

Paying Agency / Agencies

within the Clearance of Accounts

Principles & Procedures

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European Commission

DG AGRI J.5

Clearance of accounts

Principles & Procedures

- **Competent Authority (CA)**
-> nominates Paying Agency
- **The Paying Agencies (PA)**
-> implement CAP in Member States
- **The Certifying Body (CB)**
-> certifies annual accounts of the Paying Agency
- **Clearance Procedure**
-> rules for clearing the actual expenditure
- **Co-ordinating Body (CoB)**
-> in case more than one Paying Agency to coordinate the information to Commission



Legal basis

- Council Regulation 1290/2005
 - EAGF (European Agricultural Guarantee Fund)
 - EAFRD (European Agricultural Fund for Rural Development)
 - Effective from 1.1.2007 (partly 16.10.2006)
- Commission Regulation 1663/1995 (new regulation is currently under preparation)

Basic objectives of the system

- Improve financial control over EAGF and EAFRD expenditure
- Work together with the MS
- Ensure sound and effective systems are in the place
- Meet demands from the European Parliament and the Court of Auditors



Requirements for PAs

Should guarantee that:

- the admissibility of claims and compliance with Community rules are checked before payment is authorised,
- the payments effected are correctly and fully recorded in the accounts, and
- the necessary documents are submitted within the time and in the form laid down in Community rules.



Basic steps in accrediting Paying Agency (PA)

- Designate a Competent Authority (CA)
- The CA must decide which body will be the PA
- The CA must review the operations of the PA against the criteria
- The PA must comply with the accreditation criteria



Basic steps in accrediting a PA

- The CA must prepare the Act of Accreditation (for PA and Co-ordinating Body)
- The Act of Accreditation must be sent to the Commission (for PA and Co-ordinating Body)
- The PA must be accredited before any payments can be made



Important accreditation criteria for PA (1) – Annex to R.1663/95

- A sound legal basis, setting out its rights and obligations
- Written procedures and instructions for its work, at all levels of the organisation
- Separation between the authorisation, payment and accounting functions
- The establishment of an internal audit service



Important accreditation criteria for PA (2)– Annex to R.1663/95

- Detailed checklists for the authorisation of claims - evidence of the controls
- Adequate procedures for the delegation of tasks
- Proper IT procedures, management and security
- Monitoring activities



Important accreditation criteria for PA (3) – Annex to R.1663/95

- Monthly reconciliation procedures
- Establishment of a proper audit trail
- A central debtors ledger
- Satisfactory management of advances and guarantees
- Satisfactory management of intervention stocks



Delegation of functions

- Payments may not be delegated
- Authorisation may be carried out by local offices or by other organisations (e.g. Customs)
- PA remains responsible
- Need for supervision
- See R. 1663/95 Annex paragraph 4



Co-ordinating body (CoB)

- If more than one PA is nominated by the Member State, a Co-ordinating body needs to be established
- Coordinate information to Commission
- Provides information on financing needs



Pre-accreditation body

- Task: Carries out pre-accreditation review of the PA and Co-ordinating body
- Result: Pre-accreditation report with recommendations
- Competent Authority will based its Act of Accreditation on the pre-accreditation review
- Accreditation needs to be in place by the date of accession
- Independent from the PA and Co-ordinating body



Certifying Body (CB)

Criteria for selection:

- Independent from the PA (and the co-ordinating body)
- Capacity to carry out audits in accordance with Internationally accepted Audit Standards
- Competent to carry out the work



Certification (audit report)

- The CB is a body designated by the CA in order to audit the accounts of the PA and issue the relevant certificate
- Choice of the CB
 - private firm
 - national audit body
 - audit service from the Ministry of Finance



Certification (audit report)

- 11 guidelines issued by the Commission to define the certification work required
- Guidelines covers e.g.:
 - Sampling method used for testing
 - Error evaluation
 - Model report
 - IT security issues
 - Debtors, Advances and Securities
 - Intervention operations
 - Delegation of tasks
 - Physical checks



Certification (audit report)

Covers:

- Certificate with an audit opinion
- Audit report on annual accounts both EAGF and EAFRD
- A Statement of Assurance by the Head of Paying Agency



Financing and control mechanism

- MS disburse money
- MS claim reimbursement from the Commission
- Commission reimburses MS - “Advances”
- Commission controls declarations - “Clearance of accounts”



Paying Agencies

- Response to the reform of the CAP - Decentralisation
- Formal accreditation process by the MS
- Accreditation criteria needs to be fulfilled
- Certification of the accounts



Annual accounts

- Objective - better control through MS involvement
- Sent to the Commission around 4 months after the EAGF budget year (Oct. 16 - Oct. 15)
- Audit report from the CB
- Accompanied by an audit certificate



Internal Audit and Internal Control Activities

- Are not the same
- Internal control activities:
 - ensure minimum rate of controls is respected
 - monitor quality control
 - supervise local offices
 - supervise delegated bodies
 - supervise technical service



Internal Audit Service

- R. 1663/95 par. 10 of Annex
- Independent from the operational services of the PA
- Reports directly to the Head of the PA
- Ensure that procedures are followed
- Examine the internal control procedures of the PA



Examples – Poland

- 2 Paying agencies:
 - ARMA (Direct payments to farmers, Rural development plans, Less Favourite Area)
 - AMA (Intervention operations, Quotas, Export refunds, Sugar fees)
- Competent Authority: Ministry of Finance
- Co-ordinating Body: Ministry of Agriculture and Rural Development
- Certifying Body: Ministry of Finance, General Inspectorate of Treasury Control
- Pre-accreditation body: private company (BRPR – KPMG)



Examples - Poland

- Structure ARMA:
 - HQ (Policies, Planning, Monitoring and Supervision, Accounting, Payments)
 - 16 Regional Office (supervising/monitoring District Offices & on-the-spot controls)
 - 314 District Office (introduction of aid applications)

- > Note: on-the-spot farm inspections were partly delegated to external contractors



Examples - Poland

- Structure AMA:
 - HQ (Policies, Planning, Monitoring and Supervision, Accounting, Payments)
 - 16 Regional Office (Inspections, Authorisation of claims – for some measures)

- > Note: some inspections are delegated to other bodies, e.g. to Customs

Websites: <http://www.arimr.gov.pl/>
<http://www.minrol.gov.pl/>



Examples - Hungary

- 1 Paying agency: ARDA
- Competent Authority: Ministry of Agriculture and Rural Development
- Co-ordinating Body: N/A
- Certifying Body: State Auditor's office - SAO
- Pre-accreditation body: State Auditor's office – SAO



Examples - Hungary

Structure ARDA:

- HQ (Policies, Planning, Monitoring and Supervision, Accounting, Payments)
- 19 Regional Office (Claims processing)



Examples - Hungary

- > Note: On-the-spot controls are delegated to:
- the National Institute for Agricultural Quality Control (OMMI),
 - the State Forestry Service (AESZ),
 - the Office for Wine qualification (OBI) and
 - the Institute of Geodesy, Cartography and Remote Sensing (FÖMI).
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- Website: <http://www.fvm.hu/> (Ministry of Agriculture)



Examples - Slovenia

1 Paying agency: AAMRD

- Competent Authority: Ministry of Agriculture, Forestry and Food
- Co-ordinating Body: N/A
- Certifying Body: Office for the supervision of the budget of the Republic of Slovenia of the Ministry of Finance
- Pre-accreditation body: private company (BRPR–KPMG)



Examples - Slovenia

Structure AAMRD:

- HQ (all key activities)
- No Regional Office structure

-> Note:

- The Customs Administration of the Republic of Slovenia (CARS) and;
- the Inspectorate of the Republic of Slovenia for Agriculture, Forestry and Food (IRSAFF) are performing the on-the-spot-checks as delegated bodies

- Website:
<http://www.arsktrp.gov.si/en/>



Clearance Procedures

- **annual “accounting” clearance**
(Art. 30 of Council Regulation (EC) N° 1290/2005)

- **conformity clearance**
(Art. 31 of Council Regulation (EC) N° 1290/2005)



Aim of the Clearance Procedures (1)

- “**accounting**” clearance

(based on the certified accounts of the **accredited** PAs) aims at :

providing the Commission with reasonable assurance on the veracity, completeness and exactness of the presented accounts with regard to the premia payments made to farmers



Aim of the Clearance Procedures (2)

- **compliance clearance**

(based on enquiries carried out on specific schemes and areas of the CAP) aims at :

providing the Commission with reasonable assurance as to the effectiveness and efficiency of the management and control procedures used by the MS in checking the legality and regularity of aid claims made by farmers



Clearance of accounts approach

- Corrections (refusal to finance expenditure)
- Dual role **Internal/External** control
- Advisory role



Nature of the clearance of accounts audits

- Preventive : to provide recommendations in order to remedy weaknesses in the future and to recover undue payments
- Corrective : to propose financial corrections in case the Paying Agencies did not take adequate action



Controls

- For every aid scheme, a number of conditions have to be respected by the claimant. Each of these conditions must be subject to a control (usually defined by Regulation)
- PA should ensure that performance of each control is evidenced by supporting documentation



Controls

- Key control: Verifies substantive elements of a claim (area, weight, quality of controls, IACS, nature of crop or product, cross-checks)
- Ancillary control: Administrative control, such as an application of risk analysis, application of sanctions, supervision of procedures, time-limits of submission of claims



Financial corrections

- In case of failures to comply with Community legislation
- Individual errors/irregularities
- Extrapolated errors/non-conformity cases (based on a representative sample)
- Based on agreed working document distributed to all MS
- Correction based on the loss to the Fund
- Flat-rate corrections (based on the risk of financial loss)
- Maximum period of correction : 24 months (except fraud cases)
- Key and Ancillary Controls



Flat rate corrections

- Not normally used in case the MS own control system, such as internal or external audit, detect deficiencies and appropriate remedial action is taken
- Flat-rate can be 2%, 5%, 10% or 25% or even more of the expenditure in question
- Evaluation is based on Key Controls and Ancillary controls
- MS is always given the opportunity to demonstrate that the real loss was less than proposed



Corrections - procedure

- Mission report
- Commission letter of observations
- MS reply
- Conclusions
- Bilateral meeting
- Conciliation
- Decision
- Court of Justice



Other links:

Some other website links: UK,
Ireland, Slovak Republic, JRC
Ispra,

- <http://www.rpa.gov.uk/>
- <http://www.agriculture.gov.ie>
- <http://www.mpsr.sk/apa/>
- <http://agrifish.jrc.it/>

Thank you for your attention

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