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# The reliability of the MS's control statistics (SR 18/2013)

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Director Audit Chamber I



EUROPEAN  
COURT  
OF AUDITORS

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# Key actors and processes

## Paying Agencies

- Administrative checks carried out on all applications in year n
- Execution of on-the-spot checks on selected samples of applicants (random and risk based) in year n
- Report the results of these checks [**control statistics**] to the Commission by 15 July n+1

## Certification Bodies

- Assess the quality of the control environment by re-performing at least 10 PA's on-the-spot checks per expenditure population (EAGF IACS and non-IACS, EAFRD IACS and non-IACS)
- Audit the compilation of the control statistics
- Opinions and reports provided to Commission by 1 February n+2

## Commission

- Verification of the individual statistical reports
- Calculation of the residual error rates (RER)
- Publication of the RERs and the statistics in the DG AGRI Annual Activity Report (AAR)



# Audit questions

Are the results of the checks of agricultural expenditure carried out by Member States and reported by the Commission reliable?

Q.1: Are the administrative and on-the-spot checks carried out by the paying agencies effective?

Q.2: Are the statistical reports containing the results of the paying agencies' checks correctly compiled and verified before their submission to the Commission?

Q.3: Does the work of the certification bodies provide sufficient assurance regarding the quality of the on-the-spot checks and the reliability of the statistical reports?

Q.4: Does the Commission ensure that the statistical reports are reliable?

Q.5: Is the Commission's calculation of the "residual error rate" statistically valid?



# Audit scope and approach

Three types of control statistics containing the results of the checks carried out in 2010 (86% of CAP expenditure)

- EAGF area aids under IACS (narrowed to SPS/SAPS)
- EAFRD Title II (investment measures)
- EAFRD Title I (area measures)

## DG AGRI Annual Activity Report

- for 2011 (containing the above mentioned statistics), and
- for 2012 (only the new method to calculate the residual error rate for EAGF IACS population was covered)

## Sources of evidence

- the work carried during this particular audit in 8 Member States (CZ, BG, ES, GR, IT, PL, RO and UK) in order to answer Q2-5
- results of the 2010-2012 DAS transactions and systems audits to answer Q1

# Q1 - observations

## Administrative and on-the-spot checks are only partially effective

- **DAS systems audits between 2010-2012**
  - EAGF area aid schemes - only one out of the 15 PAs audited in 10 MSs was assessed as having effective both admin and on-the-spot checks
  - EAFRD measures - none of the 21 PAs audited in 16 MSs was assessed as having effective both admin and on-the-spot checks
- **DAS transactions audits 2010-2012**
  - ECA's most likely error rate always higher than DG AGRI's residual error rate (significantly higher for the EAFRD population)
  - a significant part of the errors arose from ineffective administrative checks or incorrect aid calculations by PAs
- **Main weaknesses**
  - EAGF: reliability of LPIS, assessment of eligible land, incorrect calculations
  - EAFRD: failure to detect incompliances during admin or OTS checks, non-compliance with procurement procedures

## Q2 - observations

### Inadequate compilation and verification of the statistical reports by paying agencies further affect their reliability

- **Omissions in the Commission's guidelines**
  - no requirement to maintain audit trail and to carry out a minimum number of consistency / accuracy checks
  - unclear cut-off date rules and insufficient guide on the treatment of applications not processed
  - no requirement to provide up-to-date statistics for the calculation of the residual error rate
- **The Paying Agencies' systems for the compilation and verification of the reports are not effective**
  - lack of written procedures for compilation and verification of the statistics
  - various compilation errors found in 414 files reviewed
    - inconsistent cut-off date rules applied by the PAs
    - applicants incorrectly reported as checked on-the-spot

## Q3 - observations

### The work of the certification bodies does not provide sufficient assurance on...

- **...the quality of the on-the-spot checks**
  - the checks performed by certification bodies of the on-the-spot checks carried out by paying agencies are insufficient in number and quality
  - as for the certification bodies which have applied the “reinforcement of assurance” option, their assessments of the results of the extended samples tested are hampered by serious deficiencies
- **...the reliability of the statistical reports**
  - the review of the statistical reports by certification bodies is limited in scope and does not provide reasonable assurance on the reliability of these reports
    - unclear and scope limiting of Commission guidelines,
    - insufficient work of the Certification Bodies
      - not all populations covered by the audit,
      - information in the statistics not checked against the underlying documents, and
      - Conclusions on the PAs’ existence of audit trails not confirmed by the Court’s audit

## Q4 - observations

### Shortcomings in the Commission's review of the Member States' statistical reports

- the Commission's information system should be improved
- notwithstanding shortcomings identified in desk review of the statistics, the Commission detected errors in more than half of the Member States' reports
- the Commission's review of the statistical reports during its conformity audits should be improved

## Q5 - observations

The Commission's estimate of irregular payments is not statistically valid and impacts on the reliability of the annual statement of assurance of DG AGRI

- Member States' approaches in drawing random samples are not always statistically valid, thus affecting the representativity of such samples
- the method used by the Commission to estimate a residual error rate is not statistically valid
- the level of error reported by DG AGRI cannot be compared with the Court's most likely error

Expenditure	The Court's results of its transaction testing			The Commission's calculation of the residual error rates
	Lower limit	Most likely error	Upper limit	
EAGF for the 2011 FY	1,1%	2,9%	4,7%	0,55%
EAGF for the 2012 FY	1,7%	3,8%	5,9%	2,24%
EAFRD for the 2011 FY <sup>1</sup>	4,5%	7,7%	10,9%	1,89%
EAFRD for the 2012 FY <sup>1</sup>	4,5%	7,9%	11,3%	1,62%

# Recommendation 1

The Commission should ensure that administrative and on-the-spot checks carried out by Paying Agencies are effective, thus ...

- administrative checks need to be improved (claim verification procedures, detection of ineligible expenditure) and use of all relevant information for cross-checks;
- the quality of the LPIS still needs to be improved in order to clearly identify eligible areas; and
- on-the-spot inspections need to be more rigorously conducted in order to correctly determine eligible areas and expenditure.

## Recommendation 2

The Commission should improve the clarity of its guidelines for the compilation by paying agencies of the statistical reports, in particular

- provide instructions on the cut-off dates to be used and the treatment of applications not yet processed, and
- define the nature and extent of tests to be carried out by paying agencies before reports are submitted to the Commission.

Paying Agencies should establish written procedures for

- the verification and compilation of the data included in the reports, and
- adequately document all these verifications.

## Recommendation 3

The Commission should amend the guidelines issued to certification bodies and monitor their correct implementation. The amendments should be designed

- to increase the minimum sample of paying agencies' on-the-spot checks to be tested by the certification bodies;
- to require re-performance of such checks as opposed to only accompanying the paying agencies' inspectors; and
- to further clarify the verification work to be carried out on the compilation of the statistical reports.

# Recommendation 4

The Commission should ensure that it receives complete information on the checks carried out by paying agencies at the most appropriate time

- the deadlines for the submission of statistical reports to the Commission should be re-examined with a view to better aligning them with the time of the year when they are actually verified and used by the Commission's services
- the systems for the verification of the statistical reports should be harmonised.
  - the desk verifications should be as far as possible automated and include systematic reconciliation of the data contained in the reports with the underlying data, and
  - the conformity audits should review verifications of the control statistics carried out by the paying agencies and certification bodies

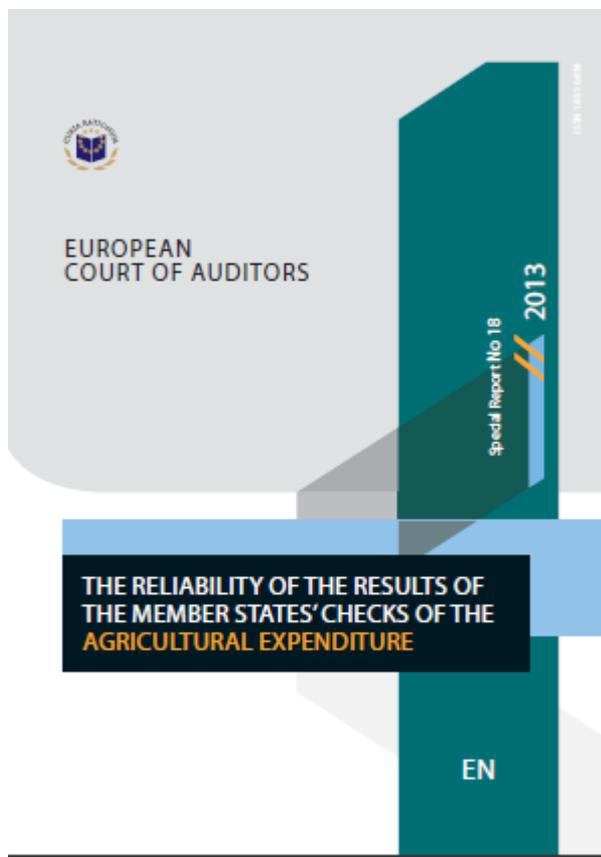
## Recommendation 5

The Commission should take the necessary measures to arrive at a statistically valid estimate of the irregularities in payments after all checks have been carried out by

- using the work of the Paying Agencies as well as the expanded role of the Certification Bodies;
- substantially improving the reliability and statistical validity of the work carried out both by the PAs and the CBs in order to enable the Commission to derive from it a valid estimate of the residual rate of error.

# Answers & questions

Thank you for your attention!!!



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