

Results of ECA Audits (EAGF)



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**PRESENTED BY M. ZENNER
HEAD OF UNIT « FINANCIAL AUDIT EAGF »
EUROPEAN COURT OF AUDITORS**

Treatment of errors



In the Court's substantive testing procedures

Treatment of errors in substantive testing procedures



- Transactions not carried out in accordance with legal and regulatory requirements are considered to be errors
- Distinction between: errors affecting legality and regularity of the payment and other compliance issues (no direct impact on payments)
- Errors detected by the PA before the notification of the ECA audit and corrected before closure of financial year, are not taken into account for the DAS

Substantive testing

Types of errors (part I)



A) **affecting legality or regularity**

1. **Quantifiable** (>2% Serious; <2%>0,5% Limited; <0,5% Insignificant)
2. **Non Quantifiable**
 - **serious** if material by nature, or context and whole payment is affected ;
 - **limited** if material by nature or context and significant part of payment affected;
 - **insignificant** in all other cases

Insignificant errors are not reported for DAS

Substantive testing

Types of errors (part II)



B) Other compliance issues

- **Serious** if material by nature or context and whole payment is affected
- **Limited** if material by nature or context and significant part of payment is affected;
- **Insignificant** in other cases

Insignificant errors are not reported for DAS

Results of substantive testing



Overview of errors in EAGF sample

| | <u>2007</u> | <u>2008</u> | <u>2009</u> |
|--------------------------------|------------------|------------------|------------------|
| -total quantifiable | 27 | 30 | 24 |
| <i>-total serious</i> | <i>16</i> | <i>21</i> | <i>12</i> |
| <i>-total limited</i> | <i>11</i> | <i>9</i> | <i>12</i> |
| -total non-quantifiable | <u>29</u> | <u>18</u> | <u>15</u> |
| All errors | 56 | 48 | 39 |
| Overall error rate | >2% | <2% | >2% |

Results of systems audits



Overview and examples of weaknesses

Results of systems audits



- Overall assessment of the reliability of IACS

Residual error rates based on cumulative actual /potential financial impact of all weaknesses in the design and operation of key controls!

- **“Effective”** (residual error rate below 2%)
- **“Partially effective”** (residual error rate 2-5%)
- **“Not effective”** (residual error rate above 5%)

- **Results published in the ECA’s annual reports**

Between 2006 and 2008 ECA has audited 20 paying agencies in 17 Member States (1 effective; 12 partly effective; 7 not effective)

Results of systems audits



Examples of weaknesses observed....

KAQ1

1.1.Database of farmers



- 1.1.1 Farmer carries out an agricultural activity?
- 1.1.2 Unique database of farmers?
- 1.1.3 Link between farmer reg. number and personal ID card number or equivalent?
- 1.1.4 Access restriction to change personal data(banking data, etc)?

Findings:

- Regional instead of national databases,
- Double registrations of natural persons,
- Legal entities registered without information on natural persons owning it.

KAQ1

1.2 LPIS (reference parcel database)

- 1.2.1 Unique identification number for every reference parcel?
- 1.2.2 Digitized reference parcels permitting on screen measurement with geodetic references (GIS)? Ortho-imagery available?
- 1.2.3 Total area and eligible area recorded in database?
- 1.2.4 Regular updates by new ortho-photos and OTS inspection results?
- 1.2.5 Access restriction to change LPIS reference parcel data?

Findings:

- Ineligible land classified as 100% eligible,
- Ineligible features not eliminated,
- Use of historical eligibility rates, instead of actual rates,
- LPIS data not up-dated with results of inspections.

KAQ1

1.3. Claims database



- 1.3.1 All claim data recorded for every farmer since year 2000 (2004 for new MS)?
- 1.3.2 All operations (data input, or changes) are recorded by author, time and content of operation, initial data remains accessible
- 1.3.3 Access restrictions and respecting the four eye principle

Findings:

- No, or unreliable audit trail for nature, time and author of amendments made to the claim data,
- Access restrictions not operational due to unauthorised exchange of passwords,
- **Incorrect “Obvious error” corrections.**

KAQ1

1.4 Entitlements database (*not relevant for SAPS*)

- 1.4.1 National ceiling for entitlements respected?
- 1.4.2 All entitlements identified (individually, or by homogenous group) by unique identification number?
- 1.4.3 For every entitlement details are recorded of: holder, value, last activation, transfers, date of establishment, origin, type of entitlement?
- 1.4.4 Are transfers of entitlements correctly registered and is double activation excluded?

Findings:

- National ceiling for entitlements exceeded,
- Incorrect allocations under new farmer and investor schemes,
- Allocation of special entitlements instead of normal entitlements,
- No, or incorrect claw-back of entitlements,
- Irregular consolidation of entitlements.

KAQ1

1.5 Animal databases



That database is only relevant where animal premium remains partly coupled)

1.5.1 National envelope for animal premium respected

1.5.2 Monitoring of pending transfers?

1.5.3 Monitoring of retention periods?

Findings:

High number of long lasting pending transfer cases

KAQ1

1.6 Integrated control system



1.6.1 The databases referred to above are linked and the data recorded in the various databases is used for effective cross checks (see KAQ 2 below)?

Findings:

see KAQ 2 below

KAQ2

2.1 Claim registration and data input

- 2.1.1 Registration procedures provide assurance that the date of arrival recorded in the database is reliable?
- 2.1.2 Data input procedures assure that data is correctly input into the database?
- 2.1.3 Claims contain all data and information required to unambiguously determine the agricultural parcels claimed?
- 2.1.4 Registration of requests for modification (addition of new parcels and withdrawals)? Spontaneous request, or triggered by anomaly found?

Findings:

- Use of simple rubber date stamp
- Electronic register with manual selection of date,
- Claims do not contain information on precise location of agricultural parcel
- Corrections of anomalies detected were processed without penalties
- No audit trail on the history and results of cross-checks
- No audit trail on changes made to the claim data (on paper claim, or in database)

KAQ2

2.2 Cross-checks between the various IACS databases



- 2.2.1 Claim lodged by registered farmer?
- 2.2.2 Claimed reference parcel exists?
- 2.2.3 Land and land use claimed are ineligible?
- 2.2.4 Reference parcel is not overshoot ?
- 2.2.5 Double claimed areas are identified, investigated and cleared and penalties are applied?
- 2.2.6 No payment for agricultural parcels or claims below min. size?
- 2.2.7 Withdrawals of land affected by anomalies detected by administration lead to penalties?
- 2.2.8 Obvious error corrections meet the criteria defined in COM working document?

Findings:

- Beneficiaries of EU aid do not meet the farmer criteria, they do not carry out any agricultural, or maintenance activity (landowners for land leased to actual farmer)
- Dubious legal constructs for outsourcing of agricultural activity (pascolamento da terzi etc)
- Reference parcel overshoots are allowed up to 5%
- Same parcel claimed by different farmers under different aid schemes

KAQ2

2.2 Cross-checks between the various IACS databases



For SPS:

- 2.2.9 Entitlements claimed match entitlements held by farmer at the cut off date?
- 2.2.10 Entitlements activated (claimed) clearly identified?
- 2.2.11 Identification of entitlements that failed to respect minimum activation obligation

Findings:

Entitlements having failed minimum activation obligation continue to be claimed and paid

KAQ2

2.3 Correct calculation of the aid amount



- 2.3.1 Determined eligible area is correct?
- 2.3.2 Correct application of late claim penalties?
- 2.3.3 Correct application of overdeclaration penalties?
- 2.3.4 Correct application of underdeclaration penalties?
- 2.3.5 Correct application of GAEC and CC penalties?

Findings:

- Incorrect payment calculation algorithm
- Incorrect application of late claim penalties
- Non application of area penalties
- Pro rata payment of Special entitlements in case of insufficient livestock activity
- No retro-active application of reductions and sanctions

KAQ2

2.3 Correct calculation of the aid amount

For SAPS:

2.3.6 Correct calculation of the aid rate /ha (reduction coefficient where applicable)?

For SPS:

2.3.7 Use of weighted average value of all entitlements declared (after correction of set aside entitlements)?

2.3.8 Application of cross-compliance penalties?

2.3.9 Modulation deducted?

Findings:

- Non-application of reduction coefficient in case of budgetary ceiling overshoot (SAPS)
- Payment calculated on the basis of highest value entitlements, instead of weighted average value of all entitlements claimed
- Cross-compliance penalties systematically reduced to 1%

KAQ3

3.1 Inspection selection

- 3.1.1 At least 5% of all farmers selected for on the spot inspection ?
- 3.1.2 Procedures are in place which ensure that selections are made from total populations of claimants?
- 3.1.3 Between 20-25% of the minimum number of farmers to be inspected is chosen randomly ?
- 3.1.4 Control rate is increased in case that of significant discrepancies are found?

Findings:

- Selection of on-the-spot inspections made on the basis of incomplete population
- Deselections made without authorisation from management
- No, or inadequate quality review of on-the-spot inspections
- Several hundred parcels reported to have been measured by same team in one day
- No increase of inspection rates in cases where significant anomalies found

KAQ3

3.2 Coverage and quality of inspections



- 3.2.1 During OTS inspections, are areas determined for at least 50% of claimed parcels?
- 3.2.2 Are accepted measurement methods used by the inspectors?
- 3.2.3 Are the permissible (official) tolerances applied ?
- 3.2.4 Are procedures put in place to ensure that inspection results are **correctly processed by the paying agencies' payment systems ?**
- 3.2.4 Reliable inspection statistics

Findings:

- Minimum inspection rate (50% of parcels claimed) not respected
- Step measurements
- No, or incorrect tolerance margins applied
- No compensation of area deficits and surpluses in same crop group

KAQ4

4.1 Nat. GAEC standards exist and are controlled



- 4.1.1 Has MS defined minimum requirements, based on the framework in Annex IV (GAEC) ?
- 4.1.2 Is the control report sufficient and comprehensive (nature and extent of checks and findings) ?
- 4.1.3 Has the minimum inspection rate of 1% been achieved ?
- 4.1.4 Have GAEC penalties been correctly calculated and applied ?

Findings:

- No, or only symbolic minimum requirements for grassland (mowing every five years, grazing by 0,1 livestock units/hectare)
- Double, or tripple counting of the same animals for meeting minimum stocking density requirements
- GAEC penalties not determined by reference to severity, extent and permanence

THANK YOU FOR YOUR
ATTENTION

Time for questions