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**NOTE**

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From: General Secretariat of the Council  
To: Delegations

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Subject: Audit simplification  
- Information from the UK delegation

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In view of the "Agriculture and Fisheries" Council of 14 March 2016, delegations will find attached a document provided by the UK delegation on audit simplification, that will be discussed under "Any other business".

**UK non-paper – March 2016****Audits and controls****Introduction**

The UK is highly supportive of the Commissioner's simplification agenda. For the next stage of simplification, and adhering to the parameters set by the Commissioner for this simplification exercise, we are keen to look across the Common Agricultural Policy and seek simplifications that could be of most benefit across all schemes.

The UK endorses the Commission's objectives to protect the CAP Fund against ineligible and/or fraudulent funding. However, current arrangements are potentially disproportionate to the actual risk to the Fund. Linked to this, the current audit system and methodology has not recently been assessed. We note that the Commission has recently set up a High Level Group monitoring simplification for beneficiaries of the European Structural and Investment Funds which will look at cross-cutting issues later this year, including audits.

Similarly, the Council Conclusions of May 2015 called for simplifications that;

- “provided greater transparency as regards interpretation of legal provisions”; and
- a more proportional and risk-based approach to apply to controls, “with the intensity of control taking account of the risk and amounts involved, cost-effectiveness and the different objectives and outcome being sought”.

As such, the UK invites the Council and the Commissioner to review the current audit process, to assure themselves that the structure and processes are commensurate to the objectives and risks to the fund.

## Areas for consideration

**Methodology for audit structure:** Conformity audits are rightly intended to ensure that expenditure which has not been paid in compliance with the CAP rules, is excluded. A risk-analysis determines which paying agencies will be subject to a conformity audit each year. Transparency of the risk-analysis methodology would assist paying agencies in determining how best management systems could be improved.

**Streamlining of audits:** Administrations face multiple audits throughout the year from a number of different bodies including, but not limited to, European Commission, European Court of Auditors, and the Certifying Body (“the audit tower”). This places increased pressure on administrations which facilitate each of these audits. Streamlining the number of audits to reduce resource pressure would be beneficial and placing greater reliance on certifying body audits that meet objective requirements, such as the International Standards on Auditing should be considered.

**Consistency of audit methodology:** Reduced pressure and greater certainty could be achieved by ensuring a standard methodology across the audits.

- Sample sizes and methodologies: International Audit Standards, in widespread use by certifying bodies provides a way forward, ensuring audits and samples are statistically valid and robust.
- Compensatory controls: Maintaining audit focus on whether the funds have been paid in accordance with the scheme and scheme objectives is paramount. This focus provides auditors with sufficient discretion to recognise where a control may have been set up differently (to that which is described in guidance) in light of Member State or Paying Agency specificities (a compensatory control), but which nevertheless still achieves the same outcome and equivalent level of assurance (i.e. MS is assured that funds are paid legitimately within the scheme rules). This applies at both system-level for MS controls and at individual beneficiary level e.g. under recent changes, agri-environment-climate agreements will be audited to ensure compliance with administrative checks, rather than adopting an outcome focus on whether the scheme budget has been used in the way intended.

- Interpretation: Auditor interpretation that goes beyond the basis of the regulation requires Member States to anticipate how auditors may interpret rules. This causes unintended gold-plating as Member States seek mitigating actions that go above and beyond the regulations. Clarity from the Commission in legislation and guidance to Member States and auditors on the level of flexibility is essential if Member States are to be permitted to implement the regulations as they stand, without financial correction.

**Proportionality and transparency between audit findings and financial corrections:** The application of financial corrections is necessary where corrective actions are not taken and there remains a risk to the Fund. However, the calculation of financial corrections has not always been directly linked to the actual risk to the Fund and therefore they are perceived as exceeding that risk.

- Reflecting the risk to the fund: Greater clarity and agreement on the real risk to the Fund in order to continue to ensure the CAP budget is spent as intended will facilitate greater investment in control systems.
- Objectivity of calculation: Commission services hold the lead in a number of areas that have competing and intersecting interests, including responsibility for drafting legislation, auditing Member States, and calculating the rate of financial correction. A greater degree of objectivity in calculating financial corrections is required.