



Costs and benefits of controls

Komotini, 9-11 April 2014

*Christoph KLOCKENBRING
DG Agriculture and Rural Development
European Commission*

Outline

1. Background / State of Play

2. Analysis

3. Further development

Background – Legal References

Financial Regulation (FR) Art 31, Art 32 and Art 33

Art. 66(9) defines the content of the Annual Activity Report

The FR also introduces **requirements** as regards the information needed when putting forward **new** or **revised spending proposals**

Background – Consultations

17 June 2013: Agricultural Funds Committee: Launch of exercise on "Cost and benefit of controls" (based on information related with FY 2013)

24-26 October 2013: Presentation at PA conference Vilnius

19 November 2013: Presentation at PA conference Brussels

Analysis – Data delivery

Finally all PA have delivered data on their costs and benefits of controls!

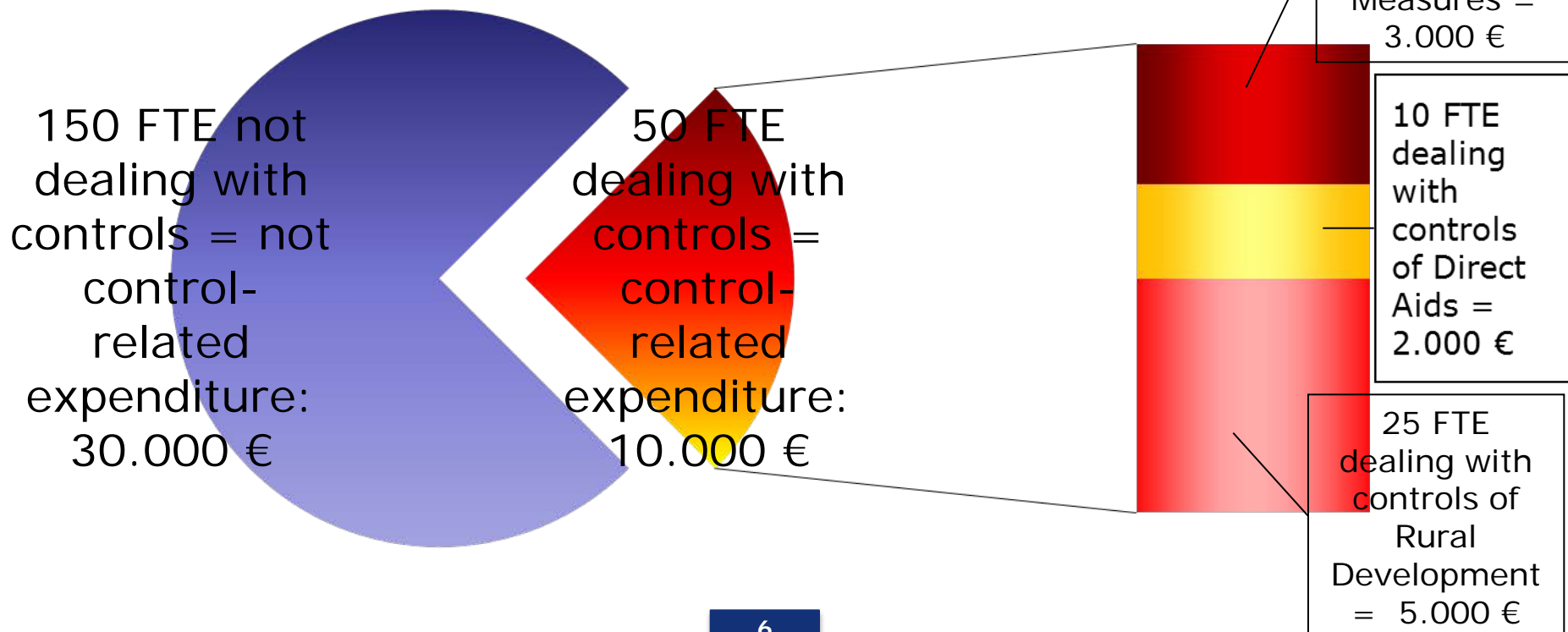
Problems encountered:

- **Late delivery:** 4 PA (=MS) delivered in 2014 (second half of January / first half of February / second half of March)
- **Incomplete delivery:** - partly missing information on FTE
 - partly missing information on Certification Costs
- **Inconsistent data delivered**
- **Delivery in modified template** (duplication of lines / sections / modification/deletion of formulas / protection of worksheets)
- Delivery of information **not for the FY requested / not in requested currency**

Analysis – General approach

The allocation of the costs of controls should be calculated based on the number of full-time equivalents (FTE) on a pro-rata basis!

Example: Budget of a given entity: 40,000 € with 200 FTE



Analysis – Results I

Total Costs at EU-27 level / ABB:

	Member States Costs of Controls	in % of expenditure
ABB02	173.59 mEUR	5.43 %
ABB03	2,131.52 mEUR	5.11 %
ABB04 ¹	1,566.72 mEUR	8.13 %
Total	3,871.83 mEUR	6.69 %

¹ in % of expenditure includes total public expenditure

Conclusions:

- Overall costs of controls higher than in previous years
- Costs of controls for Rural Development higher than in Market Measures and Direct Aids

Analysis – Results II

Undue claimed amounts detected via Member States' controls:

	Undue claimed amounts detected and corrected by Member States prior to payment	Member States' recoveries from beneficiaries after payment	Total undue amounts detected and corrected	Total in % of expenditure
ABB02	94.14 mEUR			
ABB03 ¹	84.28 mEUR			
EAGF	178.42 mEUR			
ABB04 ¹	105.48 m EUR	94.31 mEUR 98.82 mEUR	272,73mEUR 204,30mEUR	0.61% 1.57%
Total	283.90 mEUR	193.13 mEUR	477,03mEUR	0.82%
¹ as reported in control statistics				

Conclusions:

Undue payments detected and corrected at Member State level represent less than 1 % of the agricultural expenditure

Analysis – Results III

Costs / Benefit ratio:

	Member States' costs of detect and correct undue amounts	Undue claimed amounts detected and corrected by Member States prior to payment and Member States' recoveries	cost : benefit ratio
ABB02	173.59 mEUR		
ABB03	2,131.52 mEUR		
EAGF	2,305.11 mEUR		
ABB04	1,566.72 mEUR	272.73 mEUR	8.5 : 1
		204.30 m EUR	7,7 : 1
Total	3,871.83 mEUR	477.03 mEUR	8,1 : 1

Conclusions:

Member States expenditure for controls is 8 times higher than undue claimed amounts are detected

Analysis – Overall conclusions

- **quality** and **effectiveness improvement** would allow the paying agencies to detect and correct more errors
- at least **two thirds of the errors detected ex-post** could have been detected **ex-ante** [according to the last annual report of the ECA]

This would **increase the average cost/benefit ratio** of the paying agencies' controls:

if paying agencies would be able to detect two thirds of the amount at risk evaluated by DG AGRI for 2013 (1,88 billion euros), the cost/benefit ratio would decrease from **8 to 1** to **2 to 1**

Further development

Reducing the administrative burden and improving the data quality:

Request of core information via Certification Bodies' Reports:

- budget of the entity,
- total number of staff,
- number of staff involved in controls

Inclusion of statistical information in the 'automatic transmission':

- amounts claimed, risk and random sample size;
- errors detected via administrative on on-the-spot-controls

How to deal with the split of FTE by control type?

Thank you for your attention!

Glossary I

Definitions:

Notion of control

The notion of control includes any activities which are directly or indirectly related with the verification of the rights of the beneficiary and/or the regularity of the expenditure for EAGF and EAFRD (administrative checks, on-the-spot checks and other controls)

Notion of entity

As for the previous estimation of costs of controls, the following groups of entities are to be taken into account in the estimation:

- (1) accredited paying agencies
- (2) delegated bodies, managing authorities and customs authorities,
- (3) certification body.

Glossary II

Definitions:

Scope in time

With respect to the budget of the entity the estimation of the costs of controls is based on the costs incurred in the financial year 2013

Specification of budget taken into account

The budget concerned can include all expenditure related to the normal functioning of the entity concerned including for example salaries, employers' contributions, travelling expenses, training expenses, maintenance costs, building, expenses (rent, energy, cleaning, heating and cooling), costs invoiced by private companies and other cost of activity in relation to the entity, i.e. depreciation costs of cars, equipments and buildings.

In contrast, exceptional one-off investment costs should be excluded. Instead, depreciation costs as indicated above should be taken into account.

Glossary III

Definitions:

Calculation of the costs of controls

The allocation of the costs of controls should be calculated based on the number of full-time equivalents (FTE) on a pro-rata basis. The general principle for the calculation of the costs of controls is explained below:

$\text{costs of controls} = [\text{budget 2013}] / \text{total number of agents} \times \text{number of agents involved in controls}$

Other information

- number of administrative controls, on-the-spot controls and other controls carried out in 2013 broken down per support measure,
- number of FTE allocated to administrative controls, on-the-spot controls and other controls carried out in 2013 broken down per support measure.

Glossary V

Definitions:

Statistical information (broken down per support measure)

- amounts claimed by the beneficiaries;
- total number of beneficiaries;
- errors found via administrative controls
- size of the random/risk sample (amounts / beneficiaries)
- agricultural expenditure (EU-contributions) in total for financial year 2013