Agency EU Exit Sub-Group is to bring together the various strands of EU exit activity focusing on Day 1 readiness and transitional arrangements for current schemes, currently taking place within DAERA, WG, RPA and SG.

7. Whilst it is acknowledged there remains uncertainty, some decisions (or indications as to the likely direction of travel) will have to be taken in 2018 in order for paying agencies to continue to deliver CAP payments after March 2019. Therefore the group will focus on operational issues and the implementation of any agreed common UK framework.

8. To achieve these objectives the UK Paying Agency EU Exit Sub-Group will provide an operational viewpoint to inform wider policy and political discussions, building on the output of the Food and Farming Working Group and agriculture deep dive, initially prioritising the following:

- identifying a list of inoperable articles from the suite of CAP regulations - by January 2017
- agree paying agency perspective to retain, remove or replace (e.g. quick wins) those EU CAP processes - by January 2017

- agree paying agency perspective on transitional arrangements for delivering CAP equivalent payments for claim years 2018 (payment not made by March 2019), claim year 2019 and claim year 2020 (and/or until any future CAP replacement scheme start).
- feed output from the above into the Paying Agencies Directors' Forum (PADF) who in turn will provide an operational viewpoint to inform wider policy discussions.

9. It should be noted that future policy decisions are not a remit of the UK Paying Agency EU Exit Sub-Group and as such will remain out of scope.

Accounts and Finance Working Group (AFWG)

10. The purpose of AFWG is to:

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

United Kingdom Accreditation Compliance Committee (UKACC)

11. UKACC was established in 2008 to consider matters concerning the UKCB's functions as secretariat to the Competent Authority and its responsibility for managing the SLA with the UK Certifying Body. Its main objectives are to:

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

APPENDIX III

European Maritime Fisheries Fund (EMFF) UK Certifying Authority

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

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

1.3 With the closure of the European Fisheries Fund last year and the submission accounts for the 7 year programme, focus is now on the European Maritime Fisheries Fund 2014 to 2020 which requires the UK to submit accounts on an annual basis. Following the designated of UK authorities with effect from 12 June 2017 this year saw the first submission of substantive EMFF annual accounts. The EMFF programme is worth €243 million to the UK, to date the UK has claimed £20,427,131 from the European Commission, broken down between the Intermediate Bodies as follows:

England	£9,700,645
Northern Ireland	£1,471,331
Scotland	£9,255,155
Wales	£0

1.4 To date Wales remains undesignated and consequently has yet to submit a claim for reimbursement. Designation is expected to occur towards the end of 2018.

