



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 2 July 2013**

**11856/13**

**AGRI 447  
AGRISTR 81**

**COVER NOTE**

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from: Secretary-General of the European Commission,  
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 1 July 2013

to: Mr Uwe CORSEPIUS, Secretary-General of the Council of the European  
Union

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No Cion doc.: SWD(2013) 244 final

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Subject: Commission Staff working document on the assesment of root causes of errors  
in the implementation of rural development policy and corrective actions

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Delegations will find attached Commission document SWD(2013) 244 final.

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Encl.: SWD(2013) 244 final



Brussels, 27.6.2013  
SWD(2013) 244 final

**COMMISSION STAFF WORKING DOCUMENT**

**on the assessment of root causes of errors in the implementation of rural development  
policy and corrective actions**

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## COMMISSION STAFF WORKING DOCUMENT

### **on the assessment of root causes of errors in the implementation of rural development policy and corrective actions**

#### **1. INTRODUCTION**

Rural Development Policy aims to promote competitiveness of the agri-food sector and to ensure a long-term food production base, sustainable land management, especially with regard to biodiversity, soil and water management, climate change, as well as quality of life and diversification of economic activities in rural areas. Together with the first pillar of the Common Agricultural Policy (CAP), the policy is implemented under shared management. Member States have a large degree of flexibility and responsibility as regards the targeting of funding, selection of projects and the processing and control of payment claims. If transactions are not implemented in accordance with the legal framework, reimbursed expenditure is considered to be irregular.

Each year<sup>1</sup>, the Commission publishes Annual Activity Reports in which it includes estimates of the residual error rate, while the European Court of Auditors (ECA) publishes an Annual Report which includes the Most Likely Error (MLE) for the implementation of the CAP. The error rate is one important indicator used in ensuring the sound financial management of EU funds. Since 2007, DG Agriculture and Rural Development (DG Agriculture) has detected a higher risk of errors in rural development measures in agri-environmental commitments under Axis 2 of Rural Development Programmes that are linked to the improvement of the environment and the countryside. The Director General of DG Agriculture, as authorising officer, introduced a reservation for Axis 2 for the first time in the Annual Activity Report for 2008.

Each year, DG Agriculture performs audits in the Member States on the implementation of rural development programmes. If expenditure is found not to have been paid in conformity with the rules, financial corrections apply. Financial corrections for 2010, 2011 and 2012 related to rural development expenditure amounted to approximately EUR 20 million, 58 million and 67 million respectively.

DG Agriculture has been cooperating with Member States to address the root problems causing these errors. Whenever audits have identified difficulties, the department in charge of the programme concerned has asked the Member State concerned to take corrective actions, modifying the programme if necessary. Since 2001, DG Agriculture has followed up 322 audit findings, which has led to modifications in 23 Rural Development programmes.

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<sup>1</sup> Following obligations established in the Treaty on the Functioning of the European Union,

DG Agriculture's estimate of the residual error rate for rural development<sup>2</sup>, based on MS control statistics for 2011, exceeded the materiality level of 2%, prompting the Director General, as Authorising Officer by Delegation, to issue a reservation for rural development expenditure as a whole in the 2011 Annual Activity Report.

Following the First Action Plan accompanying the reservation, the Commission, in close cooperation with the relevant paying agencies and managing authorities, analysed the programmes of the 14 Member States with high error rates<sup>3</sup>, so as to identify the root causes of errors and to develop appropriate corrective actions.

Each year<sup>4</sup>, the Court of Auditors delivers a declaration of assurance concerning the reliability of the accounts, as well as the legality and regularity of the underlying operations. For this, the ECA calculates and publishes in its Annual Report the Most Likely Error (MLE) used for its statement of assurance.

In 2011, for the first time, the Court published separate error rates for pillar 1 and pillar 2 of the CAP. The MLE in Chapter IV, apart from rural development, also included environment, fisheries and health policies. The MLE for this Chapter was 7.7%, substantially above the materiality threshold. According to ECA<sup>5</sup>, most quantifiable errors were attributable to investment measures (58%) rather than area-related measures (38%). The main causes identified were eligibility errors (72%) and within them, agri-environment requirements (44%) and land eligibility (34%). Errors were found in a substantial number of Member States and in all rural development measures.

Member State control statistics for 2012 led to an estimated residual error rate of 1.62%. However, given concerns about the quality of controls in some Member States, the error rate deriving from their statistics needs to be considered with a degree of caution. The residual error rate may be higher and above materiality. That is why the Director General of DG Agriculture again declared reservations concerning rural development expenditure to the Annual Activity Report 2012 and has extended scrutiny to all Member States, taking into account the Court of Auditors' DAS findings.

A second action plan has been developed as a result, and includes<sup>6</sup>:

- Further analysis of the root causes of errors
- Development of corrective actions
- General awareness-raising actions and training

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<sup>2</sup> The *residual error* rate is the estimated error after the deductions of errors found and already corrected by the Member States.

<sup>3</sup> See page 81 of DG Agriculture AAR 2011.

<sup>4</sup> According to Article 287 of the TFUE,

<sup>5</sup> Presentation of European Court of Auditors in the framework of the Seminar on Root Error Causes and Preventive and Corrective Actions in Rural Development Programmes' held on 29 April 2013.

<sup>6</sup> See page 111 of DG Agriculture AAR 2012.

- Increasing audit capacity to identify the errors and take corrective actions
- Follow-up of corrective actions
- Modification of the legislation for the current and future programming period
- Development of guidance documents.

In the 2011 discharge hearing, which took place on 6 December 2012, the Commissioner in charge of Agriculture and Rural Development made a commitment to further develop and strengthen the actions addressing the high level of errors in rural development.

This working document addresses recommendation 1(p) of the EP 2011 discharge resolution to ‘...report by the end of June 2013 on the progress made by the working group set up by DG AGRI to assess the root causes of Rural Development errors and develop corrective action for the current and future programming periods’.

The Commission is fully committed to develop any effort in order to reduce error rates. However, it also wishes to stress that it will take into account the specificities of certain rural development policy objectives, such as those regarding the environment, and the means to achieve them, in doing so. These specificities and objectives may involve complexities that may intrinsically lead to a higher risk of errors. A balanced approach which does prevent the programmes from contributing to certain objectives should therefore, be pursued<sup>7</sup>.

## **2. ANALYSIS OF ROOT CAUSES OF ERRORS**

To complement the analysis undertaken in 2012, all Member States were asked in January 2013 for contributions to detect, analyse and correct the main root causes associated with reported error rates. Member States were invited by 15 February 2013 to

- (i) analyse the specific root causes of errors in the implementation of rural development programme(s) under their responsibility,
- (ii) identify, where necessary, a concrete set of substantive actions aimed at the reduction of the errors observed and/or
- (iii) reinforce preventive measures to reduce the risk of errors in future implementation of Rural Development Programme(s) in their country,
- (iv) propose a precise time table for implementing actions

Once the contributions had been analysed by DG Agriculture and Member States, the results were discussed with representatives of managing authorities and paying agencies at a seminar

on 29 April 2013. Managing authorities and paying agencies confirmed the relevance of the root causes and corrective actions. Once the action plan for each Member State has been finalised, DG Agriculture will closely follow the implementation of the plans and their updating, where relevant.

Below are the results of the analysis for both area-related measures and non-area-related measures. Within each of these categories, a distinction was made between errors related to administrative procedures and errors related to the actions of beneficiaries. For the purpose of the analysis, input from Member States was complemented with internal Commission findings. The number of Member States that identified a particular the root cause is shown in brackets.

## **2.1. Area-related measures**

This category covers root causes of errors and corrective actions pertaining to non-investment measures, including agri-environment and animal welfare measures.

### **2.1.1. Administrative perspective**

*Regarding administrative procedures, the root causes of error that the Commission and Member States identified are the following:*

**Root Cause 1:** The system of reduction of support in cases of non-compliance with agri-environmental commitments was not proportionate (14 Member States)

According to the legal framework, expenditure is not eligible for reimbursement by the EAFRD if the beneficiary does not comply with a commitment in his/her agri-environmental contract.

There are several commitments in many agri-environmental contracts under Rural Development Programmes. For instance, a commitment to maintain an extensive meadow may contain a commitment to ban the use of herbicides, and another that only permits mowing after a certain date to protect nesting birds.

In some Member States, if a beneficiary fails to comply with one of these interlinked commitments, this may lead to a 100% reduction of the whole agri-environmental support. This approach is not proportionate and may lead to an overestimate of error rate levels.

**Root Cause 2:** Beneficiaries are sometimes not duly informed and do not take into account the changes caused by the update of the Land Parcel Information System (LPIS) or other legal changes (8 Member States)

All Member States are obliged to run and maintain a system in which all rural parcels are identifiable and described. They must also inform the beneficiaries of the outcome of this information and of any update to the system, to avoid mismatches between Member State information and the areas eligible for payments to beneficiaries.

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<sup>7</sup>

Communication from the Commission to the European Parliament, the Council and the Court of Auditors 'Towards a common understanding of the concept of tolerable risk or error. December 2008.

The LPIS systems must be updated to make systems more reliable and efficient and to reflect changes, e.g. agricultural land used for other activities, construction of buildings, roads, development of forests, land abandonment. If such changes are not correctly explained and communicated by the administration or not correctly understood by beneficiaries, this may lead to errors.

**Root Cause 3:** Lack of exchange of information between authorities involved in implementing the measure (7 Member States)

For certain commitments (organic farming, agri-environmental commitments implemented in national parks), paying agencies rely on information from other bodies to ascertain whether beneficiaries are meeting certain conditions. Errors have been encountered in exchanges of data between different authorities.

**Root Cause 4:** Pre-conditions to enter agri-environmental scheme have been established as eligibility conditions in the programme (7 Member States)

General ‘entry’ conditions (e.g. minimum livestock density) which are not part of the calculation for agri-environmental support have been introduced in agri-environment measures. They have to be considered as eligibility conditions for the whole agri-environmental commitment, so that if a beneficiary does not comply with them, their support is withdrawn in its entirety. It is not possible to impose a partial reduction, even if the beneficiary complied with the other commitments made in the agri-environmental contract.

**Root cause 5:** Commitments in the contract are not linked to the environmental objective of the measure (8 Member States)

The agri-environmental contract includes commitments (e.g. to market the products through the organic distribution chain) which can be seen as adding unnecessary complexity to the system as the beneficiary may not be able to meet them and they are not specifically linked to the environmental objective of the contract.

**Root cause 6:** Commitments are difficult to implement and verify (7 Member States)

It is difficult to implement and verify some commitments, even though they potentially provide environmental benefits. In discussions with Member States, the following examples were identified:

- Certain conditions linked to minimum/maximum livestock densities
- Certain actions to be undertaken at a given moment in time
- Reductions in applications of fertilisers and plant protection products.

### **2.1.2. Beneficiary perspective**

From the **perspective of beneficiaries**, the following root errors causes have been identified:

**Root cause 7:** Beneficiaries provide incorrect area declarations (13 Member States)



Beneficiaries over-declared areas or did not fill in maps correctly. In some cases, the size of the eligible area changed between the date the application was submitted and the start of the commitment period.

This root cause is also linked to the correct administration and update of LPIS by public authorities.

**Root cause 8:** Beneficiaries do not respect commitments (13 Member States)

Member States gave several examples of ways in which beneficiaries did not respect commitments.

- Beneficiaries did not keep the documentation required under the commitments (e.g. logbook on the agricultural practices applied)
- The number of livestock on a farm exceeded the minimum livestock density condition.
- Weather conditions did not allow the beneficiary to implement the commitment.
- The beneficiary forgot to fulfil a commitment which had to be implemented at a specific moment in time.
- The beneficiary deliberately failed to comply with the commitment to benefit from more advantageous agricultural prices.

## **2.2. Non-Area related measures**

This category covers all errors that are not linked to area-related measures and which mainly affect support under Axis 1 and 3 of the rural development programmes. The root causes are presented from the point of view of the administration and that of the beneficiary.

### **2.2.1. Administrative perspective**

From the **perspective of the administration**, the Commission and Member States have identified the following root causes of errors:

**Root Cause 9:** Deficiencies in procedures to process beneficiaries' payment request (5 Member States)

The administrative systems did not include adequate checks of beneficiaries' payment requests; or the administrative procedure was not recorded well enough to ensure that all checks had been made.

**Root Cause 10:** Weaknesses in checking the reasonableness of costs or eligibility conditions (7 Member States)

There are many examples for this root cause, the main ones being:

- The reasonableness of prices was not systematically checked; or the checks were inadequate, especially in the case of purchases of equipment from abroad, or second-hand equipment.
- The invoices provided by the beneficiary did not enable costs to be checked for reasonableness, as they were not specific enough, and Member States omitted to request additional information.
- Encoding errors and misleading codes for eligible costs occurred.
- The administration did not comply with rules related to the eligibility of VAT.

**Root Cause 11:** Application of public procurement rules and private tender procedures (5 Member States)

The checks did not detect deficient public procurement and private tender procedures that did not comply with national laws; for example, insufficient documentation provided regarding the selection of contractors.

**Root Cause 12:** Incorrect system of checks and deficient administrative procedures (7 Member States)

Some Member States have identified general deficiencies in the administrative system. The complexity of procedures has been mentioned as an issue.

### **2.2.2. Beneficiary perspective**

From the **perspective of beneficiaries**, within the non area-related measures, the following root errors causes have been identified:

**Root Cause 13:** Tendering procedures applied by private beneficiaries (4 Member States)

Beneficiaries did not comply with national public procurement or private tendering rules when managing public funds and in some cases, equal treatment among bidders was not sufficiently ensured.

**Root Cause 14:** Non-eligible expenditure and the system of reduction applied (6 Member States)

Under this root cause of error, there were various causes that led to ineligible expenditure, for example:

- The beneficiary did not comply with the terms of the grant decision because they modified the project in the course of implementation.
- The beneficiary started a project before submitting an application.

In the case of selected projects that started spending before submitting an application, some national rules require full reimbursement of aid received, thus leading to a rise in error rates.

**Root Cause 15:** Handling of the payment claims by beneficiaries (6 Member States)

Dealing with payment claims may lead to a number of mistakes, some of which may lead to ineligibility and thus a rise in the error rate. Member States report the following as the most frequent:

- Beneficiaries make errors in filling in payment claims.
- Items in payment claims differ from those found during on-the-spot checks.
- Documents to prove expenditure in claims for reimbursement were missing.
- Beneficiaries failed to meet the deadline to implement their investment project.
- Costs were claimed twice.
- The beneficiary claimed ineligible expenditure.
- Non-eligible VAT was claimed.

**3. CORRECTIVE AND PREVENTIVE ACTIONS AT MEMBER STATE LEVEL**

Discussion with Member States has led to the conclusion that root causes of errors identified above have to be addressed in several ways. The following corrective and preventive actions have been identified:

**Corrective and Preventive Action 1:** Training for administration staff

Specific training for administration staff on sensitive issues that may be highly prone to errors will be conducted in Member States, covering at least the following areas:

- Exchange of information and data among authorities involved in implementation, especially for organic farming and natural parks
- Procedures to process payments to beneficiaries
- Systems for checking the reasonableness of costs and prices
- Public procurement rules
- Improving checks and controls
- Payment claims handling

**Corrective and Preventive Action 2:** Information, training and advice for beneficiaries

Specific training for beneficiaries will be improved for different aspects of implementing projects and measures. For more complex measures, authorities could consider compulsory training and advice:

- Payment declaration: eligibility of areas
- Understanding of commitments under agri-environmental contracts
- Public procurement rules and obligations for beneficiaries
- Eligible expenditure under investment measures
- Payment claims handling for beneficiaries

***Corrective and Preventive Action 3:*** Information campaigns and guidance documents

Member States will improve communication and guidance, both for administration and beneficiaries, to make available better information on various aspects of programme implementation. The following specific actions have been identified:

- Information on best practices in public procurement of beneficiaries
- Comprehensive listing of non-eligible costs
- ‘Road-show’ to inform beneficiaries: mobile teams of experts reaching the most remote and isolated rural areas to deliver the necessary information and training directly.

***Corrective and Preventive Action 4:*** Improvement of IT tools

Member States intend to improve their IT systems, tools and features to improve the availability of information for beneficiaries and to prevent errors. Among such improvements will be the following:

- Electronic applications with updated and supportive information for beneficiaries
- Electronic data exchange among authorities involved in implementation
- Text message reminders of deadlines for beneficiaries for time-bound commitments
- Development of IT applications to check the reasonableness of costs and prices
- Improvement of IT systems to enable automatic checks

IT system supporting public procurement for beneficiaries: some Member States have created a specific section on their official websites on which beneficiaries have to record purchases that exceed a specified cost ceiling.

***Corrective and Preventive Action 5:*** Programme amendment, simplification of measures and modification of contracts

Some Member States have already modified or are about to initiate programme modifications in order to simplify the measures and increase their controllability and verifiability. In some cases, this drive may involve modifying contracts. These corrective and preventive actions should tackle errors under the current programming period (2007-2013) and contracts prolonged until the end of 2014. They should be considered for new contracts for the next programming period (2014-2020).

The lines to take with such modifications/simplifications are as follows:

- Simplification and appropriateness of eligibility conditions
- Linkage of all commitments to the environmental objective of the measures
- Simplified implementation for beneficiaries
- Demonstration of the verifiability and controllability of the measures

In this context, the Commission is committed to scrutinising measures in programmes on their verifiability, controllability and to refuse measures that fall short of these requirements.

***Corrective and Preventive Action 6:*** Simplified cost approach

The increased use of simplified costs options (flat rates, standard scales of unit costs, lump sums) will reduce the risk of errors, together with the administrative burden on beneficiaries and facilitate the implementation of the Funds by the management bodies. This makes it easier to deploy the funds more efficiently and correctly.

This method should be used whenever appropriate to facilitate the implementation and checking of measures and expenditure.

The Commission is drafting guidance on simplified costs for ESI Funds. This will be published once the CPR Regulation is approved. It clearly explains different methods, how to apply them correctly, and provides concrete examples.

The Commission will actively promote and support the use of simplified costs options by the management bodies, through targeted actions of awareness-raising and dedicated technical seminars

***Corrective and Preventive Action 7:*** Improving internal control and coordination procedures

Better internal procedures and efficient coordination have to be undertaken as a key means of preventing errors. Member States have identified several internal deficiencies that could be addressed as follows:

- Specific tasks forces or working groups (i.e. meeting commitments, non-eligible expenditure, audit recommendations)

- Improving operational internal control (i.e. payment requests, more stringent checks, public procurement, non-eligible expenditure)
- Review of procedures and forms (i.e. public procurement rules)

**Corrective and Preventive Action 8:** Making the system of reducing payments applies penalties proportionate to the gravity of the infringement

Member States will progressively modify their national rules to make reductions more proportionate in cases of partial non-compliance. These modifications will be fully operational for the next programming period.

The following table summarises the 15 root causes identified under both categories and perspectives. It shows how many Member States have included them in their national plans, as well as the 10 Corrective and Preventive Action(s) that address the root causes. Most of the root causes are tackled with more than one corrective and preventive action, so as to reduce the error rate effectively. The final impact of the corrective actions on the error rate will be monitored.

Member States	AREA-RELATED MEASURES		Corrective Preventive Action
	<i>Administrative Perspective</i>		
14	RC1	The system of reductions in case of non-compliance with agri-environmental commitments was not proportionate	8
8	RC2	Beneficiaries did not realise the changes caused by the update of the LPIS system or other legal changes	2, 4
7	RC3	Lack of exchange of information between authorities involved in the implementation	1, 4
7	RC4	Pre-conditions to enter agri-environmental scheme have been established as eligibility conditions in the programme	7, 5
8	RC5	Commitments are not linked to the environmental objective of the measure	5
7	RC6	Commitments are difficult to implement and verify	5
	<i>Beneficiary Perspective</i>		
13	RC7	Beneficiaries provide incorrect area declarations	2, 4
13	RC8	Beneficiaries do not respect commitments	2, 4, 7

Member States	NON-AREA RELATED MEASURES		Corrective Preventive Action
	<i>Administrative Perspective</i>		
5	RC9	Deficiencies in the procedures to process beneficiary's payment request	1, 3, 6
7	RC10	Weakness in the check of the reasonableness of costs/eligibility	1,, 3, 4 6, 7
5	RC11	Application of public procurement rules and tender procedures	1, 5, 7
7	RC12	Incorrect system of checks and deficient administrative procedures	1, 3 4,
	<i>Beneficiary Perspective</i>		
4	RC13	Tendering procedures from private beneficiaries	2, 3, 4, , 7
6	RC14	Non-eligible expenditure	2, 3, 5,, 7
6	RC15	Handling of the payment claims by beneficiaries	2, 4, 5

#### 4. GENERAL AWARENESS RAISING ACTIONS ORGANISED BY DG AGRICULTURE

DG Agriculture has organised several awareness-raising activities for managing authorities and paying agencies, as well as for its own staff. It will continue organising these.

On 23 May 2012, ECA was invited to present its audit findings and recommendations relating to the Special Report on measure 121, 'Modernisation of agricultural holdings' to Member States at the Rural Development Committee. The ECA stressed that the lack of targeting of measures and the sloppy application of selection criteria in Member States were significant weaknesses.

At the same Committee meeting, DG Agriculture informed Member States about the rise in reported error rates. Managing authorities and paying agencies of the 14 Member States concerned by the reservation were asked to work together with DG Agriculture auditors and sub-delegated authorising officers to identify the root causes of the relatively higher error rate for Financial Year 2010 and to jointly propose corrective actions.

The results of the analysis and best practices for remedying errors were presented to the Rural Development Committee on 21 November 2012. This exchange with Member States should encourage those who were not involved in the exercise to review their programmes based on the lessons learnt. The annual Paying Agencies conference on 15 November 2012 in Brussels heard a similar presentation.

The Commission presented the results of the first analysis of root causes to Member States at a Council meeting of 28-29 November 2012 to increase awareness of the difficulties.

The rise in the error rate was discussed with stakeholders and NGOs in programme monitoring committees in the second half of 2012. Annual review meetings in 2012 also addressed the issue.

Representatives of managing authorities and paying agencies of all Member States discussed the first results of the analysis of root causes and corrective actions at a one-day seminar on 29 April 2013. ECA presented its findings in the framework of *Declaration d' Assurance* (DAS) audits. DG Regional Policy reported on the strategy it had implemented to address errors in the implementation of its programmes.

## **5. AUDIT CAPACITY AND AUDIT PLANNING IN DG AGRICULTURE**

The high error rate for rural development is also being addressed through DG Agriculture's audit activity. The audit programmes for 2012 and 2013 have been adapted to focus more on error rates, and DG Agriculture is devoting substantially more resources to the auditing of 2007-2013 rural development programmes.

DG Agriculture's audit programme 2012 for the second half of the year was amended to step up audits of some of the measures and Member States for which there had been particularly high error rates. Some audit missions were shifted to cover Member States or regions that had reported higher error rates. In addition, all planned audit missions have been instructed to step up vigilance regarding error rates.

Reported error rates have been fully taken into account in deciding which Member States and paying agencies are to be included in the 2013 work programme.

The increase in the ex-post audit workload has been backed by increases in the number of staff dedicated to auditing the current EAFRD 2007-2013 programming period. This means there can be substantially more audits of this expenditure in 2013 than previously, with even more in 2014.

The increase in ex-post audit capacity will lead to sounder financial management. It should also lead to more awareness and understanding of the issues at stake among national administrations and beneficiaries, which should lead to more efficient practices that comply with sound financial management.

## **6. FOLLOW UP OF CORRECTIVE ACTIONS**

Since 2011, DG Agriculture has implemented a system to follow up the findings of audits carried out by DG Agriculture services and ECA. All audit findings are communicated to the sub-delegated authorising officers, who, together with auditors, decide what action to take. Progress in this follow-up will be monitored regularly.

The sub-delegated authorising officers, together with DG Agriculture auditors, will ensure that Member States' action plans are followed up. This will be addressed in monitoring committee meetings and in annual review meetings with Member State authorities. Member States will be asked to update their action plan and implementation by 15 September 2013. A



stock-taking seminar is scheduled for October 2013, to which the Court of Auditors will be invited.

Member States will be asked to set up a prioritised structure in their national action plans, identifying the most likely and significant errors under RDP measures and proposing appropriate corrective and preventive actions, taking this working paper into account.

## **7. LEGISLATIVE ACTIONS**

### **7.1. Interruption of payments**

In accordance with Commission Regulation (EC) 883/2006, DG Agriculture was only able to suspend a deadline<sup>8</sup> for payment if there were disagreements, differences of interpretation or inconsistencies concerning a particular declaration of expenditure for which further information was requested. In the course of the discussion on the discharge at the European Parliament, a recent amendment of the Regulation<sup>9</sup> now means the deadline can be suspended if:

- there is evidence that there is an irregularity that may have serious financial consequences in expenditure included in the declaration or
- the management and control system for rural development programmes are not functioning correctly.

If there is a problem, the Member State concerned has to be informed, and will be asked for further information. Only if the issues are satisfactorily clarified will the amount in question be deemed eligible and paid. However, payments related to other eligible expenditure can continue to be paid. For the new programming period, similar rules have been proposed in Article 74 of the Common Provisions Regulation. The possibility of suspending payments is also envisaged in Article 43 of the Horizontal Regulation.

The above-mentioned initiatives will enable the Commission to address recommendations 1(f), 1(n), 1(o), 125 and 142 of the EP discharge resolution 2011.

### **7.2. Additional national eligibility conditions**

When Member States intend to apply highly-targeted solutions to challenges in rural areas, this can result in eligibility conditions and commitment defined at national level, which can be difficult to control and to implement.

Although Regulation (EC) No 1974/2006 already envisages that measures have to be verifiable and controllable, this requirement has been reinforced in Article 69 of the rural development proposal by requiring the managing authority to carry out assessments (both ex ante and on-going) in close cooperation with the paying agency. If commitments are more complex, there needs to be an appropriate framework (more intense advice and coaching for farmers, involvement of nature protection authorities).

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<sup>8</sup> Usually 45 days

<sup>9</sup> Commission Regulation (EU) No 398/2013 of 30 April 2013 amending Regulation (EC) No 883/2006 laying down detailed rules for the application of Council Regulation (EC) No 1290/2005 as regards the keeping of accounts by the paying agencies, declarations of expenditure and revenue and the conditions for reimbursing expenditure under the EAGF and the EAFRD.

The assessment of this question should be part of the programme and the paying agency and managing authority should undertake it. They should ensure a certificate is available to guarantee the result of the process. Any programme that does not include such an assessment cannot be approved.

In the descriptions of measures (Article 9) that are part of an approved rural development programme, Member States will have to set out clearly the basic conditions for measures to be deemed eligible, and, where appropriate, the commitments that the beneficiary has to implement.

### **7.3. More flexible agri-environment commitments**

Annual fluctuation in the commitment area and the transfer of land under agri-environment measures may lead to errors. There are no clear rules in the current legislation for annual fluctuation. For the transfer of land, a concept of minor changes to the situation of the holding needed to be developed in the middle of the period. If transfers do not concern more than 10% of the area under commitment, no reimbursement of support is required.

Under Article 47 of the rural development proposal, annual fluctuations will be allowed if they do not apply to fixed parcels and the achievement of the commitment's objective is not jeopardised. In addition, where all or part of the land under commitment or the entire holding is transferred to another person who does not take over the commitment, it expires without the need for reimbursement. This increased flexibility is intended to address changing circumstances in farming.

### **7.4. Reimbursement based on invoices versus simplified costs systems**

Some Member States require the beneficiary to send original invoices to the paying agency. This means an additional administrative burden compared to a system where certified summary sheets (by an accredited accountant) are provided.

The CPR proposal envisages that reimbursement would be based on standard scales of unit costs, lump sums and flat-rate financing. Article 68 of the RD proposal stipulates what can be covered as running costs, the measures for which indirect costs are eligible and maintains contributions in kind as eligible for support.

Therefore, Member States will be encouraged to use simplified costs options as far as appropriate.

### **7.5. Verifiability and controllability of measures**

Under Article 69 of the draft Rural Development Regulation for the new programming period (2014-2020), Member States have to ensure that all the rural development measures they intend to implement are verifiable and controllable. For the first time, the *ex-ante* assessment must be undertaken jointly by Managing Authorities and Paying Agencies. This will increase awareness of the feasibility of implementing certain measures and their impact on errors.

## **8. DEVELOPMENT OF GUIDANCE DOCUMENTS FOR MEMBER STATES**

The Commission has started to produce guidance for Member States administrations to facilitate the setting up and implementation of rural development programmes for the next

programming period. Draft documents are discussed with the Commission and representatives of Member States to ensure a common understanding of certain key concepts (e.g. eligibility criteria), to exchange information on good practices and on practices to be avoided. There are plans to discuss several documents with Member States. Documents on investment measures and agri-environmental contracts have already been tabled, along with others to address aspects of error rates.

DG Agriculture plans to produce the following guidelines and to discuss them with Member States:

- Building rural development programmes — comprehensive guide
- Guidelines on eligibility and selection criteria
- Guidelines on verifiability of measures and prevention of errors
- Guidelines on Community-led local development
- Guidelines on Agri-Environment and Climate Measures
- Guidelines on programming for innovation and the implementation of the European Innovation Partnership
- Guidelines on financial instruments
- Guidance on Simplified Costs
- European and national networks
- 18 Measure Fiches, each addressing verifiability and controllability.

DG Agriculture set up an ad hoc working group on guidance on private and public procurement in 2012, given the importance of the subject in current error rate levels. This produced recommendations for the future of the CAP on procurement compliance and error rate reduction. A second document is currently being discussed among all DGs under ESI Funds, to coordinate approaches on this matter.

The European Network for Rural Development will provide support to stakeholders. It will prepare suitable activities to facilitate the adoption and implementation of corrective and preventive actions and, if necessary, produce relevant material on the correction of error rates.

## 9. CONCLUSIONS

Analysis of the root causes of errors has shown that both administrative procedures in Member States and the handling of projects and applications by beneficiaries need to be improved. The most significant causes of errors are related to failure to comply with eligibility requirements, especially non-respect of agri-environment commitments, specific requirements for investment measures or public and private procurement rules.

Many of the root causes identified under non-area related measures are seen in the implementation of several EU and national policies, e.g. errors linked to public procurement.

For these root causes, a common approach has to be developed with those involved in formulating these horizontal principles and applying them in the context of shared management.

The correction of such root causes has to involve all key stakeholders in the implementation of the rural development policy, both from the administrative and beneficiary perspectives (Commission, managing authorities, paying agencies, farmers associations, national networks, monitoring committees and direct recipients). There needs to be a coordinated effort to achieve the results expected from the corrective and preventive actions identified.

Together with the managing authorities and paying agencies, specific corrective actions have been developed. These will be followed up by the Commission and the authorities in Member States. Overall, Member States' response to the exercise has been positive and constructive. The need to address the high error rate has been acknowledged by all involved.

The most important actions involve: training, technology, procedures and programming. Training for administration staff and beneficiaries is a key issue for most Member States since shortcomings in procedures for processing applications or beneficiaries' mistakes are often due to a lack of knowledge.

More use of IT tools will help to make beneficiaries better informed, to avoid errors when filling in applications, improve the accuracy of checks and controls and finally, to improve coordination among organisations involved in implementing programmes. Adequate, simplified and better-coordinated procedures are vital to ensure implementation is verified correctly and errors prevented. Finally, consistent policy design and programming will make use of existing potential for simplifying certain measures and commitments.

Article 69 on verifiability and controllability of measures included in the proposal for the Rural Development regulation for 2014-2020 will be of great importance to improve the programming of rural development policies.

Nonetheless, it will take time to see the impact of corrective actions, as applications for 2013 under area-related measures have already been launched. So the impact on the current period is expected to be limited, since it may be difficult to modify on-going contracts with beneficiaries. However, Member States are aware of this and are prepared to implement most corrective and preventive actions identified through this process in the new programming period (2014-2020).

There is now an action plan in each Member State. Their implementation will be monitored and assessed together with the Commission, identifying possible bottlenecks and departures from the road map. A continuous update and stocktaking meetings will be organised with managing authorities and paying agencies.

Error rates have to be reduced. However, there has to be a balance between the objectives of rural development policy and the degree to which measures that address those objectives (e.g. environmental targets) can be simplified.