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How to make controls more efficient

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Disclaimer:

The ideas and opinions presented here are not officially endorsed by the Court of Auditors, they present my personal view and are therefore not binding for the Court.

Content of the presentation

1. European Agricultural Guarantee Fund (EAGF) – Statement of assurance – (DAS) audit approach
2. Nature and causes of errors in EAGF payments (Annual Report 2013)
3. Best practices for reducing/detecting errors
4. Recommendations

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1.1. What is the unit “Natural Resources NR 1” required to audit?

- **Legal basis**

Article 287 of the Treaty on the Functioning of the European Union (TFEU)

“The Court of Auditors shall provide the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions....”

It gives the Court the right to audit

“on the spot in the other institutions of the Union, on the premises of any body, office or agency which manages revenue or expenditure on behalf of the Union and in the Member States, including on the premises of any natural or legal person in receipt of payments from the budget.”

- The unit I am working for belonging to the Court’s Chamber 1 is responsible for the audit of the European Agricultural Guarantee Fund covering payment appropriations to a total of 43,8 billion euro in the 2014 budget.

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1.2. How do we select the transactions to be audited? How do we establish the error rate?

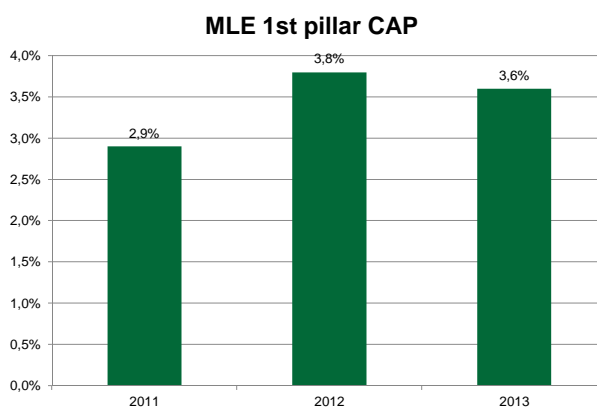
- **Monetary unit sampling method (MUS)**

Average sampling interval (ASI) = total budget / planned sample size n

- Since 2011 NR 1 uses a multi-stage sampling:
 1. stage: 45 Paying Agencies (PA) selected
 2. stage 180 transaction (4 per PA) per DAS year
- Individual error rate (tainting t)
- Most Likely Error (MLE) = $1/n * \text{sum of } t \text{ (in \%)}$
- Materiality threshold 2%

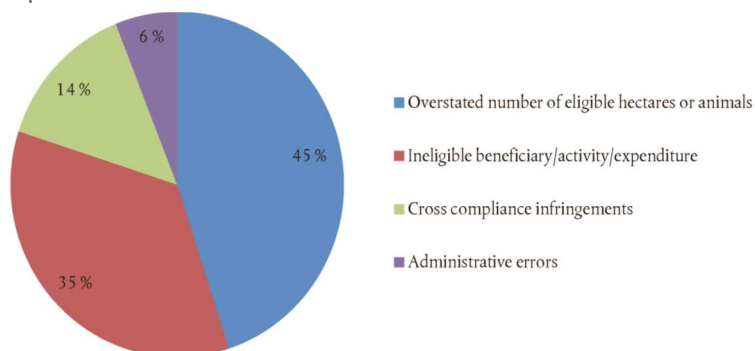
2. Nature and causes of errors in EAGF payments (Annual Report 2013)

Error rate evolution 2011-2013 for EAGF:



2. Nature and causes of errors in EAGF payments (Annual Report 2013)

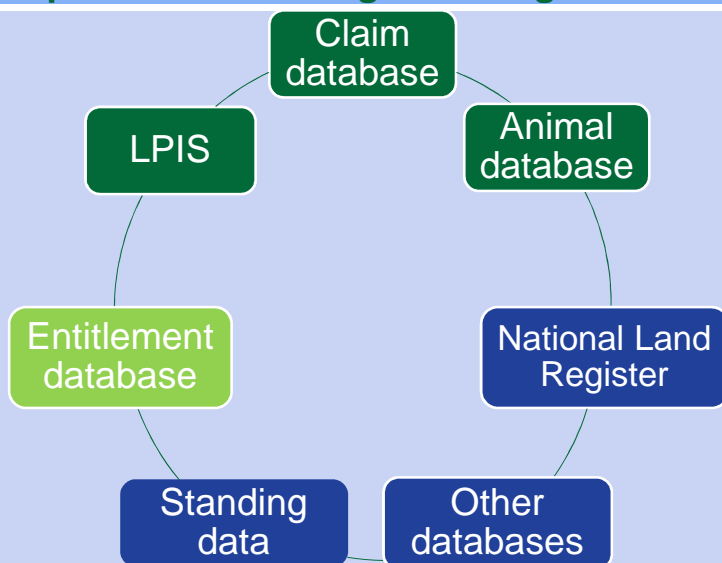
Contribution by type of error to the most likely error as recently published in the Court's Annual Report 2013



2. Nature and causes of errors in EAGF payments (Annual Report 2013)

- As regards inaccurate data on land eligibility recorded in the LPIS such errors often result from either insufficient interpretation of orthoimages or from the use of incorrect eligibility criteria by the Member State.
- As regards incorrect administrative treatment of aid applications such errors result from the incorrect implementation of EU legislation or a failure, on the part of the Member States, to remedy systems errors brought to their attention.
- Taken as a whole, IACS plays a key role in preventing and reducing errors in claims from farmers. Notwithstanding the weaknesses in the LPIS and administrative checks that were detected by the audit, the Court considers, on the basis of its audit results, that the IACS makes a significant contribution to reducing the error rates in the expenditure it covers.

3. Best practices reducing/detecting errors



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3. Best practices reducing/detecting errors

Declaration of ineligible area

Woodland, shrubs, bracken etc. declared as «Permanent pasture»



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3. Best practices reducing/detecting errors

Best practice for detecting ineligible land:

- Identify and check cases of
 - Poor pasture land declared by applicants not holding animals or only having insufficient number for grazing the area declared
 - Poor pasture land located in a significant distance from the holding
 - Forest pasture
 - Update the LPIS



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3. Best practices reducing/detecting errors

Ineligible beneficiaries

- Beneficiaries not carrying out any agricultural activity



Best Practice for detecting ineligible beneficiaries:

- Identify applicants declaring exclusively grassland and having no animals
- Land claimed under I and II pillar by different people



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3. Best practices reducing/detecting errors

Administrative errors:

- Acceptance of late claims/parcels without penalties

Best practice:

- electronic claims
- Scanning of claims on date of arrival
- Registration procedure recording both date of arrival of the claim and date of the registration operation
- Review of a sample from list of claims for which date of arrival is reported before deadline for the claim but date of registration operation is after the deadline;
- idem for expiry of the 25 day period for full rejection of the claim



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3. Best practices reducing/detecting errors

Control errors

- Insufficient quality of on the spot inspections (OTS)
- Incorrect treatment of control results
- Spontaneous corrections/withdrawals of parcels by selected beneficiaries

Best practice:

- OTS quality review procedures (2nd OTS inspection by different inspection team)
- Review of claims inspected for which corrections were made after the date when sample was drawn.



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4. Recommendations

The cross-checks in IACS are already quite exhaustive → the probability to identify further inconsistencies between IACS databases is quite low

Additional cross-checks with databases which are not part of IACS (i.e. fiscal information) can reveal potential error concerning the eligibility of the beneficiary for example (other activities than agriculture)



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4. Recommendations

- **Keep LPIS up to date**
- **Establish controllable criteria**
- **Identifying errors using Computer assisted audit tools**
- **Targeted sampling using Computer assisted audit tools**
like for example in case where the category of farmers will have an impact on the subsidy



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4. Recommendations

- Implement EC, certification body and ECA recommendations



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QUESTIONS ?



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