European Commission

2013

Annual Activity Report

Directorate General for Agriculture and Rural Development

Final Report

Foreword

This Annual Activity Report covers a year of heavy challenges for DG AGRI that put an enormous strain both on its staff and organisational capacity. I am all the more satisfied to state that the DG successfully managed to deliver on its main project in 2013, the closure of the CAP reform negotiations. Due to their comprehensive character and their link with the Multi-annual Financial Framework, the reform negotiations turned out to be an exceptionally complex exercise that required the DG to mobilise all its forces.

In parallel, the DG dealt with a number of further policy initiatives, contributed to the conclusion of the negotiations on the Bali package of the WTO and to several ongoing international negotiations of great importance to European agriculture and handled with great care all its routine business of managing and controlling the CAP. In addition, the DG deployed once again major efforts to tackle the problem of increasing error rates by improving both its audit capacity and addressing weaknesses in Member States' management of EU funds. These accomplishments were achieved despite a generally increasing workload and progressive reductions of human resources. There is thus good reason for me to praise the relentless commitment of DG AGRI's staff at all levels as well as the fruitful cooperation with Commissioner Cioloş and his Cabinet.

We revised the DG's organisational structure to strengthen our administrative and conceptual capacity in a time of diminishing resources and draw the necessary operational conclusions from the CAP reform package. DG AGRI's new organisation chart reshuffles resources to changed priorities, creates synergies and opens up new margins for action. It was reassuring to me in my first year as Director General that this decision could be prepared and taken on the basis of a constructive and transparent process involving the DG's staff as a whole. This has created a solid basis for DG AGRI to tackle the thorny subject of the implementation of the CAP reform, continuously endeavour to keep error rates at bay and play an innovative role in the discussions on the further development of the CAP.

This report is meant to give a fair and comprehensive view of DG AGRI's activities and achievements in 2013. Successes are highlighted as well as those areas where there is need and room for improvement. I am confident that due to its new structure and our efforts to provide ample explanations of the sometimes very technical aspects of the CAP and its management, the 2013 AAR will provide valuable information on the performance of the CAP and its practical and administrative functioning.

Jerzy Plewa
Director-General

Table of Contents

INTRODUCTION 6

THE DG IN BRIEF ... 6

THE YEAR IN BRIEF ... 8

EXECUTIVE SUMMARY ... 11

Key Performance Indicators ... *11*

Policy highlights of the year ... *22*

Key conclusions on resource management and internal control effectiveness ... *23*

Information to the Commissioner ... *24*

1. POLICY ACHIEVEMENTS **25**

1.1 ACHIEVEMENT OF GENERAL AND SPECIFIC OBJECTIVES ... 25

1.1.1 POLICY AREA AGRICULTURE AND RURAL DEVELOPMENT – GENERAL OBJECTIVE 1 ... 25

1.1.2 POLICY AREA AGRICULTURE AND RURAL DEVELOPMENT – GENERAL OBJECTIVE 2 ... 26

1.1.3 POLICY AREA AGRICULTURE AND RURAL DEVELOPMENT – GENERAL OBJECTIVE 3 ... 28

1.1.4 ABB 02 INTERVENTIONS ON THE AGRICULTURAL MARKETS – SPECIFIC OBJECTIVE 1 ... 29

1.1.5 ABB 02 INTERVENTIONS ON THE AGRICULTURAL MARKETS – SPECIFIC OBJECTIVE 2 ... 31

1.1.6 ABB 02 INTERVENTIONS ON THE AGRICULTURAL MARKETS – SPECIFIC OBJECTIVE 3 ... 33

1.1.7 ABB 02 INTERVENTIONS ON THE AGRICULTURAL MARKETS – SPECIFIC OBJECTIVE 4 ... 36

1.1.8 ABB 03 DIRECT AID – SPECIFIC OBJECTIVE 1 ... 39

1.1.9 ABB 03 DIRECT AID – SPECIFIC OBJECTIVE 2 ... 40

1.1.10 ABB 03 DIRECT AID – SPECIFIC OBJECTIVE 3 ... 41

1.1.11 ABB 03 DIRECT AID – SPECIFIC OBJECTIVE 4 ... 43

1.1.12 ABB 04 RURAL DEVELOPMENT – SPECIFIC OBJECTIVE 1 ... 46

1.1.13 ABB 04 RURAL DEVELOPMENT – SPECIFIC OBJECTIVE 2 ... 47

1.1.14 ABB 04 RURAL DEVELOPMENT – SPECIFIC OBJECTIVE 3 ... 48

1.1.15 ABB 04 RURAL DEVELOPMENT – SPECIFIC OBJECTIVE 4 ... 49

1.1.16 ABB 04 RURAL DEVELOPMENT – SPECIFIC OBJECTIVE 5 ... 50

1.1.17 ABB 04 RURAL DEVELOPMENT – SPECIFIC OBJECTIVE 6 ... 51

1.1.18 ABB 04 RURAL DEVELOPMENT – SPECIFIC OBJECTIVE 7 ... 52

1.1.19 ABB 04 RURAL DEVELOPMENT – SPECIFIC OBJECTIVE 8 ... 53

1.1.20 ABB 05 SAPARD/IPARD – SPECIFIC OBJECTIVE 1 ... 54

1.1.21 ABB 05 SAPARD/IPARD – SPECIFIC OBJECTIVE 2 ... 56

1.1.22 ABB 05 SAPARD/IPARD – SPECIFIC OBJECTIVE 3 ... 58

1.1.23 ABB 05 SAPARD/IPARD – SPECIFIC OBJECTIVE 4 ... 61

1.1.24 ABB 05 SAPARD/IPARD – SPECIFIC OBJECTIVE 5 ... 62

1.1.25 ABB 06 EXTERNAL RELATIONS – SPECIFIC OBJECTIVE 1 ... 64

1.1.26 ABB 06 External relations – Specific objective 2 66
1.1.27 ABB 06 External relations – Specific objective 3 70
1.1.28 ABB 07 Audit – Specific objective 1 73
1.1.29 ABB 07 Audit – Specific objective 2 74
1.1.30 ABB 08 Policy strategy and coordination – Specific objective 1 76
1.1.31 ABB 08 Policy strategy and coordination – Specific objective 2 78
1.1.32 ABB 08 Policy strategy and coordination – Specific objective 3 79
1.1.33 ABB 08 Policy strategy and coordination – Specific objective 4 82
1.1.34 ABB 08 Policy strategy and coordination – Specific objective 5 82
1.1.35 ABB 08 Policy strategy and coordination – Specific objective 6 83
1.1.36 ABB 08 Policy strategy and coordination – Specific objective 7 85
1.1.37 - 1.1.41 AWBM 01 Administrative support 86
1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities 87
1.2.1 Example 1: Automation of the transmission of Member States' control statistics 87
1.2.2 Example 2: One single framework for monitoring and evaluation of both CAP pillars 88
2. MANAGEMENT OF RESOURCES 90
2.1 Management of human and financial resources by DG AGRI 90
2.1.1 Control effectiveness as regards legality and regularity 90
2.1.1.1 Materiality criteria (control objective) and reservation 94
2.1.1.2 Payments executed in 2013 for the CAP 96
2.1.1.3 Protection of the EU Budget via Net Financial Corrections 97
2.1.1.4 ABB02: Market Measures 99
2.1.1.5 ABB03: Direct Payments 103
2.1.1.6 ABB04: Rural Development 105
2.1.1.7 Interruption, reductions and suspension 108
2.1.1.8 Overall assessment of the functioning of the management and control system for funds under shared management 110
2.1.2 Control efficiency and cost-effectiveness 120
2.1.2.1 Effectiveness and efficiency of the controls 120
2.1.2.2 Conclusions with regard to the effectiveness and efficiency of the controls 124
2.1.3 Decentralised Management 125
2.1.3.1 Description of the management and control system 125
2.1.3.2 SAPARD 126
2.1.4 Fraud prevention and detection 132
2.1.5 Other control objectives: use of resources, reliability of reporting, safeguarding of assets and information 133
2.1.5.1 Reliability of reporting 133
2.1.5.2 Safeguarding of information 133
2.2 Budget implementation tasks entrusted to other services and entities 134

2.2.1 Financial instruments 134

2.2.2 Cross-sub-delegations 136

2.3 Assessment of audit results and follow up of audit recommendations 137

2.3.1 Internal Audit Capability reports and opinion 137

2.3.2 IAS audits 140

2.3.3 European Court of Auditors reports 144

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS 154

3.1 The assessment of the internal control systems 154

3.2 The priority internal control standards in 2013 155

3.3 Complementary information 160

3.4 Areas for improvement 161

3.5 Conclusions 162

4. MANAGEMENT ASSURANCE 163

4.1 Review of the elements supporting assurance 163

4.2 Reservations and overall conclusion on assurance 168

Reservation 1: ABB02 – Expenditure on Market Measures: 7 aid schemes in 9 Member States (11 elements of reservation): Austria, the Czech Republic, France, Italy, Netherlands, Poland, Spain, Sweden and the United Kingdom 169

Reservation 2: ABB03 – Direct payments: 20 paying agencies, comprising 6 Member States: Spain (15 paying agencies), France, UK (RPA- England), Greece, Hungary and Portugal 172

Reservation 3: ABB04 – Rural development expenditure: 31 paying agencies, comprising 19 Member States: Belgium, Bulgaria, Cyprus, Germany (2 paying agencies), Denmark, Spain (6 paying agencies), Finland, France (2 paying agencies), UK (2 paying agencies), Greece, Ireland, Italy (5 paying agencies), Luxembourg, Netherlands, Poland, Portugal, Romania and Sweden 174

Reservation 4: ABB05 – IPARD expenditure for Turkey 177

DECLARATION OF ASSURANCE 179

INTRODUCTION

The DG in brief

Mission

The mission of the Directorate-General for Agriculture and Rural Development is to promote the sustainable development of Europe's agriculture and to ensure the well-being of its rural areas.

Organisation and human resources

In 2013, DG AGRI had a staff of around 1100 and was made up of 13 directorates. Nine operational directorates were responsible for managing agricultural market measures, direct aids, rural development, quality policy, international relations, pre-accession assistance and audit. Four directorates were in charge of policy strategy and coordination – covering the design, implementation, enforcement and evaluation of the Common Agricultural Policy (CAP) – and administrative support, including budget and financial management, internal audit and internal control.

Annex 2 provides the breakdown of human resources by activity.

Budget implementation

In 2013, DG AGRI managed a budget of around EUR 59 billion (which accounts for around 40 % of the overall EU budget[1]), split between eight activity areas: Administrative expenditure (ABB01), Interventions in agricultural markets (ABB02), Direct aids (ABB03), Rural development (ABB04), Pre-accession measures (ABB05), International aspects (ABB06), Audit (ABB07), and Policy strategy and coordination (ABB08). Three activity areas ABB02, ABB03 and ABB04 accounted in total for EUR 58.5 billion[2].

DG AGRI operates in three management modes:

1. **Shared management** for interventions in agricultural markets, direct aids and rural development: Implementation vis-à-vis final beneficiaries is delegated to the Member States, while the Commission is responsible for the overall legal framework, budget implementation and for Member States' supervision;

2. **Decentralised management** for pre-accession measures: Implementation vis-à-vis the final beneficiaries is delegated to the authorities of the beneficiary country;

3. **Direct centralised management** for other activities: contracts are concluded directly with third parties to supply the DG with studies, information and communication activities.

[1] Execution 2012: 40, 3% for CAP.

[2] More detailed figures see 2.1 Management of human and financial resources by DG AGRI

General risk environment

The CAP has around **eight million beneficiaries**, supported under a variety of **different schemes**. This entails a **very high number** of financial transactions, associated to a **very high value** and/or volume.

Implementation takes place predominantly in **shared management** where DG AGRI relies on Member States' cooperation in taking all necessary measures to achieve the CAP objectives and ensure effective implementation of the various support schemes.

The natural cycle of agricultural activities shapes the controls to be carried out (e.g. many on-the-spot checks to verify eligibility conditions can only take place in certain periods of the year) and the frequency of payments to beneficiaries. Paying agencies account for payments to beneficiaries on an annual basis in their accounting and declaration to the Commission. Expenditure declarations from the Member States are cleared by the Commission via an **annual financial clearance of accounts** exercise, combined with **conformity clearance procedure** following up on errors, addressing weaknesses and leading to net financial corrections.

These features underpin the design of the CAP management and control system, described in *part 2* of the AAR.

The implementation of the CAP reform and its impact on the general risk environment will require additional efforts in term of control activities and administrative capacity of the DG.

The year in brief

A **major reform of the Common Agricultural Policy** was concluded in 2013. It is the first CAP reform negotiated by the European Parliament and the Council in ordinary legislative procedure as set out by the Lisbon Treaty. Starting in April 2013, 44 trilogue meetings took place before the European Parliament and the Council reached a political agreement in June with the Commission acting as facilitator. This led to the formal adoption and publication of the basic acts[3] before the end of the year.

Throughout 2013, a large share of DG AGRI's resources was devoted to the negotiations and the preparation of the corresponding delegated and implementing acts[4]. The reform process was influenced by a number of factors, notably the budget constraints with regard to the new Multiannual Financial Framework (MFF) for 2014 to 2020, which was negotiated in parallel, and applying for the first time the ordinary legislative procedure.

The new CAP has maintained the core elements of the Commission's proposals, i.e. better targeted, more equitable and greener direct payments, an enhanced safety net and strengthened rural development. The basic structure of the CAP with a first pillar (direct payments and market-related expenditure) and a second pillar (rural development) is preserved.

Farmers will have to comply with a minimum standard of agricultural practices beneficial to climate change and the environment in order to receive *green* direct payments from the first pillar, in addition to the funds provided from the second pillar, yet respecting the "no double funding" principle. An additional first pillar payment will be available to *young farmers*. A voluntary scheme for small farmers has also been introduced as an additional element of simplification. The new CAP also provides Member States with the possibility to customise implementation according to their regional or national capabilities and priorities by means of rural development programmes and using voluntary direct payments schemes for coupled support,

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[3] Regulation (EU) No 1305/2013 of the European Parliament and of the Council of 17 december 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005, OJ L 347 of 20.12.2013

Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008. Article 110(2) and (4) , OJ L 347 of 20.12.2013

Regulation (EU) No 1307/2013 of the European Parliament and of the Council of 17 december 2013 establishing rules for direct payments to farmers under support schemes within the framework of the common agricultural policy and repealing Council Regulation (EC) No 637/2008 and Council Regulation (EC) No 73/2009, OJ L 347 of 20.12.2013

Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products and repealing Council Regulations (EEC) No 922/72, (EEC) No 234/79, (EC) No 1037/2001 and (EC) No 1234/2007, OJ L 347 of 20.12.2013

Regulation (EU) No 1310/2013 of the European Parliament and of the Council of 17 December 2013 laying down certain transitional provisions on support for rural development by the European Agricultural Fund for Rural Development (EAFRD), amending Regulation (EU) No 1305/2013 of the European Parliament and of the Council as regards resources and their distribution in respect of the year 2014 and amending Council Regulation (EC) No 73/2009 and Regulations (EU) No 1307/2013, (EU) No 1306/2013 and (EU) No 1308/2013of the European Parliament and of the Council as regards their application in the year 2014, OJ L 347 of 20.12.2013.

[4] The adoption of delegated and implementing acts is envisaged for the first half of 2014.

support in natural constraint areas and redistributive payments, as well as making financial transfers between the pillars.

The increase in flexibility for Member States implies growing complexity for the monitoring and evaluation system. Therefore, in close cooperation with Member States, a single framework for monitoring and evaluation[5] was established, for the first time covering both pillars. It will come into effect in the new MFF period starting in January 2014. The aim of the new **Common Monitoring and Evaluation Framework** is to effectively identify demonstrable impacts of the policy and steer it accordingly[6].

The financial management of the CAP was also reviewed as part of the reform, e.g. aligning the rules with the new Financial Regulation for the general EU budget, introducing a new model for assurance on the legality and regularity of payments to final beneficiaries, and enhancing the possibility for the Commission to suspend and interrupt payments to Member States[7].

In order to address upcoming challenges of implementing the CAP reform while reducing staff, DG AGRI underwent a structural reform as of 1 January 2014. The new structure contains 11 directorates and is aimed to provide for more coherence and efficiency. As part of this reorganisation, a new unit Research and Innovation was created to deal with DG AGRI's part in **Horizon 2020 Framework Programme for Research and Innovation** in particular for the part related to securing sufficient supplies of safe and high quality food and other bio-based products.

Other policy achievements[8] were the adoption of the legislative proposal on **Promotion and information policy for agricultural products**, the Communication on a **new EU Forest Strategy** and the **De minimis Regulation** initiative.

In order to comply with **the standards of sound financial management**, DG AGRI increased its efforts to further reinforce assurance for expenditures of the CAP by e.g.:

- creating working groups which identified the main causes of error in the areas of direct payments, rural development and market expenditures and laid down preventive and corrective actions. The more advanced works in rural development showed an increasingly good cooperation with the Member States and understanding of the root causes of the errors and the importance of controlling and rectifying them.

- establishing an additional unit that became effective in 2014, giving support to Member States in implementing the Integrated Administration and Control System (IACS) and Land Parcel Identification Systems (LPIS).

[5] Article 110, Regulation (EU) No 1306/2013

[6] See Chapter 1.2.2 Example 2 Simplification: One single framework for monitoring and evaluation of both CAP pillars

[7] The new sectorial legislation reinforces the Commission's possibility to suspend and interrupt payments to Member States with serious deficiencies in their management and control systems. This offers better protection of the EU budget and should also provide Member States with a stronger incentive to improve their systems where necessary.

[8] Please refer to the chapter on Policy highlights of the year for more details.

Finally, a new approach for establishing the residual error rate, described in Annex 4, has been developed, building on the approach already introduced for direct decoupled aids in the 2012 AAR. In the 2013 AAR, this method is applied to the entire CAP. Errors reported by Member States are adjusted to take into account all pertinent available information (notably DG AGRI audits, ECA findings, opinion of the certification bodies). Materiality is then assessed for each Paying Agency (or market measure), taking into account mitigating factors to determine whether a reservation is necessary. The situation of each paying agency is detailed in Annex 10. The related action plans will be implemented by Member States that are primarily responsible. The amount at risk is assessed on the total expenditure. Thus, DG AGRI has to the maximum extent possible harmonised the calculation of residual error rates and amounts at risk with other DGs operating in shared management[9] as requested in the 2012 Synthesis Report[10].

DG AGRI is of the view that recoveries and net financial corrections have to be taken into account in any comprehensive assessment of the overall system of internal control and intends to develop, for future AAR exercises, together with the services concerned of the Commission, a means to incorporate the impact of these corrective measures on the protection of the Union budget.

DG AGRI has also analysed the costs and benefits of the controls presently required to be carried out. The amount spent each year by Member States on controlling and managing agricultural expenditure is close to 4 billion EUR and more than 5% of CAP expenditure. The analysis shows that these costs are already high and that any further increase of control efforts would raise the issue of the cost-effectiveness of the control system.

The CAP Reform agreed upon by the European Parliament and Council of Ministers sets out the legal framework for 2014-2020. The control systems have been improved to the greatest extent practically achievable. DG AGRI is determined to use all means at its disposal to ensure a sound management of the CAP on this basis. Yet, taking into account the need to balance legality and regularity with the achievement of policy objectives while bearing in mind the current control requirements and costs, the question cannot be eluded as to whether it will be possible, in the foreseeable future, to allow the error rate to descend below 2% on a sustainable basis.

The assurance in the 2013 AAR is given on the CAP schemes prior to the reform.

[9] DG AGRI commits to apply a cumulative approach for EAFRD in a progressive manner from 2014 AAR onwards. The general control objective is to ensure that the cumulative residual risk does not exceed 2% at the end of the programming period 2014-2020 while maintaining a good balance between legality and regularity and the achievement of policy objectives. For EAGF, further analytical work is necessary to compare multi-annual data on both errors and financial corrections as from 2015.

[10] COM(2013) 334 final. Communication from the Commission to the European Parliament, the Council and the Court of Auditors. Synthesis of the Commission's management achievements in 2012. 5.6.2013.

Executive Summary

The Annual Activity Report is a management report of the Director-General of DG Agriculture and Rural development to the College of Commissioners. It is the main instrument of management accountability within the Commission and constitutes the basis on which the Commission takes its responsibility for the management of resources and the achievement of objectives.

Key Performance Indicators

Key Performance Indicators (KPIs) are supposed to monitor the core aspects of the CAP and give useful insights into its most significant achievements. For the reporting year 2013 the indicators were selected from the 2013 Management Plan[11], yet ensuring coherence with the KPIs selected for the next programming period 2014 – 2020 as stated in the 2014 Management Plan[12]:

[11] Selecting a set of Key Performance Indicators (KPIs) was not required in the 2013 Management Plan exercise.

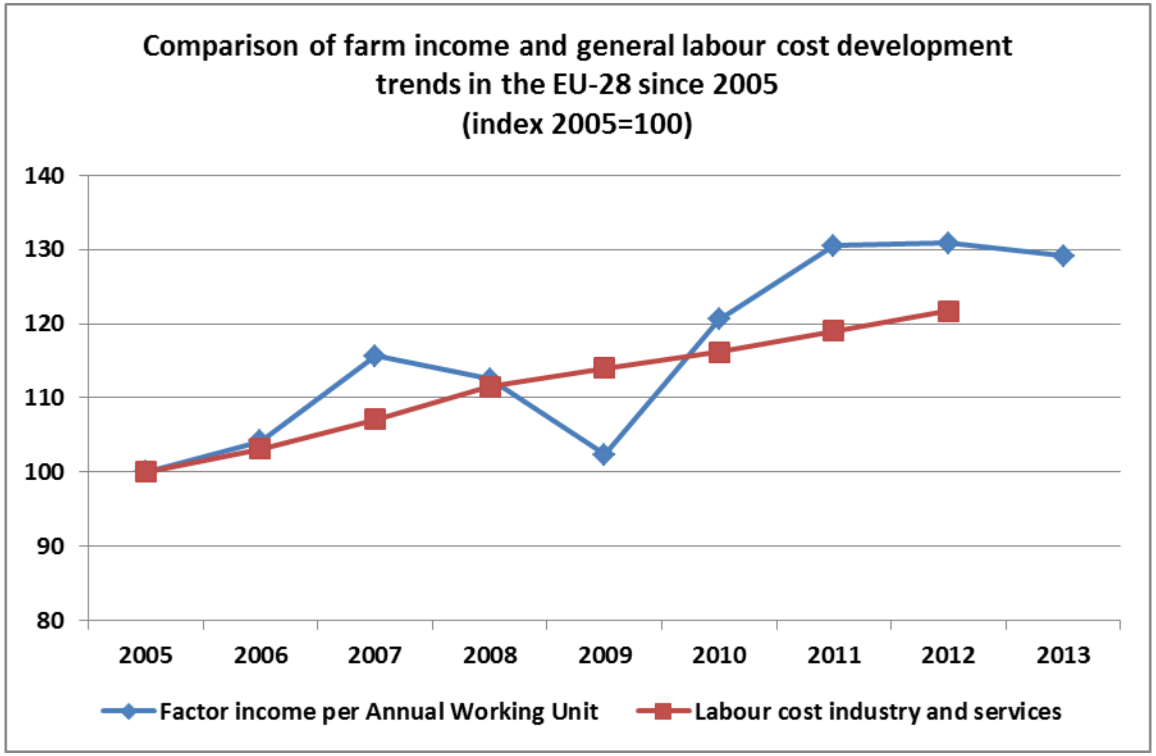
[12] For the next programming period DG AGRI selected the following 5 KPIs (see Annex 12 for an illustrative and explanatory presentation):

1. Agricultural factor income
2. EU commodity prices compared to world prices
3. Minimum share of agricultural land with specific environmental practices/commitment (combining the indicator "Share of eligible land under greening practices" for first pillar and "Share of agricultural land" indicators for second pillar specific objectives 4 and 5).
4. Rural employment rate
5. Residual Error Rate integrating financial corrections

Indicator	Trend	Target	Latest known results as per 2013 Annual Activity Report	
1. Farmers' income developments (Impact indicator)	☺	Keeping the ratio to other economic sectors	**Farm income developments**[13]: 2013: -1.3 % 2012: +0.2 % 2011: +8.3 % 2010: +17.8 % 2009: -9 % 2008: -2.8 % 2007: +11.1 %	**Labour cost index, industry and services (excl. public administration)[14]:** 2013: not available 2012: +2.2% 2011: +2.5% 2010: +1.9 % 2009: +2.3 % 2008: +4.1 % 2007: +3.9 %

[13] Change in agricultural income, measured as change of the "Index of the real income of factors in agriculture per annual work unit" (indicator A – Eurostat Economic Accounts for Agriculture, table **aact_eaa06**)

[14] "Labour cost index in nominal value" in the sector "Business Economy" (NACE R2) expressed as wages and salaries (Eurostat Labour Costs, table **lc_lci_r2_a**) for the EU-28, rebased for 2005.

Indicator	Trend	Target	Latest known results as per 2013 Annual Activity Report
			 The graph above presents the evolution of agricultural income and overall labour costs[15] in comparison to year 2005. Hence, the graph compares trends only, i.e. the absolute levels of income are significantly different as the income from agriculture (as self-employed) was only around 37% in comparison to income gained by employees in the rest of the economy in the EU-27 in 2012. The graph shows that both income in agriculture and labour costs go in the same direction, although revenue in agriculture remains more volatile and should continue to be supported through the Common Agricultural Policy.

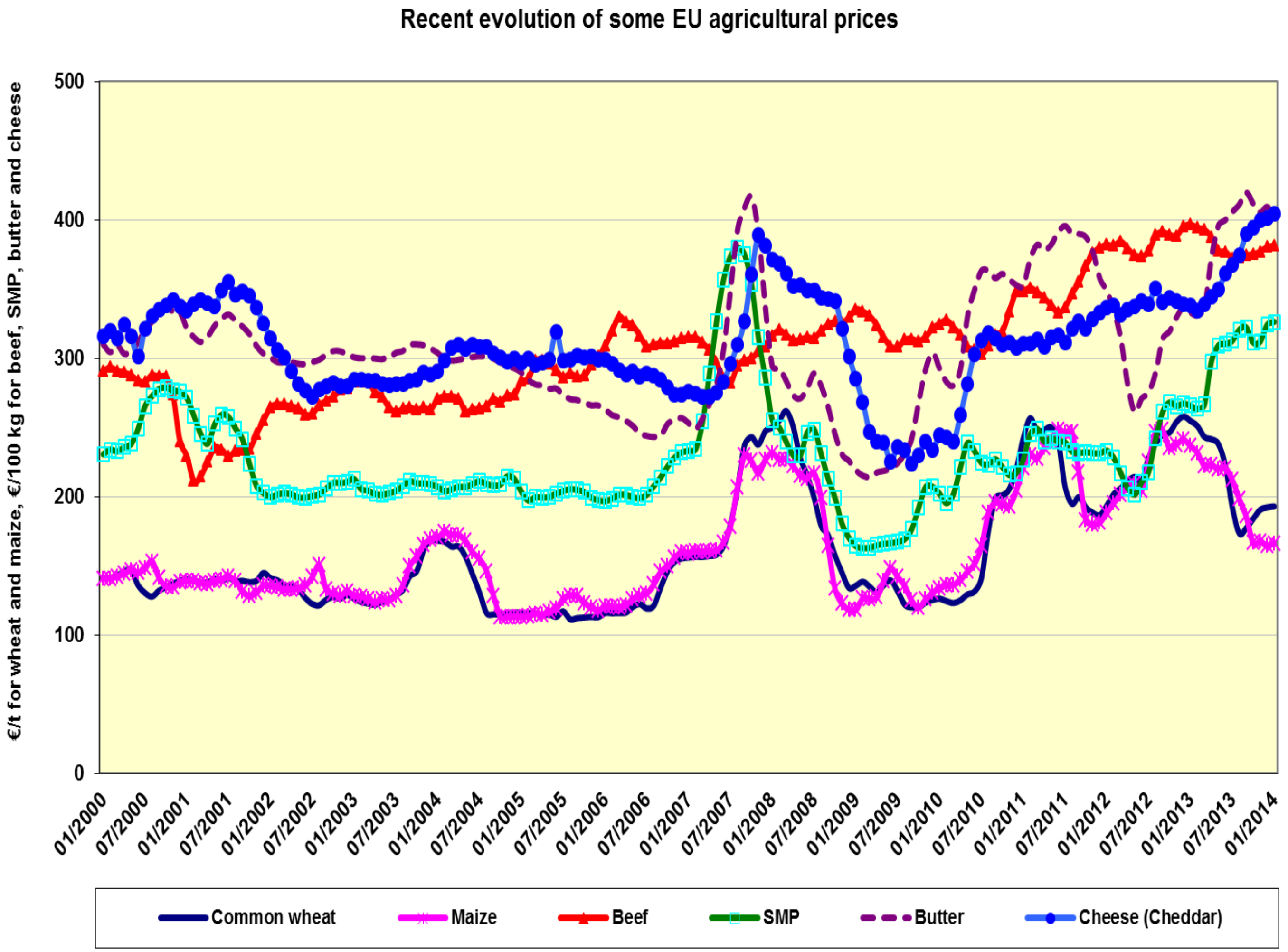
[15] The labour cost indicator is used in this context as a proxy for income gained by employees in the other economic sectors but agriculture.

Executive Summary

EU-28[16] real agricultural income per worker has decreased by 1.3% in 2013, after an increase of 0.2% in 2012, according to first estimates. This decrease results from a fall in real agricultural income (-2.1%), together with a reduction in agricultural labour input (-0.9%). However, in longer term (2005-2013), EU-28 real agricultural income per worker is estimated to have increased by 29.2%, while agricultural labour input has fallen by 20.8%.

The decrease in EU-28 real agricultural income in 2013 is mainly the result of higher increase in real terms in input costs (+0.7%) on a stable output of the agricultural sector at producer prices. Real agricultural income per worker in 2013 is estimated to have risen in fifteen Member States and fallen in thirteen. The highest increases are expected in the Netherlands (+11.4%), Romania (+10.4%), Spain (+10.0%) and Italy (+8.9%), and the steepest decreases in Estonia (-17.4%), France (-16.4%), Croatia (-16.2%) and Germany (-10.0%).

[16] Where available, the data on Croatia, which became a Member State of the EU on 01 July 2013, is included.

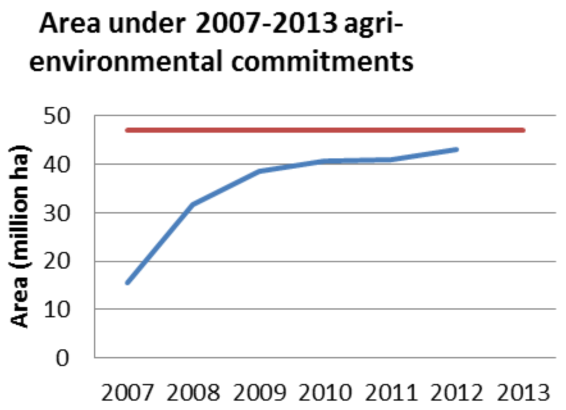
Indicator	Trend	Target	Latest known results as per 2013 Annual Activity Report
2. Volatility of prices for key agricultural commodities in nominal terms in the EU (Result indicator)	😐	As low as possible	

Volatility[17] decreased in the last three years as illustrated in the table below, being the highest for cereals and dairy products in 2005-2009 and rather low for beef prices in general.

Period	Common wheat	Maize	Beef	SMP	Butter	Cheese (Cheddar)
2000-2004	10%	10%	7%	11%	4%	8%
2005-2009	30%	26%	4%	25%	16%	14%
2010-2013	20%	17%	8%	15%	12%	11%

While price volatility is an intrinsic element of agricultural markets (linked to the biological production process and inelastic demand), excessive price volatility is harmful as it creates uncertainties for all actors along the supply chain. It is important to distinguish between excess volatility caused by factors inherent to agriculture (e.g. supply and demand) and those outside of agriculture (e.g. speculation, trade policies, etc.). Increased price volatility is expected to stem from the latter, i.e. external factors as a result of the continued integration of global commodity and financial markets, the closer link between agriculture and non-agricultural (mainly energy) commodity markets, as well as impacts on agriculture due to climate change. The agricultural sector is expected to increasingly be subject to challenges from outside its sphere of influence, limiting the scope of policy instruments to effectively cope with excess volatility.

[17] Volatility is measured through the coefficient of variation and shows the extent of price dispersion in relation to price mean. The higher the coefficient, the higher volatility is.

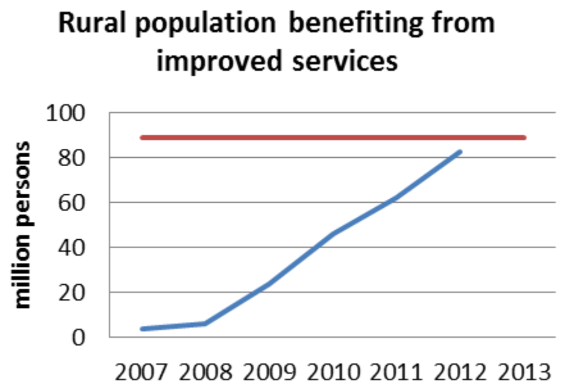
Indicator	Trend	Target	Latest known results as per 2013 Annual Activity Report	
3. Area supported by EAFRD under agri-environmental commitments (including organic farming) (Result Indicator)	☺	47 000 000 ha	43 000 000 ha (91 %)[18]	

In the current 2007-2013 rural development programming period, agri-environmental measures are the main environmental policy instruments to fulfil the environmental objectives set out in the Rural Development Programmes (RDP). Nearly 25% of the overall EAFRD budget is allocated to that measure. They are also a key tool for achieving EU level environmental objectives, such as those set out in the EU Biodiversity Strategy to 2020. They are designed to encourage farmers to protect and enhance the environment, the landscape and its features and the natural resources by paying them for the provision of environmental services. On a voluntary basis, farmers adopt, for a five-year minimum period, environmentally friendly farming techniques which go beyond the normal requirements. As a consequence they receive support that compensates for additional costs and income foregone resulting from farming practices such as organic farming, extensification of farming systems, green cover, action to conserve soil, pastures and high nature value farming, management of landscape or actions to maintain habitats favourable for biodiversity[19].

[18] Rural development annual progress reports 2012 (latest available data)

[19] Source: AEI facstheet 01: agri-environment commitments

In 2012, 43 million hectares were under at least one agri-environmental commitment, representing nearly 25 % of the total EU-27 Utilized Agricultural Area. It includes notably 7 million hectares supported for conversion or maintenance in organic farming. As shown in the graph, after a slow start in 2007/2008 due to the closure of previous agri-environmental commitments made during the 2000-2006 programming period, the area under 2007-2013 commitments has quickly increased to meet 91% of the overall target by the end of 2012.

Indicator	Trend	Target	Latest known results as per 2013 Annual Activity Report	
4. Population in rural areas benefiting from improved services supported by EAFRD (result indicator) (Result indicator)	☺	89 million (Target 2007-2013)	83 million (94 %)[20]	

One of the objectives of rural development policy, as laid out in the Community strategic guidelines for the programming period 2007-2013, is to improve the quality of life in rural areas and encourage diversification of the rural economy. Europe's rural areas account for 91% of EU territory according to the OECD urban-rural typology. Furthermore, 59% of EU's population lives in predominantly rural areas and significantly rural regions. Rural areas suffer from specific handicaps but also offer real opportunities in terms of their potential for growth in new sectors or the provision of rural amenities and tourism.

In this context, rural development policy offered a range of measures to support diversification which represent 5% of the total EAFRD allocation: supports to members of farm households who diversify into non-agricultural activities, support for business creation and development of non-agricultural micro-enterprises or support for tourism small-scale infrastructure.

In addition, to improve the quality of life in rural areas, the rural development policy supported the setting up of basic services including for cultural and leisure activities, the implementation of Village renewal and development operations (e.g. local road works, renovation of

[20] Rural development annual progress reports 2012

buildings) and the conservation and upgrading of the rural heritage (e.g. investments associated with maintenance, restoration and upgrading of the cultural features). All together these measures account for 8% of the total EAFRD allocation. Finally, the LEADER approach (Axis 4) also contributed to better service provision in rural areas.

As a result of these operations supported by 2007-2013 rural development policy, 83 million persons were potentially benefiting from improved services and infrastructures in rural areas in 2012, **representing nearly 28 % of the total EU-27 total rural population**. The overall 2013 target established by the Member States in their Rural Development Programmes is 89 million persons, which means that 94% of the overall target was met by the end of 2012. As shown in the graph, after a slow start in 2007/2008 due to the fact that some time is necessary to set up these operations, the result indicator has increased continuously to already nearly reach the target in 2012. In addition, these supported operations **resulted to 45 600 jobs created in rural areas**.

5. Error rate split by ABB activity[21]

Eur million

	Sector	2013 Expenditure	adjusted residual error rate	amount at risk	Number of Reservations	Amount under reservation	corrective capacity of net financial corrections		Recoveries by MS in 2013	Recoveries & Net Financial Corrections as % of expenditure
							Net Financial corrections *	% of 2013 expenditure		
ABB02	Market Measures	3.192,6	7,44%	237,40	1	198,29	170,2	5,33%		
ABB03	Direct Payments	41.661,9	2,34%	973,93	1	652,15	352,4	0,85%		
EAGF		44.854,6	2,70%	1.211,32	2	850,44	522,6	1,17%	94	1,37%
ABB04-EAFRD	Rural Development	12.977,7	5,19%	673,86	1	598,83	121,2	0,93%	98	1,69%
Total		**57.832,3**	**3,26%**	**1.885,19**	**3**	**1.449,27**	**643,8**	**1,11%**	**192**	1,45%

* three year (2011-2013) average of net financial corrections executed.

[21] See Annex 4: "Materiality Criteria" where a detailed explanation of the applied methodology can be found.

Policy highlights of the year

DG AGRI reaches the general objectives of the Common Agricultural Policy (please refer to Part 1 for further details including brief summaries on DG AGRI evaluations published in 2013[22]) with assertive supervision of sound financial management and having regard to the three priorities of the Europe 2020 strategy for smart, sustainable and inclusive growth[23].

The year 2013 was a milestone for DG AGRI with the adoption of the comprehensive **reform of the Common Agricultural Policy** in the context of the negotiations on a Multi-annual Financial Framework (MFF) for 2014 to 2020 (please refer to the Year in brief for further details). This entailed a major mobilisation of DG AGRI's resources throughout the whole year.

The legislative proposal adopted in November 2013 on **Promotion and information policy for agricultural products** focused on EU added value and promotion of quality products on third markets.

In the area of rural development (Pillar II), the core business is the implementation of the rural development programmes, which help to ensure inclusive and sustainable growth in rural areas. Further to this focus, DG AGRI prepared several important initiatives in 2013. The Communication on a **new EU Forest Strategy** was adopted in September 2013: it aims at enhancing and improving sustainable forest management taking into account in particular climate change and EU policy on renewable energy. In addition, DG AGRI presented the Strategic implementation plan for the **European Innovation Partnership** *Agricultural productivity and sustainability* in 2013 in order to promote a resource-efficient, productive and low-emission agricultural sector.

Throughout 2013, DG AGRI prepared the ground for the implementation of the **Framework Programme for Research and Innovation (Horizon 2020)**, fostering research and innovation notably with regard to the societal challenge *Food security, sustainable agriculture and forestry, marine, maritime and inland water research, and the bio-economy*.

In the area of **international affairs**, DG AGRI continued to participate and negotiate in various international for a, notably the World Trade Organization's Bali Ministerial Conference, and maintains bilateral relations and negotiations with third countries, regions or important regional groupings in order to preserve the European model of agriculture and contribute to sustainable economic development.

DG AGRI maintained its general efforts to simplify agricultural legislation and reduce administrative burden and contributes to the Commission's agenda of ambitious

[22] Please refer to Annex 9 that provides more detailed information on DG AGRI evaluations.

[23] The three priorities of Europe 2020 strategy as set out in COM(2010) 2020 adopted by the Commission on 3.3.2010:

- Smart growth: an economy based on knowledge and innovation
- Sustainable growth: a resource efficient, greener and more competitive economy
- Inclusive growth: a high-employment economy delivering social and territorial cohesion

simplification across the MFF[24]. The **De minimis Regulation** initiative (part of a comprehensive package on new State aid rules to be finalised by June 2014) was adopted in December 2013. It will allow Member States to grant rapidly small amounts of support without distorting competition.

Key conclusions on resource management and internal control effectiveness

In accordance with the governance statement of the European Commission, DG AGRI conducts its operations in compliance with the applicable laws and regulations, working in an open and transparent manner and meeting the expected high level of professional and ethical standards.

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. As required by the Financial Regulation, the Director-General has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

DG AGRI has assessed the effectiveness of its key internal control systems during the reporting year and has concluded that the internal control standards are effectively implemented with the exception of standard 12 on Information and Communication for which remedial actions are undergoing. Furthermore, DG AGRI has taken measures to further improve the efficiency of its internal control systems particularly in the area of:

- **the prioritised standards for 2013 (Ethics, Staff allocation and Management Supervision);**
- **the standard on Risk Management, which was considered as only partially effective in 2012.**

Please refer to Part 3 for further details.

In addition, DG AGRI has systematically examined the available control results and indicators, including those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives. Please refer to Part 2 for further details

In conclusion, management has reasonable assurance that, overall, suitable controls are in place and working as intended; risks are being appropriately monitored and mitigated; and necessary improvements and reinforcements are being implemented. The Director General, in his capacity as Authorising Officer by Delegation has signed

[24] See Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions "A Simplification Agenda for the MFF 2014-2020", COM(2012) 42 of 8 February 2012.

the Declaration of Assurance, albeit qualified by reservations concerning the following:

- ***ABB02 – Expenditure on Market Measures: 7 aid schemes in 9 Member States (11 elements of reservation): Austria, the Czech Republic, France, Italy, Netherlands, Poland, Spain, Sweden and the United Kingdom.***
- ***ABB03 – Direct payments: 20 paying agencies, comprising 6 Member States: Spain (15 paying agencies), France, UK (RPA- England), Greece, Hungary and Portugal.***
- ***ABB04 – Rural development expenditure: 31 paying agencies, comprising 19 Member States: Belgium, Bulgaria, Cyprus, Germany (2 paying agencies), Denmark, Spain (6 paying agencies), Finland, France (2 paying agencies), UK (2 paying agencies), Greece, Ireland, Italy (5 paying agencies), Luxembourg, Netherlands, Poland, Portugal, Romania and Sweden.***
- ***ABB05 – IPARD expenditure for Turkey.***

Information to the Commissioner

The main elements of this report and assurance declaration, including the reservations envisaged, have been brought to the attention of Commissioner Cioloş, responsible for Agriculture and Rural development.

1. POLICY ACHIEVEMENTS

1.1 Achievement of general and specific objectives

1.1.1 Policy area Agriculture and Rural Development – General objective 1

<table>
<tr><th colspan="3">Policy Area: Agriculture and Rural Development</th><th colspan="2">☒Spending programme
☐ Non-spending</th></tr>
<tr><th>General objective 1</th><th>Impact indicator</th><th>Target[25]</th><th colspan="2">Current situation[26]</th></tr>
<tr><td>To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community</td><td>Farmers' income developments</td><td>Keeping the ratio to other economic sectors</td><td>Farm income developments[27]:

2013: -1.3 %
2012: +0.2 %
2011: +8.3 %
2010: +17.8 %
2009: -9 %
2008: -2.8 %
2007: +11.1 %</td><td>Labour cost index, industry and services (excl. public administration)[28]:
2013: not available
2012: +2.2%
2011: +2.5%
2010: +1.9 %
2009: +2.3 %
2008: +4.1 %
2007: +3.9 %</td></tr>
</table>

[25] Interim milestones are not applicable for CAP general objectives as by nature, impact indicators measure the impact of an intervention beyond immediate effects. Hence, the fact that the policy intervention is not the only factor contributing to the actual impact makes it insignificant to set a target, let alone interim milestones, in quantifiable terms. Yet, defining qualitative targets for the general objectives ensures policy guidance.

[26] Historical data was modified following updates of Eurostat database.

[27] Change in agricultural income, measured as change of the "Index of the real income of factors in agriculture per annual work unit" (indicator A – Eurostat Economic Accounts for Agriculture, table **aact_eaa06**)

[28] "Labour cost index in nominal value" in the sector "Business Economy" (NACE R2) expressed as wages and salaries (Eurostat Labour Costs, table **lc_lci_r2_a**) for the EU-28, rebased for 2005.

1.1.2 Policy area Agriculture and Rural Development – General objective 2

Policy Area: Agriculture and Rural Development			☒Spending programme ☐ Non-spending
General objective 2	**Impact indicator**	**Target[29]**	**Current situation**
To contribute to sustainable development of rural areas, in particular through: • Improving the capacity of the agricultural sector to meet new challenges • Contributing to preserving the environment and the countryside • Improving the quality of life in rural areas Helping EU agriculture, forestry and rural	Increase in Gross Value Added (GVA) in supported holdings	Increase 2007-2013: € 25 billion[30]	Total GVA in primary sector: € 180 billion[31] Share of the target realised by 2012[32]: 42 %[33]
	Maintenance of high nature value areas (changes in High Nature Value (HNV) areas)	Increase 2007-2013: 3 620 000 ha	Utilised agricultural area of HNV: 74 700 000 ha[34] Share of the target realised by 2010 in 6 RDP [35]: 47 %
	Increase in production of renewable energy	Increase 2007-2013: 12 300 ktoe	7 941 ktoe from agriculture[36] 68 218 ktoe from forestry[37] Share of the target realised by 2010 in 9 RDP [38]: 18.3 %
	Employment creation (net additional full time equivalent jobs created)	Jobs created 2007-2013: 344 000	Employed people in primary sector: 13 million[39] Share of the target realised by 2010 in 27 RDP [40]: 27.4 %
	Share of	Reduce	9 % (2009)[41]

[29] Source: Mid term evaluation 2010.

[30] The target has been modified following the update of programmes in April 2013.

[31] Baseline from Eurostat national accounts 2006. Situation in 2011: 194 billion.

[32] Aggregation based on the Annual Progress Report 2012 submitted by the MS in July 2013.

[33] The GVA indicator can be subject to strong annual variations due to external factors., 2012 data does not include PT, BE, DK, LU, MT, NL and CY (data non available). For ES data from 2011

[34] Baseline from the JRC HNV study 2008.

[35] Latest available data based on the Mid-term Evaluations 2010 submitted by the MS by the end of 2010. It reflects only the situation in the 6 RDPs which submitted quantified data.

[36] Baseline from EurObserver (primary sources: EBB & EBIO) 2007. Situation in 2010: 17 531 kToe (Source: EurObserver)

[37] Baseline from Eurostat energy statistics 2007. Situation in 2010: 80 769 kToe (Source: Eurostat)

[38] Latest available data based on the Mid-term Evaluations 2010 submitted by the MS by the end of 2010. It reflects only the situation in the 9 RDPs which submitted quantified data.

[39] Baseline from Eurostat National accounts 2006. Situation in 2011: 11.9 million.

[40] Latest available data based on the Mid-term Evaluations 2010 submitted by the MS by the end of 2010. It reflects only the situation in the 27 RDPs which submitted quantified data.

[41] Latest available data. DG AGRI calculation based on European Environmental Agency data.

areas to contribute to climate change mitigation and to adapt to its possible consequences	greenhouse gas emissions from agriculture		11 % (1990)

1.1.3 Policy area Agriculture and Rural Development – General objective 3

Policy Area: Agriculture and Rural Development			☒Spending programme ☐ Non-spending
General objective 3	**Impact indicator**	**Target**	**Current situation**[42]
To promote the European agricultural sector in the world trade	Value of trade flows in agricultural products between the EU and the rest of the world	To increase	Export (in € million): 2013: 120 090 2012: 114 179 2011: 105 381 2010: 90 751 2009: 74 578 2008: 81 214 2000: 55 232
	EU-28 Unit value of exported products	To increase	Unit Value (in €/t): 2013: 1 247 [43] 2012: 1 397 2011: 1 304 2010: 1 115 2009: 1 073 2008: 1 167 2000: 793
	Proportion of subsidised exports in percentage of total export	Lower than current situation	2013: not available 2012 (EU-27): 0.1 % 2011 (EU-27): 0.2 % 2010 (EU-27): 0.4 % 2009 (EU-27): 0.9 % 2008 (EU-27): 1.2 % 2007 (EU-27): 1.9 %

[42] Source: Eurostat. For "Proportion of subsidised exports in percentage of total export": DG AGRI's calculation based on Eurostat data.

[43] Even though the exports in value terms increased by 6%, the exports in quantity terms increased by 19% in 2013. Therefore the Unit Value went down in 2013 from 1397 to 1247 €/t.

1.1.4 ABB 02 Interventions on the agricultural markets – Specific objective 1

<table>
<tr><th colspan="2">ABB activity: ABB 02</th><th colspan="2">☒Spending programme
☐ Non-spending</th></tr>
<tr><td colspan="4">Relevant general objective: To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community (General objective 1)</td></tr>
<tr><th>Specific objective 1</th><th>Result indicator</th><th>Target</th><th>Current situation</th></tr>
<tr><td rowspan="2">To foster the competitiveness of the EU agriculture sector</td><td>Volume of public stocks in intervention by 31 December
(Source: DG AGRI)</td><td>Keep intervention stocks as low as possible compatibly with market stabilisation
p.m.: no buying-in in 2013</td><td><table>
<tr><th></th><th>Cereals (mio t)</th><th>Alcohol (hl)</th><th>Butter and SMP[44] (t)</th><th>Beef (t)</th><th>Sugar (t)</th></tr>
<tr><td>2013</td><td>0</td><td>0</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>2012</td><td>0.009[45]</td><td>0</td><td>Butter: 0
SMP: 0</td><td>0</td><td>0</td></tr>
<tr><td>2011</td><td>0.163[29]</td><td>0</td><td>Butter[29]: 796
SMP[29]: 53 573</td><td>0</td><td>0</td></tr>
<tr><td>2010</td><td>4.53</td><td>62 104</td><td>Butter: 1 544
SMP: 194 806</td><td>0</td><td>9</td></tr>
</table></td></tr>
<tr><td>Number of agricultural products for which buying-in intervention has occurred
(Source: DG AGRI)</td><td>Keep number of products as low as possible compatibly with market stabilisation[46]</td><td>2013/14 (until December): 0
2012/13: 0
2011/12: 0
2010/11: 0
2009/10: 3 (cereals, butter and SMP)
2008/09: 3 (cereals, butter and SMP)
2007/08: 2 (alcohol and butter), meaning 3 products less than in 2006 where intervention also occurred for cereals, sugar and SMP</td></tr>
</table>

[44] Skimmed Milk Powder

[45] Reserved entirely for the most deprived persons

[46] Intervention is open only for wheat (3 mio t), butter (30 000 t) and SMP (109 000 t). It may be open over these limits if market conditions so require. Intervention may be open for other cereals, for rice and for beef and veal if market conditions so require. Intervention has been suspended for sugar as from 2010/2011, and abolished for wine alcohol from 1.8.2008.

			2006/07: 5 (as in 2005) 2005/06: 5 (as in 2004 and sugar)
	Number of agricultural sectors for which export subsidies have been applied *(Source: DG AGRI)*	Number of sectors as low as possible[47]	Since August 2013/2014: 0 2012/13: 2 (beef, eggs and poultry) 2011/12: 3 sectors (beef, eggs and poultry, pigmeat) 2010/11: 3 sectors (beef, eggs and poultry, pigmeat) 2009/10: 4 sectors (beef, eggs and poultry, pigmeat, dairy products) 2008/09: 4 sectors (beef, pigmeat, eggs and poultry, dairy products) 2007/08: 8 (as in 2006/07 but cereals, butter and butter oil, cheeses and other milk products set at zero) 2007: 10 sectors (the 2 sectors less than in 2006 were cereals and skimmed milk powder). 2006: 12 sectors
	Percentage of the production marketed by the producer organisations in fruit and veg. sector *(Source: DG AGRI[48])*	Upward trend from current levels	2011: 44.9% (provisional data)[49] 2010: 42.3 % 2009: 42.3 % 2008: 38.6 % 2007: 38.7 % 2006: 34.6 %
	Execution level and efficient use of the national support programmes (NSP) in the wine sector *(Source: DG AGRI[50])*	Maintain execution level above 95 % and maintain use for structural measures	2013: Execution level 98.0 %, of which 96 % for structural measures 2012: Execution level 98.6 %, of which 92 % for structural measures 2011: Execution level 97.9 %, of which 86 % for structural measures 2010: Execution level 98.6 %, of which 68 % for structural measures

[47] Export refunds for fruit and vegetables were abolished from 1.1.2008. Export refunds for wine have been eliminated from 1.8.2008. Sugar export refunds set at zero from 2008/09. Refunds set at zero from April 2012 for pigmeat, from September 2012 for beef & veal, from December 2012 for eggs and from July 2013 for poultry after which no export refund to any sector has been granted for the rest of the year.

[48] Annual reports on producer organisations sent by Member States

[49] Latest data available. Data subject to change even in retrospect due to updates of data by Member States and of Eurostat database.

[50] Data based on Member States' monthly declarations.

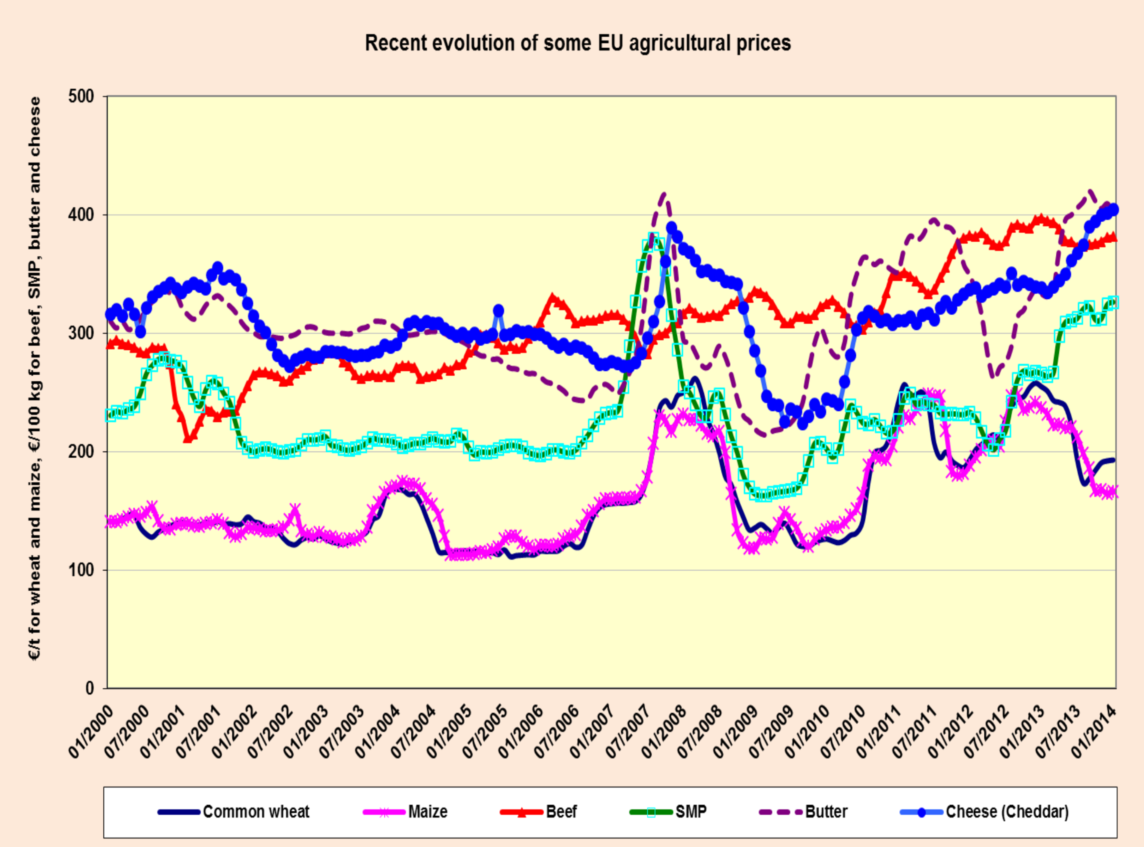
1.1.5 ABB 02 Interventions on the agricultural markets – Specific objective 2

ABB activity: ABB 02			☒**Spending programme** ☐ **Non-spending**					
Relevant general objective: To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community (General objective 1)								
Specific objective 2	**Result indicator**	**Target**	**Current situation**[51]					
To ensure a smooth functioning of the internal market for agricultural products	Volume of Intra EU trade *(Source: European Commission ESTAT COMEXT Databases)*	Increasing over time		Wheat Mio t	Maize Mio t	Wine Mio hl	Butter 1000 t	Pigmeat Mio t
			2013[52]	21.4 (Nov)	11.0 (Nov)	40.4[53] (Oct)	601 (Oct)	7.8 (Oct)
			2012	25.5	17.0	50.7	811	9.3
			2011	25.5	14.6	51.7	754	9.5
			2010	28.7	14.1	43	774	9.5
			2009	27.1	15.2	42.4	692	8.8

[51] The data for 2009-2010 for butter and for 2010 for pigmeat have been modified following the update of statistics by Eurostat. For the two sectors and for wheat, the figures for 2011 and 2012 were updated for the full year.

[52] Data retrieval for 2013 was not complete at the time of writing.

[53] The figure represents a normal intra-trade pattern as the first months of the calendar year the transactions of wine are usually low and non-representative for the full year.

	Volatility of prices for key agricultural commodities in constant terms in the EU *(Source: AGRIVIEW)*	As low as possible	

1.1.6 ABB 02 Interventions on the agricultural markets – Specific objective 3

ABB activity: ABB 02			☒Spending programme ☐ Non-spending
Relevant general objectives: To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community (General objective 1) and To promote the European agricultural sector in world trade (General objective 3)			
Specific objective 3	**Result indicator**	**Target (2013)**	**Current situation**
To promote EU agricultural products on internal market and in third countries	**Coverage of horizontal promotion campaigns**		
	Number of products covered by active programmes *(Source: Management of promotion programmes (MPP)[54])*	Internal market: 15 out of 15 Third counties: 11 out of 12	Internal market: 15 out of 15 Third countries: 11 out of 12
	Number of MS/countries or geographical areas targeted by active programmes *(Source: Management of promotion programmes (MPP)*	Internal market: 25 out of 27 Third countries: 18 out of 21	Internal market: 27 out of 27 Third countries: 17 out of 21
	Number of proposals (programmes) *(Source: Management of promotion programmes (MPP)*	Internal market: 55 Third countries: 35	Internal market (definitive number of proposals): 2013: 51 2012: 60 2011: 42 2010: 55 Third countries: 2013: 19[55] 2012: 15[56] 2011: 31 2010: 24
	Rate of acceptance (programmes)	Internal market:	Internal market

[54] DG AGRI database (Unit B.5 Promotion)

[55] In 2013 the total number of submitted programme proposals (Internal Market and Third Countries combined) was the lowest since 2010. This number depends on the number of proposals submitted by the proposing organisations to the Member States, the quality of these proposals, as well as the budget available on the Member State level for co-financing. Please note that we have revised our 2014 target concerning the number of proposals for Third Countries programmes downwards (from 35 to 30).

[56] The lower number of received and approved programmes in third countries in 2012 is due to the large number of approved programmes in 2011.

	(Source: Management of promotion programmes (MPP)	60 % Third countries: 60 %	(definitive rate of acceptance):[57] 2013: 58.8% 2012: 45.0 % 2011: 61.9 % 2010: 35 % Third countries: 2013: 73.7% 2012: 46.7 % 2011: 67.7 % 2010: 29.2 %
	Promotion in wine sector under the national support programmes (NSP)		
	Share of promotion in wine sector under the national support programmes (NSPs) *(Source: DG AGRI, reported by Member States based on the Regulation 555/08)*	Increasing share of NSP used for promotion 2013: 19 % of NSP	2013: € 145 million or 12 % of NSP[58] 2012: € 143 million or 12 % of NSP 2011: € 112 million or 11 % of NSP 2010: € 96 million or 9 % of NSP 2009: € 35 million or 5 % of NSP

[57] The rate of acceptance varies according to the quality of received proposals and the available budget.

[58] This result depends on choices made by Member States on the use of National Support Programmes, that contain several measures.

Achievement of general and specific objectives

Conclusions from evaluations[59]: Beekeeping
The evaluation of measures for the apiculture sector, based on a large ad hoc generated data set, assessed the impact of the six EU support measures in order to improve the production and marketing of honey. The most frequently used measures during the evaluation period 2008-2012 were varroasis prevention and technical assistance. The evaluation found that the apiculture sector is important for EU agriculture. The EU is the second honey producer in the world, with around 600 000 beekeepers and approximatively 14 million hives in the EU. Pollination services provided by honeybees are essential. Decreasing bee mortality and maintaining the production of high quality honey in the EU are among the main challenges faced by the sector. The evaluation concluded that the apiculture measures have had a positive impact on the production and marketing of honey, addressing the needs of the EU apiculture sector, and should therefore be maintained. The measures have contributed to the stabilisation of the production of honey in the EU through maintenance of the bees' population, gains in productivity and quality. The technical assistance measure has made a particular contribution to productivity and quality gains through training, by enabling the dissemination of technical information among beekeepers and facilitating the acquisition of new, more efficient equipment for the production of honey and other apiculture products. Furthermore, it was suggested to improve the formulation of policy objectives at EU level, to strengthen the promotion of cooperation among beekeepers through the apiculture measures and to aim for greater synergies of bee-related research initiatives funded by the EU. Some of the findings of the evaluation were used to add and complement the apiculture measures in the reformed sCMO and provided essential information for the Report from the Commission to the European Parliament and Council on the implementation of the measures concerning the apiculture sector of Council Regulation (EC) No 1234/2007[60].

[59] For the sake of completeness of information, please refer to Annex 9 that contains a summary as well as the link to the published reports.

[60] COM(2013) 593 final

1.1.7 ABB 02 Interventions on the agricultural markets – Specific objective 4

ABB activity: ABB 02			☒Spending programme ☐ Non-spending
Relevant general objective: To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community (General objective 1)			
Specific objective 4	**Result indicator**	**Target (2013)**	**Current situation**
To improve access to food for sensitive social groups	Number of participating MS and annual beneficiaries		
	Supply of food for distribution to the most deprived persons in the Community *(Source: Annual Implementation Reports)*	To maintain and/or increase the number of beneficiaries and volume of food distributed[61]	2013: 19 participating Member States[62] 2012: 19 participating Member States (18.7 million beneficiaries, 546 000 t of food distributed). 2011: 20 participating Member States (18.8 million beneficiaries, 680 000 t of food distributed) 2010: 19 participating MS (18.4 million beneficiaries, 489 000 t of food distributed) 2009: 18 participating MS (18.1 million beneficiaries, 450 000 t food distributed)

[61] N.B. The aim of the programme should be understood as trying to reach a wider range of most deprived persons as beneficiaries of the scheme and not as aiming to increase their number per se. Also to be noted that the legal basis allowed the distribution of new types of food products (such as meat, fish, fruits or vegetables) as from 2012 and also required that the distributed food products shall be chosen on the basis of objective criteria including nutritional value. This increased the quality but decreased quantity of the distributed food.

[62] No further data available at the time of writing as the Member States only deliver the annual Implementation Reports in June 2014 for the year 2013.

			2008: 18 participating MS (14.4 million beneficiaries, 300 000 t food distributed)
	"School milk" programme *(Source: DG AGRI)*	Wider participation and coverage	2011/2012 school year[63]: 26 participating MS 312 706 t of milk and milk products were distributed to 20.4 million pupils 2010/2011 school year: 26 participating MS 299 627 t milk products were distributed for 17.2 million pupils[64] 2009/2010 school year: 26 participating MS 313 562 t milk products distributed for 17.8 million pupils
	"School fruit" programme *(Source: DG AGRI[65])*	Wider participation and coverage p.m.: Scheme is voluntary for MS; EU participation of € 90 million (co-financing by MS is required)	2013/2014: 25 MS participating[66] 2012/2013: 24 MS participating (except UK, FI, SE; CY did not use any of its funds), continued stable situation as regards the number of participating children and schools

[63] Latest data available.

[64] Data for 2011/2012 school year will be available in February 2013.

[65] Member States Annual Monitoring Reports

[66] The data on the number of schools and children participating in SFS in the school year 2013-2014 is communicated by 30 November 2014 via annual monitoring reports by all 25 participating MS (Croatia included). The only available data for the school year 2013-2014 is on the number of participating Member States because their requests for participation (national strategies and aid applications) were submitted in January 2013.

			2011/2012: 24 MS participating (UK,SE and FI opted out; EL was not able to implement the programme due to internal reasons), 8.1 million children reached, 55 120 schools taking part 2010/2011: 24 MS participating, 8.1 million children reached, 54 000 schools taking part

Conclusions from evaluations: School Milk Scheme
According to the evaluation, the School Milk Scheme (SMS) is an adequate tool for increasing milk consumption of children and thus improving their eating habits. The distribution of milk and milk products in the SMS increases the milk consumption of the target group, children in kindergartens, primary schools and secondary schools. The evaluation found that distribution in educational establishments is a step leading to a long-term impact on consumption of milk products under the condition that the provision of products is accompanied by measures fostering good eating habits. It was also found that SMS currently lacks an approach of strategic programming. Such an approach could improve the effectiveness of the SMS. The evaluation concluded that reduction of organisational burdens should be sought. The evaluation identified the complementarity between the SMS, the EU School Fruit Scheme and the EU information policy. This information fed into the proposal COM(2014) 32 on School Schemes adopted in January 2014 that covers both School Fruit and School Milk Schemes.

1.1.8 ABB 03 Direct aid – Specific objective 1

ABB activity: ABB 03			☒Spending programme ☐ Non-spending
Relevant general objective: To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community (General objective 1)			
Specific objective 1	**Result indicator**[67]	**Target (mid-term)**	**Current situation**[68]
To sustain farmers' income stability by providing direct income support	Share of direct payments in agricultural entrepreneurial income (family farm income)[69] *(Source: EAGF Financial Report and EEA – EUROSTAT)*	To maintain the ratio	2013: [70] 2012: 48% 2011: 47% 2010: 51 % 2009: 62 %[71] 2008: 49 %
	Timely payments of direct aids to final beneficiaries *(Source: AGREX[72])*	100 % paid within the legal deadline	97.2 % (Budget year 2013) 97.2 % (Budget year 2012) 96.6 % (Budget year 2011) 97.1 % (Budget year 2010)

[67] The indicator "Timely monthly payments to Member States within the deadlines" has been reassessed as an output indicator.

[68] For objectives of multi-annual programmes, where intermediate milestones are not available, services may consider presenting progress towards attainment of ultimate objectives by showing the multi-annual trend.

[69] The agricultural entrepreneurial income is often referred to as "family farm income" and can be seen as the income concept which is closest to an indicator of standard of living of the farmers. While "agricultural factor income" represents the income generated by the farming activities which is used to reward the sum of all production factors employed (own and borrowed capital, own and rented land, own and hired labour) plus the entrepreneurship of a farmer (profit), "agricultural entrepreneurial income" results from deducting the cost of borrowed capital, rented land and hired labour from "agricultural factor income" and is hence an indicator of the capacity of a farm to remunerate its own production factors (land, labour, capital) and to generate a profit.

[70] EAGF Financial Report is released for the third quarter of the year. Data for 2013 not available at the time of writing.

[71] The increase in 2009 of the share of direct payments in agricultural entrepreneurial income was due to the economic crisis which decreased the revenues of the farmers.

[72] EAGF accounting system

1.1.9 ABB 03 Direct aid – Specific objective 2

ABB activity: ABB 03			☒**Spending programme** ☐ **Non-spending**
Relevant general objective: To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community (General objective 1)			
Specific objective 2	**Result indicator**	**Target**	**Current situation**
To promote a more market oriented agriculture, by extending further the shift from coupled to decoupled income support	% of total direct payments which is decoupled *(Source: Budget 2013 and Budget 2014)*	Calendar year 2013/budget year 2014 onwards: 93.41%[73]	Calendar year 2012/budget year 2013: 93,24%[74] Calendar year 2011/budget year 2012: 92.24%[75] Calendar year 2010/budget year 2011: 91.67 % Calendar year 2009/budget year 2010: 85.3 % Calendar year 2008/budget year 2009: 83.8 % Calendar year 2007/budget year 2008: 83.6 %

[73] Internal estimate I.1

[74] Revised figure based on Budget 2014.The target differs to the one set in the 2013 Management Plan update as there the figure was based on the Draft Budget 2014.

[75] Provisional figures on execution of direct payments as of September 2013 (Agrex)

Conclusions from evaluations: Structural effects of direct support
This evaluation assessed if the changes introduced by the 2003 reform (decoupling of support from production) affected the structural features of European farms. The evaluation found an increase in economic size and an increase in specialisation. Production decisions brought about by decoupling has stimulated part of the holdings to focus more on production with higher profitability. Regarding labour, the evaluation concluded that the reform and in particular decoupling of support may have contributed, together with other factors, to accelerate reduction of labour use intensity in the farm sector. However, in the Member States applying SAPS model, this decrease appears to be related more to the reduction of excess labour force from former large cooperatives and state farms, existing in the pre-reform years. The evaluation findings are taken into account as an information source for future reforms.

1.1.10 ABB 03 Direct aid – Specific objective 3

ABB activity: ABB 03			☒Spending programme ☐ Non-spending
Relevant general objective: To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community (General objective 1)			
Specific objective 3	**Result indicator**	**Target (mid-term)**	**Current situation**
Through cross compliance, to contribute to the development of sustainable agriculture and to contribute making the Common Agricultural Policy more compatible with the expectations of the society.	The % of CAP Payments covered by cross compliance *(Source: DG AGRI)*	Maintain the %	2013: 72,6.%[76] 2012: 79.4 % 2011: 80.2 % 2010: 81.4 %
	Opinion expressed by the public on cross compliance *(Source: Eurobarometer)*	Maintain the positive opinion	83 % support the reduction of direct payments to farmers not complying with environmental rules[77] 84 % support the reduction for non-compliance of animal welfare rules 86 % support the reduction of direct payment to farmers not respecting food safety rules
Through the	Control rate for Standards of Good	100 %	100 % implementation

[76] In view of the payment profile for rural development, the percentage of payments covered by cross compliance was higher in the earlier part of the programming period 2007-2013. This reflects the fact that the rural development measures that are not falling under cross compliance have a different payment profile than the ones falling under cross compliance: measures not under cross compliance tend to have an increasing execution over the period and thus the % covered by cross-compliance will decrease over the programming period.

[77] Results of the last Special Eurobarometer "Europeans, Agriculture and the Common Agricultural Policy published in 2007. Next Special Eurobarometer is foreseen for 2014.

good agricultural and environmental condition, to contribute preventing soil erosion, maintaining soil organic matter and soil structure, ensuring a minimum level of maintenance and avoiding the deterioration of habitats, and protecting and managing water. Through the maintenance of land under permanent pasture, to contribute avoiding a massive conversion into arable land	Agricultural and Environmental Condition (GAEC)[78] *(Source: IACS statistics)*	implementation of the minimum regulatory control rate	of the minimum regulatory control rate in all MS.
	The ratio of permanent pasture within a Member State in relation to the total agricultural area[79] *(Source: MS annual notification; Information System for Agricultural Market Management and Monitoring (ISAMM))*	Maintain the ratio within the limit of 10 % in relation to a reference ratio[80]	The ratio has not decreased beyond the limit of 10 % in any MS but for the MS that were above 10% in the past years some checks have to be carried out (Bulgaria, Lithuania)

[78] GAECs form part of the requirements under Cross Compliance and apply to anyone who receives payments under Single Payment Scheme and certain rural development schemes

[79] Same indicator under ABB 04 Specific objective 6.

[80] The maintenance of the ratio of permanent pasture means that there should not be, at national or regional level, a decrease by more than 10 % of the current ratio of permanent pasture in relation to the total agricultural area by comparison with a reference ratio reflecting this ratio at a reference period.

1.1.11 ABB 03 Direct aid – Specific objective 4

ABB activity: ABB 03			☒Spending programme ☐ Non-spending
Relevant general objective: To promote a viable and competitive agricultural sector which respects high environmental and production standards, ensuring at the same time a fair standard of living for the agricultural community (General objective 1)			
Specific objective 4	**Result indicator**	**Target (mid-term)**	**Current situation 2012 (compared to 2011)**
To promote local agricultural production and to ensure a fair level of prices for commodities for direct consumption and for processing by local industries in the outermost regions of the EU and in the Aegean Islands	Support to the Local Production (SLP) to maintain/develop the agricultural production: Utilised agricultural area (variation with respect to the previous year)[81] *(Source: MS Annual Reports)*	Maintenance	**POSEIDOM**[82]: Guadeloupe: 30 098 ha (-2.7 %) Martinique: 23 769 ha (-2.5 %) Guyane: 25 803 ha (+0.9 %) Réunion: 42 640 ha (-0.2 %) **POSEICAN**: Canaries: 82 665 ha (2011) (-0.03 %) **POSEIMA**[83]: Madeira: 5 428 ha (+40.6 %: 2007-2009 data) Azores: 120 412 ha (+7.5 %: 2007-2009 data) **Smaller AEGEAN ISLANDS**: Not notified[84]
	Specific Supply Arrangements (SSA) to ensure the supply of essential products: SSA coverage rate (relation between quantities of products benefiting from SSA support and total	100 %	**POSEIDOM**[86] (all products): 46 % (47 %) **POSEICAN**:

[81] In their annual implementation reports for 2012, the concerned MS (except Greece) have communicated data related to the common performance indicators as requested by DG AGRI. However, since these indicators have been used for the second time, the provided data may not be fully in line with the requirements of the DG AGRI and thus not mutually comparable. Therefore, these indicators shall be evaluated with due caution.

[82] The French authorities explained that for this indicator the data may be different in comparison to the annual report from 2010 as the process of validation for this data was in progress (agricultural census of 2010, different methodology).

[83] In the annual report from 2010, 2011 and 2012 the Portuguese authorities communicated 2009 data.

[84] The Greek authorities have not communicated any data related to the common performance indicators requested by the services of DG AGRI in its last annual reports for 2010, 2011 and 2012. In 2010 for the first time, and after the initiative of DG AGRI services, a budget line for technical assistance was foreseen in the programme with a view to compiling a report including the agreed indicators. Nevertheless, the Greek authorities did not manage to complete the tender procedure on time, failing to provide a report with the requested elements.

	quantities of the same products introduced)[85] *(Source: MS Annual Reports)*		Canaries (cereals only): 99.11 % (99.68 %) **POSEIMA**: Madeira (cereal only): 92.3 (97.1 %) Azores: Rice: 79.4 % (83.5 %), Sugar: 94.9 % (91.7 %) **Smaller AEGEAN ISLANDS**: Not notified[87]
	Specific Supply Arrangements (SSA) to ensure an equitable level of prices for essential products: Price index with respect to the price in the mainland for some representative products or baskets of products[88] *(Source: MS Annual Reports)*	Reduction of the gap with mainland prices	**POSEIDOM[8990]**: Average of 4 DOM/métropole (2012): 132.5/130.7[91] **POSEICAN[92]**: Canaries: - wheat (100 kg): 1.46 (1.59 in 2011) - Cow's milk (100 kg): 1.07 (1.04 in 2011) - Beef cattle (100 kg): 1.14 (1.12 in 2011) **POSEIMA**: Madeira (foodstuffs, indicator 2b p. 87): 1.00 (0.98) Azores: - rice: 1.25 (1.25) - oil: 1.11 (1.06)

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[86] The French authorities used in their annual report for 2012 a different methodology and data source to calculate this indicator (calculation based on value and not quantities, data taken from customs sources and not from SSA operators).

[85] In their annual implementation reports for 2012, the concerned MS (except Greece) have communicated data related to the common performance indicators as requested by the services of DG AGRI. However, since these indicators have been used for the second time, the provided data may not be fully in line with the requirements of the DG AGRI services and thus not mutually comparable. Therefore, these indicators shall be evaluated with the due caution.

[87] The Greek authorities have not communicated any data related to the common performance indicators requested by the services of DG AGRI in its last annual reports for 2010, 2011 and 2012. In 2010 for the first time, and after the initiative of DG AGRI services, a budget line for technical assistance was foreseen in the programme with a view to compiling a report including the agreed indicators. Nevertheless, the Greek authorities did not manage to complete the tender procedure on time, failing to provide a report with the requested elements.

[88] In their annual implementation reports for 2012, the concerned MS (except Greece) have communicated data related to the common performance indicators as requested by the services of DG AGRI. However, since these indicators have been used for the second time, the provided data may not be fully in line with the requirements of the DG AGRI services and thus not mutually comparable. Therefore, these indicators shall be evaluated with the due caution.

[89] The French authorities informed in the last annual report 2012 that they will only be able to send the updated data for this indicator in 2015.

[90] Index of prices for a basket of food products with respect to 1998 = 100 – not comparable to the indicators provided by ES and PT

[91] Base 100 = year 1998

[92] The global data on food and drinks basket was not communicated, instead the most representative data was given.

			- bread: 1.14 (1.10) **Smaller AEGEAN ISLANDS**: Not notified[93]

[93] The Greek authorities have not communicated any data related to the common performance indicators requested by the services of DG AGRI in its last annual reports for 2010, 2011 and 2012. In 2010 for the first time, and after the initiative of DG AGRI services, a budget line for technical assistance was foreseen in the programme with a view to compiling a report including the agreed indicators. Nevertheless, the Greek authorities did not manage to complete the tender procedure on time, failing to provide a report with the requested elements.

1.1.12 ABB 04 Rural development – Specific objective 1

ABB activity: ABB 04			☒**Spending programme** ☐ **Non-spending**
Relevant general objective: To contribute to sustainable development of rural areas, in particular through: • improving the capacity of the agricultural and forestry sectors to meet new challenges, • contributing to preserving the environment and the countryside, • improving the quality of life in rural areas, • helping EU agriculture, forestry and rural areas to contribute to climate change mitigation and to adapt to its possible consequences, • contributing to the sustainable production of renewable energy (General objective 2)			
Specific objective 1	**Result indicator**	**Target (2007 - 2013)**[94]	**Current situation (% of the targets)**[95]
Increase the competitiveness of agriculture, forestry and the food industry through support for restructuring, innovation and value added quality products	Number of participants that successfully ended a training activity related to agriculture and/or forestry supported by EAFRD	2 774 000	1 722 000 (62 %)
	Value of agricultural production under recognized quality label/standards subject to support in Rural Development supported by EAFRD	€ 29.2 billion	€ 25.2 billion (87 %)[96]
	Number of modernisation projects on farms supported by EAFRD	598 000	319 000 (53 %)
	Number of supported enterprises for adding value projects supported by EAFRD	35 200	19 700 (56 %)
	Number of farms participating in quality schemes under Rural Development Programs supported by EAFRD	285 000	335 000 (100 %)[97]

[94] *Source: Annual Progress Report 2012*

[95] *Source: Cumulated monitoring data 2007-2012 from the Annual Progress Report 2012, values subject to corrections*

[96] Cataluña (ES) not included.

[97] Targets 2013 were underestimated in some RDPs.

1.1.13 ABB 04 Rural development – Specific objective 2

ABB activity: ABB 04	☒**Spending programme** ☐ **Non-spending**

Relevant general objective: To contribute to sustainable development of rural areas, in particular through:

- improving the capacity of the agricultural and forestry sectors to meet new challenges,
- contributing to preserving the environment and the countryside,
- improving the quality of life in rural areas,
- helping EU agriculture, forestry and rural areas to contribute to climate change mitigation and to adapt to its possible consequences,
- contributing to the sustainable production of renewable energy (General objective 2)

Specific objective 2[98]	**Result indicator**	**Target (2007 - 2013)**[99]	**Current situation (% of the targets)**[100]
Improving the environment and the countryside through support for sustainable land and forest management with specific focus on biodiversity, organic farming, water and climate change.	**Area supported by EAFRD under successful land management contributing to avoidance of marginalisation and land abandonment, to biodiversity, water quality, mitigating climate change, soil quality** Target (2007 -2013): Maintenance or increase in ha or %		
	Agri-environment (including organic farming)	47 000 000 ha	43 000 000 ha (91 %)[101]
	First afforestation for agricultural land and non-agricultural land	760 000 ha	336 000 ha (44 %)
	Natura 2000	1 333 000 ha	1 138 000 ha (86 %)
	Less Favoured Area (LFA)	3.0 million holdings 55 million ha	2.9 million holdings (97 %) 53.4 million of ha (97 %)
	Number of actions related to genetic resources supported in the framework of RDP (EAFRD)	Target does not exist at sub-measure level	10 400 applications
	Number of animal welfare contracts supported by EAFRD	169 000	145 000 (86 %)

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98 The low implementation level of certain indicators is explained by the fact that many rural development programmes were approved by late 2007 and the programming period will run until 2015. The data can still be subject to correction.

99 *Source: Annual Progress Report 2012*

100 *Source: Cumulated monitoring data 2007-2012 from the Annual Progress Report 2012, values subject to corrections*

101 IE not included

Conclusions from evaluations: Evaluation of the EU legislation on organic farming
The evaluation highlighted that Council Regulation (EC) No 834/2007[102] fostered a strong demand for organic food in the EU and elsewhere through defining detailed rules for organic farming. It also provided a clear basis for developing organic businesses and for designing supportive policies, in particular those funded under the CAP second pillar. Furthermore, the Regulation established a framework which provides guidance to farmers on practices beneficial for the environment. The scope of the Regulation is mostly adequate to match the current needs of the organic supply chain but not fully adequate to meet the need of consumers of organic products. The evaluation highlighted that the implementation of control systems showed shortcomings in some Member States, import rules require significant administrative input from the Commission services and control bodies, and labelling of organic products is not fully recognised by the consumers. The evaluation concluded that the regulatory framework provides EU added value through good coherence with EU global objectives for organic farming and other key EU priorities. As regards delivering of EU policy priorities, the results of the evaluation demonstrated that the legislation is effective in creating EU added value for environmental, climate change mitigation and animal welfare priorities. This information fed into the new proposal COM(2014) 180 on organic farming that is planned to be adopted on 24 March 2014.

1.1.14 ABB 04 Rural development – Specific objective 3

ABB activity: ABB 04			☒**Spending programme** ☐ **Non-spending**
Relevant general objective: To contribute to sustainable development of rural areas, in particular through: • improving the capacity of the agricultural and forestry sectors to meet new challenges, • contributing to preserving the environment and the countryside, • improving the quality of life in rural areas, • helping EU agriculture, forestry and rural areas to contribute to climate change mitigation and to adapt to its possible consequences, • contributing to the sustainable production of renewable energy (General objective 2)			
Specific objective 3[103]	**Result indicator**	**Target (2007 - 2013)**[104]	**Current situation (% of the targets)**[105]
Improving the quality of life in rural areas and	Gross number of jobs created under axis 3 RD measures (EAFRD)	241 000	45 350 (19 %)
	Population in rural areas benefiting from improved services supported	89 million	€ 83 million (94 %)

[102] Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of or organic products and repealing Regulation (EEC) No 2092/91

[103] The low implementation level of certain indicators is explained by the fact that many rural development programmes were approved by late 2007 and the programming period will run until 2015. The data can still be subject to correction.

[104] Source: Annual progress report 2012

[105] Cumulated monitoring data 2007-2012 from the Annual Progress Report 2012, values subject to corrections

encouraging diversification of economic activity through the development of new economic activities/creation of new jobs and contributing to an adequate level of services for the rural economy.	by EAFRD		
	Increase in non-agricultural gross value added (GVA) in supported businesses (EAFRD)	€ 4 billion	€ 1 147 million (37 %)[106]
	Number of new tourist actions supported by EAFRD	34 900	15 000 (44 %)
	Number of micro-enterprises supported/created by EAFRD	77 000	36 000 (47 %)
	Number of villages renewed supported by EAFRD	27 000	34 000 (100 %)

1.1.15 ABB 04 Rural development – Specific objective 4

ABB activity: ABB 04			**☒Spending programme** **☐ Non-spending**
Relevant general objective: To contribute to sustainable development of rural areas, in particular through: • improving the capacity of the agricultural and forestry sectors to meet new challenges, • contributing to preserving the environment and the countryside, • improving the quality of life in rural areas, • helping EU agriculture, forestry and rural areas to contribute to climate change mitigation and to adapt to its possible consequences, • contributing to the sustainable production of renewable energy (General objective 2)			
Specific objective 4	**Result indicator**	**Target (multi-annual)**	**Current situation**
To encourage quality production particularly through recognising and protecting quality denominations and optional quality terms.	Number of protected denominations registered (PDO/PGI/TSG)[107] *(Source: DOOR Database)*	Maintain evolution of previous years: add around 50 new names each year[108]	1197 (31.12.2013) 1138(31.12.2012) 1 077 (end 2011) 994 (31.12.2010) 895 (end 2009) 841 (end 2008)

[106] 2011 data (2012 is not available yet), IE non included

[107] Protected Designations of Origin (PDO)

Protected Geographical Indications (PGI)

Traditional Specialities Guaranteed (TSG)

In order to give a more adequate presentation of the performance, it must be emphasised that for 2013, for all the PDO/PGI/TSG applications, the 1st scrutiny was finished within 6 months after receipt.

[108] The target was modified over time: the current target has been used since 2012.

1.1.16 ABB 04 Rural development – Specific objective 5

ABB activity: ABB 04			☒Spending programme ☐ Non-spending
Relevant general objective: To contribute to sustainable development of rural areas, in particular through: • improving the capacity of the agricultural and forestry sectors to meet new challenges, • contributing to preserving the environment and the countryside, • improving the quality of life in rural areas, • helping EU agriculture, forestry and rural areas to contribute to climate change mitigation and to adapt to its possible consequences, • contributing to the sustainable production of renewable energy (General objective 2)			
Specific objective 5	**Result indicator**	**Target (2013)**	**Current situation**
To encourage organic production and develop the market for organic products in the EU.	Area under organic cultivation[109] *(Source: Eurostat[110])*	Evolution in line with the demand trend: 11.02 million ha end 2013[111]	9.61 million ha (EU-27, 2011)[112]

[109] Utilised Agricultural Area (UAA) subject to certified organic cultivation plus in-conversion area.

[110] Data on the basis of Council Regulation (EC) No 834/2007.

[111] Past evolution of the area is considered as reflecting the demand trend. Area evolution over years 2005 to 2010 was +6.8 % per year on average (EU-27). This is the coefficient used for target quantification for 2013.

[112] Latest available data.

1.1.17 ABB 04 Rural development – Specific objective 6

ABB activity: ABB 04			☒**Spending programme** ☐ **Non-spending**
Relevant general objective: To contribute to sustainable development of rural areas, in particular through: • improving the capacity of the agricultural and forestry sectors to meet new challenges, • contributing to preserving the environment and the countryside, • improving the quality of life in rural areas, • helping EU agriculture, forestry and rural areas to contribute to climate change mitigation and to adapt to its possible consequences, • contributing to the sustainable production of renewable energy (General objective 2)			
Specific objective 6	**Result indicator**	**Target (2013)**	**Current situation**
To help EU agriculture, forestry and rural areas to adapt to the possible consequences of climate change and to enhance reduction of greenhouse gas emissions from farming.	The ratio of permanent pasture within a Member State in relation to the total agricultural area[113] *(Source: MS annual notification; Information System for Agricultural Market Management and Monitoring (ISAMM))*	Maintain the ratio within the limit of 10 % in relation to a reference ratio.[114]	The ratio has not decreased beyond the limit of 10 % in any MS but for the MS that were above 10% in the past years some checks have to be carried out (Bulgaria, Lithuania)
	Area afforested[115] *(Source: Annual progress reports 2012)*	760 000 ha by end 2013	336 000 ha (end 2012)[116]

[113] The result indicator deals with the greenhouse gas emissions topic which is one of the indicators of the Europe 2020 Strategy. Same indicator as under ABB 03 Specific objective 3.

[114] The maintenance of the ratio of permanent pasture means that there should not be, at national or regional level, a decrease by more than 10 % of the current ratio of permanent pasture in relation to the total agricultural area by comparison with a reference ratio reflecting this ratio at a reference period.

[115] Data coming from the RD programmes and the indicator concerns agricultural and non-agricultural land.

[116] The figure of 336 000 ha at the end of 2012 (45 % of the target) has to be read against the fact that during the same period only 59% of the total allocation plan has been declared. Improvements can still be expected in the next reporting periods subject to an increase in financial absorption.

1.1.18 ABB 04 Rural development – Specific objective 7

ABB activity: ABB 04			☒Spending programme ☐ Non-spending
Relevant general objective: To contribute to sustainable development of rural areas, in particular through: • improving the capacity of the agricultural and forestry sectors to meet new challenges, • contributing to preserving the environment and the countryside, • improving the quality of life in rural areas, • helping EU agriculture, forestry and rural areas to contribute to climate change mitigation and to adapt to its possible consequences, • contributing to the sustainable production of renewable energy (General objective 2)			
Specific objective 7	**Result indicator**	**Target (2013)**	**Current situation**
To improve the supply of food, feed and biomaterials in a resource-efficient, productive and low-emission way in harmony with environmental conditions.	Improved flow of information between research and farming as evidenced by the establishment of an operational network facility for the Innovation partnership[117] concerning "Agricultural Productivity and Sustainability" *(Source: DG AGRI)*	EIP implementing mechanisms established	The EIP Strategic Implementation Plan (SIP) was adopted by the High Level Steering Board on 11 July 2013. The ISC on a staff working document providing an assessment of the SIP was launched on 12 December 2013. The contract for establishing the EIP network facility was signed on 11 April 2013. The network facility: - organised seminars on 25-27 June 2013 and on 25 – 26 November 2013; - launched 6 Focus groups in 2013; - started publishing monthly newsletter; - issued 4 Fact Sheets; - prepared a website (contracted).

[117] The launching of the 'European Innovation Partnerships' between the EU and national levels is one of the key initiative of the Commission to fulfil the Flagship initiative I. Innovation Union making part of the "Europe 2020" Strategy.

1.1.19 ABB 04 Rural development – Specific objective 8

ABB activity: ABB 04			☒**Spending programme** ☐ **Non-spending**
Relevant general objective: To contribute to sustainable development of rural areas, in particular through: • improving the capacity of the agricultural and forestry sectors to meet new challenges, • contributing to preserving the environment and the countryside, • improving the quality of life in rural areas, • helping EU agriculture, forestry and rural areas to contribute to climate change mitigation and to adapt to its possible consequences, • contributing to the sustainable production of renewable energy (General objective 2)			
Specific objective 8	**Result indicator**	**Target (2013)**	**Current situation**
To help EU agriculture and forestry provide sustainable supplies for bioenergy and biomaterial uses.	Production of renewable energy from agriculture and forestry *(Source: Statistical and Economic Information Report 2013)*	To increase	94.0 million tonnes of oil equivalent (2011)[118] 98.4 million tonnes of oil equivalent (2010)

Conclusions from evaluations: Synthesis of Mid-Term Evaluations (MTEs) of Rural Development Programmes 2007-2013
The synthesis of Mid-Term Evaluations was based on the 92 national, regional and network Mid-Term Evaluation (MTE) reports from the Member States. Overall, uptake of the RDP measures was observed to have been slower than expected; measures with less technical requirements and most continuity from the last period were the quickest to be implemented. Economic, environmental and social/quality-of-life impacts were assessed in the MTEs, however, the early timing of the MTEs made it difficult to reliably judge overall impacts; calculation methods were not always found to be sound. In terms of economic impacts, roughly two thirds of the reports stated a net positive impact on growth and employment creation. The MTEs assessed the monitoring and evaluation system as good and as providing relevant data. However, the system was often regarded as too complex. Recommendations on the future monitoring and evaluation system addressed mainly the need for further guidance for the calculation and aggregation of indicators and the need for simplification (e.g. a reduction in the number of evaluation questions). The evaluation findings are taken into account as an information source for future reforms.

[118] The decline is mainly the result of a significant reduction of biodiesel and biogas production, and a more moderate reduction of renewable energy production from forestry, particularly in three Member States (France, Sweden and Germany), which is not fully compensated by increases in other areas.

1.1.20 ABB 05 SAPARD/IPARD – Specific objective 1

ABB activity: ABB 05			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives			
Specific objective 1	**Result indicator**	**Target**	**Current situation**
To contribute to the sustainable adaptation of the agricultural sector and rural areas in the three countries (Bulgaria, Romania and Croatia) eligible for Sapard support until 2009.	All SAPARD programmes closed *(Source: Multi-Annual Financing Agreement (MAFA))*	2013	Final amounts calculated. They still need to be confirmed by a final "clearance of accounts" decision.

Explanation of change of target and main evaluation results
1) For the final closure of the Sapard programmes by the Commission, the following conditions must be met: - final expenditure declaration submitted by the countries - final reports approved by the Commission - ex-post evaluations submitted to and accepted by the Commission - Sapard accounts of the countries finally cleared by the Commission. - based on the cleared accounts, the final balance can be settled by the Commission Final expenditure declarations were submitted by all Sapard countries. Final reports and ex-post evaluations are approved for all Sapard countries with the exception of Bulgaria. The Commission is currently assessing the modifications made to the annual report and to the ex-post evaluation report. The final accounts are cleared for eight Sapard programmes. The clearance of the accounts for Romania and Bulgaria is still pending due to problems found during the verification of the accounts. Therefore, the final balance could not be settled in 2013. 2) The 2010 synthesis report of Sapard ex-post evaluations[119] showed that Sapard pre-accession funds

[119] The 2010 synthesis report of Sapard ex-post evaluations on Sapard pre-accession funds used for the agricultural investment and processing investments measures did not cover Bulgaria, Croatia and Romania. These countries were covered by the more recent evaluation, i.e. Synthesis of Ex-Post Evaluations – Update: Bulgaria, Croatia, Romania.

used for the agricultural investment and processing investments measures have been rather effective, contributing to the competitiveness and income at the individual level of the beneficiaries. At the sector level, impacts were more moderate due to the limitations of the Sapard budget.
The impacts on the rural economies have been significant at local micro community level. The relative small budget available prevented Sapard from having a greater impact at regional and national level.
Due to the small share of the budget for the measure "Diversification of economic activities", Sapard did not significantly decrease the dependency on agriculture in rural areas.
The evaluation confirmed the positive impact of Sapard on the set-up of the institutional structures for the management and control of EU funds, job creation and maintenance, as well as for technological modernisation. The instrument also contributed indirectly to the introduction of environmentally friendly technologies due to the obligation to respect EU standards for agricultural holding and processing related investments.

Conclusions from evaluations: Synthesis of Ex-Post Evaluations – Update: Bulgaria, Croatia, Romania

The Synthesis of Ex-Post Evaluations assessed the impact of the SAPARD programmes and the contribution to the objectives of Regulation (EC) No 1268/1999 in these countries.
The highest benefit achieved the administrative systems' capacity building by gaining experience for the preparation of the Rural Development Programmes; this goes in particular for decentralised management. The *acquis communautaire* was promoted as a series of reforms on legislation and administrative structures was triggered.
The programmes, mainly focusing on three investment related measures, experienced underperformance mainly due to inappropriate measure design and to payment interruptions following audit findings.

Complicated measure design and procedures favouring bigger holdings and relatively small budgets limited the range of impacts of the measures on the preparation of agriculture and rural economies for accession at a larger scale. The requirements for evaluations are not always suited to the situation in the Member States. Measure changes to improve the uptake were introduced with delays. The evaluation findings are taken into account as an information source for future reforms, in particular for the negotiations on the future Instrument for Pre-accession Assistance (IPA) II.

1.1.21 ABB 05 SAPARD/IPARD – Specific objective 2

ABB activity: ABB 05										☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives										
Specific objective 2	**Result indicator**	**HR**		**TR**		**fYR of Macedonia**		**Montenegro**		
		Target	**Current situation**	**Target**	**Current situation**	**Target**	**Current situation**	**Target**	**Current situation**	
Enabling decentralisation of assistance management to the Candidate Countries by supporting the development of the administrative and management and control capacity of the institutions implementing and managing the IPARD programmes[120]	IPARD Agencies are in place and operational, confirmed by national accreditation *(Source: DG AGRI)*	HR obtained national accreditation for all IPARD measures except for Agri-Environment (A-E) measure. National authorities decided not to implement	Achieved for 2 measures in 2009 Achieved for 2 measures in 2011 Achieved for 2 measures in 2013	For the time being TR has decided not to pursue the national accreditation for the other measures	Achieved for 3 measures and 42 provinces in 2011 – 2013 Finalised for 1 extra measure in 2012 (conferral on-going)	For 2013, the country pursues national accreditation for measure Technical Assistance.	Achieved for 3 measures in 2009 Finalising for one measure is delayed and planned to be granted in early 2014	2013	ME has decided not to finalize national accreditation for IPARD I and will only use IPARD II funds	

[120] IPARD for Candidate Countries Turkey (TR), the former Yugoslav Republic of Macedonia (fYR of Macedonia), Croatia (HR) and Montenegro

		A-E measures under IPARD.							
	Candidate Countries have ratified the Sectoral Agreement (SA) for the implementation of the IPARD programme *(Source: DG AGRI)*		Achieved in 2009		Achieved in 2010		Achieved in 2009	2013	
	Multi-annual Financing Agreements (MFA) concluded. *(Source: DG AGRI)*	2013	Achieved for 2010 - 2012 On-going for 2013	2013	Achieved for 2010 and 2011 On-going for 2013	2013	Achieved for 2010 and 2011 On-going for 2012 and 2013	2013	

Explanation of change of target and main evaluation results
As Montenegro has decided not to finalize national accreditation for IPARD I and to use only IPARD II funds, the adoption of an IPARD I program for this country was not pursued. The national accreditation of the Technical Assistance measure of the former Yugoslav Republic of Macedonia is still pending due to a legal dispute in the country on the need of a new law for this measure. The conclusion of the Multi-annual Financing Agreements (MFAs) 2012 and 2013 for the former Jugoslav Republic of Macedonia and the 2013 MFA for Turkey and Croatia is still pending.

1.1.22 ABB 05 SAPARD/IPARD – Specific objective 3[121]

ABB activity: ABB 05			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives			
Specific objective 3	**Result indicator**	**Target (2013)[122]**	**Current situation[123]**
To contribute to the sustainable adaptation of the agricultural sector and rural areas and to the Candidate Countries' preparation for the implementation of the *acquis communautaire* concerning the CAP and related policies by: 1. improving market efficiency and implementation of Union standards, 2. preparatory actions for the implementation of the agri-environmental	Improving market efficiency and implementation of Union standards (AXIS 1) *(Source: IPARD Programmes 2007 – 2013 and bi-annual reports)*		
	A) Number of applications received	A) 833 in HR 2830 in fYRoM 24943 in TR	A) HR: 531 applications received fYRoM: 459 applications received TR: 1451 applications received
	B) Number of applications approved	B) 514 in HR 2330 in fYRoM 17925 in TR	B) HR: 203 applications approved fYRoM: 698 applications approved TR: 594 applications approved
	C) Number of farms/enterprises supported (paid by the IPARD Agency)	C) 414 in HR Target in fYRoM[124] 104 in TR	C) 87 projects in HR 75 projects in fYRoM 127 projects in TR
	D) Total volume of investment (paid)	D) 304 mio € in HR 164 mio € in fYRoM Target in TR[125]	D) 38 million € in HR 5.8 million € in fYRoM 22.7 million in TR
	E) Increase on GVA in supported	E) 5% in HR	E) For the time being

[121] The targets have been set for the programming period 2007 – 2013. Yet, article 166(3) of the *old* Financial Regulation (Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, OJ L 248, 16.9.2002) provides for a final implementation only in 2016 (n+3 Rule).

[122] The targets have been updated to take account of the final amount of IPARD funds available for 2013

[123] The results are provided for projects contracted and paid. Final results for 2013 will only be available once the annual implementation reports for 2013 are available.

[124] No target agreed at the time when programme was set up.

[125] No target agreed at the time when programme was set up.

measures and local rural development strategies, 3. development of the rural economy.	holdings	5-8% in fYRoM Target in TR[126]	information not available in HR, fYRoM and TR
	F) Number of farms/enterprises introducing Union standards	F) 290 in HR Target in fYRoM[127] Target in TR[128]	F) For the time being information not available in HR, fYRoM and TR
	G) Economic growth in agriculture – net additional added value in PPS	G) 5% in HR	G) For the time being information not available for HR
	H) Labour productivity in agriculture – change in gross added value	H) Increase	H) For the time being information not available in HR, fYRoM and TR
	Preparatory actions for the implementation of the agri-environmental measures and local rural development strategies (AXIS 2) *(Source: IPARD Programmes 2007 – 2013 and bi-annual reports)*		
	Local rural development strategies A) Number of applications received B) Number of applications approved C) Number of recognised Local Action Groups (LAGs) D) Total population of LAGs	A) 40 in HR B) 25 in HR C) 25 in HR D) 1.055.000 in HR	In HR A) 40 applications received B) 30 LAGs contracted in HR C) 0[129] D) 0[130] Contracting under axis 2 has not started in TR and fYRoM, as the accreditation and conferral processes in the countries are not yet initiated.
	Development of the rural economy (AXIS 3) *(Source: IPARD Programmes 2007 – 2013 and bi-annual reports)*		

[126] No target agreed at the time when programme was set up.

[127] No target agreed at the time when programme was set up.

[128] No target agreed at the time when programme was set up.

[129] The targets have been set for the programming period 2007 – 2013. Yet, article 166(3) of the old Financial Regulation (Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, OJ L 248, 16.9.2002) provides for a final implementation only in 2016 (n+3 Rule).

[130] The targets have been set for the programming period 2007 – 2013. Yet, article 166(3) of the old Financial Regulation (Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities, OJ L 248, 16.9.2002) provides for a final implementation only in 2016 (n+3 Rule).

Achievement of general and specific objectives

	1) Improvement of rural infrastructure A) Number of applications received B) Number of applications approved C) Number of beneficiaries D) Total volume of investment	1) Improvement of rural infrastructure A) 2580 in TR 205 in HR B) 174 in HR C) 148 in HR D) 59 mio in HR	1) Improvement of rural infrastructure A) TR: n.a. (see comment below) HR: 199 B) HR: 32 C) HR: 6 D) HR: 0.5 mio € No projects have been contracted yet by fYRoM under this measure. TR does not intend to implement this measure.
	2) Diversification of rural economy E) Number of applications received F) Number of applications approved G) Number of beneficiaries H) Total volume of investment	2) Diversification of rural economy E) 380 in HR 417 in fYRoM 7771 in TR F) 350 in HR 155 in fYRoM 6217 in TR G) 329 in HR 155 in fYRoM 5596 in TR H) 39 mio in HR 31 mio in fYRoM	2) Diversification of rural economy E) HR: 326 fYRoM: 153 TR: 1930 F) HR: 53 fYRoM: 9 TR: 57 G) HR: 12 fYRoM: n/a TR: 57 H) HR: 1.1 mio € paid fYRoM: 0 mio € (projects were cancelled)

1.1.23 ABB 05 SAPARD/IPARD – Specific objective 4

ABB activity: ABB 05			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives			
Specific objective 4	**Result indicator**	**Target**	**Current situation (2013)**
To provide guidance in building institutional capacities of Candidate Country Serbia and Montenegro and potential Candidate Countries Bosnia and Herzegovina, Albania and the Kosovo to manage the IPARD rural development programmes.	Setting up of the implementing structures: • Designation, identification and start of operation of National Authorising Officer (NAO) and National Fund in accordance with the provisions of the Framework Agreement • Setting- up and start of operation of IPARD Agency in accordance with the provisions of the Framework and Sectoral Agreement. • Setting up and start of operation of Managing Authority in accordance with the provisions of the Framework and Sectoral Agreement • Successful contribution of relevant IPA component I projects to building institutional capacities in the countries concerned. *(Source: Information on progress in national accreditation by beneficiary countries)*	• NAO and National fund established and operating in 2013 or later when the countries are ready to implement IPARD II • IPARD Agency operating in 2013 or later when the countries are ready to implement IPARD II • Managing Authority operating in 2013 or later when the countries are ready to implement IPARD II • Institutional capacities in the countries concerned built up through IPA component I projects in 2013.	• 18 advisory missions to the potential Candidate Countries were carried out. • Advice to the national authorities was provided in 13 technical meetings in Brussels or in the countries concerned. • 5 IPARD capacity-building IPA component I projects are being implemented • IPARD-like Managing Authority and IPARD Agency have been set up in Albania. These bodies are implementing an IPA 2010 project on "piloting IPARD". • Terms of Reference of a similar project to be implemented by Food and Agriculture Organisation of the United Nations (FAO) in Bosnia and Herzegovina (BiH) have been prepared with AGRI's support. • Study on potential for diversification in agriculture in Albania and Montenegro was carried out • The Target to set up the implementing structures for Serbia and Montenegro in 2013 for implementing IPARD I

			were not relevant as both countries decided not to pursue under IPARD I. However, those structures need to be set up in 2014 to allow IPARD II implementation.
	Signature of Sectoral Agreement between the Commission and Albania and Serbia, subject to these countries becoming Candidates and Montenegro. *(Source: Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities)*	Sectoral Agreement signed in 2013 or later when the countries are ready to implement IPARD II	Not relevant for Albania in 2013 as country is not yet official candidate to the EU Not relevant for Serbia and Montenegro in 2013 as both countries have decided not to pursue under IPARD I
	Submission of IPARD programmes for Albania, Serbia and Montenegro to the Commission *(Source: Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA))*	IPARD II Programmes submitted and approved by the Commission in 2013	Albania, Serbia and Montenegro have presented several draft IPARD I Programmes. However, all three countries decided not to pursue IPARD I. They are now asked to submit new IPARD II Programmes.

1.1.24 ABB 05 SAPARD/IPARD – Specific objective 5

ABB activity: ABB 05			**☒Spending programme** **☐ Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives			
Specific objective 5	**Result indicator**	**Target**	**Current situation**
To contribute to the sustainable adaptation of the agricultural sector and rural areas and to the Beneficiary Countries' (Turkey, fYR of	External relation instruments' umbrella regulation post 2013 (including IPA) adopted *(Source: IPA negotiations by DG ELARG)*	2013	On-going, to be finalised in early 2014
	IPA framework regulation post 2013 adopted *(Source: IPA negotiations by DG ELARG)*	2013	On-going, to be finalised in early 2014
	IPA implementing regulation post	2013	On-going, to be finalised

Macedonia, Serbia, Bosnia and Herzegovina, Montenegro, Albania) and Kosovo's preparation for the implementation of the *acquis communautaire* concerning the CAP and related policies post 2013 by: 1. improving market efficiency and implementation of Union standards, 2. preparatory actions for the implementation of the agri-environmental measures and local rural development strategies, 3. development of the rural economy.	2013 adopted *(Source: IPA negotiations by DG ELARG)*		in mid-2014
	IPA budget management mechanism post 2013 adopted *(Source: IPA negotiations by DG ELARG)*	2013	Finalised

1.1.25 ABB 06 External relations – Specific objective 1

ABB activity: ABB 06			☒Spending programme ☐ Non-spending
Relevant general objective: To promote the European agricultural sector in world trade (General objective 3)			
Specific objective 1	Result indicator[131]	Target (mid-term)	Current situation[132]
To promote the EU agriculture sector through successful negotiation and cooperation within the World Trade Organisation (WTO) and other multilateral organisations such as the Organisation for Economic Co-operation and Development (OECD), Food and Agriculture Organisation (FAO), the United Nations Commission on Sustainable Development and other UN fora, International Olive Council,	Successful conclusion of modalities on agriculture under the Doha Development Agenda (DDA); in particular for early progress at the 9th Ministerial Conference (Bali, December 2013)	Successful outcome of Bali Ministerial Conference, whilst ensuring overall progress on the DDA; progress depends also on the positions taken by partner countries in these multilateral negotiations.	Bali Ministerial Conference successfully concluded with an Early Harvest package, including, as regards agriculture, decisions on public stockholding for food security purposes, general services, TRQ administration and cotton and a declaration on export competition. Work on DDA to continue in 2014 and thereafter on the basis of the Bali Ministerial Declaration.
	Successful conclusions of preparatory bilateral negotiations between EU and potential candidates for membership to the WTO	Ongoing in 2013 (dependent on evolution of country – specific negotiations).	Accessions in progress at end 2013 with respect to 23 candidate countries; negotiations completed with accession of 2 countries to WTO in 2013 (Tajikistan, Yemen).
	Contribution to Rio+20 process	Ministerial session Follow-up of activities to Rio+20 outcome in the run up to next UNGA session in 2013	Contributed to preparation of EU position, to the Council conclusions and to the proceedings of the UN Open Working Group (OWG).
	Cooperation with the OECD	2013 planned participation: - 2 technical meetings -7 working parties under CoAg	Participation in 2013: - Various technical meetings - 7 working parties under the Committee for Agriculture (CoAg) which

[131] *Source: DG AGRI*

[132]For objectives of multi-annual programmes, where intermediate milestones are not available, services may consider presenting progress towards attainment of ultimate objectives by showing the multi-annual trend.

International Sugar Organisation, International Grains Council and inputs to G8 and G20.		- 2 CoAg meetings - 1 GFA - 1 WPRUR meeting 2013 Activity report	met on 2 occasions - 1 Global Forum for Agriculture (GFA) - 1 Working party for Territorial Policy in Rural Areas (WPRUR) Main reports adopted: FAO-OECD Market Outlook, 2012-2021; 2012 Monitoring & Evaluation (all OECD countries + others)
	Active cooperation, exchange of information and participation in IOC extra- and ordinary sessions and technical meetings *(Source: IOC and information from Member States)*	To maintain an active cooperation, exchange of information and participation in: - 2 (extra-) ordinary sessions - Approx. 8 technical meetings	- 2 (extra-) ordinary sessions - 8 technical meetings
	Active cooperation and exchange of information with ISO *(Source: ISO)*	To maintain an active cooperation and exchange of information on the basis of the deliverables by ISO for policy analysis and proposals, market analysis and technical notes.	Cooperation and exchange of information in 2013 on the basis of: - 6 MECAS studies - 12 Statistical Bulletins (monthly) - 12 Monthly Market Reports - 4 Quarterly Market Outlooks
	Active cooperation and exchange of information with IGC *(Source: IGC)*	To maintain an active cooperation and exchange of information on the basis of the deliverables by ISO for policy analysis and proposals, market analysis and technical notes.	Cooperation and exchange of information in 2012/2013 on the basis of: - 12 Grain Market Reports (GMR) - 250 Daily Monitors (Grain, Rice & Oilseeds) - 52 Grain Market Indicators (GMI) - 52 Rice Market Bulletins - 52 Oilseeds Market Bulletins - 52 Ocean freight rate reports - 1 World Grain Statistics - 1 Grains Shipments
	Active cooperation and exchange of information with OIV (Source: DG AGRI)	To increase the cooperation with the OIV in	Close cooperation and exchange of information, participation in OIV

		obtaining for the EU an official status at OIV. To regularly incorporate new OIV oenological practices in the Union legislation.[133] Protocol on a particular status for the Union in the International Organisation for Vine and Wine	meetings and seminars: - meetings in OIV: Commission Oenology, Commission Viticulture, Commission Health and Safety, Commission Economy and Law, Scientific and Technical Committee, General Assembly, Symposium - meetings at Council level (Working Party on Wines and Alcohol) to prepare OIV meetings - Proposal for Council decision on a Union position at OIV General Assembly - amendment of Commission Regulation 606/2009 (Reg 53/2011) Recommendation to the Council for a special status of the Union in the OIV.

1.1.26 ABB 06 External relations – Specific objective 2

ABB activity: ABB 06			**☒Spending programme** **☐ Non-spending**
Relevant general objective: To promote the European agricultural sector in world trade (General objective 3)			
Specific objective 2	Result indicator[134]	Target (mid-term)	Current situation
Improve market access for agricultural products by negotiating or revising bilateral agreements and by resolving	Bilateral negotiations leading to improved market access	To conclude agreements leading to improved market access for EU products and contribute to sustainable economic development in developing	12 ongoing or imminent negotiations: Mercosur, India, Singapore, Malaysia, Vietnam, Thailand, Ecuador, Canada, USA, Japan, Mexico and Tunisia (review). Comprehensive EPAs progressed with the SADC[135] EPA Group

[133] Target may be replaced by Pending Court case C-399/12

[134] *Source: DG AGRI*

[135] Southern African Development Community

trade irritants, advance protection for EU geographical indications in third countries and contribute to sustainable economic development in particular in developing countries.		countries	(including South Africa), EAC[136], ESA[137], Pacific, and West Africa. No activity with Central Africa.
	Bilateral market access negotiations and agreements concluded	To seek to maintain and wherever possible improve market access	Various negotiations concluded recently, including with Singapore (negotiations concluded at chief negotiator level in December 2012), political agreement reached with Canada in October 2013. DCFTA negotiations concluded with Ukraine, Georgia, Armenia, and Moldova. For Armenia, agreement could not be initialled in Vilnius (November 2013) following the decision by Armenia to join the Customs Union lead by Russia. Similarly, Ukraine decided not to sign the FTA with the EU (concluded at chief negotiators level Dec. 2011). For Moldova, the autonomous trade preference regime was modified to further liberalise the exports of Moldovan wines to the EU, in line with the concessions foreseen in the DCFTA. Agreements with Peru, Colombia, Central America concluded and entered into force in 2013.
	Institutional dialogues on agriculture opened with third countries and meetings on agriculture in the framework of Agreements or general Regulatory dialogues	To maintain dialogue leading to better mutual understanding of agricultural policy in general and agricultural trade	17 existing dialogues (Australia, Canada, New Zealand, Japan, China, India, Russia, Ukraine, Switzerland, Algeria, Egypt, Morocco, Israel, Jordan, Lebanon,

[136] East African Community

[137] Eastern and Southern Africa

		policy in particular. Where relevant, dialogues to maintain or improve market access for EU Further develop and formalise the concept of ENPARD so that it fits the needs of individual ENP countries. Implement ENPARD actions on the ground.	Tunisia, Brazil). Second meeting of the dialogue on Agriculture with Brazil initially scheduled in November 2013 was postponed to early 2014. Numerous regular or ad-hoc committees and meetings on agriculture with key trading partners. China: cooperation plan on agriculture in place, covering several aspects of our bilateral relations in agriculture, such as organics, research, rural development, alcoholic beverages. Two letters of Intent signed with China: one on research cooperation and the second on cooperation against counterfeiting on alcoholic beverages. 2 Contact Groups established (with African Union Commission) and with South Africa) designed to facilitate exchanges using minimal resources. ENPARD: To develop initiatives with relevant partners in the European Neighbourhood to strengthen the agricultural and rural development dimension in the action programmes.
	Bilateral trade irritants removed/ reduced	Avoid trade irritants, eliminate them or reduce their impact	**Algeria**: Ongoing negotiations on compensation after unilateral suspension of trade concessions by Algeria in 2010. **Argentina**: Informal import restrictions of food products. **Brazil**: Investigation of a possible safeguard on EU wines concluded without imposition of measures. **Japan**: lifting of BSE ban on EU beef. **Peru**: appeal against

			countervailing duties on olive oil successfully ended with the abrogation of the measures January 2013. **Russia**: improved understanding on functioning and prevented negative impact on bilateral trade, SPS issues: supported SANCO efforts in lifting bans on exports of various products (live animals, dairy, seed potatoes, planting material) that affected several member states. **Russia** (and Customs Union with Belarus and Kazakhstan): worked at reducing trade distortive impact of Russia and Customs Union (draft) legislation on wine and alcohol. **South Africa**: Made representations to challenge or mitigate application of provisional safeguard and anti-dumping duties imposed on frozen potato chips imports, anti-dumping investigation on frozen poultry imports and SPS import restrictions on pigmeat.
	Bilateral agreements on protection of geographical indications concluded	Improved protection for EU geographical indications	Agreement with Moldova published and entered into force on 1.4.2013. Implementation of the administrative Memorandum of Understanding with the African Regional Intellectual Property Organization (ARIPO) aiming at improving the protection of geographical indications in Africa including assistance with drafting of framework law.

			Workshops on GIs organised in 5 African countries. Ongoing negotiations with China and Morocco for the conclusion of an agreement protecting geographical indications from both sides. EU GI's protected or expected to be protected under the agreements with Central America, Peru and Colombia, Canada. Georgia, Moldova. Review of the Lisbon Agreement for the protection of the appellations of origin and their international registration: participation as observer to the working group.
	EU share of total OECD imports of agricultural products from developing countries	To maintain the EU as the world's number 1 importer of agricultural products from developing countries	2012: 44.9 % 2011: 47.7 % 2010: 48.6 % 2009: 51.6 % 2008: 54.0 % 2007: 52.4 % 2006: 49.4 % 2005: 48.0 %

1.1.27 ABB 06 External relations – Specific objective 3

ABB activity: ABB 06			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives			
Specific objective 3	Result indicator[138]	Target (mid-term)	Current situation
To promote the EU interests and positions on agriculture and rural development	Timely contribution to the Commission's work in the area of enlargement	100 % All contributions to Commission's activities concerning enlargement in the area of agriculture and	- Accession of Croatia on 1 July 2013. - Screening report for Montenegro was finalised in September 2013. Montenegro has to meet one benchmark.

[138] *Source: DG AGRI*

in the relations with enlargement countries and to assist the enlargement countries in their alignment to the CAP.		rural development delivered on time Monitoring of Croatia's' preparation in the pre-accession period Preparation of screening report for Montenegro	- Serbia was granted candidate status in March 2012 and was authorised to open negotiations in June 2013 - Stabilisation and Association Agreements signed with all Western Balkan countries except Kosovo for which negotiations of a SAA started in October 2013. - Accession negotiations with Turkey in chapter 11 are frozen since December 2006; work continues on meeting the technical opening benchmarks for this chapter. - On 16.10.13 the Commission reiterated its proposal to grant candidate status to Albania, provided that certain conditions are fulfilled; - Accession negotiations with Iceland put on hold in May 2013.
	Timely assessment of Candidate countries and Potential candidate countries in the preparation for accession to the EU in agriculture and rural development	100 % Preparation of acceding, candidate and potential candidate for EU membership in the area of agriculture and rural development. Contribution to the Progress Report and Strategy Paper 2013- evaluation progress of acceding, candidate and potential candidates in the	2013 Progress Reports on the state of preparedness of candidates and potential candidates in chapter 11 adopted on 16.10.2013

		preparation for EU accession	
	Degree of advancement of the adaptation exercise of bilateral trade agreements to take account of the accession of Croatia to the EU	All bilateral trade agreements to be adapted in line with the mandate from the Council	Adaptation exercise finalised with Montenegro, the former Yugoslav republic of Macedonia and Albania. Since BiH refuses to proceed with the adaptation, the Commission has opened a trade dispute settlement procedure.
	EU improvement of market access and successful management of the trade relations with enlargement countries, including efficient tackling of trade irritants	Conclusion of new wine protocol with former Yugoslav republic of Macedonia Lifting of the beef ban by Turkey	Trade developments: Trade agreements in place with all enlargement countries except Kosovo with whom negotiations on a SAA have started. Revision of wine protocol for former Yugoslav Republic of Macedonia started in 2008. Trade irritants: Turkey: Beef ban still not solved.

1.1.28 ABB 07 Audit – Specific objective 1

ABB activity: ABB 07			☒Spending programme ☐ Non-spending
Relevant general objectives: This specific objective contributes to achieving all three general objectives			
Specific objective 1	**Result indicator**	**Target (2013)**	**Current situation**
To provide the Commission with reasonable assurance that Member States have put in place management and control systems in conformity with EU rules designed to ensure the legality and regularity of the underlying transactions financed by the EAGF, EAFRD, SAPARD and IPARD and, where this is not the case, to exclude the expenditure concerned from EU financing so as to protect the EU's	% of planned audit missions carried out *(Source: Annual work plan for DG AGRI)*	100 % of number of audit missions planned for 2013 (84 mission planned) The number of audit missions is part of the annual work plan of the Directorate.	95.2%[139]
	Timely completion of audit reports and observation letters to Member States *(Source: DG AGRI)*	Reduce average time to finalise: - audit reports to below 60 days - observation letters in working language to 65 days - observation letters in national language to below 90 days The targets were agreed via management discussion within Directorate J.	Average of around 56 days to finalise audit reports, and around 89 days for observation letter in national language in 2013
	Closure of audits carried out in 2010 and before *(Source: DG AGRI)*	Closure by 31.12.2013 of 100 % of the audits carried out in 2008 and before. Closure by 31.12.2013 of at least 95 % of the	End 2013: 11 out of 1030 audits (carried out in 2008 and before) remain open. For 2009, 88.6% of audits have been closed (288/325) while for

[139] In case missions are cancelled and replaced by different missions in the course of the year, the new missions are not included in the original audit work plan and therefore not included in the calculation of this indicator.

financial interests		audits carried out in 2009 and of at least 85 % of the audits carried out in 2010.[140]	2010, 80.4% (229/285) audits have been closed.
	Review of the clearance of accounts system *(Source: DG AGRI)*	Adoption and publication of the implementing and delegated acts for the horizontal regulation on the financing, management and monitoring of the CAP in accordance with the calendar established for the procedure.[141]	The delegated act for the horizontal regulation on the financing, management and monitoring of the CAP (Reg. 1306/2013) was discussed in working groups at the end of 2013 and will be transmitted for adoption in March 2014. Discussions commenced at the end of 2013 in the Agricultural Funds Committee on the implementing acts for the horizontal regulation

1.1.29 ABB 07 Audit – Specific objective 2

ABB activity: ABB 07			☒Spending programme ☐ Non-spending
Relevant general objectives: This specific objective contributes to achieving all three general objectives			
Specific objective 2	**Result indicator**	**Target**	**Current situation**
To contribute to improving EU legislation concerning Member States and Applicant Countries' management and control systems for	Timely contribution to CAP towards 2020 legislation *(Source: DG AGRI)*	100 % timely delivery of draft delegated (by end October 2013 and implementing acts (December 2013). The target was agreed with the hierarchy of the DG in order to respect the calendar	The horizontal regulation (Reg. 1306/2013) was adopted by the European Parliament and the Council on 17 December 2013. Technical discussions took place in expert group meetings on the clearance of accounts aspects of the draft delegated act.

[140] Targets were agreed via management discussion within Directorate J

[141] Target updated following the implementation of CAP reform.

agricultural expenditure		established for the adoption and publication of the acts.	Discussions commenced on the draft implementing act.
	Timely improvements to EU legislation concerning Member States' and Applicant Countries' management and control systems for agricultural expenditure *(Source: DG AGRI)*	100 % timely delivery	No reporting events[142]
	Initial work on alignment of DG AGRI approach on how to deal with deficiencies in public procurement procedures with that of other shared management DGs *(Source: Recommendation of the European Parliament in its 2011 Discharge report)*	Alignment of DG AGRI approach with that of other shared management DGs.	The new guidelines which are also applicable to CAP expenditure, were adopted on 19.12.2013 (Commission decision C(2013)9527) final. Furthermore, DG AGRI is chef de file for an action plan to analyse the root causes for the high error rates in the RD sector. Two special workshops with the MS (management committee) have been held in April and October 2013 in order to discuss with the MS the actions to be taken to reduce the high error rates in the RD sector

[142] No reporting events on the result indicator **Timely improvements to EU legislation concerning Member States' and Applicant Countries' management and control systems for agricultural expenditure** as the focus in 2013 was on the CAP reform legislation, i.e. there were no other initiatives in this regard.

1.1.30 ABB 08 Policy strategy and coordination – Specific objective 1

ABB activity: ABB 08			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives.			
Specific objective 1	**Result indicator**	**Target (2013)**	**Current situation**
To inform and increase awareness of the CAP by maintaining an effective and regular dialogue with stakeholders, civil society, and specific target audiences based on two key messages below: (1) The CAP has provided 50 years of service to European citizens, going beyond food production into public goods delivery. (2) The CAP is a living policy, evolving with society's needs and expectations: - meeting the	Public awareness of CAP *(Source: Eurobarometer)*	Maintain high support for the main ideas of the reformed CAP	The Latest Eurobarometer survey (field research November – December 2013) shows that 92% of Europeans believe that agriculture and rural areas play an important role for their future and that 64% have heard about the support that the EU gives farmers through its CAP. There is a broad consensus that agriculture plays a beneficial role.
	Number of people reached through CAP related campaigns[143] *(Source: EUROPA analytics; on events, data provided by external contractor)*	Steady increase for future campaigns	CAP communication campaign 30 000 visitors and 50 000 page views on the CAP Campaign website, launched in October 2013 8000 visitors on the DG AGRI space at Bruxelles Champêtre 36.000 people exposed to the CAP communication campaign visuals and slogans

[143] Indicator has been introduced in order to better reflect the activity and its results.

challenges of food security, climate change, sustainable use of natural resources and balanced territorial development, - increasing the competitiveness of the farming sector, both economic and ecologically, - contribute to smart, sustainable and inclusive growth in rural Europe in line with "Europe 2020" strategy	Networking – number of participants reached by events[144] *(Source: DG AGRI)*	Maintain if not increase participation	2 meetings with media (ENAJ, +/- 30 participants at each) 9 press or study trips for groups of 12-15 journalists each 1 Annual Ag-Press Network Event for +/- 120 journalists 1 annual networking event (more than 800 participants, co - organised with EMPL/MARE/REGIO) Aprox. 350 people attending the CAP Communication Awards ceremony 1 Participation on the ENRD – NRN meeting (around 50 participants) 1 participation on EDICs annual meeting (60 participants)
	Number of page visits on AGRI Europa website *(Source: EUROPA Analytics)*	Maintain and if possible increase the number of visits	December 2012-December 2013: 4.889 Mio December 2011-December 2012: 4.204 Mio

[144] Indicator has been introduced in order to better reflect the activity and its results.

1.1.31 ABB 08 Policy strategy and coordination – Specific objective 2

ABB activity: ABB 08			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives.			
Specific objective 2	**Result indicator**	**Target (2013)**	**Current situation**
To facilitate decision making on strategic choices for the CAP and to support other activities of the DG by means of economic and policy analyses, studies and coordination of research activities. *This activity contributes to achieving all three general objectives.*	Timely contribution to the decision making process for the CAP towards 2020 *(Source: Registered documents)*	100 % timely deliveries: - supporting policy and economic analysis - publication of key documents on the future of the CAP - provision of documents on the future Research policy for agriculture	- complementary analyses during negotiations for the CAP 2014-2020, as necessary - publications (among which on internet: short- and medium-term outlook, briefs, market monitoring, statistics)
	Representativeness of information about the EU farm economic situation collected by the Farm Accountancy Data Network (FADN) *(Source: EU FADN)*	90 % coverage of EU agricultural production as expressed in Standard Output; 90 % coverage of the Utilized Agricultural Area. Farm returns to be collected for the accounting year 2012[145]: 85 626	Observed coverage of EU agricultural production for the accounting year 2011[146]: - 91 % coverage of the Standard Output; - 91 % coverage of the Utilised Agricultural Area. Farm returns collected for the accounting year 2011: 82 436

[145] Reg. 1291/2009 and successive amendments

[146] Latest available data.

	Adequate knowledge of Farm's structure[147] *(Source: Eurostat – Farm Structure Survey)*	Update of farm structure indicators and analyses with the results of the 2010 Agricultural Census data	First use of Agricultural Census 2010 survey results in analyses and data requests

1.1.32 ABB 08 Policy strategy and coordination – Specific objective 3

ABB activity: ABB 08			**☒Spending programme** **☐ Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives.			
Specific objective 3	**Result indicator**	**Target (2013)**	**Current situation**
To ensure smart regulation through simplification, impact assessment and evaluation, and analytical support to policy conception and to international negotiations	Common monitoring and evaluation framework for the CAP towards 2020 *(Source: DG AGRI task Force on Monitoring and Evaluation)*	In place by end 2013	Draft legal act and draft guidance documents presented and discussed with MS: - expert group: meetings on 27.02.2013 and 09.01.2014 - Funds committee: 04.12.2013 and 17.12.2013
	Degree of implementation of the annual evaluation plan *(Source: Data collected by DG AGRI)*	100 % of evaluations completed/launched according to the initially set timetable[148] Number of new evaluations	100% complete

[147] The timing of the agricultural census and the farm structure surveys (FSS) is fixed in Council Regulation 571/88 (up to FSS 2007) and Regulation (EC) No 1166/2008 of the European Parliament and the Council (for FSS 2010 onwards) and this survey is conducted usually every five years.

[148] Target has been adapted for the rest of 2013: one evaluation was cancelled; one study (EP pilot project) was completed in December 2012 (two months in advance of the original planning). See also Annex 4.

		launched: 4 Number of evaluations completed: 5[149]	
	Degree of implementation of the annual studies plan set in the evaluation and studies plan *(Source: Data collected by DG AGRI)*	Number of new studies launched: 4 Number of studies completed: 6	3 new studies launched[150] 6 studies completed
	Contribution to the Commission "Simplification Scoreboard" for the MFF Simplification Agenda 2014–2020 *(Source: DG AGRI)*	Timely contribution to the scoreboard throughout the legislative process.	Second Simplification Scoreboard adopted on 26.2.2013 On-going preparation of the contribution to the Commission Communication on the final scoreboard (to be published at the beginning of 2014)
	Contribution to the Commission Regulatory Fitness and Performance Programme (REFIT) *(Source: DG AGRI files on simplification)*	Timely contribution to the REFIT initiative upon request of the Secretariat General.	Outcome of the mapping of the CAP acquis reported on 17.4.2013 Contribution to the Commission SWD on the initial results of the mapping sent on 30.7.2013. The contribution was included in the SWD, published on 1.8.2012 (SWD(2013)401). Contribution to the Commission Communication on results and next steps of the REFIT sent on 20.9.2013. The contribution was included in the Communication published on 2.10.2013 (COM(3013)685).

[149] The 2013 AAR reflects upon 6 evaluations, as one evaluation was performed in 2012 yet published in 2013.

[150] At the request of the Unit that initially demanded the study, one study scheduled was not launched since its content could be included in an administrative arrangement with JRC-Sevilla.

			Commission Communication including a formal recognition that certain number of EU legislative acts in the field of agriculture have become obsolete, adopted on 10.12.2013 (COM(2013)874). On-going preparation of the contribution to the REFIT scoreboard. The scoreboard will show the state of play of simplification and burden reduction initiatives throughout the legislative cycle, including implementation and transposition by MS. Latest update of the contribution to the follow-up of the Administrative Burden Reduction programme (ABR+) sent on 20.11.2013.

1.1.33 ABB 08 Policy strategy and coordination – Specific objective 4

ABB activity: ABB 08			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives.			
Specific objective 4	**Result indicator**	**Target (2013)**	**Current situation**
To support DG AGRI by providing sound legal services and consolidated legal texts thus ensuring that its policies and their implementation are in compliance with the legal framework of the EU	Proportion of positive opinions from the Legal Service in inter-service consultations launched by DG AGRI *(Source: Statistics tool provided by CIS-Net)*	> 90% of consultations	100 % to 31.12.2013
	Rapidity of response on signataires submitted for paraphe on legal issues and on notes submitted asking for legal advice *(Source: Internal Follow-up within Unit M1, échéancier based on Ares)*	> 85% dealt with within deadlines laid down in the vademecum fixing the rules for legal consultation	96.01 % of respected deadlines in2013

1.1.34 ABB 08 Policy strategy and coordination – Specific objective 5

ABB activity: ABB 08			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives.			
Specific objective 5	**Result indicator**	**Target (2013)**	**Current situation**
To ensure correct application and enforcement of	Timeliness of treatment of all notifications of state aid cases received *(Source: Integrated State aid Information System, ISIS)*	100%	100%

Common Agricultural Policy law thus contributing to the smooth functioning of the internal market (state aid and infringement procedures)	Appropriate treatment of all new infringement / complaint cases notified[151] *(Source: CHAP-EU Pilot Data base)*	100%	100%
	Timeliness of treatment of all new draft technical standards received *(Source: TRIS data basis)*	100%	100%
	Proportion of agreements from the Legal Service to proposals launched by DG AGRI in the context of the consultation process foreseen by the monthly infringement decision taking-procedure *(Source: NIF data base)*	90%	100%

1.1.35 ABB 08 Policy strategy and coordination – Specific objective 6

ABB activity: ABB 08			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives.			
Specific objective 6	**Result indicator**	**Target (2013)**	**Current situation**
To implement the Commission planning and programming	Percentage of elements of the Strategic Planning and Programming (SPP) cycle delivered on time *(Source: DG AGRI)*	100 %	100 % (All elements delivered on time up to 31.12.2013)

[151] Refers to both, sound legal analysis and observation of procedures

process and provide full assistance to the Directorate-General in the decision making processes so that it delivers its policy objectives contributing to the overall Commission strategy in an effective, timed, efficient and accountable manner	Delivery rate (adoption by the College) - CWP - Other Agenda Planning (AP) proposals *(Source: Agenda Planning database)*	100 % implementation	Situation 31.12.2013: 2012 CWP: 100 % (2 initiatives postponed from 2012) 2013 CWP: - (1 initiative in 2013 CWP is planned for February 2014) Other AP proposals: Initiatives cancelled: 15 % (6) Initiatives postponed: 32.5 % (13) Initiatives adopted: 52,5 % (21)
	Awareness by staff of the units' objectives set out in DG AGRI Management Plan *(Source: SPP anonymous online survey with DG AGRI's staff in June 2012)*	Maintain the awareness of staff and, if possible, increase	2012: 90 % of staff aware or partly aware (59 % aware and 31 % partly aware) 2010: 82 % (52 %, 30 %)
	Regular (at least once a quarter) and effective reporting to the Director General on the progress of the implementation of the Commission's Work Programme (CWP) and of the other important legal proposals *(Source: DG AGRI)*	To report to the Director General at least once every quarter and each time it is requested and/or necessary	100 % (31.12.2013)
	Timely handling of procedures including the Inter-Service Consultation (ISC) *(Source: CIS-Net)*	100 %	100 %
	Number of delays in DG AGRI replies to ISC *(Source: CIS-Net)*	Steady reduction	2013(Jan-Nov): 150 out of 2067 (7.27 %) 2012: 105 out of 1 881 (5.58 %) 2011: 186 out of 1 940 (9.6 %) 2010: 289 out of 1 932 (15.4 %) 2009: 250 out of 1 559 (16.0 %) 2008: 377 out of 1 901 (19.8 %)

1.1.36 ABB 08 Policy strategy and coordination – Specific objective 7

ABB activity: ABB 08			☒**Spending programme** ☐ **Non-spending**
Relevant general objectives: This specific objective contributes to achieving all three general objectives.			
Specific objective 7	**Result indicator**	**Target (mid-term)**	**Current situation**
To maintain continuous dialogue and cooperation with EU institutions, national parliaments, other institutional stakeholders and civil society, including the participation in meetings of the Council, the SCA and working parties, European Parliament, COMAGRI and other committees, as well as attendance to trilogues (accompany & follow-up on the ordinary legislative procedure)	Questions/requests from other Institutions, including Parliamentary Questions, replied to within the deadline *(Source: BASIL and PETITIONS2, electronic management systems for resp. EP questions and petitions)*	Maintain the present high rate of replies within deadline	From 1.01.2013 to 31.12.2013, 1354 EP questions (448 lead /906 associated), 3 request from national parliaments, 64 MEP letters to the Commissioner and 9 letters from MEPs signed by DG and 38 Petitions (20 lead/18 assoc.) were dealt with[152] 1.1 to 31.12.2013: > 99 % replies within deadline
	Participation of the Commissioner and DG AGRI's officials in high level meetings with other EU institutions *(Source: DG AGRI)*	The Commissioner represents the Commission in the most important meetings	Commissioner's participation in 2013: - 5 times in EP plenary and 4 time in COMAGRI. DG AGRI's participation in 12 plenaries and in 21 meetings of COMAGRI - EESC: in 2013 the Commissioner attended 1 EESC meeting with Chairman Campli. - CoR: in 2013 the Commissioner has attended 1 CoR meetings.

[152] Figure coming from PETITION2, the electronic system for petitions

			Participation of DG AGRI in EESC meetings: 10 and in the CoR: 3 - Council meetings: 11 times DG AGRI's participation in 2013: - Council: 11 times - SCA: 28 times - WPs: 42 times - trilogue meetings: 51 DG AGRI participation in pre-GRI: 23 DG AGRI participation in advisory/working groups:76
	(1) Number of open EP and Council discharge recommendations as well as ECA recommendations addressed to AGRI in RAD (2) Number of open recommendations in RAD addressed to AGRI that has expired a deadline *(Source: RAD)*	(1) As low as possible (depends on the number of rec. issued) (2) 0	(1) 65 (situation as of 10.12.2013) (2) 0 (situation as of 10.12.2013)

1.1.37 - 1.1.41 AWBM 01 Administrative support

Please refer to Annex 13 for further details on the performance achievements of **AWBM 01 Administrative support**.

1.2 Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities

According to the financial regulation (art 30), the principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and the best price. The principle of efficiency concerns the best relationship between resources employed and results achieved.

The respect of these principles is continuously pursued through the implementation of internal procedures and predefined practices. These procedures ensure that activities are executed in an efficient manner and according to the principle of economy.

DG AGRI is continuously fine-tuning its internal arrangements in order to improve the efficiency and economy of its operations. The following two initiatives show how these principles are implemented in our DG.

1.2.1 Example 1: Automation of the transmission of Member States' control statistics

In order to calculate residual error rates (please refer to Annex 4 on materiality criteria), DG AGRI relies on information sent by the Paying Agencies in the Member States. Paying Agencies report on administrative checks carried out on all aid applications received as well as on the on-the-spot checks performed on a sample of transactions. Often, the data arrive late or are of an insufficient quality. Furthermore, the variety of templates and guidelines used so far and the manual processing of the data received resulted in an exercise which was not only labour intensive and time-consuming, but also vulnerable to handling and reporting errors.

In 2012 DG AGRI launched a pilot exercise to establish a **platform for the automation of the transmission of the statistics by the Member States**. From July 2013 onwards, statistics for direct aid schemes (Single Area Payment Scheme, Single Payment Scheme, Crop Specific Payment for Cotton and Separate Soft Fruit Payment) were received via the new platform. An in-depth analysis was carried out during the following months, which resulted in a favourable quality control report presented to the Member States in November 2013.

Following the success of the pilot exercise in 2013 for the area of direct aids, work is carried out in DG AGRI to further extend the automation process to other schemes.

This exercise will result in a simplification for both the Member States and Commission services. It streamlines the submission of data (uniform approach by single guideline, single template, and single transfer medium) and reduces the steps that DG AGRI has to take to determine the residual error rate. In addition, Member States now have to report at the level of a single applicant or beneficiary. This approach will improve the quality of the control statistics and facilitate audits, limiting the need for additional requests to Member States. Furthermore, the decrease of manual interference will reduce the risk for possible errors.

1.2.2 Example 2: One single framework for monitoring and evaluation of both CAP pillars

A Common Monitoring and Evaluation Framework[153] including common indicators has been in place for the second pillar of the CAP (Rural Development) for the current programming period. For the first pillar (Market measures and Direct payments), evaluations have been carried out on an ad-hoc basis[154], in line with the requirements of the Financial Regulation[155].

In close cooperation with Member States, remarkable efforts have been made to establish a **single framework for monitoring and evaluation** [156] which covers both pillars of the CAP and will come into effect in the new Multiannual Financial Framework period 2014 to 2020. Whereas the new framework preserves the general structure for the allocation of responsibilities between Commission and Member States[157], it will allow to effectively and efficiently identify demonstrable impacts of the agricultural policy and to steer it accordingly.

The new framework contributes to simplifying processes for both Member States and the Commission (see table below). Hence the new common monitoring and evaluation framework generates economy and efficiency gains and allows for more targeted policy steering.

[153] Council Regulation (EC) No 1698/2005 Article 80 and Commission Regulation (EC) No 1974/2006 Annex VIII

[154] No common list existed, yet the indicators were chosen individually based on the evaluation in question.

[155] Council Regulation (EC, Euratom) No 1605/2002, Article 27(4)

[156] Regulation (EU) No 1306/2013, Article 110

[157] The evaluations under the first pillar of the CAP are carried out by external contractors under the responsibility of the Commission services. For the second pillar, evaluations of rural development programmes are carried out at programme level by/on behalf of the Member States while the synthesis of these evaluations is done under the responsibility of the Commission services.

Specific efforts to improve 'economy' and 'efficiency' of spending and non-spending activities

Simplification for Member States	Simplification for Commission services
No new additional data requests[158] resulting from the extension of the monitoring and evaluation framework	**Increased consistency** between programme statements in the context of the **budget** preparation and for the **performance reporting** in the management plan (MP) and Annual Activity Report (AAR) as the indicators will also serve as a source of information
Reducing the number of indicators to the lowest possible while still covering the monitoring and evaluation needs for the first and second pillar of the CAP post 2013	**Increased reliability of performance reporting** by DG AGRI as the indicators are largely based on established data sources[159]
Facilitating the monitoring and evaluation of Rural Development Programmes (RDPs) by the provision of indicator fiches explaining how each should be calculated, including clear references to the available data sources	**Reducing the need of Commission guidance** to external contractors that are carrying the evaluation under the first pillar as an comprehensive intervention logic for the CAP[160] was developed in the course of the preparations for the monitoring and evaluation framework
Increasing effectiveness of the policy by **more timely evaluation procedures** with regard to programme steering and achievements for rural development	**Reducing the time needed for data validation and correction** by the establishment of operations databases and the electronic transmission of monitoring data for rural development

[158] With the exception of information related to new instruments and measures introduced by the CAP reform.

[159] This concern had been raised by the Court of Auditors in the past.

[160] See 2014 Management Plan

2. MANAGEMENT OF RESOURCES

Assurance is an objective examination of evidence for the purpose of providing an assessment of the effectiveness of risk management, control and governance processes. This examination is carried out by management, who monitors the functioning of the internal control systems on a continuous basis, and by internal and external auditors.

This section reports the control results and other relevant elements that support managements' assurance on the achievement of the internal control objectives[161]. It is structured in three separate sections: (1) the DG's assessment of its own activities for the management of its resources; (2) the assessment of the activities carried out by other entities to which the DG has entrusted budget implementation tasks; and (3) the assessment of the results of internal and external audits, including the implementation of audit recommendations.

2.1 Management of human and financial resources by DG AGRI

This section reports and assesses the elements identified by management that support the assurance on the achievement of the internal control objectives. Annex 5 outlines the main risks together with the control processes aimed to mitigate them and the indicators used to measure the performance of the control systems.

2.1.1 Control effectiveness as regards legality and regularity

DG AGRI has set up internal control processes aimed to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments concerned.

EAGF and EAFRD expenditure is implemented under **shared management** through a comprehensive management and control system (which is described in detail in Annex 10 of the report) which is designed to ensure the legality and regularity of the underlying transactions at the level of the final beneficiaries. Where the Commission implements the budget under shared management, implementation tasks are shared with the Member States. The latter are required, to take all the necessary measures to ensure that actions financed from the EU budget are implemented correctly and effectively and in accordance with EU rules. They are obliged to have systems in place which prevent, detect and correct irregularities and fraud. The CAP legislation provides that they shall accredit **Paying Agencies** which are responsible for the management and control of Union funds. There were 81 such Paying Agencies at the end of 2013 (not including Croatia for which there was only partial accreditation).

[161] Effectiveness, efficiency and economy of operations; reliability of reporting; safeguarding of assets and information; prevention, detection, correction and follow-up of fraud and irregularities; and adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the multiannual character of programmes as well as the nature of the payments (FR Art 32).

The EAGF is managed on an annual basis and commitment and payment appropriations always match. This is in line with the principle of *annuality* set out in the Treaty on the functioning of the European Union (Article 310) and in chapter 2 of the Financial Regulation[162]. For both the market measures and direct payments to farmers which are funded under the EAGF, there are no "programmes" as such. Aid measures and schemes are legislated for at EU level and specify EU-wide rules, unlike the situation for the "programmes" where measures can be tailored at national and regional level in order to meet specific objectives. Accounts are declared and cleared (financial clearance) on an annual basis, the results of control are provided for in respect of the financial year which is being reported upon. The residual error rate has, therefore, been calculated for the 2013 expenditure.

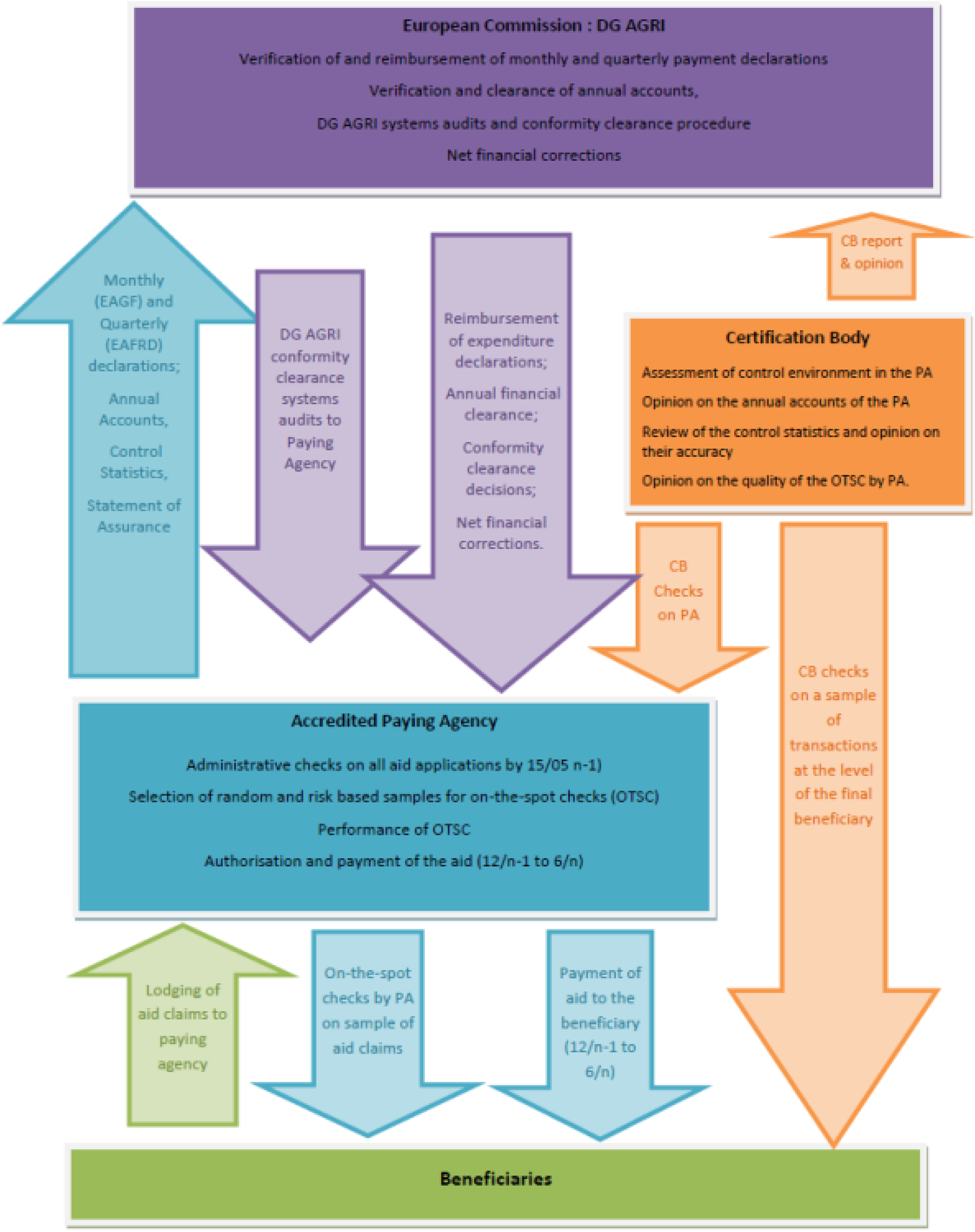
The EAFRD, while multi-annual in nature, has also been managed on an annual basis with annual accounts clearance and with the establishment of a residual error rate for the 2013 reporting year. However, DG AGRI is committed to developing a cumulative approach for the assessment of the residual error rate from its 2014 AAR.

The following flow chart sets out the DG AGRI shared management model:

[162] Regulation no. 966/2010 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (OJ. L 298 of 26/10/2012).

2.1 Management of human and financial resources by DG AGRI

Shared Management – DG AGRI model



Flow chart 2.1.1

2.1 Management of human and financial resources by DG AGRI

DG AGRI has set up internal control processes for itself as well as a precise legal framework for the Paying Agencies in the Member States. Both of these processes are designed so as to ensure the adequate management of the risks relating to the legality and regularity of the underlying transactions, taking into account the annual nature of the payments concerned and the very large number of beneficiaries concerned. The control objective is to ensure that the residual risk does not exceed 2% at the level of the individual paying agency.

As this report goes on to state, the residual error rates for the various ABB activities for which the Director General is responsible are at 7.44% for ABB02 (market measures), 2.34% for ABB03 (direct payments) and 5.19% for ABB04 (Rural Development). Overall, the residual error rate for these, the three principle spending area within the CAP, is 3.26% and the total amount at risk, resulting from this error rate, is 1.885 billion EUR out of 57.8 billion EUR.

As these three ABB activities are dealt with under shared management with the Member States, DG AGRI cannot, on its own, reduce the level of error. While DG AGRI is fully assuming its responsibilities, the detection and correction of errors is first and foremost in the hands of the Member States. The latter are responsible for the management and controls at beneficiary level and, as pointed out by the Court of Auditors in its 2012 annual report, they are primarily responsible for the error which occurs.

With over 8 million beneficiaries of the CAP, direct management by the Commission is impossible and therefore reliance on the Member States is necessary. DG AGRI carries out around 120 audit missions to the Member States every year in order to check that EU rules are complied with. As a result, the Commission imposes net financial corrections on the Member States of over 600 million EUR every year by which they reimburse to the EU budget any irregular spending which has been identified.

It is recalled that Article 32(5) of the Financal Regulation No. 966/2012 states

"*If, during implementation, the level of error is persistently high, the Commission shall identify the weaknesses in the control systems, analyse the costs and benefits of possible corrective actions and take or propose appropriate action, such as simplification of the applicable provisions, improvements of the control systems and re-design of the programme or delivery systems.*"

Accordingly, in 2013, DG AGRI produced reports on the root causes of error in respect of each of the three ABB activities and has identified the principle weaknesses in the Member States' management and control systems (details are set out for each ABB activity in the corresponding parts of Annex 10). In most of the cases, remedial actions are being taken by the Member States concerned and DG AGRI actively monitors their proper implementation. DG AGRI has also analysed the costs and benefits of the controls presently required to be carried out (see details at point 2.1.2 on control efficiency and cost-effectiveness). The amount spent by Member States on controlling and managing agricultural expenditure is close to 4 billion EUR and more than 5% of CAP expenditure. The analysis shows that these costs are already high and that any further increase of control efforts would raise the issue of the cost-effectiveness of the control system. As for the future, the CAP Reform of 2013 introduced the maximum degree of simplification upon which the European Parliament and Council of Ministers could agree as well as improved control systems to the greatest extent practically achievable.

The CAP Reform agreed upon by the European Parliament and Council of Ministers sets out the legal framework for 2014-2020. The control systems have been improved to the greatest extent practically achievable. DG AGRI is determined to use all means at its disposal to ensure a sound management of the CAP on this basis. Yet, taking into account the need to balance legality and regularity with the achievement of policy objectives while bearing in mind the current control requirements and costs, the question cannot be eluded as to whether it will be possible, in the foreseeable future, to allow the error rate to descend below 2% on a sustainable basis.

2.1.1.1 Materiality criteria (control objective) and reservation

Given the purely annual nature of direct payments to farmers and the annual declaration cycle and financial clearance of accounts procedure, the necessary information on the results of the controls carried out for financial year N is received in sufficient time to be used in the AAR for that year. In line with the detailed materiality criteria set out in *Annex 4,* reservations are made as a general rule for Paying Agencies for which the annual residual error rate exceeds 2%. However, for those for which the annual residual error rate falls between 2 and 5%, the existance of sufficient mitigating factors may justify not making a reservation.

The "conformity clearance" procedure which results in net financial corrections is multiannual in nature; the audits in respect of year N might only take place in n+1 or even n+2 with the ensuring contradictory and conciliation procedures requiring at least 2 years. However, the resulting net financial corrections do protect the EU Budget against the risk of irregular payment at beneficiary level. This "corrective capacity" is reflected by the financial corrections executed decided or exectued and may be compared to the residual error error. (See Annex 10 for further explanation of the conformity clearance procedure).

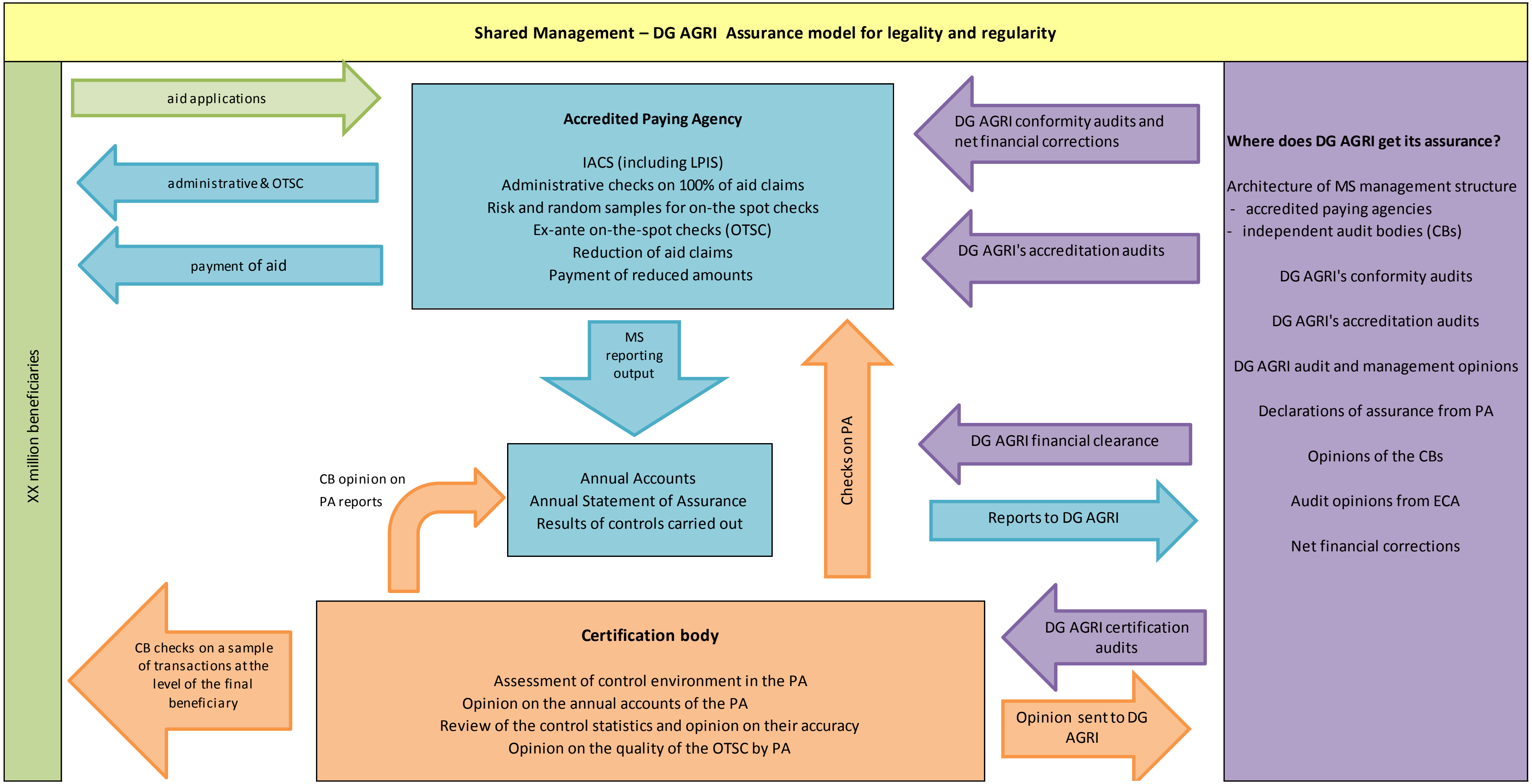
DG AGRI is of the view that recoveries and net financial corrections have to be taken into account in any comprehensive assessment of the overall system of internal control and wishes to develop, for future AAR exercises, together with the concerned services of the Commission, a means to incorporate the impact of these corrective measure on the protection of the Union budget.

The control systems are explained in more detail in part 1 of Annex 10 (functioning of the Paying Agencies) and in part 3 of that annex which deals separately with each of the ABBs.

The following flow chart sets out the key elements which are taken into consideration for building assurance at Commission level as regards the legality and regularity of operations at Paying Agency level.

2. MANAGEMENT OF RESOURCES

2.1 Management of human and financial resources by DG AGRI



Flow chart 2.1.2

2.1.1.2 Payments executed in 2013 for the CAP

In 2013, total EU payment appropriations[163] under DG AGRI responsibility was about € 59.11 billion. Of this, about € 58.95 billion (or 99.7 %) was under shared management. Decentralised management and direct centralised management accounted altogether for only around 0.3 % of total EU expenditure under DG AGRI responsibility.

98.5 % of these payment appropriations (or around € 58.2 billion) were executed in 2013. The table below shows the payments executed broken down by activity.

Title 05	Agriculture and rural development	€ million
05 01	Administrative expenditure	20,08
05 02	Interventions in agricultural markets	3.193,18
05 03	Direct aids	41.658,28
05 04	Rural development	13.151,82
05 05	Pre-accession measures	47,64
05 06	International aspects	3,06
05 07	Audit	119,78
05 08	Policy strategy and coordination	33,25
05	**Total DG AGRI**	**58.227,10**

Table 2.1.3 Payments executed in 2013 by ABB activity

The detailed financial data and the draft annual accounts are presented in *Annex 3*.

It is pointed out that there are minor differences between the financial data reported upon by DG AGRI's Accounting Officer (in Annex 3 and in the official financial statements of the EU) and the financial data used for the calculations of error and amounts at risk (in chapter 2.1 and in Annex 10).

The Accounting Officer reports on amounts **reimbursed** by DG AGRI to the Member States in the financial year while, for the very specific purpose of the estimation of the residual error rate and amounts at risk, DG AGRI, uses the amounts **declared** by the paying agency in their annual accounts as paid to the beneficiaries.

Annex 10 to this report sets out in detail the management and control system in place and demonstrates how assurance is drawn with regard to legality and regularity in respect of each of the three principle ABB activities for which the DG is responsible, ABB02, ABB03 and ABB04, which together account for 99.6% of the CAP spending in 2013.

[163] Including assigned revenue.

The principle conclusions in respect of each of these is summarised in sections 2.1.1.4 (ABB02 – Market Measures), 2.1.1.5 (ABB03 - Direct Payments) and 2.1.1.6 (ABB04 – Rural Development).

2.1.1.3 Protection of the EU Budget via Net Financial Corrections

2.1.1.3.1 Agricultural legal provisions have always provided for net financial corrections

According to the Common Agricultural Policy (CAP) legal framework, financial corrections imposed by the Commission on Member States upon completion of a conformity clearance procedure have always been net corrections since the first clearance of accounts decision in 1976 and will continue to be net corrections for both European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD) as:

- the corrected amounts are actually reimbursed by the Member States to the EU budget; and
- the amounts received are treated as assigned revenue to the EU budget. They are used to finance CAP expenditure as a whole without being earmarked for any particular Member State (see also box below).

Every year the Commission adopts between 2 and 4 conformity clearance decisions on a package of individual financial corrections. In 2013 the Commission adopted 4 such decisions, covering 147 individual net financial corrections for a total amount of 1,1 billion EUR (2 % of the CAP expenditure budgeted for 2013). This confirms the increasing trend reported by the Court in its 2012 Annual Report, paragraph 4.29[164].

NET FINANCIAL CORRECTIONS **ADOPTED** IN 2013 (MILLION EUR)

Decision:	40	41	42	43	TOTAL
EAGF	285,58	130,14	142,64	303,57	861,92
EAFRD	104,70	88,44	32,47	10,60	236,21
OTHERS	7,09	8,76	2,66	0,12	18,63
TOTAL	397,37	227,34	177,77	314,29	1.116,76

Table 2.1.4

For EAGF, financial corrections are executed by deducting the amounts concerned from the monthly payments made by the Commission in the second month following the Commission decision on a financial correction to the Member State concerned.

[164] In 2012, the Commission took three conformity decisions, leading to financial corrections of 651 million euro (503 million euro relating to EAGF and 148 million euro to EAFRD). The average amount of financial corrections in the last five-year period (2008 - 2012) was 30 % higher than in the preceding period (2003 - 2007), taking into account the budget increase between those two periods.

For EAFRD, the financial corrections are executed through a recovery order requesting the Member State concerned to reimburse these amounts to the EU budget.

2.1.1.3.2 Is the amount executed the same as the amount adopted?

Over time, the amounts adopted and executed are the same. However there are a number of timing issues which affect when the financial corrections for which decisions have been adopted are actually reimbursed by the Member States

- a decision is adopted in month n. The deduction of the financial correciton is made from the Member State's expenditure for month n+2. The expenditure for that month is declared to the Commission in n+4 and reimbursed (less the amount of the financial correction in n+5).

- if the amount to be reimbursed by the Member State is more than 0.01% of its GDP, it may request that the deductions are made in annual instalments (maximum 3) instead of all at once.

- the Member States which were subject to financial assistance mechanisms can request to defer for a one-off 18 month period their financial corrections. All amounts which should be executed during that period are deferred until the end of the period at which time the total amount is repaid via 3 annual instalments.

The following table shows the net financial corrections executed in financial years 2011, 2012 and 2013:

NET FINANCIAL CORRECTIONS EXECUTED IN 2011-2013

	ABB02	ABB03	ABB04	TOTAL
2011	187,65	269,00	79,71	536,36
2012	222,60	406,88	54,09	683,56
2013	100,42	381,47	229,77	711,66
TOTAL	510,67	1.057,34	363,57	1.931,58

These amounts only include corrections resulting from the conformity clearance exercise and do not include corrections for EAGGF Guarantee and Guidance which relate to the 2000-2006 rural development programming period.

Table 2.1.5

Treatment of assigned revenue

The amounts corrected and clawed back by the Commission are credited to the EU budget as assigned revenue on specific budget lines (item 67 01 for EAGF, item 67 11 for EAFRD).

In the EAGF the resulting assigned revenue can be used to finance expenditure budget lines to cover any type of EAGF expenditure without being targeted to any specific Member State. The budget remarks for chapters 05 02 (markets) and 05 03 (direct payments) clearly show that the financing needs of the EAGF are systematically reduced during the budget procedure by an amount representing the estimated assigned revenue which will be available from financial corrections during the budget year concerned. For instance EUR 600 million of financial corrections were initially budgeted for the 2012 budget, whereas EUR 647,8 million of assigned revenue became actually available and were used in that budget year).

For EAFRD, as the budgetary commitments have already been consumed by the Member State when it declared expenditure for reimbursement by the Commission, the recovered amounts cannot be used anymore. The payment appropriations from the assigned revenue are available for payments under the budget line for the EAFRD. They can be used for any open payment for any rural development programme. Hence, the EAFRD assigned revenue reduces the overall need for payment appropriations and has been used to reduce requests for additional payment appropriations. In 2012 assigned revenues from EAFRD financial corrections amounted to EUR 55 million.

Box 2.1.6

2.1.1.4 ABB02: Market Measures

Market measures, at 3.2 billion EUR, accounted for 5.5% of the CAP budget in 2013. There are some 50 very diverse measures split over 15 sectors the most important of which are fruit & vegetables and wine:

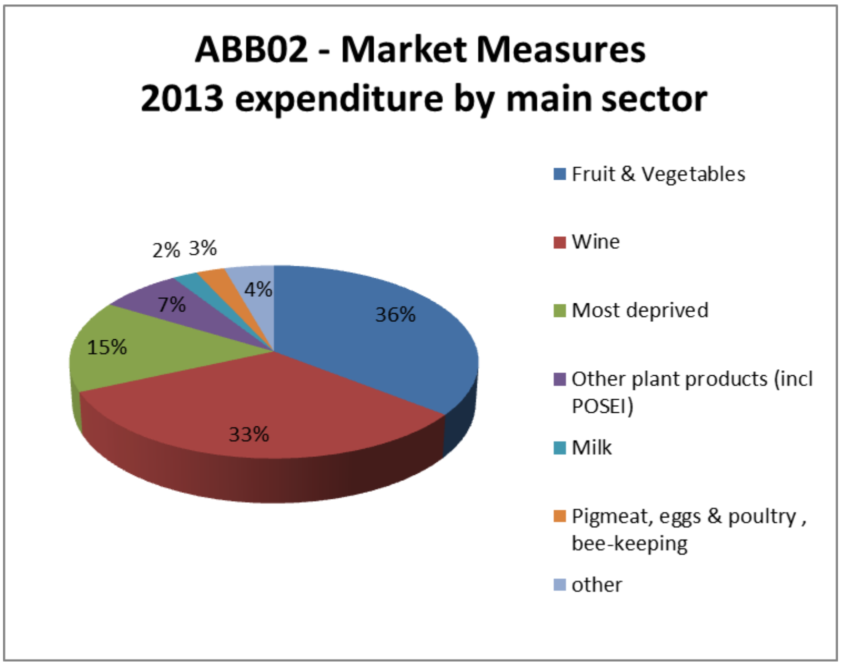


Chart 2.1.7

The following table sets out the expenditure in 2013 for ABB02 by Budget article (by sector). A measure by measure approach has been taken for assurance purposes in order to identify the residual error rate for specific aid schemes and to identify as precisely as possible, the amounts at risk.

2.1 Management of human and financial resources by DG AGRI

Budget article	Heading	Expenditure	Expenditure for which statistics are available	Amount at Risk	Amount under reservation	Expenditure for which no control statistics are available	
						amount	Estimate of maximum amount at risk
		EUR	EUR	EUR	EUR	EUR	EUR
050201	Cereals	79.087	-	-	-	79.087	1.582
050202	Rice	-	-	-	-		
050203	Non Annex I refunds	4.879.804	4.879.804				
050204	Most deprived	491.528.689	-	-	-	491.528.689	9.830.574
050205	Sugar	- 146.768	-	-	-	- 146.768	- 2.935
050206	olive oil	60.938.529	-	-	-	60.938.529	1.218.771
050207	Textile plants	17.140.277	-	-		17.140.277	342.806
050208	Fruit & Vegetables	1.137.485.374	1.137.455.958	115.997.360	109.342.354	29.416	588
050209	Wine	1.043.706.392	594.036.162	61.384.126	56.025.934	449.670.230	11.684.477
050210	Promotion	50.150.693	-	-	-	50.150.693	1.003.014
050211	Other plant products (incl POSEI)	229.426.646	-	-	-	229.426.646	2.144.453
050212	Milk	70.349.054	63.177.086	3.599.375	3.573.087	7.171.968	143.439
050213	Beef & Veal	6.489.188	6.487.192	-	-	1.995	40
050214	Sheepmeat & goatmeat	-	-	-	-		
050215	Pigmeat, eggs & poultry , bee-keeping	80.611.431	49.669.709	29.431.782	29.348.163	30.941.722	618.834
050217	Pilot projects	-	-	-	-		
Totals		**3.192.638.395**	**1.855.705.912**	**210.412.643**	**198.289.538**	**1.336.932.483**	**26.985.642**
	% of expenditure covered by statistics						**58,10%**
	% of expenditure covered by statistics or professional judgement						**100,0%**
	% of expenditure at risk (error rate)						**7,44%**
	total amount at risk						**237.398.285**

Table 2.1.8

Control statistics are available in respect of 58% of the expenditure covering 1 856 million EUR. For a further 1 337 million EUR, DG AGRI's auditors consider that they have assurance on the basis of an examination of all available information on the schemes concerned and have used their judgement to estimate the maximum amount at risk in that expenditure. (It is however, recognised that assurance would be more readily elicited from the statistics resulting from the Member States controls and DG AGRI has already commenced the work necessary, in the context of the automation of the transmission of control statistics, to ensure that a wider array of statistics are available for future AARs[165].)

Both the quantitative (where control statistics were available) and the qualatative approaches are set out in Annex 10 – part 3.1 (ABB02).

This assessment process led to a number of adjustments being proposed by DG AGRI to the error rates calculated by the Member States.

Each case where the residual error rate was above 2% was examined in order to detemine if a reservation should be made:

- Where the resulting level of error was above 5%, a reservation was made (11 such reservations were necessary).
- Where the level of error falls between 2 and 5%, the specific situation was examined to determine if risk mitigating factors existed that would preclude making a reservation.

[165] It is noted that the Most Deprived Scheme which acounts for expenditure of 492 million EUR in 2013 is, from the 2014 budget, no longer funded under the CAP.

- The results of this analysis are set out for each case in Annex 10 – part 3.1 (ABB02).

The overall outcome of this exercise is that 11 reservations are necessary at measure level:

- Fruit & vegetables: Operational programmes for producer organisations (AT, NL & UK)
- Fruit & vegetables: Pre-recognition of producer groups (PL)
- School fruit scheme (IT & NL)
- Wine: Restructuring & reconversion of vineyards (ES)
- Wine investment measures (CZ)
- Export Refunds: Poultry (FR)
- School Milk Scheme (FR & SE).

Annex 10 provides information on the corrective action which is envisaged in each case that a reservation is made.

<u>The amount covered by these reservations is 198.3 m EUR while the total amount of risk for ABB02 is estimated at 237.4 m EUR corresponding to an error rate of 7.44%.</u>

The following table summarises the result at Member State level:

2.1 Management of human and financial resources by DG AGRI

Member State	Expenditure EUR	Reservation (by sector)	Adjusted residual error rate	Amount under reservation EUR	Scope of reservations * EUR	Amount at risk EUR	Commission Action: Net financial corrections in decisons adopted in 2013 EUR	Commission Action: Net financial corrections proposed but not yet adopted EUR
Austria	23.598.968	Fruit & Veg (1)	8,57%	1.941.497	7.765.988	2.022.240	0	
Belgium	77.868.020		0,92%			713.285	4.108.237	0
Bulgaria	43.095.001		0,91%			393.957	0	52.078
Cyprus	6.272.900		1,51%			94.594	0	0
Czech	13.971.945	Wine (5)	14,48%	2.019.336	2.019.336	2.023.603	26.676	13.983.341
Germany	100.918.262		1,01%			1.023.724	6.192.951	0
Denmark	6.632.323		1,47%			97.174	0	1.023.197
Estonia	3.457.961		1,38%			47.755	0	0
Spain	590.570.435	Wine (4)	10,89%	54.006.597	163.574.553	64.314.172	12.940.208	13.047.657
Finland	9.655.705		0,85%			81.752	715.273	0
France	635.575.730	Export Refunds (6)	6,37%	29.348.163	42.180.547	40.517.290	11.724.693	85.154.424
		school milk (7)		3.073.477	12.016.893	0	0	0
Greece	63.071.405		1,05%			662.144	7.775.474	2.303.269
Hungary	68.702.430		0,41%			284.839	571.334	11.911.229
Ireland	5.797.881		0,90%			51.954	450.450	0
Italy	701.088.022	Fruit & Veg (3)	1,98%	4.950.328	19.801.312	13.911.382	32.687.971	97.775.033
Lithuania	11.410.840		1,37%			156.203	0	0
Luxembourg	378.553		0,85%			3.226	0	0
Latvia	15.482.468		0,65%			100.220	0	0
Malta	873.071		1,19%			10.366	0	0
Netherlands	84.486.399	Fruit & Veg (1)	19,40%	13.718.126	73.019.502	16.390.026	688.510	0
		Fruit & Veg (3)		2.671.900	2.959.376	0	0	0
Poland	415.215.862	Fruit & Veg (2)	19,05%	77.572.341	307.264.392	79.112.639	715.488	0
Portugal	119.607.705		1,30%			1.556.170	30.984	623.406
Romania	122.392.655		0,95%			1.160.101	0	4.023
Sweden	12.608.110	school milk (7)	4,78%	499.611	6.246.150	602.529	0	0
Slovenia	8.659.875		1,44%			124.849	0	8.707.071
Slovakia	9.232.143		0,08%			7.142	0	0
UK	42.013.728	Fruit & Veg (1)	20,21%	8.488.162	33.952.649	8.491.021	-277.451	54.989.620
Other						3.443.927	**	
Grand Total	**3.192.638.396**		**7,44%**	**198.289.538**	**670.800.698**	**237.398.285**	**78.350.800**	**289.574.348**

Amount under reservation as a percentage of the scope **29,56%**

* the scope of the reservation is the total amount of payment made during the reporting year affected by a reservation.
** This amount refers to an amount at risk calculated at the level of the ABB in respect of a residual expenditure of 172 million EUR for which no information was available.

(1) Operational programmes for producer organisations
(2) Pre-recognition of producer groups
(3) School fruit scheme
(4) Vineyard restructuring & conversion
(5) Wine investment measures
(6) Poultry export refunds
(7) School milk scheme

Table 2.1.9

2.1.1.5 ABB03: Direct Payments

Direct payments constitute the largest area of expenditure in the CAP and amounted to 41 661 million EUR in 2013. The single payment and single area payment schemes account for 91.4% of this amount.

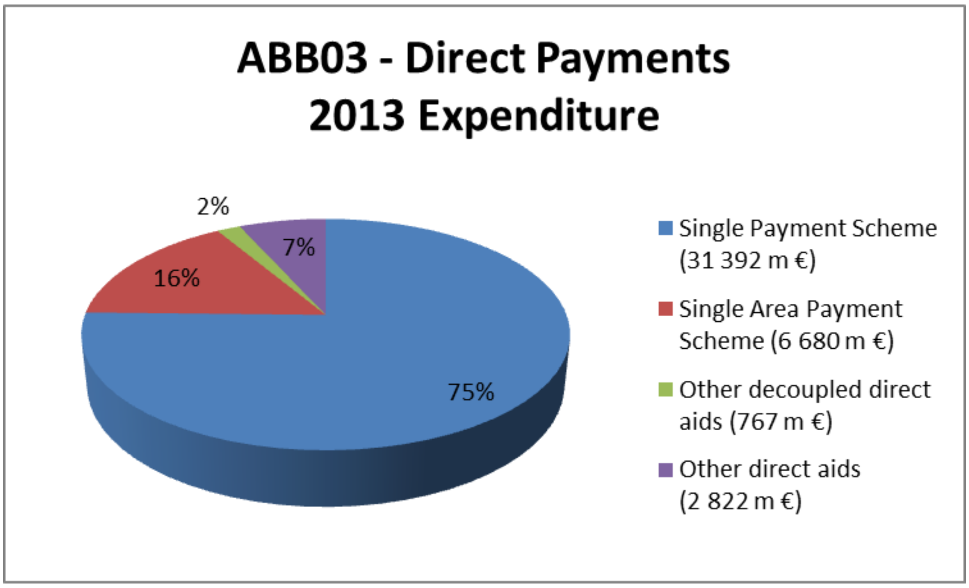


Chart 2.1.10

Control statistics have been provided by each paying agency in respect of 92.1% of the expenditure for the ABB activity.

DG AGRI has examined the data sent on case by case basis and has made a number of adjustments to the error rates resulting from the paying agency data where the latter was not considered to be reliable and not reflect the real level of error exisitng in the expenditure. Account has been taken of the opinions of the certification bodies (independent audit bodies which deliver an opinion on the reliability of the statistics), the European Court of Auditors and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 10 – Part 3.2 (ABB03) sets out a number of case studies to explain in detail the assessment process and how the adjustments proposed were determined.

The results of the calculations have been extrapolated to the total expenditure of the ABB in order to cover the remaining expenditure for which control statistics were not provided.

As a result of the "top-ups" made, an adjusted residual error rate (RER) has been calculated of 2.34% with 31 out of 68 paying agencies having a RER above 2% (of which two were above 5% - Greece and the RPA (England)).

For the 29 paying agencies with an error rate between 2 and 5%, an examination was carried out of any risk mitigating factors which indicated that the EU budget was protected for the past (conformity clearance procedure, culminating in a financial correction, underway) and that it is protected for the future (the deficiencies have been addressed by the paying agency). In 11 out of the 29 cases, it was considered that, given the mitigating factors present it would not be necessary to make reservations. Annex 10 – part 3.2 (ABB03) sets out in detail the justifications where a reservation is not retained while the corrective actions required by the paying agency are indicated.

The overall outcome of this exercise is that 20 reservations are necessary at paying agency level:

- Spain – for 15 out of 17 paying agencies
- France -ASP
- UK – RPA
- Hungary
- Greece
- Portugal

The following table presents the situation at Member State level for ABB03; Annex 10 – Part 3.2 (ABB03) provides the full picture per paying agency.

Member States	Expenditure ABB03 in 2013 EUR	Number of Paying Agencies	Number of Paying Agencies under reservation	Adjusted Residual Error Rate	Extrapolated Amount at Risk covered by Reservation EUR	Scope of Reservations[1] EUR	Amount at Risk for ABB03[2] EUR	Commission's Action	
								Net financial corrections in decisions adopted in 2013 EUR	Net financial corrections proposed but not yet adopted EUR
Austria	706.438.546	1	0	3,55%	0,00	0,00	25.090.411,61	2.227.218	0
Belgium	567.092.524	2	0	0,14%	0	0	775.053	3.038.791	1.952.141
Bulgaria	494.424.796	1	0	1,59%	0	0	7.867.310	0	15.829.462
Cyprus	43.842.946	1	0	1,25%	0	0	549.057	0	0
Czech	824.121.274	1	0	0,39%	0	0	3.195.786	5.255.897	0
Germany	5.253.938.613	13	0	0,63%	0	0	33.246.316	1.046.472	13.033.829
Denmark	939.223.263	1	0	2,38%	0	0	22.334.739	10.168.680	8.001.222
Estonia	91.924.140	1	0	0,94%	0	0	864.717	0	0
Spain	5.237.123.746	17	15	2,92%	147.806.306	4.968.417.388	153.146.938	75.131.648	45.233.351
Finland	531.825.705	1	0	2,52%	0	0	13.426.774	4.355.692	4.878.583
France	7.967.008.516	2	1	2,60%	203.431.769	7.809.446.463	203.605.087	143.215.076	1.612.062.372
UK	3.286.115.177	4	1	3,90%	118.001.078	2.085.282.395	127.014.389	178.442.038	9.930.202
Greece	2.282.265.465	1	1	5,17%	117.889.151	2.282.265.465	117.889.151	214.848.715	98.471.636
Hungary	1.203.377.855	1	1	3,05%	36.676.810	1.203.377.855	36.676.810	13.598.017	7.614.222
Ireland	1.250.917.232	1	0	2,95%	0	0	36.936.730	4.869.844	0
Italy	3.964.369.298	9	0	1,35%	0	0	53.559.439	48.470.925	11.351.022
Lithuania	345.581.608	1	0	2,23%	0	0	7.700.395	1.260.235	9.854.968
Luxembourg	33.743.329	1	0	2,58%	0	0	870.967	188.287	0
Latvia	132.913.644	1	0	1,35%	0	0	1.799.218	0	457.255
Malta	4.835.099	1	0	0,03%	0	0	1.558	129.651	0
Netherlands	822.950.855	1	0	2,14%	0	0	17.570.006	26.308.168	5.840.500
Poland	2.769.307.172	1	0	0,97%	0	0	26.976.163	23.368.807	6.788.843
Portugal	648.684.551	1	1	4,37%	28.347.490	648.684.551	28.347.490	0	23.929.088
Romania	1.086.101.417	1	0	4,27%	0	0	46.380.704	0	99.107.373
Sweden	689.310.714	1	0	0,41%	0	0	2.791.778	0	3.910.144
Slovenia	130.183.963	1	0	0,85%	0	0	1.110.399	4.247.568	1.199.079
Slovakia	354.310.844	1	0	2,75%	0	0	4.198.031	1.178.759	5.767.336
Grand Total	**41.661.932.292**	**68**	**20**	**2,35%**	**652.152.605**	**18.997.474.116**	**973.925.419**	**761.350.487**	**1.985.212.626**
	Amount under reservation as a percentage of the scope					**3,43%**			

[1]The scope of the reservation is the total amount of payments made during the reporting year by the paying agency affected by the reservation

[2] For Member States with more than 1 Paying Agency the calculation is based on the individual Residual Error Rates

Table 2.1.11

The amount subject to reservation is 652 million EUR while the total amount at risk for ABB03 is 974 million EUR.

2.1.1.6 ABB04: Rural Development

The Rural Development policy under the Common Agricultural Policy disburses some 13 billion EUR to the Member States.

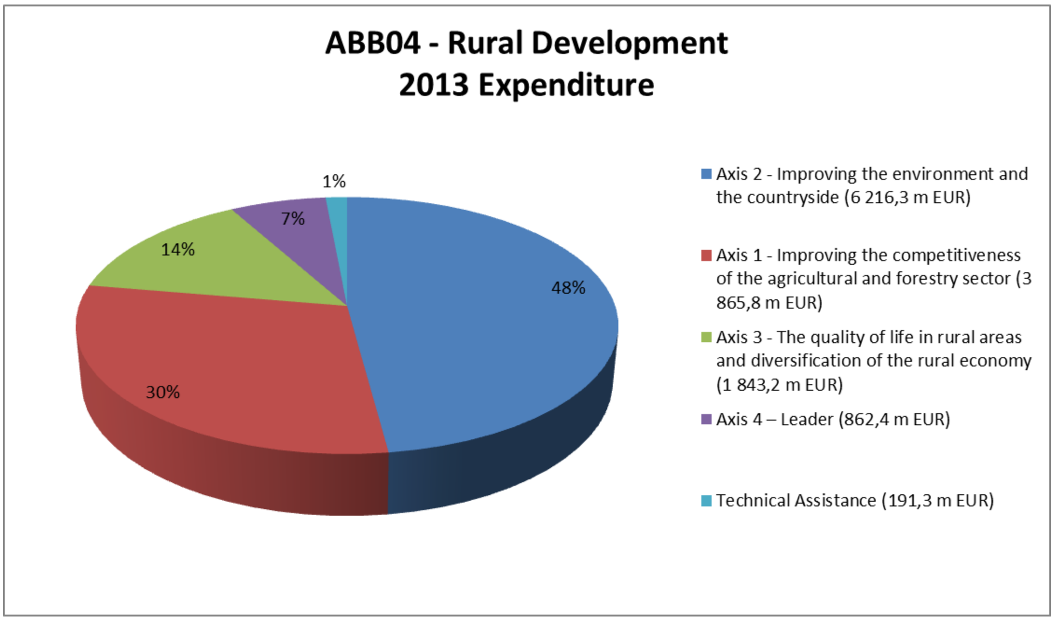


Chart 2.1.12

Control statistics have been provided by each paying agency in respect of 98.6% of the expenditure for the ABB activity.

DG AGRI has examined the data sent on case by case basis and has made adjustments to the error rates resulting from the paying agency data where the latter was not considered to be reliable and reflect the real level of error existing in the expenditure. Account has been taken of the opinions of the certification bodies (independent audit bodies which deliver an opinion on the reliability of the statistics), the European Court of Auditors and the DG AGRI auditors in respect of the audits carried out in the past three years. Annex 10 – Part 3.3 (ABB04) sets out a number of case studies to explain in detail the assessment process and how the adjustments proposed were determined.

The results of the calculations have been extrapolated to the total expenditure of the ABB in order to cover the remaining expenditure for which control statistics were not provided.

As a result of the "top-ups" made, an adjusted residual error rate (RER) has been calculated of 5.19% with 39 out of 71 paying agencies having a RER above 2% (of which 13 were above 5% - Bulgaria, Denmark, Spain (Asturias), France (ODARC), France (ASP), UK (England), Greece, Italy (AGEA), Luxembourg, Netherlands, Portugal, Romania, and Sweden).

For the 26 paying agencies with an error rate between 2 and 5%, an examination was carried out of any risk mitigating factors which indicated that the EU budget was protected for the past (conformity clearance procedure, culminating in a financial correction, underway) and that it is protected for the future (the deficiencies have been addressed by the paying agency). In 8 out of the 26 cases, it was considered that, given the mitigating factors present it would not be necessary to make reservations. Annex 10 – part 3.3 (ABB04) sets out in detail the justifications where a reservation is not retained while the corrective actions required by the paying agency are indicated.

The overall outcome of this exercise is that 31 reservations are necessary at paying agency level:

- Belgium (ALV)
- Bulgaria
- Cyprus
- Germany – 2 paying agencies (Bayern and Brandenberg)
- Denmark
- Spain - 6 paying agencies (Andalucia, Asturias, Castilla-la-Mancha, Castilla y Leon, Galicia, Madrid)
- Finland
- France – 2 paying agencies (Corsica, ASP – the national paying agency)
- UK – 2 paying agencies (Scotland, England)
- Hungary
- Greece
- Ireland
- Italy – 5 paying agencies (AGEA, AGREA, Lombardy, OPPAB, ARCEA)
- Luxembourg
- Netherlands
- Poland
- Portugal
- Romania
- Sweden

The following table presents the situation at Member State level for ABB04; Annex 10 – Part 3.3 (ABB04) provides the full picture per paying agency.

Member States	Expenditure ABB04 in 2013	Number of Paying Agencies	Number of Paying Agencies under reservation	Adjusted Residual Error Rate	Extrapolated Amount at Risk covered by Reservation	Scope of Reservations[1]	Amount at Risk for ABB04[2]	Commission's Action: Net financial corrections in decisions adopted in 2013	Commission's Action: Net financial corrections proposed but not yet adopted
	EUR					EUR	EUR	EUR	EUR
Austria	526.093.587	1	0	4,26%	0	0	22.413.934	1.398.524	0
Belgium	41.527.406	2	1	2,15%	769.108	17.530.612	891.689	33.263	46.835
Bulgaria	396.123.873	1	1	14,36%	56.883.045	396.123.873	56.883.045	22.972	27.535.756
Cyprus	22.911.162	1	1	4,96%	1.137.357	22.911.162	1.137.357	99.741	0
Czech	371.656.567	1	0	3,76%	0	0	13.966.013	5.877.574	2.569.827
Germany	1.293.489.370	15	2	1,62%	10.103.665	367.313.670	20.930.694	5.308.600	3.902.872
Denmark	61.930.976	1	1	6,60%	4.089.910	61.930.976	4.089.910	1.286.485	6.078.041
Estonia	126.354.433	1	0	1,12%	0	0	1.412.601	0	0
Spain	1.034.914.324	18	6	2,62%	23.705.721	697.217.966	27.014.717	2.097.179	5.337.802
Finland	334.135.810	1	1	3,15%	10.532.051	334.135.810	10.532.051	1.549.137	1.977.203
France	982.420.749	2	2	7,26%	71.331.857	982.420.749	71.331.857	39.310.543	58.860.168
UK	750.581.097	4	2	4,19%	30.570.441	643.956.611	31.363.348	11.883.722	1.838.093
Greece	225.793.111	1	1	12,37%	27.939.957	225.793.111	27.939.957	6.563.883	7.926.259
Hungary	488.440.120	1	1	4,89%	23.873.474	488.440.120	23.873.474	3.798.239	1.754.444
Ireland	321.596.195	1	1	4,07%	13.073.660	321.596.195	13.073.660	3.163.291	0
Italy	1.265.647.071	9	5	5,10%	61.964.059	1.062.393.415	64.708.307	6.845.151	2.755.593
Lithuania	251.014.978	1	0	2,29%	0	0	5.744.115	6.683.898	2.534.732
Luxembourg	10.062.399	1	1	6,31%	634.593	10.062.399	634.593	308.450	1.469.939
Latvia	182.447.017	1	0	2,43%	0	0	4.442.309	1.231.845	423.327
Malta	9.622.621	1	0	1,22%	0	0	117.147	30.845	0
Netherlands	99.472.353	1	1	5,77%	5.741.151	99.472.353	5.741.151	3.633.027	151.527
Poland	1.806.188.698	1	1	3,14%	56.700.252	1.806.188.698	56.700.252	124.002.113	7.606.678
Portugal	657.324.513	1	1	7,87%	51.733.551	657.324.513	51.733.551	0	3.568.203
Romania	1.214.843.672	1	1	11,43%	138.893.737	1.214.843.672	138.893.737	15.460.410	78.676.398
Sweden	181.801.793	1	1	5,04%	9.154.986	181.801.793	9.154.986	0	856.003
Slovenia	125.941.694	1	0	2,17%	0	0	2.733.419	4.682.664	935.731
Slovakia	195.379.481	1	0	3,28%	0	0	6.404.230	3.683.199	0
Grand Total	**12.977.715.069**	**71**	**31**	**5,19%**	**598.832.576**	**9.591.457.698**	**673.862.105**	**248.954.754**	**216.805.432**
	Amount under reservation as a percentage of the scope					**6,24%**			

[1]The scope of the reservation is the total amount of payments made during the reporting year by the paying agency affected by the reservation

[2] For Member States with more than 1 Paying Agency the calculation is based on the individual Residual Error Rates

Table 2.1.13

The amount subject to reservation is 599 million EUR while the total amount at risk for ABB04 is 674 million EUR.

2.1.1.7 Interruption, reductions and suspension

2.1.1.7.1 New mechanisms for interrupting, reducing and suspending payments for 2014-2020

Following the entry into force of the new CAP Horizontal Regulation 1306/2013 by the legislator, a new legal framework for interruptions, reductions and suspension of CAP funds enters into force in 2014 which will strengthen the Commission's powers to suspend EU financing in cases where risks of irregular payments have been identified.

Accordingly the Commission may under article 41(2) reduce or suspend monthly (EAGF) or interim payments (EAFRD) on the following conditions:

where "*one or more of the key components of the national control system in question do not exist or are not effective due the gravity or persistence of the deficiencies found*" (or there are similar serious deficiencies in the system for the recovery of irregular payments) and:

- either the deficiencies are of a continuous nature and have already been the reasons for at least two financial correction decisions,

or

- the Commission concludes that the Member State concerned is not in a position to implement the necessary remedial measures in the immediate future, in accordance with an action plan with clear progress indicators to be established in consultation with the Commission.

The first indent is very close to the present situation under Regulation (EC) No 1290/2005; the second indent is new. It is in essence the legislative response to the recommendation by the European Parliament in its 2011 discharge resolution according to which the suspension rules for the CAP should be aligned with those of the Cohesion Funds.

The Commission may also suspend/reduce payments under Article 41(1) when it has established that :

- expenditure has been effected by bodies which are not accredited paying agency,
- payment periods or financial ceiling set by Union law have not been respected, or
- expenditure has otherwise not been effected in accordance with Union rules.

Similarly, payments could be suspended/reduced when the Commission cannot establish that the rules mentioned above were respected.

In addition to the reduction/suspension mechanism Article 36(7) of new CAP Horizontal Regulation 1306/2013 provide for the **interruption** of interim payments for EAFRD as a first, quick and reactive tool in case of concerns on the legality and regularity of payments.

The combination of both preventive actions (interruption for EAFRD, reductions/suspension for both Funds) and net financial corrections will allow the Commission to act promptly and effectively and protect the EU budget: payments will not be made for the measures/part of the measures concerned during the suspension or payments will be reduced up to the level of the estimated risk; irregular payments already made will be fully covered via the financial corrections. Detailed internal guidelines for the applications are being drawn up to ensure that the preventive actions can be taken quickly and that budgetary consequences can be managed.

2.1.1.7.2 Interruptions and reductions of payments in respect of 2013 expenditure

In 2013, under the "old" legal basis, there were 2 interruptions of payments according Article 16(4) of R. 883/2006 and 1 reduction adopted by the Commission based on Article 27(3) of R. 1290/2005.

Interruption of payments for Measure 125 (Forestry infrastructure) in Slovakia

Following allegations received in June 2013 from the Commission office in Bratislava of non-respect of public procurement rules under measure 125 of the Slovak RDP 2007-2013, DG AGRI interrupted the deadline for payment for the amount concerned in the first quarter (Q1) 2013 until confirmation of the correctness of the procedure followed.

On 12/11/2013 DG AGRI received the audit report carried out by the certification body and a letter from the public procurement office, which together gave sufficient assurance that there was no breach in the public procurement procedures applied. Consequently, the interruption of payment for that measure, applied from Q1 and Q2 2013 was lifted, and the pending amounts (1.6 million EUR) were paid.

Interruption of payments for Measure 312 (modernisation investment) in Romania

For Romania the interruption of payments under Measure 312 (M312) started in Q4 2012 following a DG AGRI audit showing a high incidence of artificial conditions for receiving the aid, and continued for Q1, Q2 and Q3 2013. Therefore, the total amount paid by the paying agency to beneficiaries for M312 in the financial year 2013 (23.2 million EUR), remains unpaid by the Commission and will be treated in the context of the on-going conformity procedure.

Following a meeting between DG AGRI and the Romanian authorities on 27.1.2014 it was agreed that the Romanian authorities would not declare expenditure under M312 in the Q4 2013 claim, until full implementation of the specific Action Plan being implemented for that measure.

Key elements of this specific action plan are the screening of projects approved under this measure to cancel the support (or at least exclude it from EU co-financing), of all the projects relating to agricultural machinery or construction equipment for which there is evidence of artificial conditions.

Once the special action plan is completed, included the targeted screening, the results should be audited by an independent body (certifying body or external auditor). The audit report should confirm that the projects relating to agriculture and construction equipment unduly approved have been withdrawn from EU co-financing, and the control system effectively ensures the legality and regularity of the expenditure before payment. Under these conditions, DG AGRI would consider the possibility of pursuing payments for M312.

Reduction of payments for Measure 112 in the Lazio region (Italy)

On 16/12/2013 the Commission adopted a Decision for the temporary reduction of the Q2-2013 intermediate payments to Lazio Region (Italy) under measure 112 – Setting up of young farmers, of the Rural Development Programme 2007-2013. The reduction amounts to 753,591 EUR of EAFRD contributions out of a total declared expenditure for the measure concerned of 848,833 EUR. Likewise, a procedure for the adoption of a Decision for the temporary reduction of the Q3/2013 payment to Lazio was activated and was adopted by the Commission on 28/02/3014 under the new regulatory framework (Article 41 of R. 1306/2013). The second reduction amounts to 532,237 EUR out of a total declared expenditure for the measure concerned of 583,971 EUR.

2.1.1.8 Overall assessment of the functioning of the management and control system for funds under shared management

Article 66 of the Financial Regulation requires the Director General to report in his/her Annual Activity Report on whether, except as otherwise specified in any reservations, (s)he has reasonable assurance that, inter alia, the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

In this chapter, sections 2.1.1.4, 2.1.1.5 and 2.1.1.6 set out the situation with regard to the functioning of the management and control systems for market measures, direct payments and rural development expenditure.

In delivering the conclusions in each case, DG AGRI has based itself on the 4 level structure of management and control which is described in Annex 10, part 1 and on the reports and indicators which emanate from those levels. DG AGRI shares the management of the CAP expenditure with some 82 paying agencies and reports extensively in Annex 10, part 2 on the annual declarations of assurance which are delivered by those entities as well as on the opinion delivered on the annual accounts and declarations of assurance by the certifying bodies (independent audit bodies). DG AGRI also, via its various forms of follow-up incluing on-the-spot audits, checks that the paying agencies respect the strict accrediation criteria which regulates them as well as the quality of the work carried out by the certification bodies.

KEY INDICATORS FOR LEGALITY AND REGULARITY – EAGF AND EAFRD FINANCIAL YEAR 2012		
ASSURANCE DERIVING FROM THE FUNCTIONING OF THE PAYING AGENCIES		
Accreditation of paying agencies[166]	Fully accredited Limited accreditation Accreditation under probation Provisional accreditation Total	79 1 1 1 82
Certificates and reports of certification bodies on functioning of paying agencies' internal control systems	Received Not received Effective[167] Not effective	82 0 81 1[168]
Statements of assurance signed by the directors of paying agencies	Received Not received Unqualified Qualified with reservation	82 0 81 1[169]
Opinions of certification bodies on statements of assurance	Received Not received Unqualified Qualified	82 0 79 3[170]
Annual summaries by the coordinating bodies	Due Received Complete	10 10 10

Table 2.1.14

DG AGRI also carries out some 120 "conformity" clearance audit missions each year which check the management and control systems in individual paying agencies and provide valuable information on how effectively those systems protect the EU funds which they are responsible for disbursing.

[166] State of play on 16 October 2013

[167] Effective means very good, good or adequate.

[168] Refer to Annex 10 – part 2 for details of the Paying Agency concerned. The quantification of the potential error is not known.

[169] Reservation due to the material error and the deficiencies identified by the CB in the EAFRD NON-IACS population. In this context, the PA initiated an Action Plan to identify all the errors in the population covering these three measures and to quantify the actual error. As at the closure of the audit this exercise is not complete. The PA expects to conclude the exercise by 30/06/2014.

[170] BG01 State Fund for Agriculture, ES01 Andalucia, ES03 Asturias

Conformity audits carried out in 2011-2013

	ABB 02	ABB 03	ABB 04*)	Total**)
Number of conformity audits with missions carried out***)	73	86	100	296
MS covered	AT, BE, CZ, DE, DK, ES, FI, FR, GB, GR, HU, IE, IT, LT, NL, PL, PT, RO and SE	AT, BE, BG, CY, ,CZ, DE, DK, ES, FI, FR, GB, GR, HR, HU, IE, IT, LT, LV, NL, PL, PT, RO, SE, SI and SK	AT, BE, BG, CY, ,CZ, DE, DK, EE, ES, FI, FR, GB, GR, HR, HU, IE, IT, LT, LU, LV, NL, PL, PT, RO, SE, SI and SK	All Member States except MT
Expenditure, - total, mEUR - audited, mEUR - % covered	 10 238.1 3 827.1 37.4%	 122 719.6 54 114.9 44.1%	 38 014.1 14 218.5 37.4%	 170 971.8 72 160.5 42.2%

Table: 2.1.15

*) concerns only EAFRD, thus excluding the EAGGF Guidance section.
**) including 24 audits covering cross-compliance, 7 audits covering entitlements, 14 audits covering irregularities and 3 IT-audits.
***) if an audit covers more than one ABB, it is allocated to all ABBs covered by that audit.

Conformity audits carried out in 2013

	ABB 02	ABB 03	ABB 04*)	Total**)
Number of conformity audits with missions carried out***)	15	26	37	86
MS covered	AT, DE, ES, FR, GR, HU, IT, LT, PL, PT, RO	AT, BE, DE, ES, FR, GR, HR, HU, IT, PT, SE	BG, CY, CZ, DE, DK, ES, FI, FR, GR, HU, IE, IT, LT, LU, PL, PT, RO, SI	All Member States except EE, GB, LV, MT, and NL
Expenditure, - total, mEUR - audited, mEUR - % covered	 3 192.6 1 000.5 31.3%	 41 661.9 18 699.0 44.9%	 12 977.7 4 535.2 34.9%	 57 832.2 24 234.8 41.9%

Table: 2.1.16

*) concerns only EAFRD, thus excluding the EAGGF Guidance section.
**) including 7 audits covering cross-compliance, 1 audit covering entitlements and 3 audits covering irregularities.
***) if an audit covers more than one ABB, it is allocated to all ABBs covered by that audit.

Those audits also result, where deficiencies in the management and control systems are detected, in net financial corrections which have, on average in the last three years, clawed back over 600 million EUR of irregular payment to the EU budget. In 2013 four conformity clearance decisions were adopted by the Commission in respect of over a billion EUR.

NET FINANCIAL CORRECTIONS **ADOPTED** IN 2013 (MILLION EUR)

Decision:	40	41	42	43	TOTAL
EAGF	285,58	130,14	142,64	303,57	861,92
EAFRD	104,70	88,44	32,47	10,60	236,21
OTHERS	7,09	8,76	2,66	0,12	18,63
TOTAL	397,37	227,34	177,77	314,29	1.116,76

Table 2.17

The paying agencies are required to send staticial data reporting on the outcome of the controls which they have performed and this enables DG AGRI to calculate the level of error detected at paying agency level. The following table shows the percentage of expenditure for which the Member States send statistical data on the results of the controls carried out.

	Total expenditure	Expenditure covered by statistics	% per ABB covered by statistics	% per Fund covered by statistics	% of the CAP covered by statistics
ABB02	3.192.638.395	1.855.705.912	58,1%	89,7%	91,7%
ABB03	41.661.932.292	38.374.048.218	92,1%		
ABB04	12.977.715.069	12.792.263.120	98,6%	98,6%	

Table 2.1.18

In order to compensate for relaibility and completeness issues with the statistics, DG AGRI carries out a thorough validation and evaluation of the data and takes into account all available relevent informationn notably the results of its own audit findings . This process is explained in detail in Annex 4 (materiality critieria) as well as in Annex 10 – parts 3.1 (market measures), 3.2 (direct payments) and 3.3 (rural development).

This allows DG AGRI to make adjustments on a case-by-case basis at the appropriate level (paying agency for ABB03 & ABB04 and measure level per Member State for ABB02) in order to arrive at its best estimate, using its profession judgement, of the "real" level of error in each case.

Following this assessment stage and taking into account the adjusted residual error, the paying agencies for ABB 03 and 04 and aid measures per Member State for ABB02 are classified into four categories in accordance with the level of assurance that they provide as to the legality and regularity of payments made during the reporting year.

These categories are set out in the following table (2.1.19) which summarises the situation for each of the ABB activities

IMPACT on Declaration of Assurance (based on functioning of systems, materiality and legality and regularity criteria)		Coverage											
		Number of aid schemes/paying Agencies				as % of Programmes				Payments to aid schemes/Paying Agencies in question as % of payments in 2013			
		ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Total	ABB02	ABB03	ABB04	Average
1	**Reasonable assurance (RER <2%)**	26	37	32	**95**	27,37%	38,95%	33,68%	**100%**	60,57%	37,77%	12,79%	**37,04%**
2	**Reasonable assurance with low risk (RER between 2 & 5% with mitigating factors)**	10	11	8	**29**	34,48%	37,93%	27,59%	**100%**	18,38%	16,63%	13,31%	**16,11%**
3	**Limited assurance with medium risk (RER between 2 & 5% without mitigating factors)**	0	18	18	**36**	0,00%	50,00%	50,00%	**100%**	0,00%	35,12%	34,07%	**23,06%**
4	**Limited assurance with high risk (RER >5%)**	11	2	13	**26**	42,31%	7,69%	50,00%	**100%**	21,05%	10,48%	39,84%	**23,79%**
	TOTAL	**47**	**68**	**71**	**186**	**25,27%**	**36,56%**	**38,17%**	**100%**	**100,00%**	**100,00%**	**100,00%**	**100%**

Table: 2.1.19

All aid schemes/Paying Agencies falling under the categories 'limited assurance – medium risk' and 'limited assurance - high risk' in the above table are subject to a reservation. Therefore, reservations are necessary in respect of:

- ABB02: 11 element comprising (7 aid schemes in 9 Member States)
- ABB03: 20 paying agencies in 6 Member States.
- ABB04: 31 paying agencies in 19 Member States.

Tables 2.1.22, 2.1.23 and 2.1.24 set out the situation underlying the above table 2.1.19 on the risk assessments for each of the three ABB activities.

The following table gives the overall result (3 ABBs combined) of the level of error at Member State level. The detailed results for each of the ABBs is set out in sections 2.1.1.4 (ABB02) 2.1.1.5 (ABB03) and 2.1.1.6 (ABB04) of this chapter as well as in Annex 10 part 3.

Member States	Expenditure all ABBs in 2013	Aggregated Adjusted Residual Error Rate	Extrapolated Amount at Risk covered by Reservation	Scope of Reservations[1]	Amount at Risk for all ABBs[2]	Commission's Action: Net financial corrections in decisions adopted in 2013	Commission's Action: Net financial corrections proposed but not yet adopted
	EUR			EUR	EUR	EUR	EUR
Austria	1.256.131.100,73	3,94%	1.941.496,90	7.765.987,61	49.526.586,33	3.625.742,74	0,00
Belgium	686.487.950,04	0,35%	769.107,86	17.530.612,03	2.380.026,50	7.180.291,06	1.998.975,51
Bulgaria	933.643.670,20	6,98%	56.883.044,89	396.123.873,37	65.144.311,25	22.971,81	43.417.295,01
Cyprus	73.027.008,78	2,44%	1.137.356,94	22.911.162,41	1.781.007,97	99.741,05	0,00
Czech	1.209.749.786,35	1,59%	2.019.336,24	2.019.336,24	19.185.402,84	11.160.147,14	16.553.168,24
Germany	6.648.346.245,34	0,83%	10.103.665,50	367.313.669,61	55.200.734,24	12.548.023,67	16.936.701,10
Denmark	1.007.786.561,63	2,63%	4.089.909,56	61.930.976,41	26.521.823,30	11.455.164,16	15.102.460,90
Estonia	221.736.534,25	1,05%	0,00	0,00	2.325.072,50	0,00	0,00
Spain	6.862.608.504,32	3,56%	225.518.624,49	5.829.209.906,87	244.475.827,08	90.169.034,91	63.618.810,65
Finland	875.617.219,11	2,75%	10.532.051,36	334.135.809,61	24.040.577,47	6.620.102,36	6.855.786,42
France	9.585.004.994,53	3,29%	304.111.788,73	8.834.047.758,29	315.454.234,40	194.250.312,05	1.756.076.963,65
UK	4.078.710.002,57	4,09%	157.059.681,78	2.763.191.655,79	166.868.758,16	190.048.309,30	66.757.914,77
Greece	2.571.129.980,59	5,70%	145.829.108,06	2.508.058.575,37	146.491.252,17	229.188.072,08	108.701.163,58
Hungary	1.760.520.404,84	3,46%	60.550.284,42	1.691.817.974,96	60.835.123,42	17.967.588,95	21.279.895,40
Ireland	1.578.311.306,72	3,17%	13.073.660,12	321.596.194,63	50.062.344,43	8.483.584,65	0,00
Italy	5.931.104.390,10	2,23%	66.914.386,70	1.082.194.726,78	132.179.127,55	88.004.047,01	111.881.647,47
Lithuania	608.007.425,79	2,24%	0,00	0,00	13.600.713,13	7.944.132,94	12.389.699,82
Luxembourg	44.184.281,12	3,41%	634.592,70	10.062.399,48	1.508.786,04	496.736,33	1.469.939,00
Latvia	330.843.129,38	1,92%	0,00	0,00	6.341.747,90	1.231.845,45	880.581,51
Malta	15.330.792,04	0,84%	0,00	0,00	129.071,07	160.495,56	0,00
Netherlands	1.006.909.606,83	3,94%	19.459.277,54	172.491.854,64	39.701.183,95	30.629.705,69	5.992.027,29
Poland	4.990.711.730,90	3,26%	134.272.593,06	2.113.453.090,13	162.789.054,22	148.086.408,65	14.395.521,09
Portugal	1.425.616.769,41	5,73%	80.081.041,34	1.306.009.064,36	81.637.211,30	30.984,35	28.120.697,67
Romania	2.423.337.743,90	7,69%	138.893.736,57	1.214.843.671,80	186.434.541,83	15.460.410,22	177.787.793,74
Sweden	883.720.617,54	1,42%	9.654.596,61	188.047.943,56	12.549.293,40	0,00	4.766.146,60
Slovenia	264.785.531,94	1,50%	0,00	0,00	3.968.667,07	8.930.231,67	10.841.880,62
Slovakia	558.922.467,63	1,90%	0,00	0,00	10.609.402,71	4.861.957,63	5.767.335,89
Grand Total	**57.832.285.756,58**	**3,26%**	**1.449.274.718,12**	**29.259.732.512,20**	**1.885.185.809,40**	**1.088.656.041,44**	**2.491.592.405,94**

[1]The scope of the reservation is the total amount of payments made during the reporting year by the paying agency affected by the reservation

[2] For Member States with more than 1 Paying Agency the calculation is based on the individual Residual Error Rates

Table: 2.1.20

Note: The data on financial corrections in table 2.1.20 is the amount of net financial corrections **adopted** in respect of each Member State (i.e. the Commission has adopted a formal decision). The data on financial corrections in table 2.1.21 is the 3-year average of net financial corrections **executed** (i.e. clawed back into the EU budget). These two differ because of time delays and because of amounts for which the reimbursement by the Member States is delayed due to instalment decisions or deferral decisions. See Annex 10 for more information on this. The data on corrections executed is not (yet) available at Member State level and thus the adopted data is used for the Member State breakdown. The difference between the total in table 2.1.20 and that in 2.1.17 is due to the accounting of deductions already made by the Member State.

The following table shows the principle indicators of residual error rates and amounts at risk for each of the 3 ABB activities under the CAP which are in shared management and gives the overall result. It also indicates the corrective capacity of the net financial corrections executed by the Commission and the recoveries by the Member States from the beneficiaries.

Eur million

	Sector	2013 Expenditure	adjusted residual error rate	amount at risk	Number of Reservations	Amount under reservation	corrective capacity of net financial corrections		Recoveries by MS in 2013	Recoveries & Net Financial Corrections as % of expenditure
							Net Financial corrections *	% of 2013 expenditure		
ABB02	Market Measures	3.192,6	7,44%	237,40	1	198,29	170,2	5,33%		
ABB03	Direct Payments	41.661,9	2,34%	973,93	1	652,15	352,4	0,85%		
EAGF		44.854,6	2,70%	1.211,32	2	850,44	522,6	1,17%	94	1,37%
ABB04-EAFRD	Rural Development	12.977,7	5,19%	673,86	1	598,83	121,2	0,93%	98	1,69%
Total		**57.832,3**	**3,26%**	**1.885,19**	**3**	**1.449,27**	**643,8**	**1,11%**	**192**	1,45%

* three year (2011-2013) average of net financial corrections executed.

Table 2.1.21

This table presents the results of the assurance process which can be summaried as follows

- The overall adjusted residual error rate of 2013 expenditure over the three ABB activities is in the range of 2.34% to 7.44%. Direct payments which account for 72% of the CAP expenditure, and are managed through the IACS, have an error rate which at 2.34% is close to the 2% materiality threshold. For rural development, the error rate is somewhat higher at 5.19% manifesting the greater complexity of this policy. For market measures while the error rate is the highest at 7.44%, this reflects the very high adjustments which have been made by the DG AGRI auditors in a limited number of cases where large portions of the expenditure are considered at risk.

- The quantification of the amount at risk (without taking account of the net financial corrections of 644 million EUR made by DG AGRI or the recoveries of 192 million EUR made by Member States) is some 1 885 million EUR of which 1449 million is covered by the reservations mentioned.

- For EAGF, a comparison of the residual error and amount at risk with the corrective capacity of net financial corrections and recoveries indicates that the residual financial risk to the EU is low. This is not the case for the EARFD.

DG AGRI is of the view that recoveries and net financial corrections have to be taken into account in any comprehensive assessment of the overall system of internal control and wishes to develop, for future AAR exercises, together with the concerned services of the Commission, a means to incorporate the impact of these corrective measure on the protection of the Union budget.

DG AGRI considers that, taking into account the need to balance legality and regularity with the achievement of policy objectives, while bearing in mind the current control requirements and costs, the question cannot be eluded as to whether it will be possible, in the foreseeable future, to allow the error rate to descend below 2% on a sustainable basis.

2.1 Management of human and financial resources by DG AGRI

ABB02: Classification of expenditure, following mangement assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year.

ABB02	Total Payments in 2013 per level of assurance (in mEUR)										2013					
Member States	Reasonable assurance		Reasonable Assuarance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total				AAR 2013 reservations		Commission's actions	
	below 2%	Number of aid schemes/ Paying Agencies	between 2% and 5% no reservation	Number of aid schemes/ Paying Agencies	between 2% and 5% reservation	Number of aid schemes/ Paying Agencies	with reservation	Number of aid schemes/ Paying Agencies		Number of aid schemes/ Paying Agencies	quantification of global risk in 2013 payments	residual error rate	Number of aid schemes under reservation	Quantification of reservations 2013 (mEUR)	Amount covered by decisions adopted in 2013	Amounts of financial corrections notified to MS
Austria	15.832.980,21	1	0,00	0	0,00	0	7.765.987,61	1	23.598.967,82	2	2.022.240,46	8,57%	1	1.941.496,90	0,00	0,00
Belgium	77.868.020,17	1	0,00	0	0,00	0	0,00	0	77.868.020,17	1	713.284,66	0,92%	0	0,00	4.108.237,42	0,00
Bulgaria	43.095.001,16	1	0,00	0	0,00	0	0,00	0	43.095.001,16	1	393.956,79	0,91%	0	0,00	0,00	52.077,63
Cyprus	2.585.722,90	1	3.687.177,00	1	0,00	0	0,00	0	6.272.899,90	2	94.594,41	1,51%	0	0,00	0,00	0,00
Czech	11.952.608,90	1	0,00	0	0,00	0	2.019.336,24	1	13.971.945,14	2	2.023.603,48	14,48%	1	2.019.336,24	26.676,47	13.983.341,24
Germany	61.527.557,27	1	39.390.704,89	2	0,00	0	0,00	0	100.918.262,16	3	1.023.723,92	1,01%	0	0,00	6.192.951,34	0,00
Denmark	3.410.043,64	1	3.222.279,04	2	0,00	0	0,00	0	6.632.322,68	3	97.174,43	1,47%	0	0,00	0,00	1.023.197,46
Estonia	3.457.961,24	1	0,00	0	0,00	0	0,00	0	3.457.961,24	1	47.754,78	1,38%	0	0,00	0,00	0,00
Spain	0,00	1	426.995.881,90	3	0,00	0	163.574.553,11	1	590.570.435,01	5	64.314.172,24	10,89%	1	54.006.597,31	12.940.208,00	13.047.656,89
Finland	9.655.704,71	1	0,00	0	0,00	0	0,00	0	9.655.704,71	1	81.751,67	0,85%	0	0,00	715.273,00	0,00
France	472.894.889,08	1	108.483.401,35	1	0,00	0	54.197.439,27	2	635.575.729,70	4	40.517.290,18	6,37%	2	32.421.639,30	11.724.693,27	85.154.423,82
UK	8.061.078,80	1	0,00	0	0,00	0	33.952.649,48	1	42.013.728,28	2	8.491.021,00	20,21%	1	8.488.162,37	-277.450,62	54.989.619,69
Greece	63.071.405,22	1	0,00	0	0,00	0	0,00	0	63.071.405,22	1	662.144,11	1,05%	0	0,00	7.775.474,44	2.303.268,72
Hungary	68.702.429,88	1	0,00	0	0,00	0	0,00	0	68.702.429,88	1	284.839,00	0,41%	0	0,00	571.333,51	11.911.229,44
Ireland	5.797.880,52	1	0,00	0	0,00	0	0,00	0	5.797.880,52	1	51.954,00	0,90%	0	0,00	450.450,00	0,00
Italy	681.286.709,40	1	0,00	0	0,00	0	19.801.312,16	1	701.088.021,56	2	13.911.381,55	1,98%	1	4.950.328,04	32.687.971,02	97.775.032,75
Lithuania	11.410.840,35	1	0,00	0	0,00	0	0,00	0	11.410.840,35	1	156.202,90	1,37%	0	0,00	0,00	0,00
Luxembourg	378.552,85	1	0,00	0	0,00	0	0,00	0	378.552,85	1	3.225,96	0,85%	0	0,00	0,00	0,00
Latvia	15.482.468,20	1	0,00	0	0,00	0	0,00	0	15.482.468,20	1	100.220,33	0,65%	0	0,00	0,00	0,00
Malta	873.071,30	1	0,00	0	0,00	0	0,00	0	873.071,30	1	10.366,00	1,19%	0	0,00	0,00	0,00
Netherlands	8.507.521,20	1	0,00	0	0,00	0	75.978.877,45	2	84.486.398,65	3	16.390.026,29	19,40%	2	16.390.026,29	688.510,00	0,00
Poland	107.951.469,15	1	0,00	0	0,00	0	307.264.392,45	1	415.215.861,60	2	79.112.638,75	19,05%	1	77.572.340,76	715.488,23	0,00
Portugal	119.607.705,05	1	0,00	0	0,00	0	0,00	0	119.607.705,05	1	1.556.169,97	1,30%	0	0,00	30.984,35	623.406,43
Romania	122.392.654,69	1	0,00	0	0,00	0	0,00	0	122.392.654,69	1	1.160.101,24	0,95%	0	0,00	0,00	4.023,09
Sweden	0,00	0	5.066.282,89	1	0,00	0	7.541.827,32	1	12.608.110,21	2	602.528,98	4,78%	1	499.610,68	0,00	0,00
Slovenia	8.659.875,01	1	0,00	0	0,00	0	0,00	0	8.659.875,01	1	124.848,94	1,44%	0	0,00	0,00	8.707.070,64
Slovakia	9.232.142,87	1	0,00	0	0,00	0	0,00	0	9.232.142,87	1	7.141,95	0,08%	0	0,00	0,00	0,00
Other*											3.443.927,15					
Grand Total	**1.933.696.293,77**	**26**	**586.845.727,07**	**10**	**0,00**	**0**	**672.096.375,09**	**11**	**3.192.638.395,93**	**47**	**237.398.285,13**	**7,44%**	**11**	**198.289.537,89**	**78.350.800,43**	**289.574.347,80**

* This amount refers to an amount at risk calculated at the level of the ABB in respect of a residual expenditure of 172 million EUR for which no information was available.

Table: 2.1.22

2. MANAGEMENT OF RESOURCES

2.1 Management of human and financial resources by DG AGRI

ABB03: Classification of expenditure, following mangement assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year.

ABB03	Total Payments in 2013 per level of assurance (in mEUR)										2013					
Member States	Reasonable assurance		Reasonable Assuarance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total		quantification of global risk in 2013 payments	residual error rate	AAR 2013 reservations		Commission's actions	
	below 2%	Number of Paying Agencies	between 2% and 5% no reservation	Number of Paying Agencies	between 2% and 5% reservation	Number of Paying Agencies	with reservation	Number of Paying Agencies		Number of Paying Agencies			Number of Paying Agencies under reservation	Quantification of reservations 2013 (mEUR)	Amount covered by decisions adopted in 2013	Amounts of financial corrections notified to MS
Austria	0,00	0	706.438.545,89	1	0,00	0	0,00	0	706.438.545,89	1	25.090.411,61	3,55%	0	0,00	-2.227.218,41	0,00
Belgium	567.092.523,96	2	0,00	0	0,00	0	0,00	0	567.092.523,96	2	775.052,63	0,14%	0	0,00	-3.038.791,11	-1.952.140,51
Bulgaria	494.424.795,67	1	0,00	0	0,00	0	0,00	0	494.424.795,67	1	7.867.309,57	1,59%	0	0,00	0,00	-15.829.461,86
Cyprus	43.842.946,47	1	0,00	0	0,00	0	0,00	0	43.842.946,47	1	549.056,62	1,25%	0	0,00	0,00	0,00
Czech	824.121.274,07	1	0,00	0	0,00	0	0,00	0	824.121.274,07	1	3.195.786,19	0,39%	0	0,00	-5.255.896,91	0,00
Germany	4.372.945.603,31	12	880.993.010,09	1	0,00	0	0,00	0	5.253.938.613,40	13	33.246.315,87	0,63%	0	0,00	-1.046.472,29	-13.033.828,81
Denmark	0,00	0	939.223.262,54	1	0,00	0	0,00	0	939.223.262,54	1	22.334.739,31	2,38%	0	0,00	-10.168.679,65	-8.001.221,98
Estonia	91.924.140,34	1	0,00	0	0,00	0	0,00	0	91.924.140,34	1	864.717,12	0,94%	0	0,00	0,00	0,00
Spain	268.706.358,02	2	0,00	0	4.968.417.387,60	15	0,00	0	5.237.123.745,62	17	153.146.937,88	2,92%	15	147.806.305,99	-75.131.647,63	-45.233.351,41
Finland	0,00	0	531.825.704,79	1	0,00	0	0,00	0	531.825.704,79	1	13.426.774,43	2,52%	0	0,00	-4.355.692,42	-4.878.583,09
France	157.562.053,16	1	0,00	0	7.809.446.462,88	1	0,00	0	7.967.008.516,04	2	203.605.086,95	2,56%	1	203.431.768,70	-143.215.075,57	-1.612.062.371,94
UK	891.386.105,35	2	309.446.676,59	1	0,00	0	2.085.282.394,91	1	3.286.115.176,85	4	127.014.388,73	3,87%	1	118.001.078,26	-178.442.037,60	-9.930.201,82
Greece	0,00	0	0,00	0	0,00	0	2.282.265.464,61	1	2.282.265.464,61	1	117.889.151,33	5,17%	1	117.889.151,33	-214.848.714,58	-98.471.636,04
Hungary	0,00	0	0,00	0	1.203.377.854,56	1	0,00	0	1.203.377.854,56	1	36.676.810,46	3,05%	1	36.676.810,46	-13.598.016,58	-7.614.221,80
Ireland	0,00	0	1.250.917.231,57	1	0,00	0	0,00	0	1.250.917.231,57	1	36.936.730,31	2,95%	0	0,00	-4.869.843,81	0,00
Italy	3.942.167.240,79	8	22.202.057,24	1	0,00	0	0,00	0	3.964.369.298,03	9	53.559.439,43	1,35%	0	0,00	-48.470.925,38	-11.351.021,67
Lithuania	0,00	0	345.581.607,85	1	0,00	0	0,00	0	345.581.607,85	1	7.700.395,47	2,23%	0	0,00	-1.260.235,43	-9.854.968,01
Luxembourg	0,00	0	33.743.328,79	1	0,00	0	0,00	0	33.743.328,79	1	870.967,39	2,58%	0	0,00	-188.286,74	0,00
Latvia	132.913.644,15	1	0,00	0	0,00	0	0,00	0	132.913.644,15	1	1.799.218,11	1,35%	0	0,00	0,00	-457.254,61
Malta	4.835.099,32	1	0,00	0	0,00	0	0,00	0	4.835.099,32	1	1.557,80	0,03%	0	0,00	-129.650,93	0,00
Netherlands	0,00	0	822.950.855,39	1	0,00	0	0,00	0	822.950.855,39	1	17.570.006,19	2,14%	0	0,00	-26.308.168,42	-5.840.500,26
Poland	2.769.307.171,62	1	0,00	0	0,00	0	0,00	0	2.769.307.171,62	1	26.976.163,17	0,97%	0	0,00	-23.368.807,26	-6.788.842,68
Portugal	0,00	0	0,00	0	648.684.551,28	1	0,00	0	648.684.551,28	1	28.347.489,87	4,37%	1	28.347.489,87	0,00	-23.929.088,06
Romania	0,00	0	1.086.101.417,41	1	0,00	0	0,00	0	1.086.101.417,41	1	46.380.704,02	4,27%	0	0,00	0,00	-99.107.372,91
Sweden	689.310.714,03	1	0,00	0	0,00	0	0,00	0	689.310.714,03	1	2.791.778,50	0,41%	0	0,00	0,00	-3.910.143,60
Slovenia	130.183.963,43	1	0,00	0	0,00	0	0,00	0	130.183.963,43	1	1.110.399,18	0,85%	0	0,00	-4.247.568,04	-1.199.079,23
Slovakia	354.310.844,07	1	0,00	0	0,00	0	0,00	0	354.310.844,07	1	4.198.031,17	1,18%	0	0,00	-1.178.758,50	-5.767.335,89
Grand Total	**15.735.034.477,76**	**37**	**6.929.423.698,15**	**11**	**14.629.926.256,32**	**18**	**4.367.547.859,52**	**2**	**41.661.932.292**	**68**	**973.925.419,32**	**2,34%**	**20**	**652.152.604,61**	**-761.350.487,27**	**-1.985.212.626,18**

Table 2.1.23

ABB04: Classification of expenditure, following mangement assessment, into four categories of the level of assurance that they provide as to the legality and regularity of payments made during the reporting year.

ABB04:	Total Payments in 2013 per level of assurance (in mEUR)										2013					
Member States	Reasonable assurance		Reasonable Assuarance with low risk		Limited assurance with medium risk		Limited assurance with high risk		Total		quantification of global risk in 2013 payments	residual error rate	AAR 2013 reservations		Commission's actions	
	below 2%	Number of Paying	between	Number of Paying	between	Number of Paying	with reservation	Number of Paying		Number of Paying			Number of Paying	Quantification of reservations 2013	Amount covered by decisions	Amounts of financial
Austria	0,00	0	526.093.587,02	1	0,00	0	0,00	0	526.093.587,02	1	22.413.934,26	4,26%	0	0,00	-1.398.524,33	0,00
Belgium	23.996.793,88	1	0,00	0	17.530.612,03	1	0,00	0	41.527.405,91	2	891.689,21	2,15%	1	769.107,86	-33.262,53	-46.835,00
Bulgaria	0,00	0	0,00	0	0,00	0	396.123.873,37	1	396.123.873,37	1	56.883.044,89	14,36%	1	56.883.044,89	-22.971,81	-27.535.755,52
Cyprus	0,00	0	0,00	0	22.911.162,41	1	0,00	0	22.911.162,41	1	1.137.356,94	4,96%	1	1.137.356,94	-99.741,05	0,00
Czech	0,00	0	371.656.567,14	1	0,00	0	0,00	0	371.656.567,14	1	13.966.013,17	3,76%	0	0,00	-5.877.573,76	-2.569.827,00
Germany	874.218.903,19	12	51.956.796,98	1	367.313.669,61	2	0,00	0	1.293.489.369,78	15	20.930.694,45	1,62%	2	10.103.665,50	-5.308.600,04	-3.902.872,29
Denmark	0,00	0	0,00	0	0,00	0	61.930.976,41	1	61.930.976,41	1	4.089.909,56	6,60%	1	4.089.909,56	-1.286.484,51	-6.078.041,46
Estonia	126.354.432,67	1	0,00	0	0,00	0	0,00	0	126.354.432,67	1	1.412.600,60	1,12%	0	0,00	0,00	0,00
Spain	315.380.107,76	11	22.316.249,77	1	664.935.728,02	5	32.282.238,14	1	1.034.914.323,69	18	27.014.716,95	2,61%	6	23.705.721,19	-2.097.179,28	-5.337.802,35
Finland	0,00	0	0,00	0	334.135.809,61	1	0,00	0	334.135.809,61	1	10.532.051,36	3,15%	1	10.532.051,36	-1.549.136,94	-1.977.203,33
France	0,00	0	0,00	0	0,00	0	982.420.748,79	2	982.420.748,79	2	71.331.857,27	7,26%	2	71.331.857,27	-39.310.543,21	-58.860.167,89
UK	106.624.486,04	2	0,00	0	112.691.167,68	1	531.265.443,72	1	750.581.097,44	4	31.363.348,42	4,18%	2	30.570.441,14	-11.883.722,32	-1.838.093,26
Greece	0,00	0	0,00	0	0,00	0	225.793.110,76	1	225.793.110,76	1	27.939.956,73	12,37%	1	27.939.956,73	-6.563.883,06	-7.926.258,82
Hungary	0,00	0	0,00	0	488.440.120,40	1	0,00	0	488.440.120,40	1	23.873.473,96	4,89%	1	23.873.473,96	-3.798.238,86	-1.754.444,16
Ireland	0,00	0	0,00	0	321.596.194,63	1	0,00	0	321.596.194,63	1	13.073.660,12	4,07%	1	13.073.660,12	-3.163.290,84	0,00
Italy	203.253.655,89	4	0,00	0	285.200.180,11	4	777.193.234,51	1	1.265.647.070,51	9	64.708.306,57	5,11%	5	61.964.058,66	-6.845.150,61	-2.755.593,05
Lithuania	0,00	0	251.014.977,59	1	0,00	0	0,00	0	251.014.977,59	1	5.744.114,76	2,29%	0	0,00	-6.683.897,51	-2.534.731,81
Luxembourg	0,00	0	0,00	0	0,00	0	10.062.399,48	1	10.062.399,48	1	634.592,70	6,31%	1	634.592,70	-308.449,59	-1.469.939,00
Latvia	0,00	0	182.447.017,03	1	0,00	0	0,00	0	182.447.017,03	1	4.442.309,45	2,43%	0	0,00	-1.231.845,45	-423.326,90
Malta	9.622.621,42	1	0,00	0	0,00	0	0,00	0	9.622.621,42	1	117.147,28	1,22%	0	0,00	-30.844,63	0,00
Netherlands	0,00	0	0,00	0	0,00	0	99.472.352,79	1	99.472.352,79	1	5.741.151,47	5,77%	1	5.741.151,47	-3.633.027,27	-151.527,03
Poland	0,00	0	0,00	0	1.806.188.697,68	1	0,00	0	1.806.188.697,68	1	56.700.252,30	3,14%	1	56.700.252,30	-124.002.113,16	-7.606.678,41
Portugal	0,00	0	0,00	0	0,00	0	657.324.513,08	1	657.324.513,08	1	51.733.551,46	7,87%	1	51.733.551,46	0,00	-3.568.203,18
Romania	0,00	0	0,00	0	0,00	0	1.214.843.671,80	1	1.214.843.671,80	1	138.893.736,57	11,43%	1	138.893.736,57	-15.460.410,22	-78.676.397,74
Sweden	0,00	0	0,00	0	0,00	0	181.801.793,30	1	181.801.793,30	1	9.154.985,93	5,04%	1	9.154.985,93	0,00	-856.003,00
Slovenia	0,00	0	125.941.693,50	1	0,00	0	0,00	0	125.941.693,50	1	2.733.418,95	2,17%	0	0,00	-4.682.663,63	-935.730,75
Slovakia	0,00	0	195.379.480,69	1	0,00	0	0,00	0	195.379.480,69	1	6.404.229,59	3,28%	0	0,00	-3.683.199,13	0,00
Grand Total	**1.659.451.000,85**	**32**	**1.726.806.369,72**	**8**	**4.420.943.342,18**	**18**	**5.170.514.356,15**	**13**	**12.977.715.068,90**	**71**	**673.862.104,95**	**5,19%**	**31**	**598.832.575,62**	**-248.954.753,74**	**-216.805.431,95**

Table: 2.1.24

2.1.2 Control efficiency and cost-effectiveness

The principle of efficiency concerns the best relationship between resources employed and results achieved. The principle of economy requires that the resources used by the institution in the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.

This section outlines the indicators used to monitor the efficiency of the control systems, including an overall assessment of the costs and benefits of controls.

2.1.2.1 Effectiveness and efficiency of the controls

The indicators used by DG AGRI to assess the effectiveness and efficiency of the controls carried out during the reporting year are described in Annex 5.

Stage 1: Negotiation and assessment/approval of spending proposals

While 2013 was an important year with the adoption of a major CAP reform by the Council and the European Parliament, there was no significant negotiation activity in the meaning of the ICT (annex 5) on spending proposals for Rural development programmes, direct payments and market measures.[171]

Stage 2: Implementation of operations (Member States)

A. Setting up of the systems

The main control objective is to ensure that the management and control systems are adequately designed. As regards the indicator on effectiveness "% of authorities designated/accredited" all paying agencies are accredited, thus, 100% of respective entities at the level of the Member States are accredited. Moreover, with respect to the "number of authorities for which serious system weaknesses were found following accreditation reviews/audits" in none of the entities which were audited in the context of the annual work programme of the service responsible there were serious system weaknesses detected.

With respect to the indicator on efficiency "number of authorities for which serious weaknesses found by accreditation reviews/audits (% of total checked)" in 0% of the entities which were audited at the level of the Member States there were serious system weaknesses detected.

In the context of the annual financial clearance exercise, the Director of the Paying Agency provides a Statement of Assurance. Moreover, Member States' certification

[171] The figures available for 2013 concern a very limited part of the expenditure (POSEI and promotion of agricultural products) and are therefore not representative.

bodies provide information on the quality of the work carried out by the paying agency in form of an audit opinion. The situation is summarised as follows:

	Paying agencies covered	**Unqualified opinion**	**Qualified opinion**
Statement of Assurance	82	81	1
CB Opinion on Statement of Assurance	82	79	3
CB Audit Opinion - EAGF	79	75	4
CB Audit Opinion - EAFRD	71	61	10

Conclusions:

- *For 99.8% of the expenditure there is an unqualified Statement of Assurance issued by the Director of the Paying Agency; for 97.2% an unqualified opinion on the statement of the assurance was given by the Certification body;*
- *An unqualified opinion of the Certification Body was given for 91.8% of EAGF expenditure and for 96.3% of EAFRD expenditure.*

B. *MS controls to prevent, detect and correct errors within the declared certified expenditure*

In the context of the assessment of Member States' costs and benefits of controls 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. In principle the following control activities related with administrative checks, on-the-spot checks, other controls (controls carried out by the internal audit service as well as the certification body and/or ex-post controls).

The assessment is based on the budget of Member States entities which are responsible for carrying out the above mentioned controls, this budget 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, equipment and buildings. In contrast, exceptional one-off and investment costs are excluded; instead, depreciation costs as indicated above are taken into account.

For carrying out controls and in order to detect and correct undue amounts Member States have reported the spending of the following amounts:

	Member States Management and Control Costs	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		

The main control objective is to ensure that the periodic expenditure declarations submitted to the Commission for each action are legal and regular. When assessing the Member States' effectiveness regarding detecting and correcting of undue claimed amounts prior to payments, the following amounts were reported by the Member States:

	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	94.31 mEUR	272.73mEUR	0.61 %
ABB04[1]	105.48 m EUR	98.11 mEUR	203.59 mEUR	1.57 %
Total	**283.90 mEUR**	**192.41 mEUR**	**476.32 mEUR**	**0.82 %**
[1] as reported in control statistics				

Assessing Member States' efficiency when detecting and correcting undue amounts prior to payments based on the information reported by Member States the situation as regards the 'cost : benefit'-ratio is as follows:

	Member States' costs of detecting and correcting undue amounts	Undue claimed amounts detected and corrected by Member States prior to payment and Member States' recoveries	cost : benefit ratio
ABB02	178.92 mEUR		
ABB03	2,175.91 mEUR		
EAGF	2,354.82 mEUR	272.73 mEUR	8.9 : 1
ABB04	1,566.72 mEUR	204.30 m EUR	7.7 : 1
Total	**3,921.55 mEUR**	**477.03 mEUR**	**8.2 : 1**

Conclusions

- *Higher costs of controls for EAFRD*
- *Undue payments detected and corrected at Member State level represent less than 1 % of the expenditure*

Stage 3:. Monitoring and supervision of the execution by the Commission including ex-post controls

Here, the main control objective is to ensure that the expenditure reimbursed from the EU budget is eligible and regular. Hence, for assessing the effectiveness of the monitoring and supervision of Member States by DG AGRI reference is made to the best estimate of residual risk of error per Member State.

For a number of Paying Agencies the error rates reported by the Member States were adjusted in accordance with the methodology described in Annex IV:

ABB03	Adjustments were made for 42 out of 68 paying agencies
ABB04	Adjustments were made for 43 out of 71 paying agencies

The table below gives a summary of the situation of adjusted residual error rates at ABB level (in accordance with the methodology described in Annex IV):

ABB02	7.44 %
ABB03	2.34 %
ABB04	5.19 %

In the course of the reporting period the Commission adopted a number of financial corrections following DG AGRI audits, the following amounts were covered by the latter:

ABB02	-78,35 mEUR
ABB03	-761,35 mEUR
ABB04	-248,95 mEUR
Total	**-1.088,66 mEUR**

With respect to efficiency the 'cost of control/financial management of the Commission checks and assessment (% of total appropriations)' are presented in the following table:

	Costs of control DG AGRI [172]	**Expenditure**	**Costs in % of expenditure**
ABB02	4,17 mEUR	3.192,64 mEUR	0,13%
ABB03	4,85 mEUR	41.661,93 mEUR	0,01%
ABB04	5,77 mEUR	12.977,72 mEUR	0,04%
Total	**14,79 mEUR**	**57.832,29 mEUR**	**0,03%**

When considering the 'amount of financial correction / costs of controls' the situation is shown in the following table:

	Costs of control DG AGRI	**Net Financial corrections adopted**	**cost : benefit ratio**
ABB02	4,17 mEUR	-78,35 mEUR	1 : ~19
ABB03	4,85 mEUR	-761,35 mEUR	1 : ~157
ABB04	5,77 mEUR	-248,95 mEUR	1 : ~43
Total	**14,79 mEUR**	**-1,088.66 mEUR**	**1 : ~74**

2.1.2.2 Conclusions with regard to the effectiveness and efficiency of the controls

- For almost two thirds of the Paying agencies, control systems are only partially effective: they do not detect many of the errors revealed by ex-post audits carried out by the certification bodies, DG AGRI or the ECA; as a consequence, the errors reported by the paying agencies cannot be used directly for estimating the residual error rate and adjustments have to be made in order to make a solid evaluation of the residual error rates and amounts at risk.

- Improving the quality and effectiveness of both the administrative and on-the-spot-checks would allow the deficient paying agencies to detect and correct more errors; according to the last annual report of the ECA, at least two thirds of the errors detected ex-post could have been detected ex-ante by the concerned paying agencies. Such an improvement would increase the average cost/benefit ratio of the paying agencies' controls. For instance, if paying agencies were able to detect two thirds of the amount at risk evaluated by DG AGRI for 2013 (1.88 billion euros), the cost/benefit ratio of their controls would decrease from 8 to 1 to 2 to 1.

[172] In addition to the cost of ex-post controls specified in the table, other costs of DG AGRI financial officers checking MS expenditure represent 1,25mEUR (ABB04) and 1,72mEUR (ABB02 and ABB03). These figures do not include geographic desk officers.

- The lower error rate for ABB03 reflects the effectiveness of the IACS, notably the LPIS, where adequately implemented, in preventing errors from the very beginning of the process.

- Under the system of shared management, the conformity clearance procedure and its resulting net financial corrections is an efficient tool to enable the Commission to protect the EU budget against the errors made at beneficiary level.

2.1.3 Decentralised Management

SAPARD and IPARD expenditure are managed by DG AGRI under the decentralised management mode.

2.1.3.1 Description of the management and control system

For both SAPARD and IPARD funds, the assurance is obtained based on a management and control system for programmes established in line with both the principles of the agricultural Funds and the relevant external aid provisions of the Financial Regulation.

In particular, for both Sapard and IPARD, the management and control system has a structure similar to the one applicable under EAGF and EAFRD. However, in the case of Sapard/IPARD some more stringent conditions apply, of which the main ones are the following:

- The accreditation of the structures at national level only is not sufficient to enable the structures in the beneficiary countries to start operating. Indeed, in accordance with the rules established in the Financial Regulation for decentralised management, following the national accreditation the Commission needs to formally entrust the implementing tasks to the beneficiary countries ("conferral of management powers"), after having verified their level of preparedness;

- Once management has been conferred, significant changes to the management and control procedures need the prior approval of DG AGRI before they can be put in operation;

- More extensive control procedures and stricter conditions for payments to the final beneficiaries apply, compared to the same measures in EAFRD.

IPARD, based on the experience gained under Sapard, continues to be operated under decentralised management without ex-ante controls by the Commission. As in the case for Sapard, this approach was deliberately chosen by the Commission in view of the potentially large number of small projects to be implemented under the programmes which would require a considerable number of additional staff in the EU delegations. This form of management is also considered to be the best preparation for acceding countries for the implementation of rural development funds after accession.

The three countries currently benefitting under IPARD (Croatia, the former Yugoslav Republic of Macedonia and Turkey) have not yet implemented area or animal-based support measures and therefore the IACS (Integrated and Administration Control System) is not yet operational.

As in the case of Sapard, for IPARD it took some time for beneficiary countries to put in place an effective management and control system. As IPARD money can only flow after management powers have actually been conferred, the absorption rate so far is low. However, as management for some measures has now been conferred for all of the three beneficiary countries, the uptake of IPARD funds is moving in an upward direction and is expected to improve substantially as these countries continue to gain experience in the implementation of IPARD.

2.1.3.2 SAPARD

SAPARD (Special Accession Programme for Agriculture and Rural Development) was established in June 1999 by the Council of the European Union to help countries of Central and Eastern Europe deal with the problems of the structural adjustment in their agricultural sectors and rural areas, as well as in the implementation of the a*cquis communautaire* concerning the Common Agricultural Policy (CAP) and related legislation.

A. Compliance with accreditation criteria and compliance of management and control systems

Even though the last payments under SAPARD ended in 2009, during the five years after the final payment for the project, the beneficiary countries are obliged to continue to verify that the projects did not undergo a substantial modification, as stated in Article 4(4) of Section B of Multiannual Financing Agreement ('MAFA').

As provided by Article 14(2.8), Section A of the MAFA, recording in the debtors' ledger has to continue until all debts are written off at the end of the second year following their registration. This implies that the Sapard agencies have to keep a debtors' ledger for the recording of all debts, including irregularities. The amount "*shall be written off at the end of the second year following its registration in the debtors' ledger and deducted from the next application for payment*"; and the debt can be registered even after the programme has ended. In practice, this means that a programme will be closed after a maximum of seven years after the final payment (5 + 2 years as described hereafter). For the eight Member States which joined the EU in 2004, this period expired at the end of 2013 (date of last project payment + the two periods mentioned above: end of 2006 + 5 years + 2 years = 31.12.2013). For Bulgaria, Croatia and Romania, the last declaration of expenditure was submitted in 2009. Therefore, the end date for recoveries for these three countries would be 31.12.2016 (end of 2009 + 5 years + 2 years = 31.12.2016).

Any financial corrections applied to these countries based on the clearance of accounts procedure will take the form of recovery orders.

B. Audit work

Romania

In 2010, OLAF' investigators found evidence of irregularities and possible fraud in tendering procedures for Sapard projects under the measure *'Processing and marketing*'. In order to follow-up OLAF's enquiry, DG AGRI visited the Romanian paying agency several times to ensure that the paying agency had dealt correctly with the different cases opened by the OLAF investigation.

By following-up the OLAF's enquiries, a correction for the financial years 2007 and 2008 was proposed in order to cover the risk to the Fund posed by the lack of veracity of three offers and, consequently, doubt about the eligibility of the application.

During the follow-up audits carried out in 2012, DG AGRI found a particular issue in the recording of the irregular amounts in the debtors' ledger for which the advice of the Commission's legal Service was sought. The enquiry was closed in December 2013. Another mission (though not specific on OLAF cases) took place in July 2013; no relevant findings were noted, but the clearance of account procedure is still ongoing.

Bulgaria

A conformity audit was carried out in Bulgaria in 2013, covering the biggest measures (public and private) in order to follow-up the recommendations made during the previous audit missions (carried out in 2011 and 2012). This audit also assessed again the quality of the ex-post checks carried out by the SAPARD Agency. The clearance of accounts procedure is still ongoing for the two enquiries, but the audits will most likely be closed without financial corrections.

Croatia

In June 2012, OLAF informed DG AGRI of serious fraud evidence uncovered in a Sapard project in Croatia, but also that four projects showed serious signs of fraudulent manipulation. OLAF suspected that additional cases involving Sapard funding could be concerned.

In order to follow-up OLAF's enquiry, DG AGRI carried out an audit in October 2012, mainly to examine the projects not investigated by OLAF. The results of the enquiry were communicated to the paying agency; and one of the files was sent to OLAF for further investigation, after which OLAF decided to open a case. The enquiry on the two other projects was closed by DG AGRI in December 2013 after a bilateral meeting in July in Zagreb, including an on-the-spot visit to one of these two projects. During this additional visit, the last concerns could be removed.

In addition, in March 2013, and in cooperation with OLAF, DG AGRI held a seminar on fraud prevention and detection at the Croatian Paying Agency to better equip its staff to recognise possible instances of fraud and react to them appropriately.

C. Financial clearance

For SAPARD, all years have been cleared, with the exception of the accounts of Bulgaria and Romania for the financial year 2009 for which some issues remain to be clarified or adjusted.

D. Conclusion for SAPARD

The expenditure under Sapard ended in 2009. The expenditure effected in 2009 is being audited under the clearance of accounts procedure for Bulgaria and Romania. The Commission also continues to monitor that the obligations remaining after 2009 are still being fulfilled by the beneficiary countries concerned (Bulgaria, Romania and Croatia), in order to ensure that during the five years after the final payment the projects do not undergo a substantial modification and that a debtor's ledger continue to be used until the end of 2016. Where necessary, financial corrections will be applied at the end of the audit procedures.

2.1.3.3 IPARD

IPARD (Instrument for Pre-Accession Assistance in Rural Development) is a pre-accession Programme of the EU for the period 2007 – 2013. It is an integral part of the IPA (Instrument for Pre-accession Assistance), whose main objectives are to assist candidate countries and potential candidate countries in their harmonisation and implementation of the EU *acquis*, as well as preparation for utilisation of the future EU funds. The objectives of IPARD are to provide assistance for the implementation of the *acquis* concerning the Common Agricultural Policy and to contribute to the sustainable adaptation of the agricultural sector and rural areas in the candidate country.

The following table sets out the expenditure under IPARD in 2013:

IPARD - Expenditure in 2013

Measures		Croatia	FYROM	Turkey	Total
101	Investments in agricultural holdings	7.690.897	150.045	26.002.866	33.843.807
103	Investments in processing and marketing of agriculture and fishery products	7.155.837	553.853	4.538.925	12.248.615
301	Improvement and development of rural infrastructure	1.045.303	0	0	1.045.303
302	Diversification and development of rural economic activities	622.301	0	1.591.337	2.213.638
	Total	**16.514.337**	**703.898**	**32.133.128**	**49.351.363**

A. Compliance with accreditation criteria and compliance of management and control systems

In 2013, four audit visits were carried out to Croatia and Turkey. In addition, three advisory visits were carried out to Serbia, Albania and Montenegro in view of their future participation in IPARD as beneficiary countries. In addition, in October 2013, OLAF, in cooperation with DG AGRI, organised a multi-country conference under the title "How to prevent and fight rural development fraud" in Zagreb, in order to better equip the beneficiary countries to recognise possible instances of fraud and react to them appropriately

Croatia

In 2013, a monitoring audit was performed in Croatia in order to assess the continued compliance of the main IPARD structures (the National Authorising Officer, the National Fund, the Managing Authority and the IPARD Agency) with the conditions and provisions of the agreements (Framework and Sectoral Agreements) signed with the Commission, and to ensure that the approved procedures and structures for measures 301 (Improvement and development of rural infrastructure) and 302 (Diversification and development of rural economic activities) were operating in a satisfactory manner.

A conformity audit was also carried in 2013, on measures 101 (Investments in agricultural holdings to restructure and upgrade to EU standards) and 103 (Investments in the processing and marketing of agriculture and fishery products to restructure those activities and to upgrade them to EU standards).

For the first enquiry, the auditors found that the management and control system needed improvements in terms of staffing, supervision, communication and effectiveness of the checks carried out. During the second audit visit, certain weaknesses have been noted. They are discussed with the Croatian authorities. For both enquiries, the clearance of accounts procedure is still ongoing.

Former Yugoslav Republic of Macedonia

The IPARD structures in the former Yugoslav Republic of Macedonia had been extensively audited in 2011 and 2012. The audit in October 2011 in particular had revealed serious deficiencies in several accreditation criteria, notably in the internal control standards, and in the control procedure on the attribution of investment aid. The national authorities had therefore been immediately requested to draw up a plan to remedy the shortcomings identified. The action plan was submitted on 17 February 2012 and its implementation was followed up by DG AGRI in the course of two audits in the same year.

During the second audit visit, in October 2012, DG AGRI noted that most of the actions had been properly implemented and the weaknesses corrected, as a result of which the residual risk has been reduced to an acceptable level.

In the course of 2013, several meetings were held with the national authorities in order to address various outstanding issues. An audit visit had been planned in relation to the conferral of management for measure 501 (Technical Assistance), which however could not be carried out because the national authorities had not submitted the accreditation package. When the latter has been received, a new audit will be scheduled.

Turkey

Management powers were first conferred to Turkey in August 2011. Initially the conferral concerned 17 out of the 42 provinces for which Turkey had made a conferral request.

The conferral was progressively extended to 3 more provinces in 2012 and the remaining 22 in 2013.

For 6 of these 22 provinces however, the conferral was granted only on a temporary basis, until the end of August 2014, because a conferral audit carried out in April 2013 showed that the implementing structures in those provinces still needed improvements. In order for those provinces to be granted permanent conferral, the Turkish authorities will need to ensure a satisfactory implementation of an action plan. A new audit is planned for June 2014 in order to verify the state of implementation of the action plan.

In the second half of 2013, DG AGRI received a request for conferral in relation to measure 501 (Technical assistance). A conferral audit was therefore carried out in January 2014, the results of which are currently being assessed.

A first conformity audit mission has also been carried out by DG AGRI in April 2013 to assess whether expenditure incurred was in conformity with the EU rules. For measure 101, "investments in agricultural holdings to restructure and upgrade to Community standards", the audit found serious shortcomings with regard to the evaluation of the reasonableness of costs. The auditors concluded that the "three-offer" model does not give sufficient guarantees in this context. In each of the (four) files audited, at least for one out of the two tendering procedures, the Commission auditors found strong suspicion or even evidence that the offers were not independent. The Commission auditors appreciate that the Turkish authorities have established a twofold check and that, during the second control phase, they themselves detected inflated prices in certain cases. This compensated, at least to a certain extent, for the risk resulting from the non-independence of the offers. However, a significant risk of inflated prices remains. The risk of error is still to be estimated, it could be as much as 10 %.

Taking into account that the expenditure under this measure represented close to 26 million EUR in 2013, out of a total 2013 expenditure of 33.8 million EUR, the error rate (8.1 %) is above 5 % and requires a reservation according to the materiality criteria set out in Annex IV.

For the 2013 expenditure, the risk to the EU budget will be covered by a financial correction in the context on the on-going conformity clearance procedure.

With a view to simplication, and in consideration of the high number of errors which can occur with the "three-offer" model in Turkey, the sectoral agreement was modified on 5 December 2013, to permit a control system based on a reference price database. The Turkish authorities and DG AGRI are working together on assessing the existing price database and the possibility to use it, after the necessary improvements have been made, as the main control tool for checking whether prices quoted in the beneficiaries' claims are reasonable.

B. Financial clearance

The countries benefitting from IPARD funds have to send, by 31 December of the financial year N the Audit Authority report and opinion on the management and control system, and by 30 April of the following year N+1 the Accounts, Statement of Assurance by the National Authorising Officer and Audit Authority report and opinion on the accounts. By 15 July N+1 DG AGRI has to inform the countries on the result of the clearance of accounts exercise and the relating decision is adopted by the Commission by 30 September N + 1.

In 2013, DG AGRI cleared the 2012 accounts for Croatia, the 2011 accounts of fYROM (which had been disjoined in 2012). The 2012 accounts of both fYROM and Turkey were disjoined, because of issues needing clarifications or adjustments, and which are now being followed-up.

Concerning the 2013 financial year, the three countries provided the audit opinions and reports due by 31 December 2013. In respect of Croatia and Turkey the Audit Authorities provided positive ("*unqualified*") opinions on the management and control system and indicated that they had found no major findings. As concerns fYROM, the Audit Authority also provided an "unqualified" opinion, but emphasized some major findings which might have a future impact on the sound financial management of the management and control system.

C Conclusion

The expenditure declared by IPARD beneficiary countries (Croatia, FYROM and Turkey) continues to be monitored by means of audit missions and the clearance of accounts procedure, which is centered on audit work conducted by independent Audit Authorities at national level.

Although deficiencies are still found in the management and control system, some factors have so far operated (although not all at the same time in all countries) to keep low the risk for the EU budget: strict control systems having a certain redundancy through several lines of defence, effectiveness of the work carried out by the Audit Authorities and a strict approach applied by the managing services in deciding on the eligibility of the claims by final benficiaries.

Nevertheless, for a specifc measure, which accounts for 80% of the expenditure for Turkey, there are elements which indicate that the level of error for that country is above 5% and thus it is necessary for the Director General to make a reservation in that regard.

Measures		Expenditure	Estimated error rate	Amount at risk	Amount under reservation
101	Investments in agricultural holdings	26.002.866	10%	2.600.287	2.600.287
103	Investments in processing and marketing of agriculture and fishery products	4.538.925	0	0	0
302	Diversification and development of rural economic activities	1.591.337	0	0	0
	Total	**32.133.128**	**8,09%**	**2.600.287**	**2.600.287**

DG AGRI estimates that the overall error rate for IPARD – Turkey is 8.1 % and that the amount at risk is 2.6 million EUR – the same amount is under reservation.

The overall error rate for IPARD is 5.3%.

2.1.4 Fraud prevention and detection

On 12 September 2012, DG AGRI had adopted its Anti-fraud Strategy (AFS) as provided for in the Commission's overall Anti-fraud Strategy[173]. By the end of 2013, all actions set out in the AFS' action plan had been implemented, although certain actions like fraud awareness training to staff and anti-fraud seminars for the paying agencies in the Member States are by definition on-going initiatives that will be carried on in 2014 and after.

On 15 March 2013, the Director-General of OLAF has adopted "Internal rules for the handling of allegations of external fraud and other irregularities, and of external OLAF cases". These internal rules define in detail the roles, responsibilities and reporting procedures of all staff in DG AGRI in relation to allegations of fraud.

The AFS and the internal rules – as well as other relevant material concerning the domain – are accessible to all staff via the AGRI intranet at https://myintracomm.ec.europa.eu/dg/agri/working_environment/Pages/antifraud.aspx.

On the basis of OLAF investigations and DG AGRI's own audit work, guidance notes have been drafted on fraud indicators in the areas most exposed to fraud (second hand equipment, falsified/manipulated offers in private tenders, artificial creation of funding conditions). These notes are equally published in the AGRI intranet.

On 31 January and 11 December 2013, dedicated anti-fraud trainings have been held for staff of the DG. In addition, two lunch-time conferences have been held on fraud in the CAP on 28 February and 12 September 2013. Finally, a training course for auditors of the DG on fraud indicators in the areas most exposed to fraud has been held on 26 September 2013.

Anti-fraud seminars for the Romanian Paying Agency for Rural Development and for the Audit Directorate of the Romanian Ministry of Agriculture have been animated by the Anti-fraud Adviser in September and October 2013. In addition, seminars of this kind have been held in Croatia (4 March 2013), Macedonia (20 March 2013) and Turkey (15 May 2013). OLAF and DG AGRI have jointly organised and held a seminar on fraud in Rural Development in October 2013 for all MS in Croatia. Finally, the AFS has been presented to the RD-Committee on 23 January 2013.

Throughout the year, DG AGRI has referred 33 allegations of fraud to OLAF (mostly in Rural Development projects). In 31 cases, the referrals have led to the opening of an OLAF investigation. In addition, OLAF has opened 23 investigations and one coordination case on the basis of allegations received from sources other than DG AGRI.

OLAF has closed 76 cases relating to alleged fraud against the CAP budget in 2013 (53 investigations and 23 coordination cases). Out the 76 cases closed, 52 concerned SAPARD projects (68 %) and 16 EAFRD projects (21 %). The remaining 8 cases concerned

[173] COM(2011) 376, 24.6.2011

various other domains. In 56 of the 76 cases, OLAF made recommendations for financial corrections (recoveries of funding from final beneficiaries) and only 20 cases were closed without recommendations.

2.1.5 Other control objectives: use of resources, reliability of reporting, safeguarding of assets and information

2.1.5.1 Reliability of reporting

In order to report on the legality and regularity of expenditure in shared management with the Member States, DG AGRI is obliged to depend on the results of controls reported each year by each paying agency.

In recent years, concerns have grown as to the reliability and completeness of that data and whether it presents the full picture of the level of error which exists. In its 2012 AAR therefore, DG AGRI undertook an additional assessment (for expenditure under ABB03 only) in order to take into account other audit opinions on the effectiveness of the Member States' control systems.

In the present report, for 2013, DG AGRI extended that approach to the other expenditure areas and took into account all available information and use the professional judgement of its auditors in order to assess where it would be necessary to adjust the error rates resulting from those statistics which were considered to be unreliable.

2.1.5.2 Safeguarding of information

DG AGRI has set up a full range of measures to ensure the adequate safeguarding of its information. In particular:

- All information systems are protected from unauthorized access through the firewall technology and advanced access rights mechanisms.
- These databases are also duplicated on a backup site, with immediate synchronisation, to prevent from data loss.
- The Business Continuity Plan is kept up to date, with a Disaster Recovery Plan tested on a yearly basis to ensure continuity of operations in case of incident.

Central IT services (DG DIGIT) provide for additional services in this domain: all workstations are secured with an antivirus, personal firewall and regular administrative policies that limit changes allowed to the user. Laptop computers are encrypted and secure e-mail is made available for the exchange of sensitive information.

2.2 Budget implementation tasks entrusted to other services and entities[174]

This section reports and assesses the elements that support the assurance on the achievement of the internal control objectives as regards the results of the DG's supervisory controls on the budget implementation tasks carried out by other Commission services and entrusted entities distinct from the Commission.

2.2.1 Financial instruments

General overview

According to the legal rules for programming period 2007-2013 (Articles 50-52, R 1974/2006), the EAFRD could support the set-up of guarantee funds, loan funds and venture-capital funds. At present, guarantee funds are established in Bulgaria, Italy and Romania. A guarantee scheme has been set up also for the French region Corse. A loan fund is set up in Latvia and Greece, while in Lithuania the loan fund has a guarantee component.

In 2013, similar to 2012, financial instruments (FI) under the EAFRD (loan and/or guarantee funds) were utilised in 6 Member States (Bulgaria, Italy – 8 regions out of 21, Latvia, Lithuania, Romania and France - Corse). In Bulgaria, the granting of loans started in 2013. For Greece, the RDP provisions for the set-up of a loan fund have been approved already in 2011, but so far the Fund has not been operational. The difficulties for Greece to activate the FEI planned in its RDP were caused by the modification of R 1698/2005 (EC) resulting in the increase of co-financing rates and decrease of public expenditure of the Greek RDP and the unwillingness of banks to participate due to the economic crisis in Greece. However, a call for interest in 2013 was launched to set up the loan fund and it is expected the initiative to become operational.

During 2013 there were only few RDP modifications concerning financial instruments. For example, the planned set up of a loan fund in Brandenburg-Berlin (DE) was closed and the loan fund's provisions were withdrawn from the RDP due to the need of funding other measures during the transitional period. The same was the case with RDP provisions in Belgium (Wallonia) where initially a guarantee and a venture fund were planned to be set up. A modification of the RDP France (Corse) saw an improvement in the scope of application of the guarantee fund.

Expenditure

According to information provided to us by Member States[175], the amounts transferred from rural development programmes to financial instruments at the end of 2013 (including Q4 2013) represent EUR 443.8 million[176], with EUR 87.2 million higher than at

[174] For Decentralised management see part 2.1.3.

[175] Information available at 21 February 2014.

[176] Information by end of 2013.

the end of 2012.[177] Lithuania and Latvia made a financial change by returning respectively EUR 4 million and EUR 17 million (EAFRD money) to their RDPs, while Greece created for the first time in 2013 a Financial Instrument with an amount[178] of EUR 109.25 million.

Legal aspects

There were no legal changes in the legislation governing the set up and implementation of financial instruments supported by the EAFRD in 2007-2013.

However, a significant work was carried out in relation to the legislation for the period 2014-2020 where all Commission services implementing their policies under shared management worked and prepared the new common to all European and Structural Investment Funds legislation under the leadership of DG REGIO, which legislation was adopted in December 2013 [R 1303/2015]. Work was also done by DG AGRI on the specific EAFRD regulation adopted at the same time [R 1305/2013]. This includes follow up and participation in the relevant discussions with the European Parliament and the Council on these legal documents.

Monitoring and control

Specific control obligations for the MS authorities are foreseen in Articles 28(g) and 28(h) of Regulation (EU) 65/2011. These obligations concern mainly the functioning of the instrument and to a less extent the compliance of the RD operations concerned, which is already covered by other control provisions.

DG AGRI Directorate J opened since the beginning of 2007-2013 programming period 5 conformity audits concerning interest rate subsidies schemes in France finding out important weaknesses in management and control system (3 of these inquiries are now closed with a total of EUR 8.6 million financial correction). As a consequence, in addition of financial recoveries of the irregular payments, French authorities took up the management and the control of the scheme which were formerly delegated to the financial institutions.

Concerning the other financial instruments, the initial implementation of Guarantee Funds had been partly audited within the scope of 4 audit missions (one in Italy, two in Romania and one in Bulgaria) in 2011 -2013. The audits showed in general the possible risk of over financing (front-loading) the Funds compared to the actual necessities in terms of guarantees to be given. This fact may only be confirmed in the coming years and it does not entail, except perhaps for Bulgaria, a financial risk of irregular payments for the EAFRD but a risk of lower use of the available budget.

[177] Romania planned end of 2013 to reduce in 2014 the size of its guarantee fund by returning EUR 83.2 million (EAFRD money) to its RDP, however as this amount is not yet implemented, it could not be included in the situation end of 2013.

[178] Declared to the Commission with Q4 2013 and included in the total FIs amount end of 2013.

2.2.2 Cross-sub-delegations[179]

When DG AGRI cross delegates activities to other services, a work programme for the activity concerned is requested and must be signed by the Director General of the service concerned. Similarly, after the end of the year, the service must provide a report on the activity carried out. The Directorates-General concerned reported no problems nor anomalies for 2013 for the cross delegations to JRC, ESTAT, EMPL, PMO, SANCO, ENTR and DEVCO. The AOSDs in charge of the sub-delegated budget lines have been consulted on the reports provided by the respective DGs. The AOSDs confirmed that the funds were executed in accordance with the financial circuits and control procedures in place and in conformity with the financial rules.

[179] See detailed table in Annex 2.

2.3 Assessment of audit results and follow up of audit recommendations

This section reports and assesses the observations and conclusions reported by auditors which could have a material impact on the achievement of the internal control objectives, and therefore on assurance, together with any management measures taken in response to the audit recommendations.

2.3.1 Internal Audit Capability reports and opinion

In accordance with its audit planning[180], which covers the DG management processes on a risk basis, **Internal Audit finalised 9[181] audit reports in 2013,** 6 of which remaining from the 2012 audit work plan**[182]** and 2 draft audit reports were issued[183]. The audit on "Simplification" was finalised and issued on 27 January 2014[184].

[180] Multiannual audit planning for the period 2010-2012 and then 2013-2015.

[181] The audit report on "Risk Management" was issued on 16 January 2013 and counted for the 2012 opinion.

[182] "Risk management" –(which was included in the 2012 opinion)., "Financial reporting", "Policy Analysis & Studies", "Financial management of rural development", "Support for information measures relating to the CAP", "Pre-Accession".

183 The draft report on "Simplification" on 11/12/2013 and the draft audit report on "Promotion" on 12/12/2013

184 Ares(2014)189453 - 28/01/2014

Audit field	Subject	Final Report issued on	Number of recommendations	Number of VI recommendations	Number of accepted recommendations
Financial reporting	Financial reporting, EAGF	20/03/2013	8	0	8
Analysis, studies	Policy analysis and studies	27/03/2013	6	**1**	6
International	Pre-accession	25/02/2013	0	0	0
EAFRD	Financial management of rural development	28/02/2013	3	**1**	3
DE-Communication	Support for information measures under the CAP	22/03/2013	17	**3**	17
HR	Recruitment, Mobility, career Guidance and Training	22/10/2013	15	**3**	15
Communication	Communication Strategy	22/10/2013	12	0	12
Administrative support	Document Management	22/10/2013	14	**2**	14
Simplification	Achievement of the objectives	27/01/2014 -	10	0	10
Promotion	*Implementation of the regulation*	-	*11*	*3*	*10*

Consequently, the IAC expressed the opinion that the internal control system in place provided reasonable assurance regarding the achievement of the business objectives set up for the processes audited except for a number of very important qualifications related to:

- ✓ **Strategic planning of policy analyses and studies**: Auditors identified the need to strengthen the oversight and set up a system to ensure that planned external studies are aligned to the DG's political and operational objectives (reflecting the Commission's ones) and are correctly prioritised;
- ✓ **Financial management of rural development**, as far as the area of financial instruments is concerned, Auditors identified the need to build and develop specific knowledge and adequate expertise in the different fields (policy, finance, accounting and audit) linked to the management and control of financial instruments as well as the need to strengthen the coordination of all aspects in order to ensure consistency;
- ✓ **Direct expenditure- support in the form of grants for information measures related to the CAP:** Auditors identified that some eligibility conditions and criteria were not sufficiently transparent and proportionate and they

recommended an increased transparency, some adaptations to the process as well as an improved documentation, notably through the development and use of checklists.

- ✓ **Human resources (mobility, recruitment[185] and career development):** Auditors recommended the development of a strategic approach to the audited HR processes and that a strategic analysis of the compulsory mobility policy including the re-identification of sensitive functions be performed;
- ✓ **Document management:** Auditors were of the opinion that major improvements were needed in relation to access to documents in Ares, though acknowledging that open access in Ares had to be adequately accompanied with an enhanced awareness on the use of appropriate markings, in order not to increase the risk of disclosure of sensitive documents. Additionally, Auditors recommended a closer monitoring, notably by the System owners, of the e-Domec compliance of DG AGRI information systems and their integration with the HAN[186] suite;
- ✓ **Promotion:** Auditors identified that major improvements were needed regarding the assessment of the cost-efficiency of proposed promotion programs; the optimisation of the process of external evaluation of proposals as well as of the selection of implementing bodies. At the end of 2013, only the draft report had been issued[187]. The final report, including the action plan, was finalised in February 2014[188].

Management has accepted the vast majority[189] of the auditors' recommendations and submitted action plans which have been assessed favourably by the auditors. The various management measures included in these action plans have been or are being implemented as foreseen.

Follow–up of IAC recommendations:

During the period 1/4/2013-1/4/2014, 14 Follow-up reviews and 3 Follow-up audits were performed by DG AGRI IAC to assess the implementation of internal audit recommendations resulting from previous audits.

Overall 89 recommendations were examined, amongst which 11 very important recommendations. Out of these recommendations, 24 were closed as they had become obsolete in particular due to the entry into force on 1.1.2014 of the new CAP regulatory

[185] Excluding the recruitment of managers.

[186] **H**ermes/**A**res/**N**omcom = Commission informatics tools for document management

[187] Auditees indicated that they considered that only minor improvements (and not major ones) were needed in relation to the recommendation to enhance the demonstration of absence of conflict of interest for the external evaluators, which is part of the overarching very important recommendation on the optimisation of the process of external evaluation.

[188] See Ares(2014)334163 - 11/02/2014

[189] Acceptance rate for 2013 audit reports is 99%

framework as well as the accompanying re-organisation of DG AGRI administrative structure.

Overall 69% of the non-obsolete recommendations were assessed as implemented and timely (the implementation rates reaching 83% for very important recommendations); 25% as partly implemented (17%[190] for very important recommendations) and 6% were still open.

The situation is comparable to the implementation rate for the year 2012 where the overall the rate of implementation had been assessed at 69% and at 67% as far as timely implementation was concerned.

Internal Audit concluded that based on the result of its audits as described in the objectives and scope of the engagements carried out in 2013, the internal control system in place provides reasonable assurance regarding the achievement of the business objectives set up for the process audited, except for the very important issues arising out of the assurance work as described above.

However, as regards the adequacy of the internal control system in place, the results of the audits performed by IAS in 2013 and mentioned in the following section need to be duly taken into account.

2.3.2 IAS audits

During the period of reference, IAS performed the following audit work:

- ✓ The limited review took place in February 2013 and the Final report[191], was issued on 26 March 2013. Given the nature of this engagement, no audit opinion was formulated. However, the review made findings on the reliability of the MS control statistics used by DG AGRI to calculate its Residual Error Rates –RERs- (Critical), DG AGRI's calculation of the RERs (Very Important), the process for making reservations in its AAR (Very Important) and the presentation of the RERs in the AAR (Very Important). DG AGRI accepted the recommendations and issued an action plan[192,] with the majority of the actions to be implemented in 2013 and/or in the AAR2013[193.]

- ✓ Two separate audits on the implementation of the control strategy were launched at the beginning of 2013, one relating to EAFRD for and the other for

190 The very important recommendation assessed as partly implemented concerned the audit on Direct expenditure of 29 November 2012. Auditors noted that although the recommendation had not been fully implemented, steps had been taken to address the risk identified at the time of the audit. As a result of their assessment, they therefore have concluded that the level of risk identified at the time for the process audited has been reduced. Therefore, Auditors have re-qualified the recommendation into an important recommendation and the deadline for implementation has been extended until end April 2014.

191 Ares(2013)510848 - 26/03/2013

192 Ares(2013)1379395 - 27/05/2013

193 At the time of the drafting of this opinion, IAS is performing a follow-up of this limited review, follow-up which was announced by note Ares(2013)3788101 - 20/12/2013

EAGF. IAS issued one common report on 26 September 2013[194]. IAS concluded that the internal control system in place provided reasonable assurance regarding the achievement of the business objectives set up for the implementation of the control strategy except for three very important issues regarding detective measures, corrective measures and monitoring and reporting as well as one important issue on fraud prevention and detection.

In particular, IAS concluded that there was scope for improving the audit process in a number of key areas such as at the planning and preparation stages; when actually performing the audit (*need for improvements in terms of audit trail/cross-referencing, documented supervision, methodological tools etc. and re-performance checks of MS first-level controls made on the spot*) and also for the finalisation of the audit process (which is very lengthy). In this context, IAS noted that the coordination and communication arrangements both within the Audit Directorate and outside could be improved, notably with the operational side.

Additionally, though IAS acknowledged the effectiveness of the financial corrections process in protecting the budget, it noted that DG AGRI had not so far extensively used the interruption and suspension measures. However, IAS noted that the rules proposed (and since then adopted) for the period 2014-2020 introduced new interruption and suspension clauses in the legislation and considered them as potentially very powerful tools, albeit needing very sound legal justification, in reinforcing the responsibility of MS to implement robust systems of control. In terms of ensuring that those improvements to MS system are sustained in practice, there is a real need to build capacity. However, at the time of the audit, DG AGRI had yet to put the monitoring systems in place to help deliver this and clarify the respective roles and responsibilities for establishing, reviewing and following up specific MS Action Plans.

Finally, IAS recommended that, building on the very preliminary work on establishing a recommendations database, efforts should be devoted to setting up a central overview of the audit findings and recommendations, which could help both the audit and operational units track improvements in the MS and feed back into the audit planning cycle. Adequate monitoring, measurement and reporting mechanisms being essential for ensuring the effective management of an audit function and in order to bring the consistency and depth necessary for effectively managing and monitoring the audit process, IAS recommended that the existing COMBO database system should evolve to include a reporting functionality commensurate with the needs and challenges of the Audit Directorate (e.g. in terms of number of audits, length of these audits, reporting obligations including performance reporting).

DG AGRI issued its action plan in relation to this audit on 28/10/2013[195] and it was assessed as satisfactory by IAS.

[194] Note Ares(2013) 3119603 - 26/09/2013

[195] Ares(2013)3356517 - 28/10/2013

- ✓ IAS launched an IT audit of the AGREX 3 project in December 2012. The audit was concluded after the preliminary phase on 15 July 2013196, as the analysis of the available information had indicated that DG AGRI had defined and implemented adequate controls to reduce the inherent risks of the project to an acceptable level. In particular, IAS highlighted the involvement of both the business and IT management in the different phases of the project and the methodologies used to manage it. The only significant weakness identified by IAS at the end of the preliminary phase concerned the absence of an IT security plan but at the same time IAS noted that DG AGRI had already reacted by asking an external provider to prepare the security plans for the four main IT systems in AGRI for 2013/14, including AGREX.

Follow-up of IAS recommendations:

As regards the implementation of recommendations issued in previous years, the relevant action plans are being implemented as planned and are on schedule except for 2 very important recommendations, which concern specific internal control processes. One concerns a recommendation on Fraud Prevention and Detection for which the original completion date was 31/03/2013 and that Auditees have revised to the end of the first semester 2014 as a Memorandum of Understanding between OLAF and the Commission (SG), which would then provide also for further (more detailed) working arrangements between OLAF and DGs is under negotiation. In the meantime, risks are mitigated in DG AGRI by alternative measures such as increased contacts and cooperation at working level between the two services.

The second recommendation relates to IPARD and the initial deadline for implementation had been initially foreseen for end 2012. The recommendation has not yet been implemented as the legislative and programming set up of IPA II is still in its final stage and expected to be adopted by April 2014. The programming set up including bi-lateral financing agreements will be finalised once the legislation is in force and DG AGRI will continue to make sure that the "lessons learned" during IPA I are duly taken duly into account.

The implementation of the recommendations stemming from the 2012 audit on the design and monitoring of DG AGRI J Control Strategy[197] have progressed in 2013 according to the date foreseen in the action plan. Following the formalisation, beginning of 2014, of DG AGRI audit strategy for 2014-2020, the main actions still to be finalised in

[196] Note Ares(2013)2656750

[197] For which 4 very important recommendations were issued in 2012 (See AAR 2012 page 85) , out of which the following are ongoing with as respective due date:

- 31/01/2015 for the recommendation on DG AGRI Directorate J Audit Strategy
- 30/06/2014 for the recommendation Risk Assessment and Audit Planning
- 30/03/2014 for the recommendation on the Monitoring and Reporting of the implementation of the Control Strategy.

the course of the first semester 2014 are the re-engineering of the central risk analysis together with the establishment of a multiannual (3 year) audit programme.

The recommendations[198] concerning the 2012 IAS audit on Management and Monitoring of Staff allocation have also progressed in 2013.

Consequently, the current state-of-play does not lead to assurance-related concerns.

It is also to be noted that IAS has started two follow-up audits in January 2014: one on the "limited review on the calculation and underlying methodology of DG AGRI's residual error rate for the 2012 reporting year" [199] and another one on the audit on the " management and monitoring of Staff Allocation."

[198] This audit, reported in AAR 2012, page 85, contained 3 very important recommendations with the respective due date:

- 31/03/2014 for the recommendation on the Mapping of human resources with activities and associated priorities
- 31/05/2014 I for the recommendation on the identification of current and future staff needs
- 31/03/2015 for the Workload assessment.

[199] Conclusions in note Ares(2014)924838 - 25/03/2014.

2.3.3 European Court of Auditors reports

On 5 November 2013 the European Court of Auditors (the Court) published its annual report concerning financial year 2012. In calendar year 2013, the Court published five special reports covering DG AGRI's activities:

- Special Report No 10/2013 "Common Agricultural Policy: Is the specific support provided under Article 68 of Council Regulation (EC) No 73/2009 well designed and implemented?";
- Special Report No 12/2013"Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?";
- Special Report No 8/2013 "Support for the Improvement of the economic value of forests from the European Agricultural Fund for Rural Development";
- Special Report No 6/2013 "Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?";
- Special Report No 1/2013 "Has the EU support to the food-processing industry been effective and efficient in adding value to agricultural products?".

Annual Report 2012

The European Court of Auditors' conclusion in its 2012 Annual Report (AR) as regards the legality and regularity of the underlying transactions in the policy group "Agriculture and natural resources" (chapter 3) is that based on the results of transaction testing, the most likely error rate (MLE) is estimated at 3.8 % (compared to 2.9% in the Court's 2011 AR), with a lower and an upper limit of 1.7 % and 5.9 %, respectively (§3.10).

The Court assessed the Integrated Administration and Control Systems (IACS) in three paying agencies and, on the basis of these audits, concluded that its effectiveness was adversely affected (§3.20). In its 2011 AR, the Court had found the IACS partially effective in all six paying agencies audited.

Whilst recognising that there will inevitably always remain certain weaknesses and imperfections, the Commission services are of the opinion that the IACS as a whole remains a solid system for the management of CAP expenditure. When deficiencies are found, Member States are requested to remedy them. The risk to the EU budget is adequately covered by the conformity clearance procedure.

As regards the legality and regularity of the underlying transactions in the policy group "Rural development, environment, fisheries and health" (chapter 4), the Court concludes, based on the results of transaction testing, that the MLE is estimated at 7.9% (compared to 7.7% in the Court's 2011 AR), with a lower and an upper limit of 4.5 % and 11.3 %, respectively (§4.10); see part 2.3.3. The Commission does not share the Court's assessment of the legality and regularity of one transaction As a result, the Commission's estimate of the level of undue payment is lower than the Court's. However, the Director-General for DG AGRI still maintained his reservation concerning rural development expenditure in his declaration of assurance for 2012. This reservation is accompanied by a number of corrective actions to be determined by the Commission together with Member States in order to address the situation. For the information on the follow-up to previous year's reservation see point 4.1.

In Rural Development, the Court assessed that out of the six systems audited, five were deemed partially effective and one not effective (§4.20). In its 2011 AR, the Court had found that out of the six systems audited, one was effective, four partially effective and one not effective.

In relation to the clearance of accounts procedures, the Court remarked that the amount of spending covered by conformity work expressed as a percentage of total expenditure projected in the annual audit programme for 2013 was only 19%, compared to an actual coverage of 47% and 42% in 2008 and 2012 respectively. Moreover, the Court stated that the length of the procedure was a persistent problem with the conformity decisions (§4.31) and that the results of the conformity audits were not sufficiently taken into account for the financial clearance decision (§4.32). As regards the use of flat-rate corrections, the Court reiterated that they do not sufficiently take into account the nature and gravity of the infringement, while noting the significant reduction of the proportion of flat-rate corrections in 2012 (§4.33).

The Court also noted serious deficiencies in the implementation of the reinforcement of assurance procedure, based on its audits in four of the five Member States which applied the procedure (§4.36). In response, the Commission pointed out that the error rate derived from these statistics would not be employed as a ceiling for financial corrections in the context of the clearance of accounts.

With regard to DG AGRI AAR 2012 and its reservation for rural development expenditure, the Court criticised the Commission for not providing its own quantified estimate and for the residual error rate for rural development and for not applying the new methodology for its calculation introduced for decoupled direct payments (§4.38). In response, the Commission reiterated that the new integrated approach for calculating the residual error rate would be further developed and used for rural development expenditure in the DG AGRI Annual Activity Report 2013, which would also allow for a more accurate quantification of the amounts at risk.

Finally, the Court issued the following recommendations (§§3.37 and 4.44):

- the eligibility of land, and in particular permanent pasture should be properly recorded in the LPIS, especially in cases where areas are partly covered with rocks, shrubs or dense trees or bushes or where land has been abandoned for several years;
- immediate remedial action should be taken where administrative and control systems and/or IACS databases are found to be deficient or out of date;
- payments should be based on inspection results and on-the-spot inspections should be of the quality necessary to identify the eligible area in a reliable manner;

- the design and quality of the work performed by the directors of paying agencies and the certification bodies in support of their respective declarations and statements should provide a reliable basis for the assessment of the legality and regularity of underlying transactions;
- the Member States should carry out their existing administrative checks better, by using all relevant information available to the paying agencies, as this has the potential to detect and correct the majority of errors;
- the Commission should ensure that all cases where the Court detected errors are followed up appropriately;
- the Commission, in DG AGRI's annual activity report, should apply a similar approach for EAFRD as for decoupled area aid, where the Commission takes account of the results of its own conformity audits in assessing the error rate for each paying agency;
- the Commission should ensure adequate coverage in its conformity audits;
- the Commission should address the weaknesses identified in its conformity audits and the persistent problem of long delays in the conformity procedure as a whole;
- the Commission should further improve its method of determining financial corrections so as to take better account of the nature and gravity of the infringements detected.

In relation to the above mentioned recommendations, to enable maintenance of agriculture in specific areas, the Member States can implement a procedure which ensures that the eligible area within these parcels is considered for payment, in so far that overall the parcel can still be considered as "agricultural". Guidelines including examples on how to assess the area to be taken into account have been discussed with and distributed to the Member States over the recent years. Where it is found that the Member State fails to correctly record eligible area the case is subject to a clearance procedure.

When the Commission services detect problems pertaining to the administrative and control systems during the course of their audits, they request the Member State to take remedial actions. Where the problem is particularly acute, the Member State is required to implement a remedial action plan which is closely followed by the services. So far such plans have been found to be very effective. The Commission also ensures that the financial risk to the EU budget arising from such deficiencies is covered via financial corrections imposed via the conformity clearance procedure.

The Commission shares the view of the Court that Member State should ensure that payments are based on inspection results and that on-the-spot inspections are of the necessary quality to determine the eligible area in a reliable manner. It will continue to focus its audits on the risk of ineligible land being not detected prior to the payments. Financial corrections will be applied where necessary to protect the EU financial interests.

The Commission continues to review the work of the Certification Bodies via the analysis of the documents related to the financial clearance of accounts as well as audit missions to Certification Bodies. In addition, in 2012, specific audit missions were conducted at 14 Certification Bodies to review their work on on-the-spot controls and control statistics, because these fields were identified by the Commission to be particular risks. In September 2012, a Certification Bodies' expert group meeting was organised. Furthermore, in preparation to the new programming period, and in line with the increased responsibility of Certification Bodies to cover legality and regularity of expenditure, bilateral meetings are organised with Certification Bodies in 2013.

The Commission shares the view that the Member States should carry out their administrative and control checks better. In the context of the drafting of its implementing rules for the CAP reform, the Commission is considering how to strengthen the administrative and control systems to be used by the Member States and how to reinforce the various instruments (including suspension of payments) to be used by the Commission for better protecting the EU financial interest in cases where Member States do not play correctly their role under the shared management rules.

The Commission will ensure that all the systemic errors detected by the Court are followed up appropriately, including through its conformity procedure where appropriate.

The Commission has already clearly indicated in its synthesis report for 2012 that the new integrated approach will be further developed and will also be used for the EAFRD from the year 2013 reports. Furthermore it recalls that the integrated approach also takes into account the findings of the Court's systems audits and the findings of the certification bodies.

The Commission will take appropriate measures within the limits of the resources available to ensure adequate coverage in its conformity audits.

The Commission will continue to improve its audit methodology and procedures. Moreover, it will continue to make efforts, notably in the framework of the preparation for the implementation of the CAP reform, to improve and speed up the process bearing in mind the need to maintain quality standards and the Member State's right of reply.

As evidenced by the increase in the total amount of financial corrections in recent years and the significant reduction of the proportion of flat-rate corrections in 2012, recognised by the Court itself, the Commission has already improved its method of determining financial corrections. That being said, the Commission always and as a matter of course strives to further improve its method of determining financial corrections, notably in the framework of the implementation of the CAP reform.

Chapter 10 on "Getting results from the EU budget" includes a section on the management plans and annual activity reports of some of the Commission's directors-general, an assessment of the Commission's second and third evaluation reports following Art. 318 of TFEU and a general overview of the main performance audit results from the Court's 2012 special reports.

In the third part, on the main performance audit result stemming from the Court's 2012 special reports, the Court focused on three themes which it deemed important for obtaining the desired results and impacts of the next generation of spending programmes: SMART objectives and suitable indicators for programmes, reliable and timely data on the performance of programmes and sustainability of EU funded projects. In DG AGRI’s domain, the special reports concerned were on "The reform of the common organisation of the market in wine: Progress to date", "Targeting of aid for the modernisation of agricultural holdings", "Suckler cow and ewe and goat direct aids under partial implementation of SPS arrangements" and "Implementation of EU hygiene legislation in slaughterhouses of countries that joined the EU since 2004".

Special Report No 10/2013

The special report on “Is the specific support provided under Article 68 of Council Regulation (EC) No 73/2009 well designed and implemented?” was published by the ECA on 26 November 2013.

In its examination of the support provided for in Article 68 and the way it was implemented in 2010 and 2011, the Court found insufficient evidence in the Member States that the measures introduced under Article 68 were necessary or relevant and insufficient objectives and indicators to perform a future assessment of the measures. Moreover, the Court noted some weaknesses in the administrative and control systems, despite management and control burdens that are already heavy, but might increase further.

The Commission replied that 24 MS have decided to make use of Art. 68 and that the implementation of the specific support scheme does not call into question the general orientation of the direct payments scheme towards decoupling, due to its limited size (3.5% of the national ceiling) and WTO compatibility. The Commission considered that the recommendations made by the Court were predominantly addressed to the Member States and underlined that, under the 2007-2013 period, it was the exclusive responsibility of the Member States to identify types of farming or agricultural sectors to be supported by measures under Art. 68. They were thought to be best placed to identify regions or sectors with difficulties on their territory and to fix priorities among various needs for targeted support.

Nevertheless, the Commission proposed for the 2014-2020 programming period to strengthen the legal framework. Voluntary coupled support will be subject to a number of limits: a list of eligible sectors and productions, defined quantitative limits, limited percentage of the MS's national ceiling for direct payments, Commission's approval above a certain level of such percentage, conditions for granting the support (still to be specified by delegated acts). Furthermore, the MSs will have to inform the Commission on the regions targeted, the selected types of farming or sectors and the level of support to be granted. In doing so, they will describe the reasons why the coupled support is envisaged and what the expected effects are. Where the MS's decision is subject to approval, specific constraints such as the lack of alternatives or the need to provide stable supply to local processing industry shall be demonstrated. Moreover, the Commission foresees the establishment of a common monitoring and evaluation framework with a view to measuring the performance of the CAP, including first and second pillar measures.

Special Report No 12/2013

The special report on “Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?” was published on 22 November 2013. The Court examined whether there are clear statements on what rural development expenditure is intended to achieve, if there is reliable information showing what the expenditure has achieved and how efficiently it has done so. A key element for this is a system of monitoring and evaluation, also referred to as the Common Monitoring and Evaluation Framework (CMEF).

In the Court's view, Member States have focused on spending the budget instead of achieving the intended results. The Commission and Member States have not made sufficient use of available monitoring and evaluation information to improve the efficiency and effectiveness of the measures. Too general, open-ended objectives and insufficient quantification of the intended results do not target the spending to where it would have the most effect. Moreover, the Courts stressed that Member States' and Commission reports do not include any analysis of the efficiency of the expenditure or give conclusions on the extent to which the RDP and EU objectives have been met.

In response, the Commission pointed out that as far as the multi-annual programmes (such as the Rural Development Programme) are concerned, the results and impact can only be properly assessed towards the end of the programmes or afterwards through evaluations. A correct assessment of the effectiveness and efficiency of the policy cannot be done only on the basis of results indicators. Moreover, a policy should not only be judged on its effectiveness and efficiency, but also other issues such as relevance or coherence with other policies should be taken into account. The Commission also indicated that it has to be prudent when setting quantified targets in relation to objectives, since many elements of our policy are affected by external factors.

For the 2014-2020 period, the Commission and Member States are elaborating a monitoring and evaluation framework for the CAP as a whole, including Rural Development Programmes. In this context, a number of compulsory common indicators have been defined with a requirement for additional indicators to address programme specificities. Quantified target indicators are foreseen for each of the Focus Areas. Annual reporting will be required for each of these.

Where the relevant result indicator is more complex and not suitable for use as a target monitored annually, its value will be assessed through evaluation and reported in the 2017, 2019 and ex-post reports.

Member States will be required to carry out evaluation activities throughout the programming period in accordance with the Evaluation Plan as part of the Rural Development Programmes. Thus, assessment and reporting on the results and impacts of the policy will be linked more appropriately to the stage of implementation of the Rural Development Programmes. Enhanced Annual Implementation Reports will replace mid-term evaluation.

Special Report No 8/2013

The ECA's special report on “Support for the Improvement of the economic value of forests from the European Agricultural Fund for Rural Development” was published on 19 September 2013. The ECA assesses whether rural development support for the improvement of the economic value of forests is managed efficiently and effectively.

The Court found weaknesses in the design of the measure which significantly hinder its successful implementation: at the Commission level, the situation in the forestry sector in the EU was not specifically analysed so as to justify the proposal of specific financial support for improving the economic value of forests of private owners or municipalities. Furthermore, key features of the measure were not defined in the legal provisions, particularly the concepts of “economic value of forests” and “forestry holding”. Moreover, Member States set very different thresholds regarding the size of forest holdings above which a forest management plan was required. The ECA found that only a few of the audited projects improved significantly the economic value of the forests, either by improving the value of the land (building of forest tracks and roads) or the value of the stands (silvicultural operations like pruning or thinning).

The Commission's response insisted on the fact that economic improvements generated through investments supported by the EAFRD have been achieved and have contributed to the improvement of the economic value of forests. The EU's rural areas and their needs are very diverse and not every rural development measure is needed in every programming area.

When assessing the contribution to improving the economic value of forests, different factors such as multi-functionality and sustainability must be taken into account. Moreover, it takes more time for policy intervention to lead to a clearly measurable effect in the area of forestry than in other policy areas. Not only quantitative but also qualitative evaluation is important.

With regard to the design of the future measure, which roughly corresponds to the current measure 122, the Commission made considerable efforts to respond to some of the Court's comments during the trilogue on the future CAP. As a result, the new Rural Development Regulation contains a definition of "forest". When offering support, Member States must either use this definition or apply another one based on existing national legislation. Moreover, the regulation will now make it clear that support for investments to improve the economic value of forests must be justified in relation to expected improvements to forests on one or more holdings. With regard to implementation, lessons have been learned which will be applied for the coming period, especially through guidance and in the framework of the programming process. Indeed, the Commission has already provided a number of guidance documents to Member States and explained them in detail.

Moreover, the Commission, together with the Member States, is developing a CMEF which will allow the assessment – for each rural development programme – of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme. Finally, the Commission considers that a reasonable proportion of forests supported through the measure should be subject to forest management plans. That "reasonable proportion" should be set within the programming process.

Special Report No 6/2013

The special report entitled "Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?" was published on 17 September 2013. The ECA assessed whether the measures were designed and implemented in such a way as to make an effective contribution to growth and jobs and whether the most effective and efficient projects were chosen. Furthermore, the Court assessed whether the available monitoring and evaluation information provided reliable, complete and timely information on the outcomes of the measures.

In the Court's view, the aid was not systematically directed to the projects that were most likely to achieve the purpose of the measures. Moreover, the selection of projects was driven more by a need to spend the allocated budget than by the quality of the projects themselves. Member States did not systematically channel the funding to projects for which there was a demonstrable need for public support. The Court also pointed out some weaknesses in the systems put in place by the Member States to assess the reasonableness of project costs increase the risk that public funds are spent without due regard to the principle of economy. Finally, the Court criticized that the Commission and the MSs have not used the monitoring information to actively manage these measures in order to improve their effectiveness.

In response, the Commission underlined that the measures audited by the ECA not only impact employment and income, but also the sustainable development of rural areas. The rural development policy objectives also include the improvement of the quality of life in rural areas and the encouragement of diversification of economic activities. Moreover, many of the recommendations made by the Court are addressed to the Member States (for example, those regarding the selection of sustainable projects or effective control systems). In fact, the principle of subsidiarity hands considerable discretion to Member States and regions in respect of the implementation of the measures for diversifying the rural economy. Nevertheless, there is always room for improvement in the next programming period.

The new legal framework decided by the co-legislator strengthens the strategic approach of the policy and should allow a more effective and efficient rural development policy.

Selected measures will be based on sound intervention logic supported by an ex ante evaluation. Where a proposed programme is not in line with the objectives of the intervention and does not contain adequate targets, the Commission will not approve it.

Further improvements are possible as regards the implementation of the policy: This will be achieved by the new result-oriented approach, which underpins the rural development policy.

The three measures audited by the Court are now merged into a single measure with a better beneficiary focus, improved eligibility conditions and clearer rules for payments with a view to reducing the administrative burden.

The introduction of simplified costs approaches will further reduce the administrative burden.

The Commission agrees with the Court that the project selection system should take into account the quality of the projects and use a minimum scoring system. The Commission already presented guidelines to the Member States on the use of eligibility conditions and selection criteria for the next programming period which shall contribute to a better design of the measures and to better selection of operations. The Commission also already launched discussions with Member States on the issues of deadweight and displacement.

Furthermore, the new legal framework addresses the concerns of ECA on those two subjects by introducing legal provisions into the new legal framework. The Commission introduced also general tools to further improve the implementation of the policy, such as the requirement for controllability and verifiability of measures at the time of their creation or as regards the reasonableness of costs, a requirement for beneficiaries to submit business plans for start-ups in rural areas alongside a requirement for payment of last instalment based on successful implementation of these business plans.

On the subject of monitoring and evaluation, the Commission, together with the Member States, has done an overhaul of the existing Common Monitoring and Evaluation Framework. The revised framework will allow the assessment of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme.

Special Report No 1/2013

The special report entitled "Has the EU support to the food-processing industry been effective and efficient in adding value to agricultural products?" was published on 10 April 2013. The ECA examined whether the measure was designed and implemented in a way that provided for the efficient funding of projects addressing clearly identified needs and whether the measure was monitored and evaluated in a way that allowed its results to be demonstrated.

In the Court's view, the Commission approved RDPs although only general objectives were set and Member States did not set eligibility and selection criteria to identify the most effective and efficient project to be funded. Moreover, according to the Court, Member States do not direct funding to projects for which there is a demonstrable need for public support to limit the risk of deadweight and displacement. Finally, the Court indicated that monitoring and evaluation arrangements do not collect information on added value or on the effects of competitiveness of agriculture.

In response, the Commission pointed out that the concept of the measure envisaged by the legislator is broad. It includes, in addition to the actual value-added, also for example improving the environmental protection, occupational safety, hygiene and animal welfare.

Adding value in the processing and marketing of primary agricultural (and forestry) products can be achieved by means of support for different types of investments aimed at improving efficiency, promoting the processing of agricultural (and forestry) products for renewable energy, introducing new technologies and innovation, opening new market opportunities and putting emphasis on quality.

When approving the RDPs, the Commission carried out an analysis to assess that programmes and measures are consistent with the Community strategic guidelines, relevant national strategy plans and comply with the relevant legal provisions. In their programming process MSs are requested to ensure that support is targeted on clearly defined objectives reflecting the identified structural and territorial needs and structural disadvantages. This targeting can be achieved in many ways: through selection criteria, detailed eligibility criteria, sectorial or regional differentiation, and differentiation of aid intensities by type of beneficiary or by type of investment or by setting aid ceilings. Therefore, how the measure is implemented in practise in different Member States and regions depends largely on the results of the analysis of the programming area and the strategy chosen. This should be taken into account when assessing the Court's remarks and recommendations.

Many of the recommendations made by the Court are addressed to the Member States. Nevertheless, in its supervisory role and being aware of some weaknesses, the Commission has proposed for the next programming period to strengthen the legal framework and improve the design and implementation of support offered by the measure. For instance, selection criteria will be defined for all measures with the aim to ensure equal treatment of applicants, better use of financial resources and targeting of measures in accordance with the Union priorities for rural development.

On the subject of monitoring and evaluation, the Commission is developing a CMEF which will allow the assessment of progress in implementation against commonly defined target indicators for the priorities and focus areas selected for the programme.

3. ASSESSMENT OF THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEMS

The Commission has adopted a set of internal control standards, based on international good practice, aimed to ensure the achievement of policy and operational objectives. In addition, as regards financial management, compliance with these standards is a compulsory requirement.

DG AGRI has put in place the organisational structure and the internal control systems suited to the achievement of the policy and control objectives, in accordance with the standards and having due regard to the risks associated with the environment in which it operates.

3.1 The assessment of the internal control systems

DG AGRI internal control system is based on the clear definition of roles and responsibilities for the **effective implementation of the control standards**.

- The Internal Control Coordinator closely supervises action taken by lead services[200] ("chef de file") for the internal control standards in the DG, through a structured **desk review** carried out twice per year. This desk review has been improved and modernized in 2013 through:

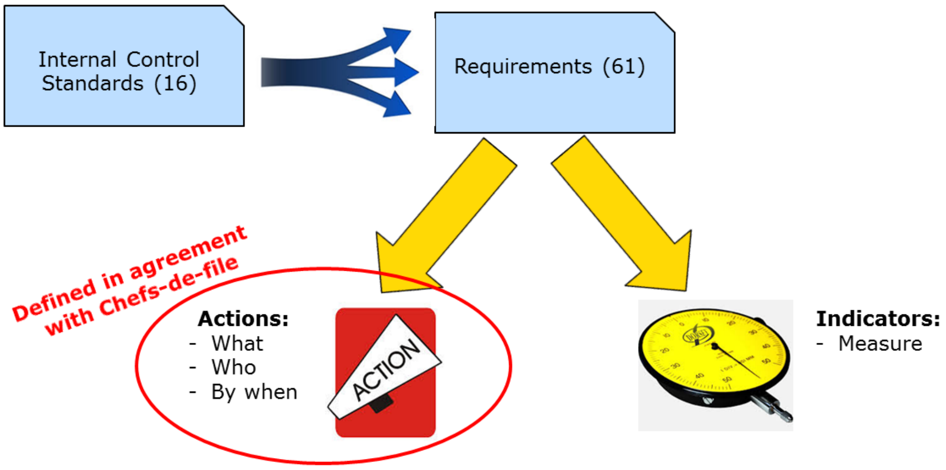
  a) the ex-ante definition, in agreement with the lead services, of the actions to be implemented in the course of the year in order to achieve compliance with and effective implementation of each standard. This included a clear attribution of responsibilities and deadlines to each action.

  b) the introduction of a monitoring tool for an effective communication amongst actors involved in the actions and an updated reporting on the state of play.

- The desk review is complemented by the assessment of information from other channels and tools – namely management supervision reports, risk assessment exercises, relevant audit findings, reported instances of exceptions, non-compliance events and internal control weaknesses, regular reports on financial execution – to verify that the DG key control systems are working as intended. As regards to audits, a new monitoring process on a quarterly basis has been started involving discussions at senior management level on the implementation of the audit recommendations.

[200] Lead services were redefined in November 2013 to take into account the new DG AGRI organisational chart which entered into force on the 1.1.2014

Internal Control Standards - Effectiveness Desk review



- On top of this, the priority internal control standards for action on effectiveness are the subject of an **annual review** exercise carried out through surveys, workshops or meetings.

- Priority internal control standards for a given year are chosen with the involvement of the senior management, which is called to play an active role in the identification of the standards where action for effective implementation should focus.

- DG AGRI strives to maintain an effective implementation of all internal control standards through on-going activities for a continuous improvement addressing any detected issues of partial compliance and/or ineffectiveness. Key aspects considered are:

  a) the capacity of staff to ensure internal control (knowledge and skills)

  b) capacity of the system, processes and procedures to ensure internal control

  c) experiences of operating the control systems (instances of ineffective controls, exceptions, non-compliance events, …)

3.2 The priority internal control standards in 2013

The 2013 DG AGRI Management Plan identified as priority the standards on **Ethics**, **Staff allocation** and **Management Supervision**. While not formally retained as a priority, **Risk Management** was also considered a standard to pay attention to, since it was the only standard flagged as 'partially effective' in the AAR 2013.

ICS n° 2: Ethics

Reasons for the choice of the standard:

The standard was already flagged as a priority in 2012. It has again been selected for 2013 so as to pursue the implementation of the actions set out by the DG AGRI Anti-Fraud strategy.

Main actions taken:

- Following the adoption of the DG AGRI Anti-fraud Strategy in September 2012, the function of the Anti-fraud Adviser in DG AGRI was created and established in the organisation chart as at January 1, 2013, and the post was filled in March 2013;
- The internal rules on the handling of fraud allegations were adopted in March 2013 and updated early 2014;
- Several actions have been implemented to raise fraud awareness in DG AGRI, Member States States and Candidate Countries:

  - Two half-day training sessions and two specific lunch-time seminars were held over 2013. The aim of these four events was to inform colleagues about the contents and objectives of the AGRI Anti-Fraud Strategy, its state of implementation after one year, and about typical fraud risks to which certain domains of the CAP are exposed.

  - A dedicated anti-fraud cooperative space has been put in place in the AGRI intranet in April 2013, In order to ensure that colleagues have ready access to all documents linked to the AGRI AFS;

  - the DG AGRI Anti-Fraud Strategy has been presented to most rural development monitoring committees in the Member States, as well as to both the Rural Development Committee and to the Directors of Paying Agencies and Coordinating Bodies;

  - Anti-fraud seminars were held for operational staff of the IPARD Paying Agencies in Croatia, in the former Yugoslav Republic of Macedonia and Turkey. Romania has also organised dedicated anti-fraud seminars with the active participation of staff from DG AGRI.

- Support has been provided to DG AGRI auditors to identify fraud-prone initiatives when running on-the-spot checks of projects during audit missions

Results of the effectiveness review:

The positive progress of the Anti-Fraud Strategy action plan, supported by the information collected through management supervision reports and the other relevant sources (audit findings, risk assessments, …) confirms that the **standard on ethics is implemented effectively** and that it does not require any more to be considered as a priority standard for 2014.

Focus will anyway be maintained in 2014 for the continued implementation of the Anti-Fraud Strategy.

ICS n° 3: Staff allocation and mobility

Reasons for the choice of the standard:

The standard has been selected as priority in order to focus action on a more effective and efficient staff allocation, in the context of the reduction of staff that the Commission must achieve between 2013 and 2017, and taking into account the recommendations issued by the Internal Audit Service in its audit on 'Management and Monitoring of Staff Allocation'.

Main actions taken:

- Comprehensive reorganisation addressing the impact of the CAP reform and staff-related constraints. The reorganisation was adopted by the College on 22/10/2013 and entered into force on 1/01/2014.
- Staff allocation, tasks distribution and workload assessment have been thoroughly analysed with DG AGRI management to align the new organisational structure with the requirements of staff reduction and the CAP reform, in order to be ready for current and future challenges.
- Definition of a task mapping methodology, establishing the taxonomy of DG's activities and policy domains, and implementation of a structured collaborative space to support the staff allocation process. This approach is being tested with a representative sample of Units and will be progressively extended;
- After having examined the existing initiatives in other DGs on workload indicators, the decision has been taken to integrate the methodologies for task mapping and workload assessment. Indicators will be fine-tuned during 2014 in the context of the DG's task mapping exercise;
- First edition of the DG AGRI HR Plan has been completed in 2013. The second edition will be finalised in Spring 2014 and should integrate first elements of the task mapping initiative;

Results of the effectiveness review:

DG AGRI organisational structure, including staff allocation, has been substantially revised in 2013 to align with the challenges on the CAP reform and the staff reduction, on the basis of an intensive exercise involving all DG AGRI management. In parallel, the action plan responding to the IAS audit on staff allocation is being implemented as planned.

It can therefore be considered that the **standard on Staff allocation is effectively implemented**

ICS n° 9: Management supervision

Reasons for the choice of the standard:

The standard has been selected as part of a continuous effort for reinforcing assurance and good governance, in order to foster shared understanding and more consistent implementation of management supervision core principles.

Main actions taken:

Both the Commission's external and internal auditors as well as the budgetary authority issue recommendations to DG AGRI in the framework of audit work (internal audits or special reports) or in the framework of the discharge procedure. DG AGRI management has to supervise the implementation of the actions relating to these recommendations to reduce, mitigate or prevent the identified risks.
In response to a request from management and in order to enable effective supervision and monitoring of the implementation of these recommendations**,** DG AGRI has worked across 2013 to:
- revise and streamline the related management supervision processes;
- put in place a collaborative tool that leverages on these revised processes. This tool, configured in collaboration with the Internal Audit unit, allows to easily obtaining updated reporting on the recommendations and enables to straightforwardly submit structured feedback on progress of the actions. Such workspace provides therefore overview information and supports a timely implementation of the recommendations.

Such initiative has been extended to other areas where management supervision is involved. The collaborative space has indeed been used also for the management of the actions related to the Internal Control Standards compliance and effectiveness, facilitating and improving the planning, execution and evaluation of the ICS assessment exercise. It is now planned to further enlarge this approach to other areas relevant for the internal control environment.

Results of the effectiveness review:

The important progress realised in 2013 allows concluding that the **standard on management supervision is implemented effectively**.

ICS n° 6: Risk management

Standard n° 6 on Risk management was not part of the DG AGRI priority standards for 2013. Nevertheless, this standard was object of a particular attention during last year given that, as indicated in the AAR 2012, it was required to integrate risk management at the earliest possible stage in the policy and planning cycle for an upstream identification of risks.

Main actions taken:

The key initiatives included in the action plan, which was set up to address this area for improvement, have been completed during 2013. In particular:

- a draft process including a draft risk assessment sheets for the different stages of the process was developed. A reality check will be performed on some selected cases before deploying the new procedure;

- the 'Risk management' procedure has been revised to strengthen the top down orientation input to the exercise and to reinforce the co-ordination on draft proposals to the risk register with the top management;

- two actions (workshops) have been put in place in the second semester 2013, with the participation of all DG AGRI senior and middle management and targeting the increase in managers' awareness on Risk Management:

    a) presentation to all AGRI managers on Risk Management including practices from DG RTD and DG EMPL;

    b) presentation from BUDG and experience sharing on real DG AGRI cases;

- the creation of a 'Risk facilitators' network within DG AGRI to catalyse and support the Risk Management process in all Directorates.

Results of the effectiveness review:

The improvement in the Risk Management process has been confirmed by the audit findings. It can then be concluded that the **standard on risk management is now implemented effectively**.

3.3 Complementary information

General risk environment

The CAP expenditure is subject to **shared management** with Member States. While Member States have to set up an efficient management control system and adopt all the legislative, regulatory and administrative provisions necessary to ensure the legality and regularity of the spending, the Commission has the ultimate responsibility for the correct implementation of the budget. As around **eight million beneficiaries** supported under a large variety of **different schemes** are covered by the CAP, this by nature entails a **very high number of financial transactions**, associated to a **very high value and/or volume**.

In the context of the CAP the **inherent risk** is that errors or failures could occur in the financial management and that, if not prevented, detected or corrected, they will affect the legality and regularity of the underlying transactions and damage the sound management of the agriculture expenditure.

The management and control system of the CAP is described in *part 2* of the AAR.

The Risk management in DG AGRI

The risk management in DG AGRI is the object of a formalised review carried out twice per year as part of the preparation and update of the Management Plan overseen by the Internal Control Coordinator and by all senior management of the Directorate General.

The exercise consists in assessing any new potentially significant or critical risk to the DG objectives/activities and in reviewing the risks already identified in the previous exercise based on recent developments and progress under the action plans.

In 2013, the senior management was called to play an enhanced role in steering the process so as to identify upfront the main areas where risk management should focus. This contributed to addressing more effectively cross-cutting issues at DG level and to a more forward-looking approach.

In addition, in order to clarify the common understanding of the concepts of **risk management**, DG AGRI organised **two workshops** for the AGRI managers (DG, DDGs, Directors, Heads of Units, advisors) at the presence of the Director General. The scope was to recall the main principles of risk management and to discuss practical example of risks inside the Directorate General. The presence of speakers of others DGs allowed the sharing of experiences on risk management in the Commission.

Risks that materialised in 2013

A risk related to the **deferral of the execution of financial corrections** identified by DG AGRI end of 2012 materialised in 2013.

Background: as a mitigating factor to the difficulties faced by certain Member States due to the economic and financial crisis, the Commission allowed under certain conditions Member States to defer for 18 months the reimbursement to the EU budget of financial corrections resulting from deficiencies in their CAP management.

Such deferral was conditional upon Member States concerned (two Member States in 2013: Greece and Portugal) by the establishment of an action plan to rectify the deficiencies. The risk consisted in the deferral to be revoked and on the possible difficulties that Member States could face having to reimburse immediately the amounts subject to the deferral decision.

The risk materialised for one Member State (Greece) as it failed to implement in a satisfactory way the action plan. The deferral was partially revoked in line with the adopted legal provisions and the amount concerned was immediately reimbursed to the EU, instead of being reimbursed in three annual instalments. More details are reported in annex 10.

Management supervision

All **manager reports** annually to the Director General on **supervision** carried out on the activities under their responsibility. Managers' reports, provide a short qualitative assessment of operational performance, conclusions on the legality and regularity of the (financial and non-financial) activities, and briefly comments on follow-up given and/or underway to reservations, audit and discharge recommendations.

The 2013 reports did not raise any significant concern regarding the **operational performance**, which the managers considered **satisfactory**: the targets were met and the results were delivered in time and according to the expected quality.

Also, the reports did not bring up any significant issues affecting **the legality and regularity** of the activities carried out in DG AGRI in the course of 2013, in addition to those already identified and addressed through the channels/tools in place for the proper functioning of the DG – namely, the risk management exercise and the follow-up to internal and external audits.

Audit findings

Please refer to section 2.3 of the AAR

3.4 Areas for improvement

In relation to ICS n° 12 'Information and Communication', formal compliance can be confirmed with all requirements under this standard, but needs for improvement have been identified (develop synergies on AGRI communication activities, better definition of Communication Action Plan priorities, follow-up of communication budgetary aspects). AGRI Management considers that this partial ineffectiveness is being tackled through the implementation of the action plan responding to the IAC audit on the Communication Strategy which was performed in 2013 and for which most of the actions are scheduled for 2014.

3.5 Conclusions

In conclusion, the internal control standards are effectively implemented with the exception of standard n° 12 on Information and Communication for which remedial actions are undergoing. In addition, as detailed in section 3.2, DG AGRI has taken during 2013 specific measures to further improve the efficiency of its internal control systems, particularly in the area of:

- the prioritised standards for 2013 (Ethics, Staff allocation and Management Supervision);

- the standard on Risk Management, which was considered as only partially effective in 2013.

Further enhancing the effectiveness of the internal control standards is an ongoing effort, in line with the principle of continuous improvement of management processes. Particular focus will be given in 2014 to the standards that have been selected as a priority for 2014:

- **Mission**: this standard has been selected to align with the CAP Reform and the re-organisation that has entered into force on the 1.1.2014.
- **Staff allocation**: the standard will continue to be prioritised with a view to focus action on a more effective and efficient staff allocation, against the overall context of the staff reduction and the specific challenges of the CAP reform. Actions started in 2013 will be continued to further develop the mechanisms and instruments to align available human capital to DG objectives and political priorities and to persist in the implementation of the action plan related to IAS audit on staff allocation.
- **Information and Communication:** this standard will be added as priority standard in the Management Plan update for 2014 and will be addressed through the implementation of an action plan in 2014.

Finally, a significant progress can be reported on the implementation of the internal audit recommendations. The remaining open issues do not have a material impact on the assurance regarding the overall DG level.

4. MANAGEMENT ASSURANCE

This section reviews the assessment of the elements reported in Parts 2 and 3 and draw conclusions supporting of the declaration of assurance and namely, whether it should be qualified with reservations.

4.1 Review of the elements supporting assurance

The information reported in Parts 2 and 3 stems from the results of management and auditor monitoring contained in the reports listed. These reports result from a systematic analysis of the evidence available. This approach provides sufficient guarantees as to the completeness and reliability of the information reported and results in a complete coverage of the budget delegated to the Director-General of DG AGRI.

The Commission gives the highest priority to the exercise of its responsibilities for implementing the budget under Article 317 of the EC Treaty.

DG AGRI has assessed the effectiveness of its key internal control systems during the reporting year and identified areas for improvements, although in no case the weaknesses identified were of a nature to call into question the reasonable assurance. DG AGRI decided to select two priority ICS standards for 2014 (part 3).

In addition, DG AGRI has systematically examined the available control results and indicators, including the results of its own audits, those aimed to supervise entities to which it has entrusted budget implementation tasks, as well as the observations and recommendations issued by internal auditors and the European Court of Auditors. These elements have been assessed to determine their impact on the management's assurance as regards the achievement of control objectives (part 2).

Follow-up on the reservations of 2012 and identified weaknesses

a) Follow-up on the reservations regarding EAGF

In its 2012 AAR, DG AGRI made reservations in respect of three Member States: Bulgaria, Portugal and France.

- The audits which DG AGRI carried out in previous years to **Bulgaria** revealed serious deficiencies in the functioning of the Bulgarian IACS concerning the quality of the information in the LPIS and the lack of assistance given to farmers in completing their aid applications. The seriousness of these deficiencies was confirmed by the very high error rate for SAPS payments, which was far above the EU average. Bulgaria established an action plan to remedy the deficiencies which it completed by the end of November 2011. Commission audits confirmed that the action plan had been completed and that it is functioning satisfactorily. Financial corrections of over 37 million EUR have been recovered from Bulgaria in respect of claim years 2007 and 2008.

  For claim years 2010 and 2011, a financial correction has been notified but may be subject to the conciliation appeal procedure, the 2012 claim year data received indicate that the system is now operational. This will be audited in a conformity clearance enquiry scheduled for April 2014.

DG AGRI considers that the action plan for Bulgaria was satisfactorily implemented. DG AGRI's audit missions have confirmed that the improvements noted for Bulgaria are such that it is not considered necessary to carry over the reservation in the 2013 AAR.

- Audit missions carried out in **Portugal** revealed serious deficiencies in the IACS and in particular the Land Parcel Identification System (LPIS). The initial action plans established by the Portuguese authorities, however, failed to remedy the situation in full. The Commission persisted in requiring further action from the Portuguese authorities and, by March 2013, the outstanding elements were completed and the LPIS was considered to have improved considerably. Audit missions carried out in 2013 confirmed that the action plan had been implemented and that the LPIS deficiencies had largely been addressed for claim year 2013. While the deficiencies identified in the Portuguese LPIS persevered for several years, the EU budget was protected via the conformity clearance procedures which ensured the claw back of over 100 million EUR in net financial corrections for claim years 2006 to 2008. For subsequent claim years conformity clearance procedures are on-going in order to ensure that any undue expenditure is recovered.

  However, DG AGRI auditors consider that while the weaknesses in the LPIS have now been remedied for claim year 2013, non-compliances in the procedure adopted for the consolidation of entitlements have been noted and they therefore consider that a material level of error was present for claim year 2012 (financial year 2013) .

  Therefore it is proposed to carry over the reservation in the 2013 AAR.

- For **France** several missions carried out in recent years have detected problems in the extent to which the LPIS is kept up-to-date and in the distribution of the entitlements. France did not take the necessary action to remedy the situation so as to ensure full compliance with the applicable legislation. Conformity clearance procedures are therefore underway and close to completion in respect of claim years 2008 to 2010 (while procedures have also been opened in respect of the subsequent claim years) and financial corrections have been proposed in order to protect the financial interests of the EU.

  The recurrent nature of the audit findings and the potential materiality of the risk to the EU budget, led DG AGRI to introduce a reservation for the IACS in France in its 2012 AAR. Consequently, an action plan was developed together with the French authorities identifying the remedial action to be taken. Its implementation is being closely monitored by DG AGRI. It is noted that the work to be carried out particularly in respect of the updating and completion of the LPIS is such that the French authorities have indicated that it will take until 2016 to complete and it will be necessary to keep the reservation in place until the plan is fully implemented. A mission carried out in February 2014 showed that while the plan is on track, some intermediate commitments have not been met. Consequently, France has been requested to tackle these issues and at the same time a more detailed reporting has been requested so as to enable a more hands-on follow-up by DG AGRI.

Therefore the reservation is carried over in the 2013 AAR.

b) Follow-up on the reservations regarding EAFRD

The reservation on rural development expenditure was carried over from the 2011 to the 2012 AAR.

In addition to the corrective actions implemented in 2012, the following actions have been carried out in 2013:

- In January 2013 the Director-General wrote to the national authorities of all the MS requesting a precise action plan to address the errors identified (as a follow-up to the action plans developed by 14 Member States in 2012). Replies were received in February/March 2013 and have been followed-up with all MS to clarify the actions to be undertaken. Further to a request made in the summer of 2013, updates of the action plans were received and evaluated and the results were presented to the Member States in March 2014. A further follow–up of the action plans was launched at the beginning of 2014.

- Seminars took place in Brussels in April and October 2013 with participation of the Managing Authorities and the Paying Agencies in view to disseminate, assess and discuss the results of the actions agreed with the MS. At the latter of these two events, 12 Member States presented examples of various corrective and preventive actions undertaken. A further seminar took place in March 2014 to assess the outcome of the follow-up referred to in the previous point.

- Additionally, on 27 June 2013, as a follow-up to the EP Discharge resolution for the year 2011, a report on the assessment of root causes of errors in the implementation of rural development policy and corrective actions was provided to the European Parliament (COCOBU) outlining the actions taken to address the high error rate [SWD(2013)244final].

- The information resulting from the action plan monitoring and follow-up was crucial in the determination by the operational geographic units of DG AGRI of whether risk mitigating factors existed which would render a reservation unnecessary in cases where an adjusted residual error rate of between 2 and 5% was calculated.

- As the action plans sufficiently address the root causes of error in many of the paying agencies, for its 2013 AAR, DG AGRI does not need to carry over the reservation for the entire ABB and will make a reservation in respect of 30 out of the 69 paying agencies responsible for rural development expenditure.

c) Follow-up on the reservation on deficiencies in supervision and control of organic production

In 2011 deficiencies were identified in the supervision of control systems of Member States and of Third Countries as well as in the supervision of Control Bodies certifying organic products for import into the EU. A reservation was therefore entered in the 2011 AAR. In 2012 the action plan addressing these weaknesses progressed as intended but its implementation had not been completed. The reservation was therefore carried over in the 2012 AAR.

In 2013, progress under the corrective actions[201] that have been and are being implemented reduced the level of the risk to the reputation of the Commission that has justified the reservation. The corrective actions implemented now adequately mitigate this risk. The reservation is lifted.

The systems in place provide a *true and fair view*

The CAP operates in Shared Management with over 8 million beneficiaries. DG AGRI therefore works closely with the Member States which annual reports on their controls ensuring that the monies are disbursed in compliance with EU legislation. In these reports the directors of the paying agencies sign a statement of assurance attesting that accounts presented give a true, complete and accurate view of the expenditure. Furthermore the independent audit body of the paying agency (certification body) is required to certify whether it has gained reasonable assurance that the accounts transmitted to the Commission are true, complete and accurate.

Sound Financial Management

99,8% of the CAP expenditure being implemented in shared management, its sound management is based on Member States' compliance with the rules set down in the legislation which is audited by DG AGRI. The CAP legislation imposes compulsory administrative structures in the Member States with strict accreditation criteria applying in particular to the payment function. Annual accounts are required to be sent to the Commission and an independent audit body is required to certify them. The Paying agencies carried out ex-ante administrative checks on each payment as well as on-the-spot checks for at least 5 % of beneficiaries of direct aids and rural development expenditure. For market measure the level of checks is higher with up to 100 % control rates required for certain schemes. The CAP legislation imposes strict payment

[201] The corrective actions included notably:

- Reinforcement of supervision and controls of organic products through on-the-spot **audits** in Member States and in Third Countries/Control Bodies recognised as equivalent for imports. The audits carried out so far in Member States did not show critical shortcomings in the set-up and functioning of the organic control system. The identified shortcomings are being closely followed up. Audits carried out in Third Countries showed weaknesses in supervision of control bodies and in the effectiveness of inspections at operators, for which appropriate action has been and is being taken by the Commission.
- Improving the **EU legislative framework**, both to enhance the controls in the current legislation and to address these issues in the future regulation. The Commission's proposal for a European Parliament and Council regulation on organic production aims at clarifying, harmonising and simplifying the rules for enhanced controllability and addressing the identified shortcomings in the supervision and control that justified putting the reservation.
- Reinforcement of **internal procedures** and **instruments/IT tools**.

deadlines on the Paying agencies. Those which do not respect these deadlines are subject to severe penalties. Weaknesses detected by DG AGRI via its own audits are subject to financial corrections through the clearance of accounts procedures in order to protect the EU financial interests.

Resources used for the intended purposes

While some deficiencies are found in the management and control systems of the paying agencies, for the almost totality of the EAGF and EAFRD, no evidence has come to light that significant resources have been diverted from the intended purpose. In particular, although the Court estimated the most likely error rate for both pillars as material, and while DG AGRI identified itself a number of errors, in most cases these errors concerned formal and procedural mistakes while the funds were still effectively used for the stated objectives.

Legality and regularity

Chapter 2.1 sets out in detail the processes in place to ensure the management of the risk relating to legality and regularity of the funds managed under the Common Agricultural Policy. It demonstrates that while the EAGF and EAFRD, which are implemented under shared management, both present a residual error rate which is above the materiality threshold of 2%, this is mitigated to a certain extent by remedial actions already taken by the Member states concerned and by the net financial corrections which DG AGRI executes in order to protect the EU budget as well as by the recoveries effected by the Member States.

In the framework of shared management, the detection and correction of errors is in the direct responsibility of the Member States and both DG AGRI and the European Court of Auditors have identified that the Member States themselves are primarily responsible for the error which occurs – and this is in spite of the significant amount spent by them on managing and controlling agricultural expenditure (close to 4 billion EUR and more than 5% of the CAP expenditure).

DG AGRI has thoroughly examined all relevant available information and used its professional judgement to identify at the lowest possible level (paying agency or aid scheme) the amounts at risk for the EU budget. 3 reservations are made on each of the ABB activities in shared management covering some 62 paying agencies (or aid schemes at Member State level for market measures).

In decentralised management, a specific deficiency identified for one measure has led to a reservation for IPARD in Turkey.

This careful examination enables the Director-General to consider that he has reasonable assurance as to the legality and regularity of the expenditure effected in 2013 with a qualification in respect of the 4 reservations made for each ABB activities as detailed in the following chapter 4.2.

4.2 Reservations and overall conclusion on assurance

The Director General for Agriculture and Rural Development considers it necessary to enter three reservations in respect of 2013 expenditure in shared management with the Member States and one reservation in respect of decentralised management.

No	Title	Type (Financial or Reputational)	2013 amount at risk (in million euros)	ABB amount concerned i.e. scope (in million euro)
1	ABB02 – Expenditure on Market Measures: 7 aid schemes in 9 Member States (11 elements of reservation): Austria, the Czech Republic, France, Italy, Netherlands, Poland, Spain, Sweden and the United Kingdom.	Financial	198.3 million EUR is subject to reservation.	For the aid schemes covered by the reservations in the Member States concerned, the scope of the reservation is 671 million EUR
2.	ABB03 – Direct payments: 20 paying agencies, comprising 6 Member States: Spain (15 paying agencies), France, UK (RPA-England), Greece, Hungary and Portugal	Financial	652 million EUR is subject to reservation.	For the paying agencies covered by the reservations in the Member States concerned, the scope of the reservation is 18 997 million EUR.
3.	ABB04 – Rural development expenditure: 31 paying agencies, comprising 19 Member States: Belgium, Bulgaria, Cyprus, Germany (2 paying agencies), Denmark, Spain (6 paying agencies), Finland, France (2 paying agencies), UK (2 paying agencies), Greece, Ireland, Italy (5 paying agencies), Luxembourg, Netherlands, Poland, Portugal, Romania and Sweden.	Financial	599 million EUR is subject to reservation.	For the paying agencies covered by the reservations in the Member States concerned, the scope of the reservation is 9 591 million EUR.
4	ABB05 – IPARD expenditure for Turkey.	Financial	2.6 million EUR is subject to reservation.	For Turkey, the scope of the reservation is 26 million EUR

Reservation 1: ABB02 – Expenditure on Market Measures: 7 aid schemes in 9 Member States (11 elements of reservation): Austria, the Czech Republic, France, Italy, Netherlands, Poland, Spain, Sweden and the United Kingdom

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	Expenditure on market measures for fruit and vegetables operational programmes for producer organisations in Austria, Netherlands and UK, pre-recognition for producer groups in Poland and school fruit scheme in Italy and Netherlands; for restructuring and conversion of vineyards in Spain, for wine investment measures in the Czech Republic; for export refunds for poultry in France and for the school milk scheme in France and Sweden.
Domain	Shared Management – European Agricultural Guarantee Fund
ABB activity and amount affected (="scope")	ABB02: market measures Expenditure in 2013 was 3 192.6 million EUR
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). In the case of the 3 reservations for fruit and vegetable operational programmes, problems have been identified by the DG AGRI audit services in the recognition criteria applied by the Member States concerned (**Austria, Netherlands and UK**) resulting in ineligible expenditure. For the fruit and vegetables aid for producer groups, DG AGRI audit services have detected serious structural deficiencies in the approval procedures applied by **Poland** . For the school fruit scheme, DG AGRI detected deficiencies in the public procurement procedures applied by **Italy**, while for **Netherlands**, the certification body has found irregular spending. In the wine sector, deficiencies were identified by DG AGR auditors with regard to the restructuring and conversion scheme for vineyards in **Spain** relating to how flat rate amounts are calculated. For the wine investment measures in the **Czech Republic**, serious deficiencies were found in the approval procedure for investments as well as insufficient controls. For export refunds of poultry, the reservation concerns **France** where

	DG AGRI detected illegal water content in exported poultry-meat. For school milk, both **France** and **Sweden** have reported high error rates that require further investigation.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. In the cases where the error rate is above 5% (11) they were automatically subject to reservation. In most of these cases, the high residual error rate was determined further to assessment and adjustment of the error rate by DG AGRI. In other cases where the residual error rate was between 2 and 5%, it was considered not necessary to make a reservation as the amount at risk is covered by an ongoing conformity procedure and the issue is already being addressed in order to remedy the situation for the future. Further details may be found at Annex 10 – part 3.1 ABB02.
Quantification of the impact (= actual exposure")	The amount under reservation is 198.3 million EUR. This corresponds to 29.5% of the expenditure effected by the Member States subject to reservation for the aid schemes concerned (scope of the reservations) and to 6.2% of the expenditure for the ABB activity as a whole. The maximum amount at risk for the EU budget has been identified as 237.4 million EUR which is equivalent to 7.44% of the expenditure for ABB02.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for market measures. However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the Budget. The average amount of net corrections executed over the past three years for market measures is around 170 million EUR. While these amounts refer to expenditure incurred in years prior to 2013, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Thus the Director General can be confident that the EU budget is ultimately sufficiently

	protected by the corrective capacity of DG AGRI's net financial corrections.
Responsibility for the weakness	The concerned Member States are responsible for the proper implementation of the market measures concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	For 8 of the reservations, high error rates resulting in reservations derive from deficiencies which have been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • The Member State will be reminded of its responsibility for implementing the necessary corrective remedial actions within an appropriate time schedule. • Failure by the Member State to implement the remedial actions in due time will, where appropriate, be addressed by DG AGRI via suspension of payments in line with Article 41 of Regulation 1306/2013. • DG AGRI's conformity clearance procedure will impose net financial corrections on Member States in order to recover to the EU budget the ineligible expenditure until deficiencies have been remedied. • DG AGRI provides further guidance and support to the national authorities where necessary. In one case, the high error rate was identified by the Certification Body and, in 2 cases, the high error rate reported by the Member State itself is the trigger for the reservation. In these cases, DG AGRI will open conformity clearance procedures in order to determine precisely the nature of the deficiency, the appropriate corrective actions necessary and the risk to the EU budget that shall be covered by a net financial correction.

Reservation 2: ABB03 – Direct payments: 20 paying agencies, comprising 6 Member States: Spain (15 paying agencies), France, UK (RPA- England), Greece, Hungary and Portugal

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	Direct payments for 6 Member States: Spain (15 paying agencies) France, UK (RPA-England), Greece, Hungary and Portugal (20 paying agencies altogether).
Domain	Shared Management – European Agricultural Guarantee Fund
ABB activity and amount affected (="scope")	ABB03: Direct payments Expenditure in 2013 was 41 662 million EUR
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). In the case of the reservations for the 15 **Spanish** paying agencies and **Greece**, the deficiencies concern their incorrect definition of certain types of pasture land as being eligible. (See Annex 10-Part 3.2 ABB03 – Explanatory box 3.2.7 on "permanent pasture"). For **France** the deficiencies concern problems in the LPIS (see box in Annex 10-Part 3.2 ABB03 for an explanation of the LPIS), the quality of the on-the-spot controls as well as in the management of entitlements. For the UK (**RPA –England**) the deficiencies concern the LPIS. For **Hungary** deficiencies have been identified in the farmer's application process and in the on-the-spot checks. For **Portugal** the problem concerns an incorrect consolidation of entitlements for 2012 claim year.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. All cases where the error rate is above 5% were automatically subject to reservation. (Greece and RPA-England) In the case of Greece, the high residual error rate was determined further to assessment and adjustment of the error rate by DG AGRI. In the case of RPA, it was

	due to a "not effective" assessment given by the ECA in its 2012 annual report to both the administrative and on-the-spot control procedures in that paying agency. For the 4 other Member States the residual error rates were between 2 and 5%. In 11 other cases where the residual error rate was between 2 and 5%, it was considered not necessary to make a reservation as the risk to the EU budget is already covered by an ongoing conformity procedure and the issue is already adequately addressed at Member State level in order to remedy the situation for the future. Further details may be found at Annex 10 – part 3.2 ABB03.
Quantification of the impact (= actual exposure")	The amount under reservation is 652 million EUR. This corresponds to 3.4% of the expenditure effected by the paying agencies (scope of the reservations) subject to reservation for the ABB activity as a whole. The maximum amount at risk for the EU budget has been identified as 974 million EUR which is equivalent to 2.34% of the expenditure for ABB03.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAGF for direct aid. However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the Budget. The average amount of net corrections executed over the past three years for direct aid was 352 million EUR. While these amounts refer to expenditure incurred in years prior to 2013, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Additionally, in 2013, 94 million EUR was recovered by the Member States from the beneficiaries. Thus the Director General can be confident that the EU budget is ultimately sufficiently protected by the corrective capacity of DG AGRI's net financial corrections.
Responsibility for the weakness	The concerned Member States and paying agencies are responsible for the proper implementation of the direct aid schemes concerned in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict

	monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	For all of the paying agencies concerned by the reservations, the deficiencies concerned had already been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • The Member State will be reminded of its responsibility for implementing the necessary corrective actions within an appropriate time schedule. • The follow-up of these actions is assured though a careful and intensive monitoring of the action plan milestones by DG AGRI including on-the-spot where necessary. • Failure by the Member State to implement an action plan will be addressed where appropriate by DG AGRI via suspension of payments in line with Article 41 of Regulation 1306/2013. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure until remedial actions have been implemented. • DG AGRI provides further guidance and support to the national authorities where necessary.

Reservation 3: ABB04 – Rural development expenditure: 31 paying agencies, comprising 19 Member States: Belgium, Bulgaria, Cyprus, Germany (2 paying agencies), Denmark, Spain (6 paying agencies), Finland, France (2 paying agencies), UK (2 paying agencies), Greece, Ireland, Italy (5 paying agencies), Luxembourg, Netherlands, Poland, Portugal, Romania and Sweden

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	Rural development expenditure: 31 paying agencies, comprising 19 Member States: Belgium, Bulgaria, Cyprus, Germany (2 paying agencies), Denmark, Spain (6 paying agencies), Finland, France (2 paying agencies), UK (2 paying agencies), Greece, Ireland, Italy (5 paying agencies), Luxembourg, Netherlands, Poland, Portugal, Romania and Sweden
Domain	Shared Management – European Agricultural Fund for Rural Development
ABB activity and	ABB04: Rural Development

amount affected (="scope")	Expenditure in 2013 was 12 978 million EUR.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). In its 2012 AAR, DG AGRI made a reservation in respect of all Member States for this ABB and individual national action plans had to be drawn up and implemented in order to identify and remedy the root causes of the errors. In its case by case analysis of each paying agency for Rural Development, DG AGRI identified where the action plans did not adequately cover the deficiencies present for 2013, because more time is needed for the completion of all the remedial actions or because the national action plan did not address all the identified weaknesses.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above cases. It was considered that 39 paying agencies had an error rate above 2%. In line with its materiality criteria in Annex 4, all cases where the error rate is above 5% were automatically subject to reservation (13 paying agencies: Bulgaria, Denmark, Spain(Asturias), France (Corsica and ASP), UK (RPA-England), Greece, Italy (AGEA), Luxembourg, the Netherlands, Portugal, Romania and Sweden). In all of these cases, the high residual error rate was determined further to assessment and adjustment of the error rate by DG AGRI or due to the system assessment given by the ECA. In 26 cases, the error rate was between 2 and 5%. DG AGRI examined the situation for each paying agency concerned to determine if risk mitigation conditions existed rendering it unnecessary to make a reservation. In eight cases it was considered not necessary to make a reservation as the amount at risk is covered by an ongoing conformity procedure and the issue is already being addressed in order to remedy the situation for the future. In total 31 reservations are made. Further details may be found at Annex 10 – part 3.3 ABB04.

Quantification of the impact (= actual exposure")	The amount under reservation is 599 million EUR. This corresponds to 6.2% of the expenditure effected by the paying agencies (scope of the reservations) subject to reservation for the ABB activity as a whole. The maximum amount at risk for the EU budget has been identified as 674 million EUR which is equivalent to 5.19% of the expenditure for ABB04.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAFRD. However, DG AGRI considers that consideration shall also be given to the corrective capacity of the net financial corrections applied to claw back undue expenditure to the Budget. The average amount of net corrections executed over the past three years for Rural Development is around 121 million EUR. While these amounts refer to expenditure incurred in years prior to 2013, there are conformity procedures underway in respect of the deficient management and control systems which are subject to reservation. Additionally, in 2013, 98 million EUR were recovered by the Member States from the beneficiaries.
Responsibility for the weakness	The concerned paying agencies are responsible for the proper implementation of the rural development programmes in their territory. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	For the Member States and paying agencies concerned by the reservations, the deficiencies concerned have been identified by the DG AGRI audit services during their audits on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Member States concerned. • The Member State shall be duly notified of its responsibility

	for implementing the necessary corrective actions within an appropriate time schedule. • Where necessary DG AGRI will interrupt payments as provided by Article 36(7) of Regulation 1306/2013. • Failure by the Member State to implement an action plan will be addressed by DG AGRI via suspension of payments in line with Article 41 of Regulation 1306/2013. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure. • DG AGRI provides further guidance and support to the national authorities where necessary.

Reservation 4: ABB05 – IPARD expenditure for Turkey

DG/service	Agriculture and Rural Development
Title of the reservation, including its scope	IPARD expenditure in Turkey
Domain	Decentralised Management – Pre-Accession measures in the file of Agriculture and Rural Development
ABB activity and amount affected (="scope")	ABB05: IPARD (Instrument for Pre-Accession Assistance in Rural Development) Expenditure in 2013 was 49.3 million EUR.
Reason for the reservation	The reservation is made due to the significant occurrence of weaknesses in the underlying transactions (legality and regularity). DG AGRI audits in Turkey identified deficiencies with regard to the evaluation of reasonableness of costs for the most financially significant investment measure.
Materiality criterion/criteria	DG AGRI's materiality criteria related to the legality and regularity of the transactions was breached in the above case. For measure 101 (investments in agricultural holdings) DG AGRI auditors considered that there was a risk that inflated prices had been paid and estimates that this could represent 10% of the

	amounts paid for the measure in question. Further details may be found at point 2.1.3 of the report.
Quantification of the impact (= actual exposure")	The amount under reservation is 2.6 million EUR. This corresponds to 10% of the expenditure effected by Turkey for measure 101 and to 8.1% of Turkish IPARD expenditure as a whole. The maximum amount at risk for the EU budget has been identified as 2.6 million EUR which is equivalent to 5.3% of the expenditure for ABB05.
Impact on the assurance	The estimated level of error impacts on the assurance regarding the legality and regularity of the underlying transactions financed by the EAFRD.
Responsibility for the weakness	The Turkish paying agency is responsible for the proper implementation of the IPARD measures in Turkey. The Commission supervises them in this respect, notably through audits carried out on-the-spot and through strict monitoring a follow-up of the implementation of milestones where action plans are required.
Responsibility for the corrective action	In the case of Turkey, the deficiencies concerned have been identified by the DG AGRI audit services during their audit on-the-spot. Therefore the corrective actions necessary have already been identified and notified to the Turkish authorities. • Turkey shall be duly notified of its responsibility for implementing the necessary corrective actions within an appropriate time schedule. • Where necessary DG AGRI will interrupt payments as provided by Article 39(4) of the Sectoral Agreement. • Failure by Turkey State to implement an action plan will be addressed by DG AGRI via suspension of payments in line with Article 46 of the Sectoral Agreement. • DG AGRI will impose net financial corrections to recover to the EU budget the ineligible expenditure. • DG AGRI provides further guidance and support to the national authorities, especially for setting up a reliable database for the verification of the reasonableness of the cost of the co-financed projects

DECLARATION OF ASSURANCE

I, the undersigned, Jerzy PLEWA

Director-General of the Directorate General for Agriculture and Rural Development

In my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view[202].

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex-post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

However the following reservations should be noted:

- ***ABB02 – Expenditure on Market Measures: 7 aid schemes in 9 Member States (11 elements of reservation): Austria, the Czech Republic, France, Italy, Netherlands, Poland, Spain, Sweden and the United Kingdom.***
- ***ABB03 – Direct payments: 20 paying agencies, comprising 6 Member States: Spain (15 paying agencies), France, UK (RPA- England), Greece, Hungary and Portugal.***
- ***ABB04 – Rural development expenditure: 31 paying agencies, comprising 19 Member States: Belgium, Bulgaria, Cyprus, Germany (2 paying agencies), Denmark, Spain (6 paying agencies), Finland, France (2 paying agencies), UK (2 paying agencies), Greece, Ireland, Italy (5 paying agencies), Luxembourg, Netherlands, Poland, Portugal, Romania and Sweden.***
- ***ABB05 – IPARD expenditure for Turkey.***

Brussels, 31 March 2014

[Signed]

Jerzy PLEWA

[202] True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.