The Agriculture and the Natural Resources of the European Union - an Object of External Public Audit

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Abstract. The aim of the study is to analyze the results of the audit of EU finances related to agriculture and natural resources. The material used is statistical data published by The European Court of Auditors which was further interpreted. According to this one third of the examined transactions are affected by errors. When about the SAPARD Program in Romania and Bulgaria important deficiencies in the management and control system were detected. As a conclusion, the Court’s auditing highlighted the deficiencies of the aid system including both institutions and farmers and recommended to tighten further the rules and imposing a stricter control.

Keywords: expenditure, European Agricultural Funds, aid systems, reliability of systems

INTRODUCTION

At the beginning of the 21st century a large amount of founds are designed for agriculture and European natural resources which are being organized in four domains:

• Agriculture and Rural Development;
• Environment;
• Fishing and Maritime Affairs
• Health and Consumer Protection.

Each domain generates some payments that are procedural audited by the European Court of Auditors. This institution in its turn, via an annual report offers to the public its opinion on how the public money was spent. Once published the report becomes the object of analysis and debate both in the public environment, academic, political, civic and so on, but also in the actions designed to develop European Unions countries cohesion.

In 2008 some expenditure were performed in a total amount of 55.461 million euros in the following way (Raportul anual al Curții de Conturi, 2009):

• Agriculture: 53.803 million euros (% of total) of which 37.569 million euros for direct payments, 5.442 million euros for interventions on agricultural markets and 10.527 million euros for rural development;
• Environment: 264 million euros (% of total);
• Fisheries and Maritime Affairs: 879 million euros (% of total);
• Health and Consumer Protection: 515 million euros (% of total).
MATERIALS AND METHODS

The present study is a short analysis of the results of the Annual European Court Report concerning the financial year 2008 published in 2009. The European Court of Auditors has tested a statistical sample represented by 204 transactions covering the entire spectrum of expenditures and it also assessed the supervisory and control system. The Court has examined the reliability of systems applicable to EAGF claims in selected paying agencies from four Member States applying the Single Area Payment Scheme (SAPS) - Bulgaria, Estonia, Poland and Romania and in four Member States applying the single payment scheme (SPS) - Belgium, Spain, Slovenia and United Kingdom.

RESULTS AND DISCUSSION

All costs designed for agriculture and rural development are organized in the management shared system which means that the implementation tasks are delegated to the Member States. The Special Committee has the responsibility to implement the EU budget. The Community budget is financing only expenditure linked to the Common Agricultural Policy, mainly through two funds:

- The European Agricultural Guarantee Fund (EAGF) which finances the intervention measures on the market and the direct aids;
- The European Agricultural Fund for Rural Development (EAFRD) to finance the rural development programs.

The funds are being governed by the Regulation (EC nr.1290/2005) concerning the financing of the Common Agricultural Policy.

The key measures of funding through EAGF are (Raportul anual al Curții de Conturi, 2009):

a) The Single Payment Scheme (SPS) which was introduced in order to remove the link between the agricultural production and the payments to farmers. A farmer is a natural or legal person who exercises an agricultural activity so as production or growing agricultural products including harvesting, milking, breeding animals and keeping animals for farming purposes or to maintaining land in good agricultural and environmental condition (GAEC). In order to become eligible for the SPS, farmers must receive payment entitlements and practice an agricultural activity. The number and the value of the payment entitlements related to each farmer is calculated by the national authorities according to the models set in European Union legislation. Each payment entitlement related to a hectare of eligible land for support, declared by the farmer generates a SPS payment, and the farmers are being paid regardless of the actual volume of production.

b) The direct aid scheme called "Single Area Payment Scheme (SAPS) to ensure the payment of uniform amounts per eligible hectare of farmland, or on any agricultural land maintained in good agricultural conditions according to the national criteria. SAPS are being applied also in Romania.

c) Other direct aid systems, where payments are linked to production.

d) The interventions on agricultural markets as storage and export refunds.

The requirement to maintain land in good agricultural and environmental conditions was established in the context of cross compliance, which applies to both systems: SPS and SAPS. If
GAEC requirements aren’t followed, the direct aid is being reduced or even cancelled according to applicable cross compliance rules.

The European Agricultural Fund for Rural Development (EAFRD) finances rural development expenditure, such as: agri-environment schemes, compensatory amounts granted for agricultural activities in disadvantaged areas, investments for agricultural holdings and rural area infrastructure.

In 2008, it was the first year when the SAPS were applied in Romania and Bulgaria. As regards the rural development expenditure, the Court tested the supervisory and control systems in Czech Republic, Ireland, Greece, Spain, Italy, Hungary and Portugal. Court audited also the supervisory and control systems for the European Fisheries Fund.

Based on the results of audits carried out over the payments of the year 2008, the Court concluded that the estimated overall error rate is slightly below the materiality threshold of 2%. Out of 204 transactions examined, 66 (32%) were affected by errors, which affected eligibility and accuracy of operations.

The Annual Activity Report of the General Director for Agriculture contains reservations in respect of the expenditure under the SAPARD Program in Bulgaria and Romania, existing important deficiencies in the management and control system.

The audit on EAGF revealed errors concerning the eligibility of some SIPA payments through beneficiaries who do not meet the “farmer” definition, as they had not carried out any agricultural activity nor maintained the land in good agricultural and environmental conditions (GAEC). In Romania, 11096 farms were controlled (Gartoi, 2009). Also, the Court discovered errors in the FECA’s payments accuracy, meaning overpayments generated by over-declarations of the area claimed and the incorrectly calculation of eligible costs and of the payable amounts, due to failure to comply with the minimum payment per hectare specified in EU regulations.

As regards agriculture and rural development expenditure, the main control system to ensure the regularity of transactions is the Integrated Administration and Control System (IACS) which consists, in each Member State, of a database of farms and applications, systems for identifying agricultural parcels and registering animals and a register of entitlements in those Member States implementing the SPS. IACS system also provide several eligibility controls: an administrative check of all claims, cross-checks with databases to prevent the same land/animals from being claimed twice and a minimum rate of 5 % on-farm inspections to be carried out by the paying agencies. IACS covers the main schemes audited at Member State level financed by EAGF, namely SPS and SAPS.

In Bulgaria, UK (Scotland) and Romania were found important failures in the application of key elements of the system. The Court considers that in these Member States IACS is not effective in ensuring the regularity of payments. In the case of Romania and Bulgaria the national inspection results reported to the Commission are in line with the European Court of Auditors’ assessment. These concern, in particular, the quality of the Land Parcel Identification System (LPIS) and the quality of on-the-spot controls. In order to address the deficiencies, both Romania and Bulgaria have set up action plans in 2009, at the request of the Commission.

Land Parcel Identification System (LPIS) is a database in which all the agricultural area of the Member State is recorded. The efficacy of administrative controls that are designed to establish the eligibility of the surfaces depends on the quality of the information recorded in SIPA. Member states are required to conduct annual on-the-spot controls which must cover at
least 5% of all beneficiaries. The control number is increased if significant irregularities are detected.

CONCLUSIONS

The Court discovered insufficiencies in the definition of mandatory requirements by the Member States in order to maintain the land in good agricultural and environmental conditions. Payments were made through the SPS and SAPS systems to beneficiaries who do nothing to maintain the land in discussion.

The Court’s auditing highlighted the deficiencies to be corrected in the SPS and SAPS systems (Raportul anual al Curții de Conturi, 2009):

a) to overcome the systems weaknesses leading to errors relating to over-declarations of land or inaccurate entitlements, notably by ensuring that databases are;

b) to tighten further the rules so that EU direct aid is not paid to claimants who have neither used the land for farming nor actively maintained it in good agricultural and environmental conditions (GAEC);

c) to enforce minimum requirements for grassland for receiving EU direct aid.

REFERENCES