

I

(Information)

COURT OF AUDITORS

SPECIAL REPORT No 4/2001

on the audit of the EAGGF-Guarantee — the implementation of the integrated administration and control system (IACS) together with the Commission's replies*(pursuant to Article 248(4), second subparagraph, EC)**(2001/C 214/01)*

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SUMMARY

I. In order to ensure better market equilibria, the common agricultural policy (CAP) was reformed in 1992 in the direction of a system of direct aid for farmers, which significantly increased the number of beneficiaries but also the risk of irregularity and fraud. The integrated administration and control system (IACS) was therefore introduced to meet those risks. The system consists of five elements — a computerised database, an identification system for agricultural land parcels, a system of identification and registration of animals, aid applications, and an integrated system for administrative controls and field inspections.

II. In the EU all IACS aid applications (some 6 million each year) are processed and checked administratively (some 3,2 million area aid applications and 2,8 million applications for animals). In 1999, some 25 353,6 million euro, or 63,6 % of EAGGF-Guarantee expenditure passed through IACS, directly or indirectly. These checks are complemented by on-the-spot controls (minimum 5 % of area aid applications and 10 % of all animal applications falling under IACS), selected on the basis of a risk analysis. All these checks lead to significant reductions in Community expenditure. The Court is of the opinion that IACS provides a sound basis for controlling arable crops and animal premium expenditure and that it is an essential tool to limit and reduce the risk to the Fund (see paragraphs 3 to 6 and 9 to 32).

III. During audit visits carried out in 1999 and 2000, the Court examined the level of implementation of IACS in 1998, the second year after the end of the transitional period (1993 to 1996; 1997 for the three new Member States), at the level of the Commission and in six Member States, namely Germany, Spain, France, Ireland, Portugal and the United Kingdom. The schemes that were specifically reviewed were the area aid scheme and bovine premiums. Where reliable information was available for later years the Court updated its findings on the basis of this information (see paragraphs 7 and 8).

IV. The Commission's main roles are to design the concept of IACS (co-financed between 1992 and 1997); and to supervise, coordinate and check the implementation of IACS in all the Member States. This role is performed by the Clearance-of-Accounts Directorate in the Agriculture Directorate-General. There are, moreover, other Commission services that also deal with IACS (such as the market divisions of the Agriculture Directorate-General and the Health and Consumer Protection Directorate-General, which is in charge of veterinary aspects) but certain problems might have been avoided if coordination had been more effective (see paragraph 41).

V. IACS and the different market regulations are by their nature complicated and they are not precise enough to explain in detail all eventualities relating to their interpretation. The Commission has therefore issued a number of interpretations and recommendations. Despite this, practices in the Member States still differ. The main regulations were amended 80 times between 1992 and 1999 (see paragraphs 37 and 38, and 43 to 53).

VI. The extent and quality of information provided by the Member States needs to be improved. The Commission should continue its efforts to improve the quality of the information it requests and receives from the Member States and to evaluate and use that information to improve its management of the Member States' implementation of IACS (see paragraphs 39 and 54 to 66).

VII. The Member States are responsible for the actual implementation of IACS. Although the final deadline for the full implementation of IACS was 1 January 1997 the Court's audit revealed persistent weaknesses in the Member States visited. This concerns mainly the non or partial execution of cross-checks of surface areas and animals, the fact that the databases on surface areas and bovine animals were in some cases incomplete and out of date and the poor quality of the field inspections (see paragraphs 68 to 71).

VIII. The Court's main recommendations to the Commission concern the development of an efficient management information system and the simplification and harmonisation of the regulatory framework (see paragraph 81).

INTRODUCTION

General context

1. In order to ensure better market equilibria, the common agricultural policy (CAP) was significantly reformed in 1992, in particular in the arable crops sector (cereals, oilseeds, protein seeds and non-textile flax) and the meat sector (beef and veal, sheep and goat). Institutional prices were reduced and direct compensatory payments to farmers were introduced. These payments are based on the eligible area (for arable crops) and the eligible animals (for animal premiums) ⁽¹⁾ declared by the farmers.

2. Before the reform, the expenditure was concentrated on intervention storage and export refunds. While the changeover to a system of direct aid for farmers ⁽²⁾ made the CAP more compatible with GATT/WTO commitments, the number of recipients considerably increased and the administration of the aid became significantly more complicated. An effective and comprehensive control system was therefore needed and so the Council decided in 1992 to create the integrated administration and control system (IACS) ⁽³⁾.

3. Some six million aid applications are processed and checked each year by IACS (some 3,2 million area aid applications and 2,8 million aid applications for animals) ⁽⁴⁾. Each aid application typically contains details about many individual land parcels, or bovine animals, as well as various details supporting the application. In order to detect and correct inaccurate claims, automatic administrative checks are performed on all aid applications. Furthermore, some 387 000 on-the-spot inspections for area aid

applications and some 333 000 on-the-spot inspections for bovine animals are carried out annually. Without a system such as IACS it would be impossible to carry out adequate checks to minimise the processing of incorrect applications.

Implementation of IACS

4. Member States were obliged to establish adequate systems to implement IACS, and in particular powerful computer systems which would allow the management of databases containing hundreds of millions of items of data.

5. The introduction of IACS commenced in 1993, and the related payments for the new CAP started in the 1994 budget year. There were different deadlines for the achievement of the various stages in IACS. The deadline for final implementation was 1 January 1997 ⁽⁵⁾ (except for the three new Member States — Austria, Finland and Sweden — which had an extra year).

6. IACS is the key tool for the control of EAGGF-Guarantee expenditure and its importance is increasing with time as progressively more measures and expenditure are directly or indirectly managed and controlled through this system (grain-legume, rice, dried fodder, fibre flax and hemp, cotton, hops and agri-environmental schemes): 42,6 % of EAGGF-Guarantee expenditure in 1994 and 63,6 % in 1999 (see *Table 1* and *Illustration 1*). In the financial year 2004 more than 80 % of EAGGF-Guarantee expenditure will be processed through IACS as the result of the Agenda 2000 reform and the decision by the Council to include other schemes, such as tobacco, olive oil, dried grapes, citrus fruits and tomatoes for processing and wine from the year 2003 ⁽⁶⁾.

⁽¹⁾ There are detailed rules for determining both eligible area and eligible animals. To be eligible for area aid, the land must have been used for arable crops in 1991. There are various quotas applicable for the animal aid, and payment is also restricted by eligible forage areas.

⁽²⁾ Concerning the beef and veal sector, direct aid existed before 1992. With the reform this aid was more than tripled between 1992 and 1996 for EU-12.

⁽³⁾ Council Regulation (EEC) No 3508/92 of 27 November 1992 (OJ L 355, 5.12.1992, p. 1). The detailed implementation rules were established by Commission Regulation (EEC) No 3887/92 (OJ L 391, 31.12.1992, p. 36).

⁽⁴⁾ Source: Area aid — Commission DG VI data for 1998; Animal premiums — incomplete Commission DG VI data for 1998, with an estimate based on 1994 (there is no updated information available at the Commission service).

⁽⁵⁾ In the beginning, the deadline was 1 January 1996. The new deadline was set by Council Regulation (EC) No 2466/96 of 17 December 1996 (OJ L 335, 24.12.1996, p. 1).

⁽⁶⁾ Council Regulation (EC) No 1593/2000 of 17 July 2000 (OJ L 182, 21.7.2000, p. 4) amending Regulation (EEC) No 3508/92, stipulates that systems for aids based on areas (such as flax and hemp, environment, forestry) and for production aids (such as tobacco, olive oil, cotton, wine, tomatoes and citrus fruits) shall be compatible with IACS.

Table 1

Evolution of EAGGF Guarantee Section expenditure covered by IACS since 1994 (according to nomenclature of the 1999 budget)

Category of expenditure	1994	1995	1996	1997	1998	1999	2000 ⁽¹⁾	2001 budget
(Mio EUR)								
Measures fully included in IACS ⁽²⁾								
Per hectare aid for arable crops								
Per hectare aid for arable crops (small producers)	1 756,4	2 313,9	2 875,6	2 850,0	2 548,6	2 364,9	2 248,3	3 874,0
Per hectare aid for arable crops (large-scale producers) and durum wheat	7 083,5	8 780,5	10 660,4	11 815,6	12 350,5	12 259,0	10 907,4	11 458,0
Set-aside	1 712,9	2 412,6	2 271,4	1 903,6	1 262,6	1 283,8	1 858,5	1 564,0
<i>Subsubtotal</i>	10 552,8	13 507,0	15 807,4	16 569,2	16 161,7	15 907,7	15 014,2	16 896,0
Premiums for beef and veal								
Suckler cow premiums	841,5	1 009,1	1 468,6	1 465,6	1 589,1	1 594,7	1 565,9	1 736,0
Additional premiums for suckler cows	40,5	43,2	44,3	56,2	63,4	63,3	62,5	102,0
Special premiums	656,6	957,1	1 407,2	1 238,5	1 340,8	1 297,3	1 299,3	1 619,0
Deseasonalisation premiums	31,6	24,5	23,0	39,5	45,1	23,7	2,6	0,0
Extensification premiums	389,0	438,1	507,3	568,6	706,4	714,2	715,5	757,0
<i>Subsubtotal</i>	1 959,3	2 472,0	3 450,4	3 368,4	3 744,8	3 693,2	3 645,9	4 214,0
<i>Subtotal (expenditure covered by the audit)</i>	12 512,1	15 979,0	19 257,8	19 937,6	19 906,5	19 600,9	18 660,1	21 110,0
Other								
Production aid for grain legumes				70,8	70,4	70,5	68,8	72,0
Aid per hectare for rice					40,5	82,3	124,3	129,0
Intervention other than storage of sheepmeat and goatmeat	1 628,1	1 780,8	1 320,8	1 066,6	1 534,9	1 891,8	1 733,7	1 620,0
Accompanying measures (former system)	93,4	73,4	72,0	50,6	30,6	17,7	6,9	15,0
<i>Subtotal</i>	1 721,5	1 854,2	1 392,8	1 188,0	1 676,4	2 062,3	1 933,7	1 836,0
TOTAL	14 233,6	17 833,2	20 650,6	21 125,6	21 582,9	21 663,2	20 593,8	22 946,0
Measures for which agricultural parcels have to be cross-checked with other measures in IACS ⁽³⁾								
Production aid for dried fodder			297,4	297,4	307,3	307,0	313,0	312,0
Fibre flax and hemp ⁽⁴⁾						123,6	136,4	88,0
Aid for cotton						903,2	854,7	766,0
Premiums for tobacco								987,0
Hops						12,6	12,6	12,0
Environment			1 391,2	1 511,2	1 282,9	1 951,6	2 258,6	2 215,0
Afforestation			241,0	318,7	327,5	392,2	533,1	520,0
Less-favoured areas							674,2	780,0
TOTAL			1 929,6	2 127,3	1 917,7	3 690,3	4 782,5	5 680,0
GRAND TOTAL	14 233,6	17 833,2	22 580,2	23 252,9	23 500,6	25 353,4	25 376,3	28 626,0
Total B01 EAGGF-Guarantee (excluding monetary reserve)	33 412,3	34 502,7	39 107,8	40 674,9	38 748,1	39 854,1	40 362,5	43 197,7
% covered by IACS	42,6	51,7	57,7	57,2	60,6	63,6	62,9	66,3
% of the expenditure covered by the audit (arable crops and beef and veal)	37,4	46,2	49,2	48,9	51,3	49,1	46,2	48,9

⁽¹⁾ Due to Agenda 2000 reform, the advance payment for oilseeds 2000 harvest has been paid in 2001. This explains the decrease in IACS expenditure for year 2000.

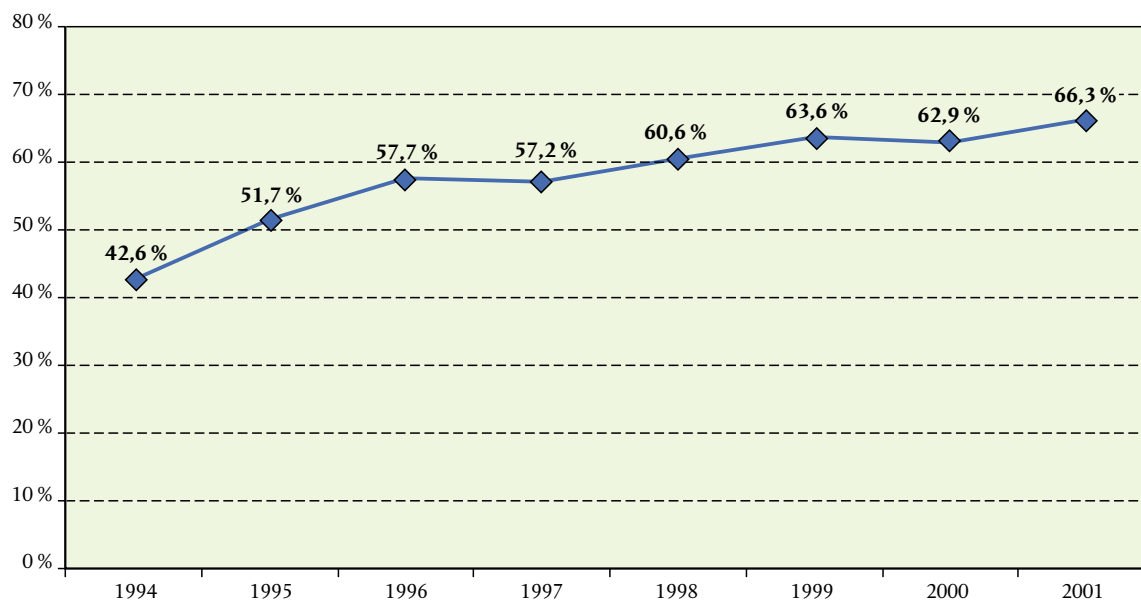
⁽²⁾ According to Article 1(1) of Regulation (EEC) No 3508/92.

⁽³⁾ Measures to be declared separately from the area aid applications according to Article 4(1) of Regulation (EEC) No 3887/92.

⁽⁴⁾ In 2001, the aid for flax and hemp is part of per hectare aid for arable crops.

Illustration 1

Evolution of the percentage of EAGGF expenditure covered by IACS



NB: The decrease in 2000 is due to a change in the timing of the payment of aid for oilseeds, rather than a decrease in the coverage of IACS.

Source: Evolution of EAGGF expenditure, Commission DG AGRI (see table 1).

The Court's audit

7. In 1995 and 1996 the Court examined the level of implementation of some parts of IACS while analysing the area aid scheme and the beef and veal premium scheme. The results of the audit were published in the 1996 ⁽¹⁾ annual report. For the current audit the Court examined, through audit visits to the Commission and Member States in 1999 and 2000, the level of implementation of IACS in 1998 (mainly 1999 EAGGF-Guarantee expenditure for aid applications made in 1998), the second year when it was required to be fully implemented. The principal audit objectives were to confirm that IACS was being fully implemented and was operational, that the data collected in the data-

bases were complete and valid and were being updated on time, and to assess the Commission's role (until mid-2000) in the implementation of IACS.

8. The audit was based on the Commission's documents, including the findings of the Commission's inspections at the level of the Member States. In addition central and regional/local authorities dealing with the management of IACS schemes in six Member States, namely Germany ⁽²⁾, Spain ⁽³⁾, France ⁽⁴⁾, Ireland, Portugal, and the United Kingdom ⁽⁵⁾, were visited. These Member States account for 76 % of IACS expenditure by the EAGGF-Guarantee for arable crops and bovine animals (see *Illustration 2*).

⁽¹⁾ Annual Report 1996 concerning the financial year, Chapters 3 and 4 (OJ C 348, 18.11.1997).

⁽²⁾ Visits were carried out at the Federal Ministry of Agriculture and in the *Länder* of Lower Saxony and Bavaria.

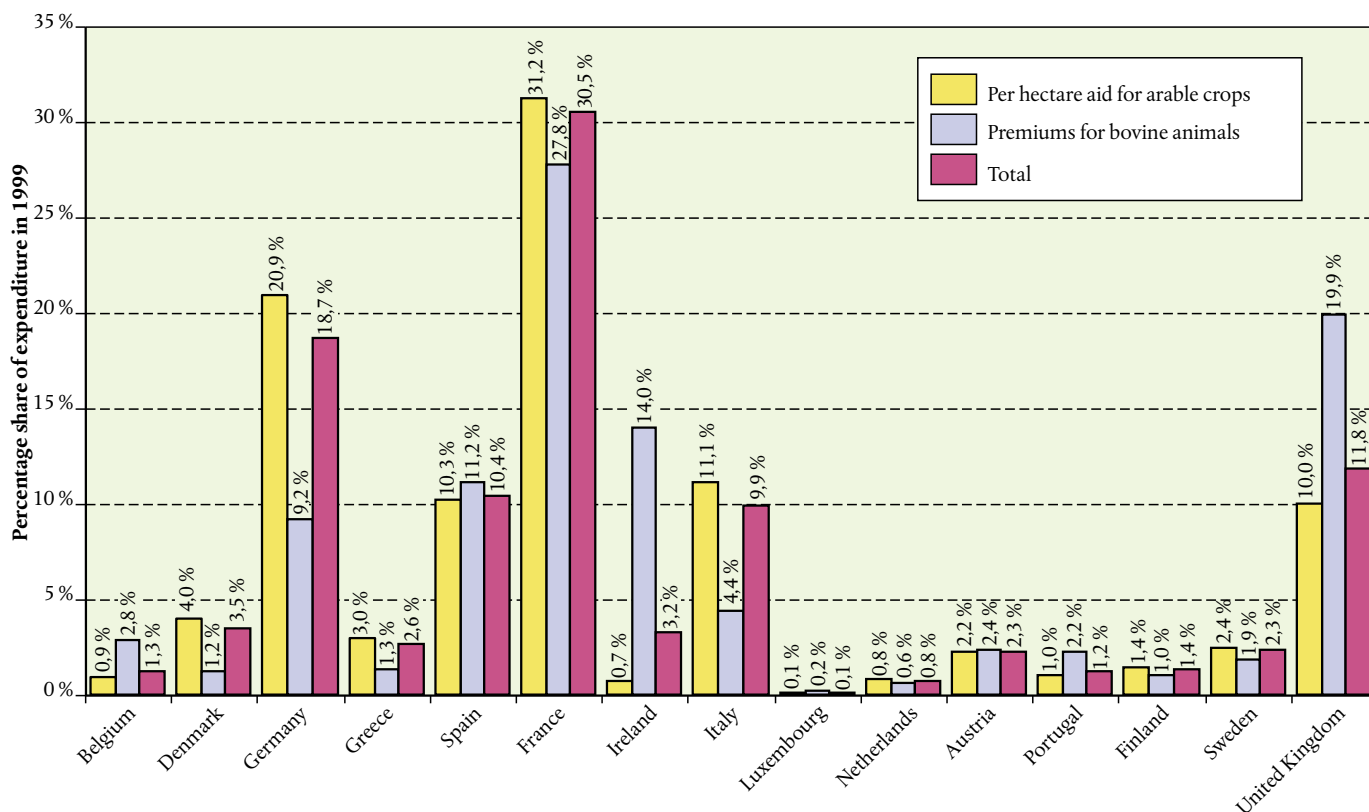
⁽³⁾ Visits were carried out at central level and in the Autonomous Communities of Catalonia and Navarre.

⁽⁴⁾ Visits were carried out at central level and at regional level in the Departments of Bouches-du-Rhône, Haute Corse and Landes.

⁽⁵⁾ In the United Kingdom, visits were carried out at central level and in Scotland and Wales.

Illustration 2

Member States' share of IACS related expenditure in 1999



Source: Basic data obtained from Commission DG AGRI expenditure reports.

DESIGN OF THE INTEGRATED SYSTEM

Introduction

9. The Council Regulation introducing IACS requires Member States to establish the following five elements ⁽¹⁾:

- a computerised database to record the data in the aid applications for each agricultural holding;
- an identification system for agricultural parcels, i.e. a system to allow areas declared to be located so they can be monitored over time and so that computerised cross-checks and on-the-spot checks can be organised;

(c) a system of identification and registration of animals, which enables claims to be cross-checked and controlled on the spot;

(d) aid applications for area aid, forage areas and animals;

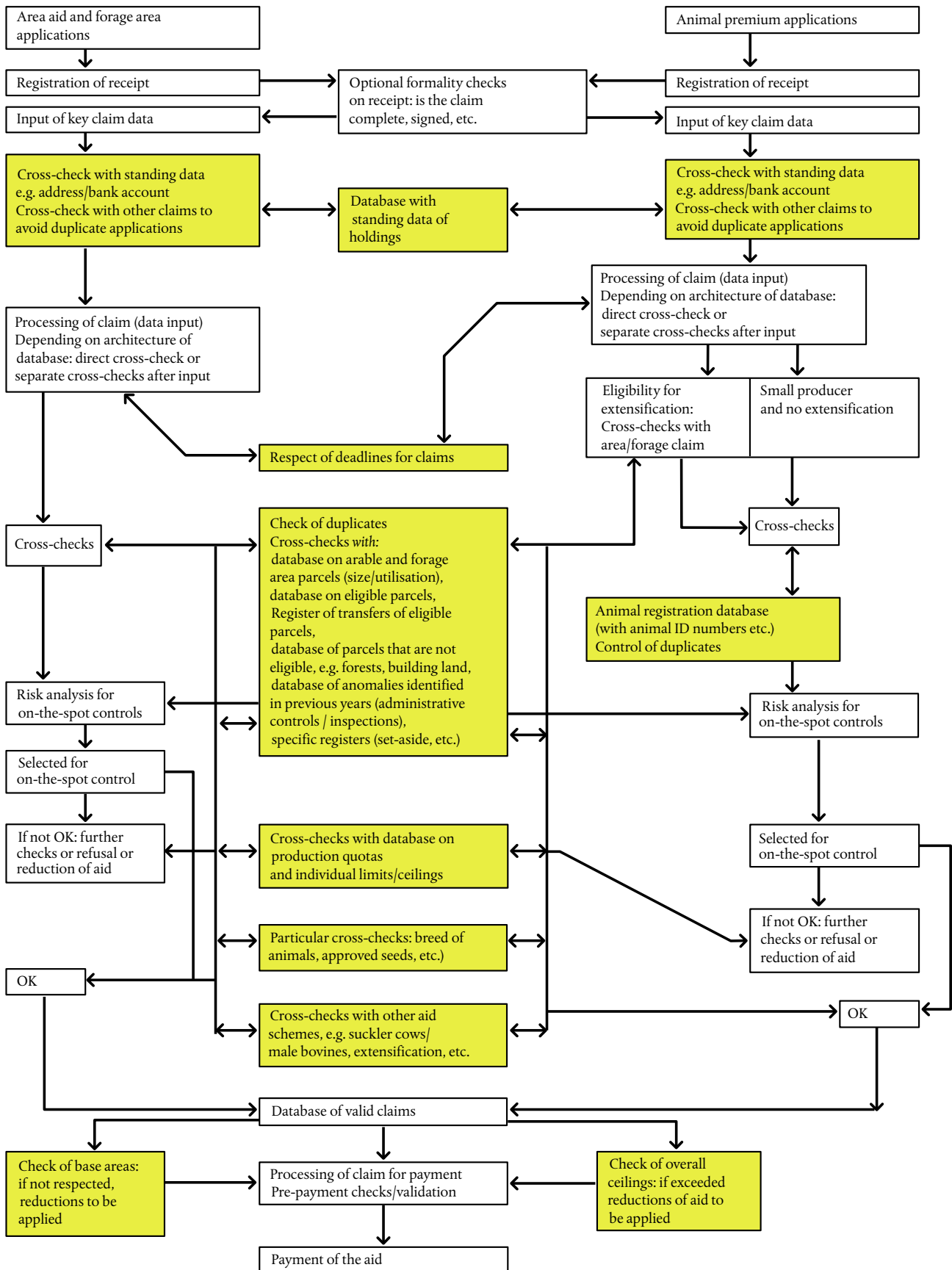
(e) an integrated control system for administrative controls and field inspections.

10. Table 2 provides an overview of the theoretical processing of aid applications through IACS, with its principal controls. *Illustration 3* shows the number of applications received for arable crops and the area concerned in 1998. The corresponding information for bovine aid applications is in *Illustration 4*.

⁽¹⁾ Council Regulation (EEC) No 3508/92, Article 2.

Table 2

Overview of principal IACS controls

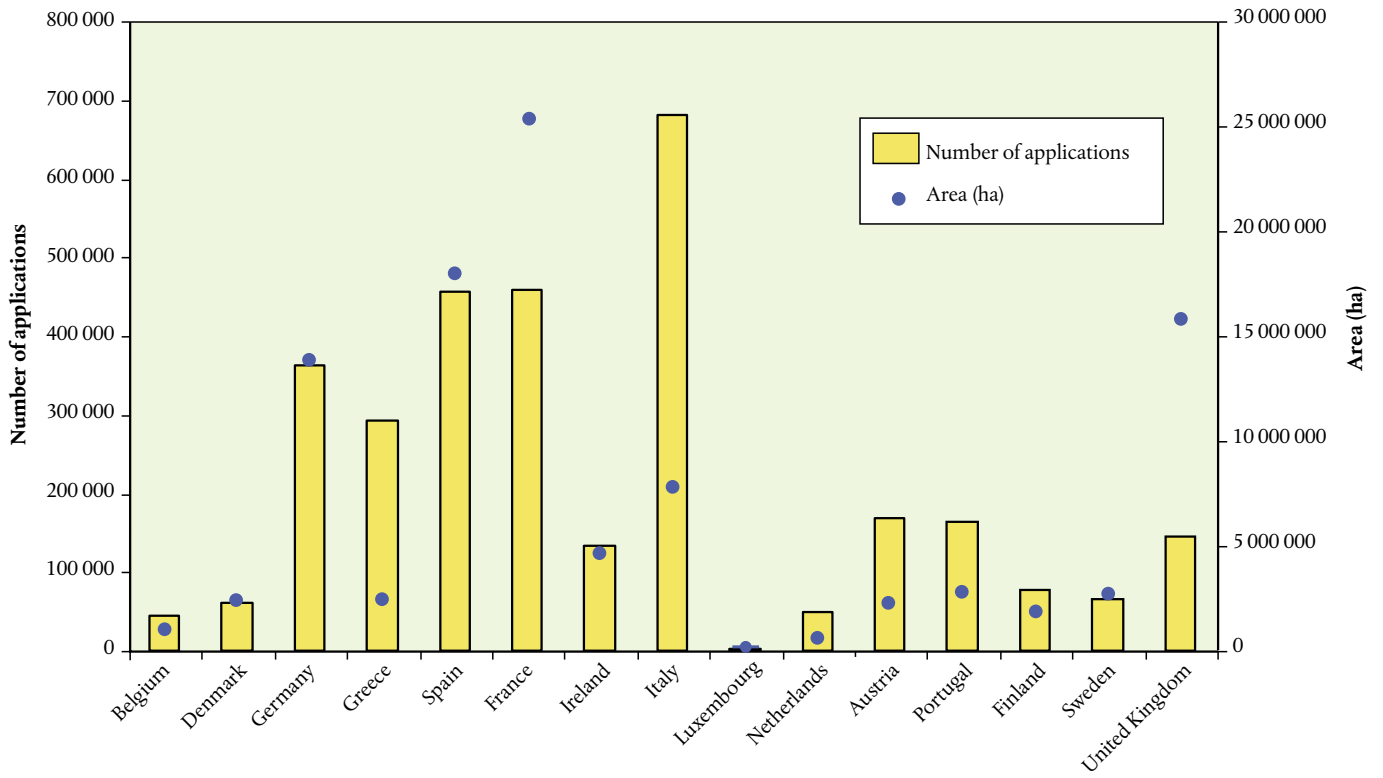


NB: In case of decentralised databases there must be cross-checks at central level, for instance cross-checks of animal numbers or surfaces claimed in other regions.

Source: Court of Auditors review of relevant regulations.

Illustration 3

Area aid applications in 1998

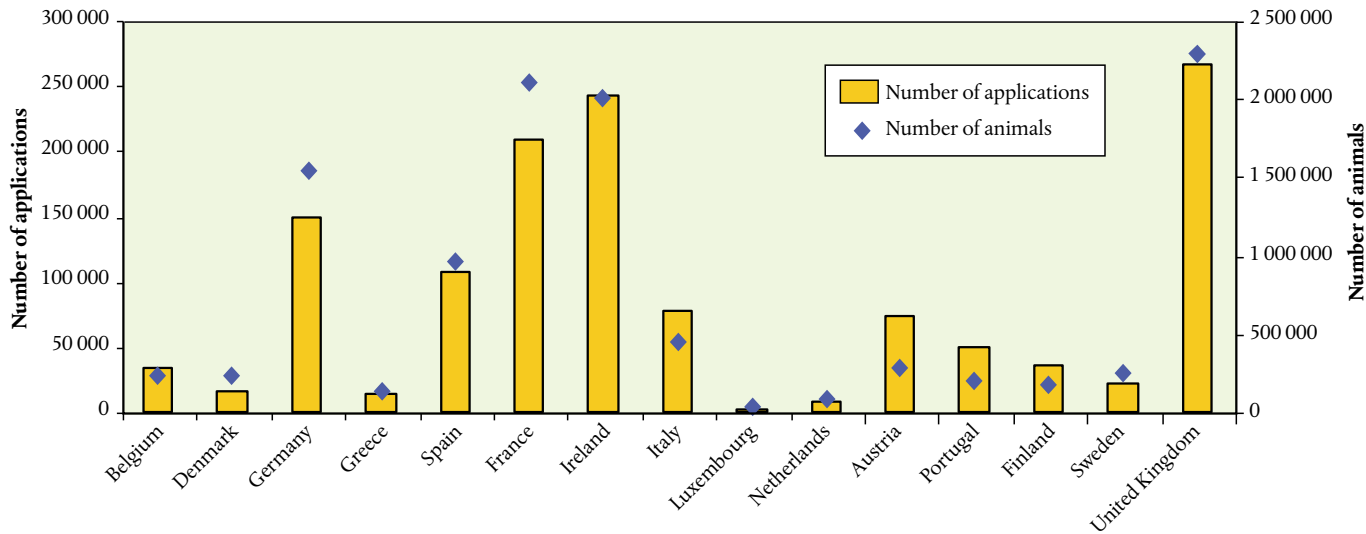


Source: Basic data obtained from Commission DG AGRI (IACS statistics for 1998).

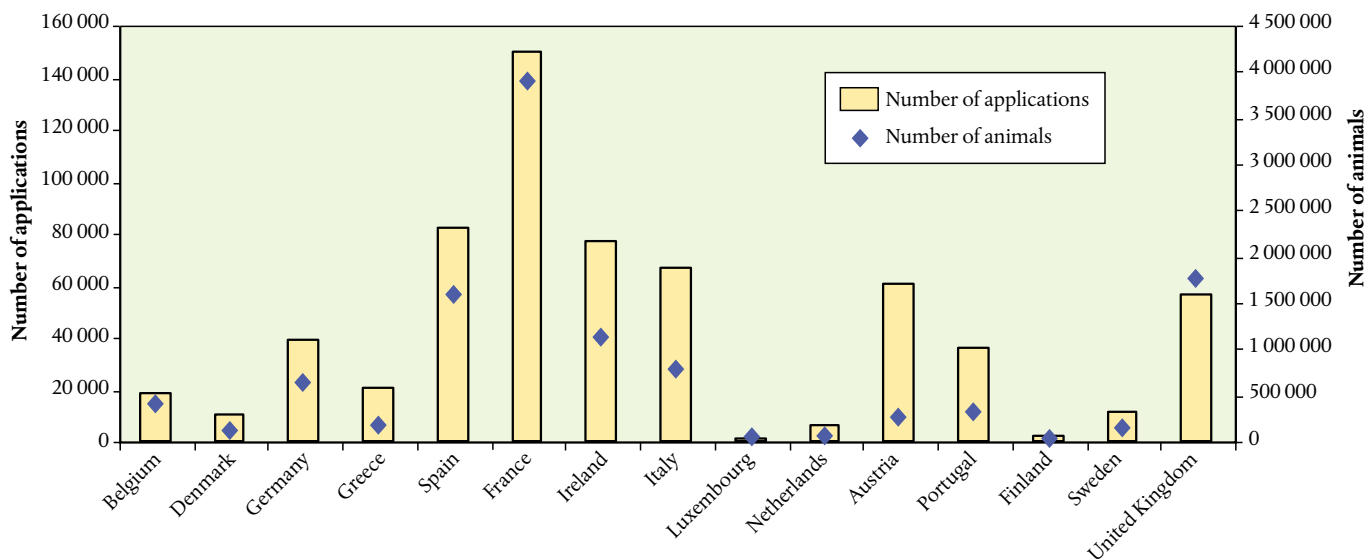
Illustration 4

Bovine aid applications in 1998

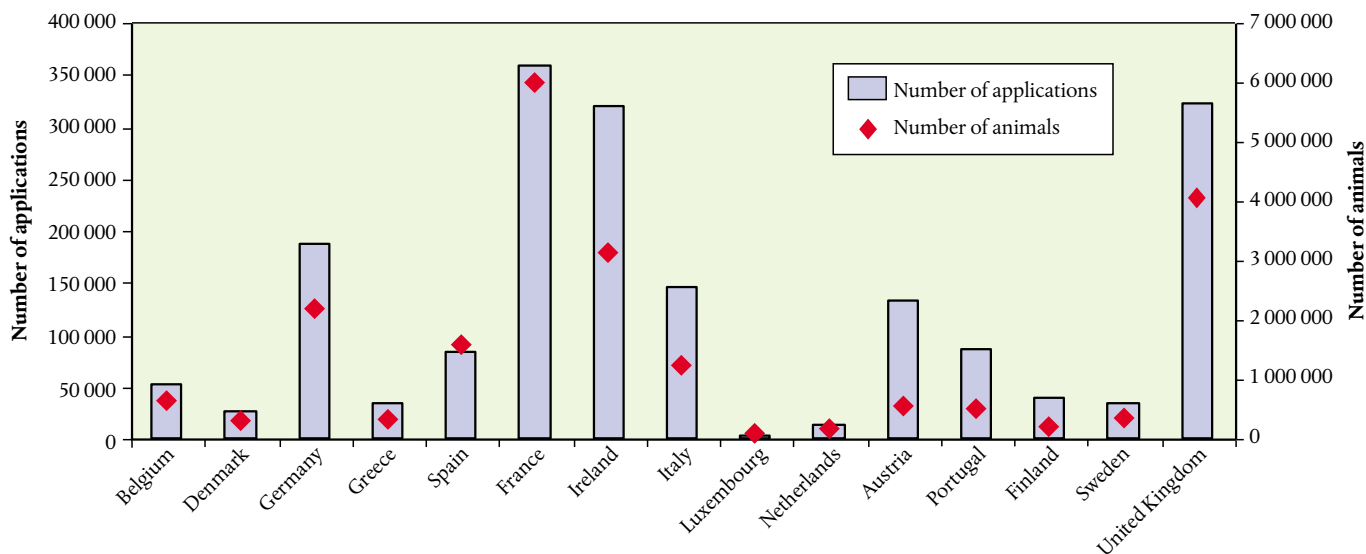
(1) Special beef premium applications in 1998



(2) Suckler cow applications in 1998



(1+2) Bovine aid applications in 1998



Source: Basic data obtained from Commission DG AGRI (IACS statistics for 1998).

Computerised databases

11. The computerised database should record the data obtained from the aid applications for each agricultural holding, in order to allow direct and immediate consultation. Member States could choose which computer system(s) to apply. They may create decentralised databases provided they and the administrative procedures governing the recording of, and access to, the data are homogeneous over the entire territory of the Member State and are mutually compatible ⁽¹⁾.

12. In Germany, Spain and the United Kingdom, the national authorities have opted for a decentralisation of IACS, adapted to their administrative systems, i.e. the creation of 16, 17 and four databases respectively. The lack of mutual compatibility between the databases has forced the authorities responsible to set up ad hoc procedures for national cross-checks of agricultural parcels and animals. In Germany and Spain this procedure is implemented by means of electronic exchange of information, which is entered in the respective databases for processing. For agricultural parcels, the United Kingdom has only made provision for manual processing.

13. A 'holding' includes all the production units managed by a farmer in the same Member State. While some Member States already had an identification system for holdings, such systems did not exist in other Member States when IACS was introduced and had to be implemented. Member States were also obliged to take the measures necessary to avoid the artificial splitting of existing holdings or the creation of holdings after 30 June 1992, for the purpose of circumventing the individual limits that are imposed under the specific aid schemes.

The identification system for agricultural parcels

14. The identification system for agricultural parcels was to be based on land registry maps, other cartographic references, aerial photographs, satellite images, or other equivalent supporting references. Member States could also base the system on land registry parcels or production blocks. This system must enable all the agricultural parcels to be identified unequivocally and to identify their geographical location. This element is vital for carrying out effective cross-checks (see paragraph 23).

15. Among the Member States visited, Germany, Spain and France chose, from the beginning, to use the land registry survey as their system of identifying agricultural parcels. This survey is not necessarily entirely up to date with regard to the use of the land but is of good quality in respect of the surface area of the parcels. Other Member States, e.g. Ireland, Portugal and, in the United Kingdom, Scotland, opted for a system using aerial photographs and/or satellite images (geographical information system ⁽²⁾), even if another system had sometimes been applied to begin with. The rest of the United Kingdom uses an identification system based on the official maps of the country (produced by the Ordnance Survey).

The system of identification and registration of animals

16. The rules for animal identification and registration are provided for in a specific Directive of 1992 ⁽³⁾, and in later Regulations, to which IACS Regulations refer. The Directive required that farmers had to maintain detailed herd registers, and that bovine animals had to be eartagged with a unique identification code. This should have been implemented at the latest by 1 July 1994. As in the case of the parcels, this system is vital for carrying out effective cross-checks. It must enable all the animals mentioned in the aid applications to be identified unequivocally.

17. The BSE crisis revealed that the system in place suffered from numerous weaknesses, which emphasised the need to introduce more detailed rules for the identification and registration of bovine animals. This was done in April 1997 by replacing the 1992 Directive with a new Council Regulation ⁽⁴⁾, which adapted the rules for eartagging ⁽⁵⁾ and herd registers, and introduced

⁽¹⁾ Council Regulation (EEC) No 3508/92, Article 3.

⁽²⁾ Recently the Council decided that from 2005, all Member States should have a geographical information system. According to Council Regulation (EC) No 1593/2000 amending Regulation (EEC) No 3508/92 establishing an integrated administration and control system for certain Community aid schemes (Article 4), the identification system for agricultural parcels is to be established by making use of computerised geographical information system techniques including, preferably, aerial or spatial orthoimagery, with a homogenous standard guaranteeing accuracy at least equivalent to cartography at a scale of 1:10 000.

⁽³⁾ Council Directive 92/102/EEC of 27 November 1992 on the identification and registration of animals (OJ L 355, 5.12.1992, p. 32).

⁽⁴⁾ Council Regulation (EC) No 820/97 of 21 April 1997 (OJ L 117, 7.5.1997, p. 1). This Regulation deals with the provisions directly applicable to IACS but also with the labelling of beef and beef products.

⁽⁵⁾ Eartags should be applied to each ear to identify all animals on the holding born after 1 January 1998 or intended for intra-Community trade after that date.

requirements for a computerised database ⁽¹⁾ and animal passports. A 1998 audit by the Court ⁽²⁾ on the BSE crisis underlined the importance of establishing comprehensive and reliable registers of animals in Member States.

18. According to this new Regulation, Member States must perform on-the-spot inspections to check that herd owners are complying with these requirements. At least 10 % of herds should be inspected each year on the basis of risk analysis ⁽³⁾. If the computerised database is recognised by the Commission as fully operational, Member States need not issue passports for all bovine animals but only for those intended for intra-Community trade, and the annual inspection rate can be reduced from 10 % to 5 %.

19. If such an inspection finds that animals are not correctly identified and registered, sanctions are applied ranging from restrictions on movement to destruction of the animals concerned, depending on the seriousness of the problem found ⁽⁴⁾. These sanctions are in addition to the financial sanctions applied under IACS Regulations (see paragraph 32).

Aid applications

20. Each year farmers may submit a single 'area' aid application (including the forage area) and one or more 'animal' aid applications. All aid applications have to indicate the identity of the farmer and give the farmer's written undertaking to respect the particular rules of the schemes involved. All the information necessary for carrying out all the eligibility checks before the aid is paid must be included in the aid applications, or annexed to them.

21. Area aid applications have to identify all agricultural parcels, their area, location, use and the aid scheme concerned. Member States may require use of areas for crops not eligible for aid schemes administered by IACS to be declared under an 'other use' heading.

22. Applications for bovine animal premiums have to identify the eartag numbers of the animals for which aid is being claimed and they have to refer to the area aid application in which the forage area was declared ⁽⁵⁾.

The integrated control system

Administrative controls

23. The main purpose of IACS administrative controls is to ensure that aid is correctly calculated and that there are no duplicate payments. This involves checking the holdings claiming the aid, cross-checking areas declared (including forage areas) and cross-checking animals declared.

24. These administrative controls are of two types: manual and automated. Manual administrative controls take place at all stages of the examination of applications, from the point when human intervention proves necessary. Automated controls include all procedures carried out with the help of computers in order to check the eligibility criteria in respect of aid applications. The main automated checks are the cross-checks on parcels and animals. Given the volume of the transactions involved, and the complexity of the cross-checks required, such cross-checks cannot be efficiently carried out manually.

⁽¹⁾ The computerised database should be fully operational by 31 December 1999. Once the database is operational, holdings must report to the competent authority all movements, births and deaths of animals. Council Directive 97/12/EC of 17 March 1997 (OJ L 109, 25.4.1997, p.1) concerns veterinary measures for intra-Community trade, but also specifies the requirements for the computerised database as stipulated by Regulation (EC) No 820/97. Article 14 of the Directive refers to the information which should be available in the computer system. This is the identification code, date of birth, sex, breed or colour of coat, ID code of the mother cow (dam), the ID number of the holdings where born, ID numbers of all holdings where the animal has been kept, the dates of each change of holding, date of death or slaughter. If these requirements are respected the database could provide complete documentation on each bovine animal.

⁽²⁾ Special Report No 19/1998 concerning the Community financing of certain measures taken as a result of the BSE crisis, accompanied by the replies of the Commission (OJ C 383, 9.12.1998).

⁽³⁾ Commission Regulation (EC) No 2630/97 of 29 December 1997 (OJ L 354, 30.12.1997, p. 23). The risk analysis must take into account the number of animals on the holdings; public and animal health considerations and any previous existence or outbreak of disease, the amount of bovine premium claimed/paid in comparison to previous years, other significant changes and the results of checks conducted in earlier years (e.g. the proper keeping of herd registers and passports).

⁽⁴⁾ Commission Regulation (EC) No 494/98 of 27 February 1998 (OJ L 60, 28.2.1998) laying down detailed rules for the implementation of Council Regulation (EC) No 820/1997 as regards the application of minimum administrative sanctions in the framework of the system for the identification and registration of bovine animals.

⁽⁵⁾ Even if a farmer has no arable crops, he must declare his forage areas to be eligible for the animal aids (exemption rules apply for small farms only).

25. The efficiency of the manual administrative checks is directly dependent on the quality of the human resources available and the procedures applied. With regard to automated checks, the efficiency depends on the quality of the basic data (alphanumerical system of identification of parcels and bovine animals), on the amount of information made available in the applications and the level of development of the computer programs.

26. As far as areas are concerned, the main automated checks are eligibility checks on the parcels, checks to ensure they actually exist, checks on the surface area and checks to ensure there are no duplications, i.e. verifying that the same area does not appear in more than one application. Checks on the eligibility of the parcels consist, among other things, in verifying that the parcels for which applications for payment are submitted are areas which, on 31 December 1991, were not under permanent pasture, permanent crops (i.e. crops which do not have to be planted each year), forest or non-agricultural uses ⁽¹⁾.

27. For bovine animals, the main automated checks are eligibility checks on the animal (age, sex, breed in the case of suckler cows, the existence of the number allocated) and checks to ensure there is no unjustified duplication, i.e. ensuring that an animal does not benefit from the same aid several times or from different forms of aid.

28. Since the end of the transitional period it should be impossible for payment to be made against an application before it has passed through all the computer filters and before any anomalies have been resolved. It is also important that Member States register anomalies found during previous administrative controls and field inspections to make sure that errors identified in the preceding years are not repeated ⁽²⁾.

Field inspections

29. The main role of field inspections is to check that statements made by the farmers in their aid applications tally with reality. Field inspections must cover at least 5 % of 'area' aid applications and 10 % of 'livestock' aid applications ⁽³⁾. Selection for inspection should be on the basis of a risk analysis together with an element of representativeness of the aid applications submitted ⁽⁴⁾. The rate of control should be increased if on-the-spot checks reveal significant irregularities in a region or part of a region. Inspections should be unannounced and cover all the agricultural parcels and animals covered by one or more applications ⁽⁵⁾. See *Illustration 5* for the rate of inspection for each aid scheme in the Member States for 1998.

30. Physical or traditional field inspections of area aid applications can be replaced by remote sensing. In this case Member States interpret satellite images or aerial photographs in order to recognise the crop and measure the area. Traditional field inspections should be carried out if the remote sensing identifies potential inaccuracies in the claims.

31. The quality of the field inspections is directly dependent on the quality of the risk analysis, the quality of the controllers, the scope of the checks carried out and the measuring technique applied (in the case of the agricultural parcels).

⁽¹⁾ Council Regulation (EEC) No 1765/92 of 30 June 1992 establishing a support system for producers of certain arable crops, Article 9, first paragraph.

⁽²⁾ For example, land declared as arable land by a producer, which was found on inspection to be permanent forage area, or even building land or lakes — these parcels will not be eligible in future and should therefore be included in a database allowing an efficient cross-check for future claims.

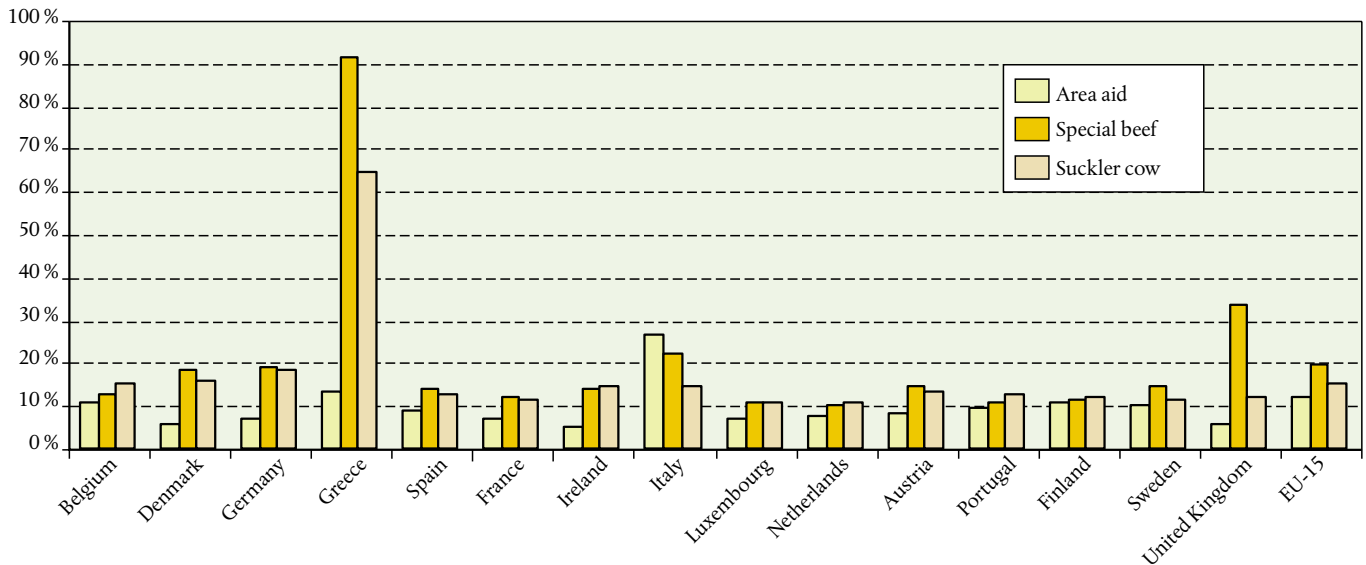
⁽³⁾ According to Article 6(3a) (applicable from 1 January 2000) of Regulation (EEC) No 3887/92, Member States can decide to reduce the rate of inspection from 10 % to 5 % where a fully operational computerised database in accordance with Article 5 of Regulation (EC) No 820/97 has been in place for at least one year.

⁽⁴⁾ The risk analysis should take into account the amount of aid involved, the number of parcels or animals, changes from the previous year, the findings of checks made in the past, other factors to be defined by the Member State and infringements of Regulation (EC) No 820/97 (for bovine animals).

⁽⁵⁾ Regarding the inspection of agricultural parcels, a sample should be measured in accordance with the tolerances set by the Member State and their eligibility should be checked. As far as bovine animals are concerned, before 1999 no document existed explaining the scope of the controls to be carried out. As from 1999, the Commission's implementing Regulation was completed. Thus, the on-the-spot checks of livestock aid applications should include a check of the total number of animals present on the holding, a check of the register to ensure that all the animals for which aid applications were submitted in the prior 12 months have been kept during the retention period(s), a sample check of the register against supporting documents, such as invoices, veterinary certificates, etc., a check of all bovine animals, and their identification by eartags, passports and on the register.

Illustration 5

Inspection rates in 1998



NB: Greece increased its inspection rate for bovine premiums in an attempt to compensate for serious weaknesses in the other elements of IACS.

Source: Basic data obtained from Commission DG AGRI (IACS statistics for 1998).

Sanctions

32. If the aid applications are submitted late, sanctions should be imposed. If discrepancies are noted during an administrative or an on-the-spot control, the Regulations stipulate that either a simple amendment shall be made to the application, if the discrepancy is below a certain threshold, or sanctions shall be imposed according to a graduated scale if the discrepancy exceeds this threshold (see the *Annex*). The rules for sanctions for bovine animals were changed significantly in 1999, with the introduction of sanctions for animals not actually claimed for premium, and by increasing the scope of sanctions to include claims for which premium was granted in the previous 12 months ⁽¹⁾. In addition, if a control reveals that aid has been paid without justification over one or more of the previous years, the amounts must be recovered retroactively ⁽²⁾ with effect from the first false declaration.

THE ROLE OF THE COMMISSION

Introduction

33. The Commission's main role is to ensure that Member States correctly implement IACS Regulations, and to propose changes to the Regulations where appropriate. This involves interpreting

the Regulations and providing guidance to Member States; gathering information on how IACS is implemented by the Member States; evaluating and enforcing the implementation of IACS by the Member States.

General organisational background

The Agriculture Directorate-General (DG AGRI)

34. Between 1993 and 1996, when Member States were required to reach full implementation of IACS, the monitoring of implementation of IACS was carried out by a specific unit of DG AGRI assisted by the Clearance-of-Accounts Directorate. Since 1997, this task has been given to the Clearance-of-Accounts Directorate. Responsibility for technical aspects dealing with remote-sensing and electronic identification systems was transferred to the Joint Research Centre in ISPRA (Institute for Systems, Informatics and Safety).

35. The market sections of DG AGRI for beef and veal and cereals are also indirectly involved in the implementation of IACS because they are consulted on regulatory changes and provide assistance on the interpretation of market-specific regulations which have a direct influence on the operation of IACS. An IACS Expert Committee, composed of representatives of the Member States and the Commission, meets two or three times a year.

⁽¹⁾ Commission Regulation (EC) No 1678/98 of 29 July 1998 (OJ L 212, 30.7.1998, p. 23).

⁽²⁾ Commission working document, Doc. VI/629/98.

The main role of the Committee is to discuss changes to IACS Regulations.

The Health and Consumer Protection Directorate-General (DG SANCO)

36. Following the BSE crisis, responsibility for veterinary measures was transferred to DG SANCO in 1997. Detailed bovine identification and registration rules were introduced (see paragraphs 16 to 19). IACS Regulations require these rules to be complied with as a condition of eligibility for animal premiums, and there are many cross references and similarities between the two sets of Regulations. For example, it is a regulatory requirement that errors found on bovine identification and registration inspections carried out by national veterinary services should be notified to the authorities responsible for IACS inspections, and vice versa.

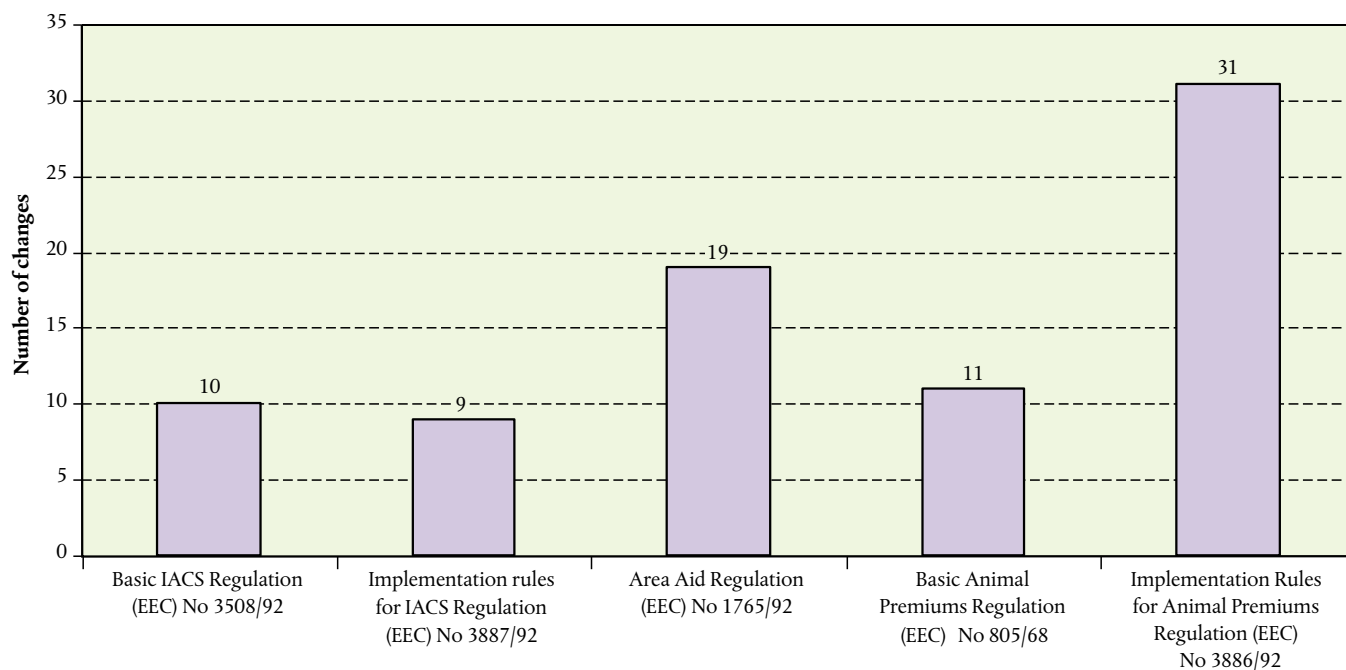
Guidance by the Commission and regulatory issues

37. IACS and market Regulations are by their nature complicated and are not precise enough to explain in detail all eventualities relating to their interpretation. The Commission therefore provides Member States with interpretations of the Regulations, and occasionally with more general guidance and recommendations ⁽¹⁾.

38. The Regulations have been amended many times to reflect increases in the scope of IACS, changes to the provisions of the aid schemes which it controls and changes to the control system itself. All these changes complicate the work of those dealing with IACS (farmers and the national administrations, including information system developers and inspectors). *Illustration 6* shows that the main Regulations were modified 80 times between 1992 and 1999.

Illustration 6

Changes to the Regulations between 1992 and 1999



Source: The EU CELEX database.

⁽¹⁾ The Clearance-of-Accounts Directorate issues interpretations of IACS Regulations. The market sections issue interpretations relating to the specific animal and area aid schemes. Most requests for interpretation follow changes in the Regulations. A register of interpretations is kept by DG AGRI-B-1. Recently-issued interpretations have been periodically grouped together and distributed to all Member States at IACS expert group, and at the EAGGF Committee.

Management information

39. In order to monitor the effective implementation of IACS by the Member States, the Commission needs relevant and reliable information on a timely basis from Member States, covering such subjects as aid application statistics, administrative and on-the-spot control statistics, and reports on progress with implementation. Such information enables the Commission to better target missions to Member States, and is essential for budgetary and market management. Apart from its discussions at IACS Expert Committee and information obtained while undertaking audit visits, the main information the Commission receives from the Member States is:

- (a) information on measures taken to implement IACS ⁽¹⁾. This was intended to provide the Commission with up-to-date information on the national measures taken to implement IACS;
- (b) statistics for bovine premiums ⁽²⁾ and areas declared ⁽³⁾;
- (c) non-regulatory statistics on aid applications, administrative and on-the-spot controls, for area aid and animal premium schemes, called IACS statistics (these have become obligatory from 2000 ⁽⁴⁾);
- (d) annual reports by certifying bodies on paying agencies which should be submitted to the Commission by 10 February of the following year ⁽⁵⁾;
- (e) reports on inspections relating to bovine identification and registration ⁽⁶⁾: the first report was due for 1 July 1999.

⁽¹⁾ Article 18 of Commission Regulation (EEC) No 3887/92.

⁽²⁾ Annex V to Commission Regulation (EEC) No 3886/92 (as amended).

⁽³⁾ Annex VIII to Commission Regulation (EC) No 658/96 of 9 June 1996 (OJ L 91, 12.4.1996, p. 46).

⁽⁴⁾ Article 17 of Regulation (EEC) No 3887/92 as last modified by Regulation (EC) No 2801/1999.

⁽⁵⁾ Commission Regulation (EC) No 1663/95 of 7 July 1995 laying down detailed rules for the application of Council Regulation (EEC) No 729/70 regarding the procedure for the clearance of accounts of EAGGF Guarantee Section (OJ L 158, 8.7.1995, p. 6).

⁽⁶⁾ Commission Regulation (EC) No 2630/97 of 29 December 1997 laying down detailed rules for the implementation of Council Regulation (EC) No 820/97 as regards the minimum level of controls to be carried out in the framework of the system for the identification and registration of bovine animals (OJ L 354, 30.12.1997, p. 23). Article 5 requires Member States to make annual reports to the Commission. DG SANCO receives these reports.

Evaluation of IACS and enforcing implementation

40. The main tool used by the Clearance-of-Accounts Directorate to evaluate and enforce the implementation of IACS consists of inspections in Member States and the imposition of sanctions as part of the clearance-of-accounts procedure when risks to the EAGGF are identified. Under the reformed clearance of accounts procedure, (as evaluated by the Court in Special Report No 22/2000 ⁽⁷⁾) sanctions can be applied retrospectively for a maximum of two years preceding written notification to the Member State concerned.

Main findings at Commission level

General organisational background

The Agriculture Directorate-General (DG AGRI)

41. While the Clearance-of-Accounts Directorate has overall responsibility for IACS, other Commission services are also involved (see paragraphs 35 and 36). Certain problems found by the Court might not have arisen if coordination between the services had been more effective (see paragraph 42(c)) relating to the inspection of animal databases, and paragraph 67 relating to over-shoot of beef premium ceilings).

The Health and Consumer Protection Directorate-General (DG SANCO)

42. The cross references and similarities between IACS Regulations and the bovine identification and registration Regulations are logical. However, there are problems with the implementation:

- (a) there was no systematic monitoring, at the Commission, of coordination at Member State level of bovine identification and registration, and IACS inspections. For example, the Commission was not sure of the extent to which the veterinary authorities inform IACS authorities of relevant problems found on inspection, and vice versa;

⁽⁷⁾ Special Report No 22/2000: Evaluation of the reformed clearance-of-accounts procedure (OJ C 69, 2.3.2001).

- (b) although the deadline for implementation of the bovine identification and registration database was 1 January 2000, eight Member States did not have databases which had been approved as fully operational on that date (Germany, Greece, Spain, France, Ireland, Italy, Portugal and the United Kingdom excluding Northern Ireland) ⁽¹⁾;
- (c) the bovine identification and registration database approval process by DG SANCO is not adequate. Approval is based on a short visit to the Member State concerned, during which no detailed system testing is carried out. At present the Commission has no formal monitoring programme to check whether approved databases remain fully operational and comply with the terms of approval. Specifically, a programme of missions to the Member States had not been established by July 2000, although the Commission had started approving the Member States' databases in April 1999;
- (d) a database may be considered fully operational and approved under the bovine identification and registration regulations, leading to a reduced rate of inspection of 5 %, while at the same time it may not be considered by the Clearance-of-Accounts Directorate as fully operational under IACS Regulations, thus requiring a higher inspection rate of 10 % ⁽²⁾.

Guidance by the Commission and regulatory issues

Guidance by the Commission

43. The Clearance-of-Accounts Directorate is responsible for control and audit of expenditure and for imposing financial sanctions on Member States in the context of the clearance-of-accounts procedure. It is also responsible for the management and administration of IACS, organising changes to the Regulations and issuing guidance to Member States. However, relatively few resources have been allocated to this latter role and by concentrating on assessing the performance of Member States in the context of the clearance-of-accounts procedure, insufficient attention has been given by the Commission services to the role of setting IACS policy and guiding Member States in its implementation.

⁽¹⁾ For the other Member States (Belgium, Denmark, Luxembourg, the Netherlands, Austria, Finland, Sweden and the region of Northern Ireland of the United Kingdom), the operational character of the national database for bovine animals has been recognised.

⁽²⁾ In the case of Luxembourg, while the bovine identification and registration database was approved as being fully operational on 19 May 1999, the auditors noted that, following a visit in May 2000, the Clearance-of-Accounts Directorate doubted whether the database complied with the conditions of approval.

44. Even in areas where the Commission has issued a number of interpretations and recommendations, there are still different practices in the Member States. For example:

- (a) the tolerances used in measuring areas during on-the-spot inspections - a key factor in determining whether to impose sanctions or not (see *Table 3*). This problem has already been referred to by the Court in its 1999 Annual Report ⁽³⁾. The Commission revised its guidelines by introducing maximum allowed technical tolerances with effect from 2000 ⁽⁴⁾;
- (b) the interpretation of cases of 'obvious error' ⁽⁵⁾ — where a discrepancy in an aid application is deemed to be an obvious error, the Member State authority may correct it without imposing any sanctions on the applicant;
- (c) the imposition of retroactive sanctions.

45. The Court's audit found areas where interpretations and recommendations by the Commission were needed, such as:

- (a) the admissibility of customary standards used by Member States to measure cultivated areas ⁽⁶⁾. This problem was referred to by the Court in its 1999 Annual Report ⁽³⁾. The Commission dealt with the problem in 2000 ⁽⁷⁾;
- (b) the definition of areas eligible for set-aside ⁽⁸⁾. The Commission abolished this eligibility criterion with effect from the 2001/02 marketing year;

⁽³⁾ Paragraphs 2.36 and 2.37 of the Court of Auditors Annual Report concerning the financial year 1999 (OJ C 342, 1.12.2000).

⁽⁴⁾ Doc. VI/8388/94 rev. 6, 17.12.1999.

⁽⁵⁾ The Commission has issued several guidelines to Member States on what constitutes an obvious error. Doc. VI/646/96 of 27 February 1996 applied for 1998 aid applications, and included such cases as incomplete information, errors in addition, a parcel listed twice in the same application, and reversal of identification numbers.

⁽⁶⁾ Article 6(7) of Commission Regulation (EEC) No 3887/92 (as amended) provides that the total area of an agricultural parcel may be taken into account provided that it is fully utilised according to the customary standards of the Member State or region concerned, and that in other cases the area actually utilised shall be taken into account.

⁽⁷⁾ Commission Regulation (EC) No 2721/2000 of 13 December 2000 (OJ L 314, 14.12.2000, p. 8), amending Article 6(7) of Regulation (EEC) No 3887/92.

⁽⁸⁾ Court Case C-372/98 of 12 October 2000 on whether the United Kingdom has interpreted too restrictively the requirement under Article 2 of Regulation (EC) No 762/94 that, in order to be eligible for set-aside, a harvested crop must have been planted in the previous campaign. The United Kingdom had interpreted this as meaning that grass silage was not eligible, whereas other Member States, and the Commission services, treated such land as eligible.

Table 3

Measuring methods and technical tolerances for classical field inspections applied in 1998 in the six Member States visited

Member State Region	GPS ⁽¹⁾		Total station	Wing compass	Wheel	Tape	Topofil	Planimeter	Pacing
	Differential (code)	Geodetic (phase)							
<i>Germany</i>									
Bavaria									
0-0,49 ha	10 %	—	1 %	—	10 %	10 %	—	10 %	—
0,5– 1,99 ha	5 % (mini 0,05 ha)	—	1 %	—	5 % (mini 0,05 ha)	5 % (mini 0,05 ha)	—	5 % (mini 0,05 ha)	—
2,0– 4,99 ha	3 % (mini 0,10 ha)	—	1 %	—	3 % (mini 0,10 ha)	3 % (mini 0,10 ha)	—	3 % (mini 0,10 ha)	—
5,0– 19,99 ha	2 %	—	1 %	—	3 %	3 %	—	3 %	—
> 20,0 ha	1 %	—	1 %	—	3 %	3 %	—	2 %	—
Baden-Württemberg	—	—	variable	—	3 %	3 %	—	—	—
Berlin	—	—	—	3 %	—	3 %	—	—	—
Brandenburg	maxi 12 %	—	—	3 %	—	3 %	—	—	—
Bremen	1 %	1 %	—	—	3 %	—	—	—	—
Hamburg	—	—	—	—	—	3 %	—	—	—
Hessen	—	—	1 %	—	—	3 %	—	—	—
Mecklenburg- Western Pomerania	—	1 %	—	3 %	3 %	3 %	—	—	—
Lower Saxony	maxi 12 %	—	—	3 %	3 %	3 %	—	—	—
North Rhine- Westphalia	3 %	—	—	3 %	—	3 %	—	3 %	—
Rheinland-Pfalz			1 %	—	3 %	3 %	—	—	—
	< 5 ha: 5 % > 5 ha: 1 %	< 0,5 ha: 2 % 0,5 – 20 ha: 1 % > 20 ha: 0,5 %						< 1 ha: 10 % 1-5 ha: 5 % > 5 ha: 2 %	
Saarland	3 %	—	—	3 %	3 %	3 %	—	—	—
Saxony	maxi 12 %	—	1 %	3 %	3 %	3 %	—	3 %	—
Saxony-Anhalt	1 %	1 %	1 %	—	3 %	3 %	—	2 %	—
Schleswig-Holstein	0 %	0 %	0 %	0 %	0 %	0 %	—	0 %	—
Thuringia	maxi 12 %	—	—	3 %	3 %	3 %	—	2 %	—
<i>Spain</i>									
< 0,5 ha	10 %	10 %	(²)	—	—	10 %	10 %	10 %	—
0,5 – 1 ha	8 %	8 %	(²)	—	—	8 %	8 %	8 %	—
1-3 ha	6 %	6 %	(²)	—	—	6 %	6 %	6 %	—
3-6 ha	4 %	4 %	(²)	—	—	4 %	4 %	4 %	—
6-15 ha	3 %	3 %	(²)	—	—	3 %	3 %	3 %	—
15-25 ha	2,5 %	2,5 %	(²)	—	—	2,5 %	2,5 %	2,5 %	—
> 25 ha	2 %	2 %	(²)	—	—	2 %	2 %	2 %	—
<i>France</i>	1 metre around the parcel	—	—	—	—	—	< 5ha: 5 % > 5ha: 3 %	—	—
<i>Ireland</i>	1 %	—	—	—	5 %	5 %	—	5 %	—
<i>Portugal</i>	—	< 5ha: 5 % 5-25 ha: 3 % > 25 ha: 2 %	—	—	—	—	—	—	—
<i>United Kingdom</i>									
England	2 %	2 %	—	—	4 %	—	—	—	—
Northern Ireland	2 %	2 %	—	—	4 %	—	—	—	—
Scotland	2 %	2 %	—	—	4 %	—	—	—	allowed
Wales	2 %	2 %	—	—	4 %	—	—	—	—

⁽¹⁾ GPS = Global positioning system.⁽²⁾ Tolerance of the equipment.

Source: Member States documentation.

(c) the calculation of density factors where the Commission still needs to issue an interpretation. The rules are complicated and many different practices were found in the Member States visited.

46. In other areas, even if the Regulations are sufficiently clear, practices in Member States differ. The Commission should continue to ensure correct implementation by Member States and, when appropriate, act through the clearance-of-accounts procedure, in cases such as:

- (a) sanctions imposed on the main bovine premiums in Portugal are not reflected in reduced extensification premiums;
- (b) the lack of national cross-checking of suckler cow premium applications to detect unjustified claims (Spain, France, United Kingdom);
- (c) the minimum number of agricultural parcels or animals to control during an on-the-spot visit.

47. Regarding the movements of bovine animals between Member States, the Commission has not taken adequate measures to assure that the Member States cooperate under Article 15 of Regulation (EEC) No 3887/92 (see paragraph 71(b)).

Regulatory issues

48. One of the main regulatory conditions for eligibility for area aid is that land was used for arable farming at 31 December 1991⁽¹⁾. Even for the three Member States joining the EU in 1995, this condition is applicable. However, compliance with such a condition involves very high costs, as there were no systems in place in the Member States at that time to allow this to be satisfactorily checked retroactively.

49. The rules for the setting-aside of agricultural land, one of the fundamental conditions for the granting of area aid, stipulated that, to be considered, the set-aside areas must have been cultivated by the applicant during the two years preceding the application⁽²⁾. This condition was difficult to check and lost its relevance

⁽¹⁾ Article 9 of Council Regulation (EEC) No 1765/92.

⁽²⁾ Article 3(4), first indent, of Commission Regulation (EC) No 762/94 of 6 April 1994 laying down detailed rules for the implementation of Council Regulation (EEC) No 1765/92 with regard to the set-aside scheme, (OJ L 90, 7.4.1994, p. 8).

after the abandonment, in 1996, of the compulsory rotation rule for set-aside. To carry out effective controls, the Member States would have had to have drawn up a special control programme. While Germany developed such a programme, Spain, France and Portugal did not.

50. In September 1998, in an attempt to simplify the Community rules, the 'two years' criterion was dropped but without indicating from which year this amendment would apply⁽³⁾. In November 1998, a new Regulation was issued which specified that the abolition of this criterion was to apply to areas set aside during the 1999/2000 and subsequent agricultural years⁽⁴⁾. Following this clarification, Germany retained this check for the 1998/99 agricultural year while Spain, France and Portugal did not consider it on account of the legal principle that stricter rules may not be applied retroactively.

51. Under the beef and veal Market Regulations⁽⁵⁾, suckler cow premiums are paid not on the basis of individual animals, but for the maintenance of a herd of a specific number of suckler cows. However IACS Regulations require detailed checks for all bovine animals, and not just at herd level (see paragraph 27). Spain, France and the United Kingdom do not make adequate cross-checks on individual suckler cows applied for, claiming that the Market Regulation provides aids for the herd and not for individual animals. However inadequate cross-checks increase the risk of overpayments.

52. In the case of area aid, the calculation of the rate of error after an on-the-spot check is carried out by dividing the discrepancy found by the total area declared and not by the area of the sample checked. This method minimises anomalies and thus reduces penalties. The impact of this method is all the greater in France, where the sample of parcels to be controlled was not systematically increased if anomalies were found. In 2000, the Commission introduced clear rules to increase the sample to be checked when errors are found⁽⁶⁾.

⁽³⁾ Commission Regulation (EC) No 1981/98 of 17 September 1998 amending Regulation (EC) No 762/94, (OJ L 256, 18.9.1998, p. 8).

⁽⁴⁾ Commission Regulation (EC) No 2490/98 of 18 November amending Regulation (EC) No 1981/98, (OJ L 309, 19.11.1998, p. 27).

⁽⁵⁾ Pre-Agenda 2000 reforms: Article 4(d) of Council Regulation (EEC) No 805/68 (as amended) of 27 June 1968 on the common organisation of the market in beef and veal (OJ L 148, 28.6.1968 p. 24); and post-Agenda 2000 reforms: Article 6 of Council Regulation (EC) No 1254/1999 of 17 May 1999 on the common organisation of the market in beef and veal (OJ L 160, 26.6.1999, p. 21).

⁽⁶⁾ Commission Regulation (EC) No 2801/1999 of 21 December 1999 (OJ L 340, 31.12.1999, p. 29).

53. Farmers can be excluded from area aid or animal aid schemes for two years if they intentionally make a false declaration (see the *Annex*). However area aid farmers may escape this sanction if they make an arrangement to include these areas in another farmer's aid application for the years concerned, as the agricultural parcels themselves are not blocked for payment. In doing so, farmers are at best attempting to circumvent IACS sanctions provisions, and are at worst attempting to defraud.

Management information

54. The extent and quality of the information provided by the Member States needs to be improved (see paragraph 39). The Commission should continue its efforts to improve and evaluate this information, to better manage the Member States' implementation of IACS. During the audit the Court found that:

- (a) the information on measures taken to implement IACS was neither systematically provided by the Member States, nor sought by the Commission. The Member States' obligations to provide information were reinforced by regulation from 2000 ⁽¹⁾;
- (b) the statistics on bovine premiums are used by the beef market section as part of its general review of the market situation, and to check that payments have not been made in excess of animal ceilings. However, they were not referred to by the Clearance-of-accounts Directorate, or cross-checked against the non-regulatory IACS statistics. A full review of the quota and premia paid for the claim years 1997 onwards is planned by the Commission as part of its annual plan for 2001;
- (c) IACS statistics relating to aid applications, administrative controls and inspections are a key tool for making analyses. These key statistics were provided on a non-regulatory basis only, and is a specific regulatory requirement from 2000 ⁽¹⁾. Member States are often slow in providing the statistics. For example, in June 2000 data on controls for bovine animals from Spain, Ireland and Italy for 1998 were still missing or incomplete. In addition, while the Commission regularly evaluated the area aid statistics in summary reports, there had been no such report on the animal premia since 1994;
- (d) the annual reports by the certifying bodies are required by legislation to give the information and assurances required under the clearance-of-accounts procedure, and are not specifically required to analyse IACS. Consequently the extent of informa-

tion in the reports about IACS varies ⁽²⁾, and an important potential source of management information about the implementation of IACS is lost. This has already been criticised several times by the Court. In its 1998 Annual Report ⁽³⁾, the Court pointed out that the certifying bodies do not systematically refer to the results of IACS inspections. In its Special Report No 22/2000 ⁽⁴⁾ on the reformed clearance-of-accounts procedure, the Court pointed out that certifying bodies did not adequately check the on-the-spot inspection process, nor analyse information on error rates and penalties applied as a result of IACS controls.

55. The audit found that there are very wide variations in the statistics reported by Member States, which makes them difficult to interpret. The extent of the variations is too great to be explained by different rates of inaccurate aid applications in the different Member States.

56. The main findings from an analysis of the 1998 statistics are:

- (a) the percentage of field inspections (in respect of both animal and area aids), that detect errors varies between over 80 % and practically 0 %, depending on the aid scheme and the Member State (see *Illustration 7*);
- (b) the percentage of aid applications which are found by administrative controls to have discrepancies varies between over 35 % to practically 0 %, depending on the aid scheme and the Member State (see *Illustration 8*);
- (c) regarding the results of field inspections for area aid, some countries report mostly minor errors and hardly any serious errors ⁽⁵⁾ (especially Ireland and the United Kingdom), and others report much more serious errors (especially Italy, Greece and Spain) with relatively few minor errors (see *Illustration 9*);
- (d) regarding the results of field inspections for animal premium inspections, some countries reported hardly any serious errors (especially Ireland, Portugal and Austria) while others reported many more (especially Italy, Greece, Spain and Germany) (see *Illustration 10*).

⁽²⁾ For example, the 1998 reports by certifying bodies from France give significant information on the operation of the systems relating to IACS, while the reports from the United Kingdom give relatively little.

⁽³⁾ Annual Report concerning the financial year 1998, paragraph 2.92 (OJ C 349, 3.12.1999).

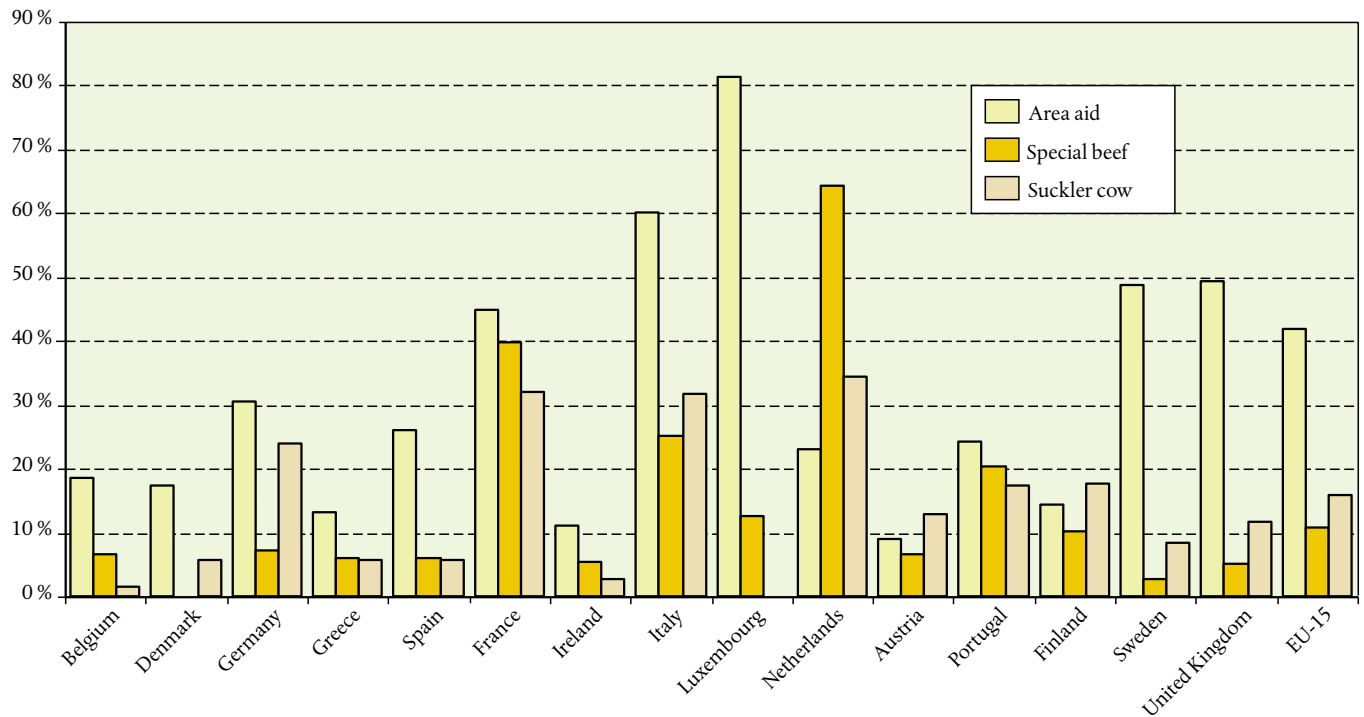
⁽⁴⁾ Special Report No 22/2000 on evaluation of the reformed clearance-of-accounts procedure (OJ C 69, 2.3.2001).

⁽⁵⁾ In this context a serious error is defined as an overdeclaration by more than 20 %, which has the effect of excluding the entire area claimed from aid.

⁽¹⁾ Article 17 of Commission Regulation (EC) No 2801/1999 of 21 December 1999 (OJ L 340, 31.12.1999, p. 29).

Illustration 7

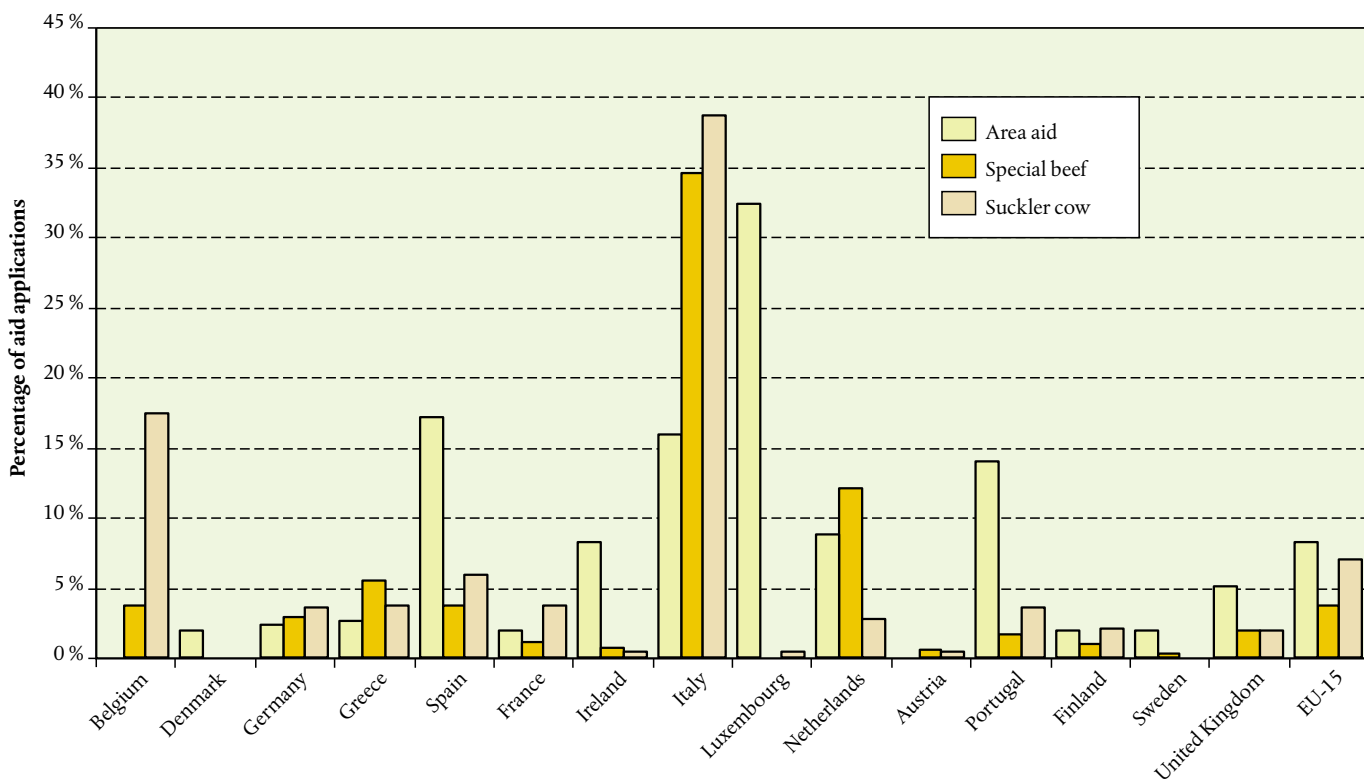
Percentage of inspections finding errors in 1998



Source: Basic data obtained from Commission DG AGRI (IACS statistics for 1998).

Illustration 8

Errors found by administrative controls in 1998

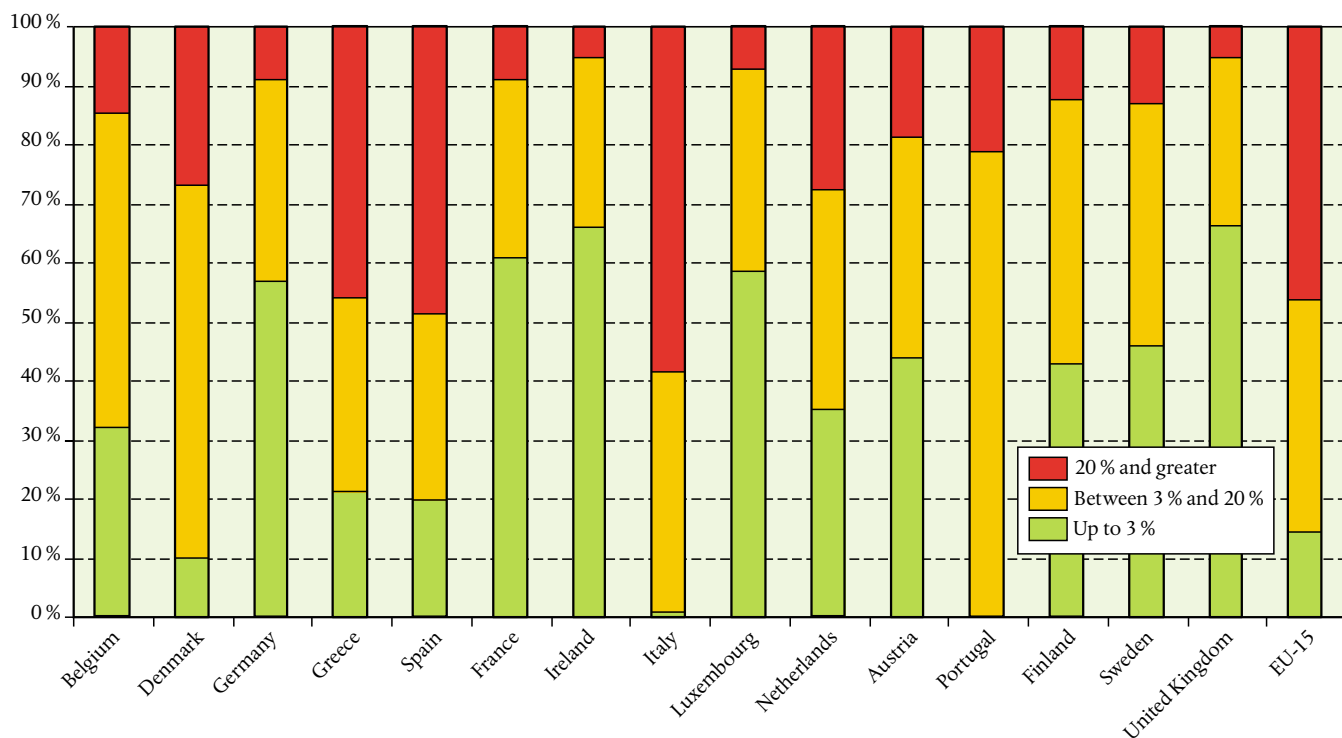


NB: Austria and Sweden did not provide all information for area aid and suckler cow applications, respectively.

Source: Basic data obtained from Commission DG AGRI (IACS statistics for 1998).

Illustration 9

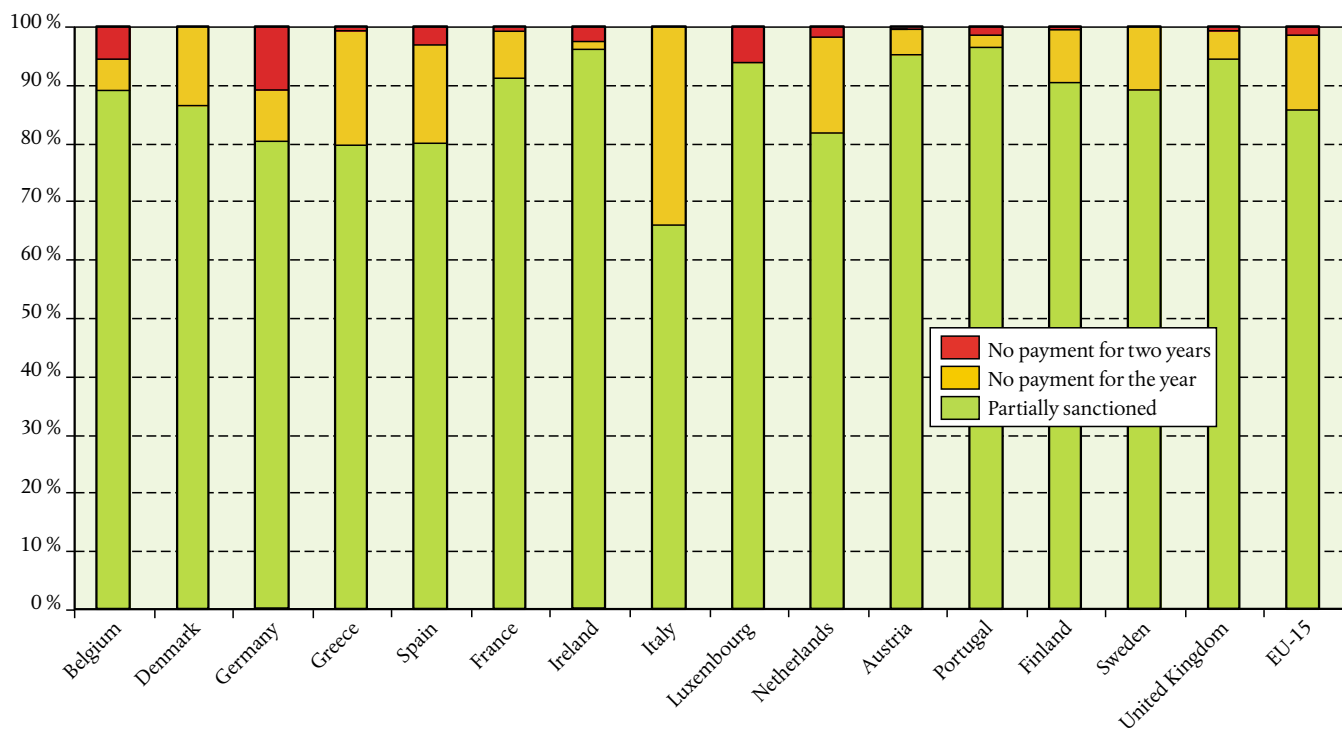
Types of errors found by area aid field inspections in 1998



Source: Basic data obtained from Commission DG AGRI (IACS statistics for 1998).

Illustration 10

Types of errors found by field inspections of bovine animals in 1998



NB: Italy did not provide information for applications excluded.

Source: Basic data obtained from Commission DG AGRI (IACS statistics for 1998).

57. The main findings from an analysis of the evolution of statistics about field inspections from 1997 to 1999 are:

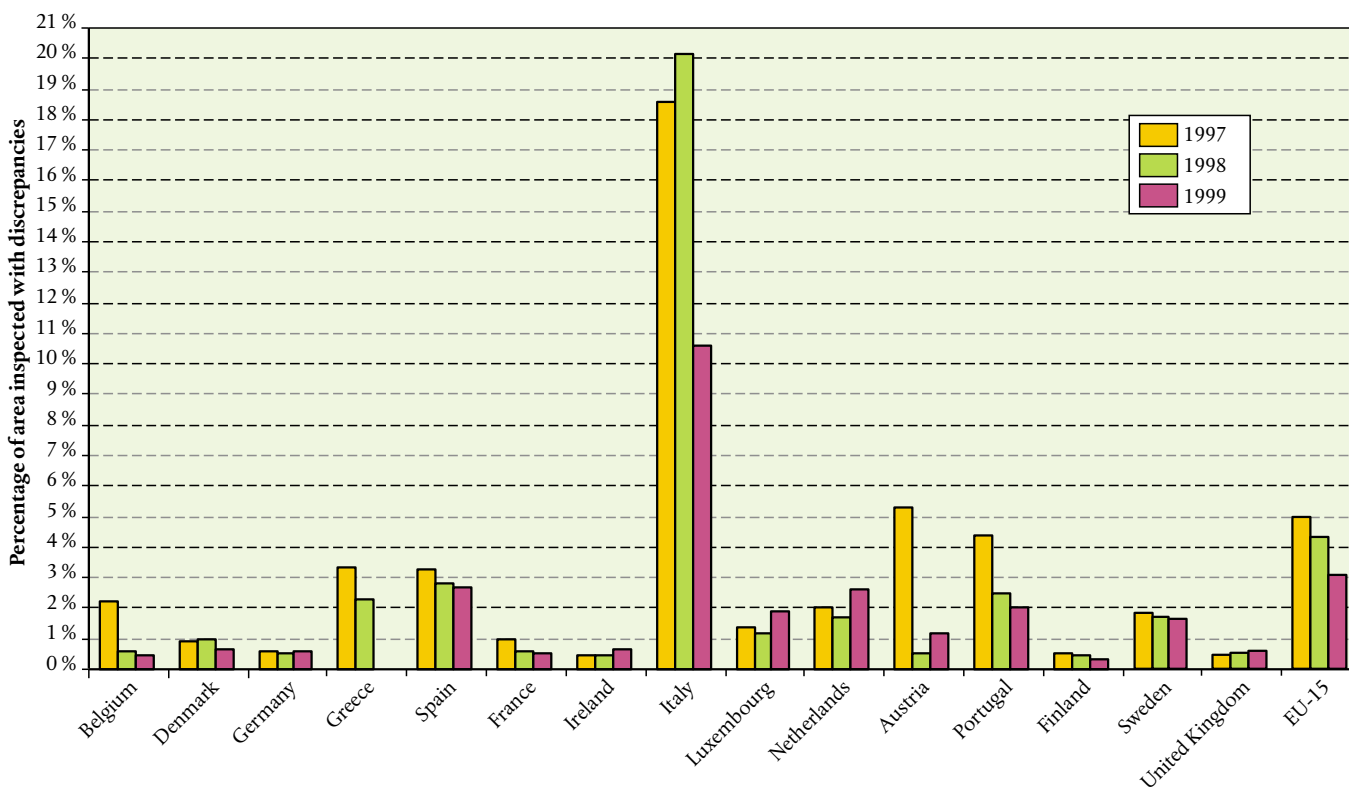
(a) regarding inspections of area aid, the rate of discrepancy found is low (except in Italy) and tends to decrease. In 1999, seven Member States had discrepancies of less than 1 % of the areas inspected (see *Illustration 11*). The average discrepancy rate

found on inspection, excluding Italy, was 1,3 % in 1998 and 1999;

(b) regarding inspections of bovine animals the statistics are incomplete and for some Member States incoherent. In most Member States who reported data the discrepancy rate is higher than 5 %. Some Member States have reported rates above 100 % — which underlines the inconsistency of the data (see *Illustrations 12 and 13*).

Illustration 11

Evolution of discrepancies in areas found with field inspections (%)

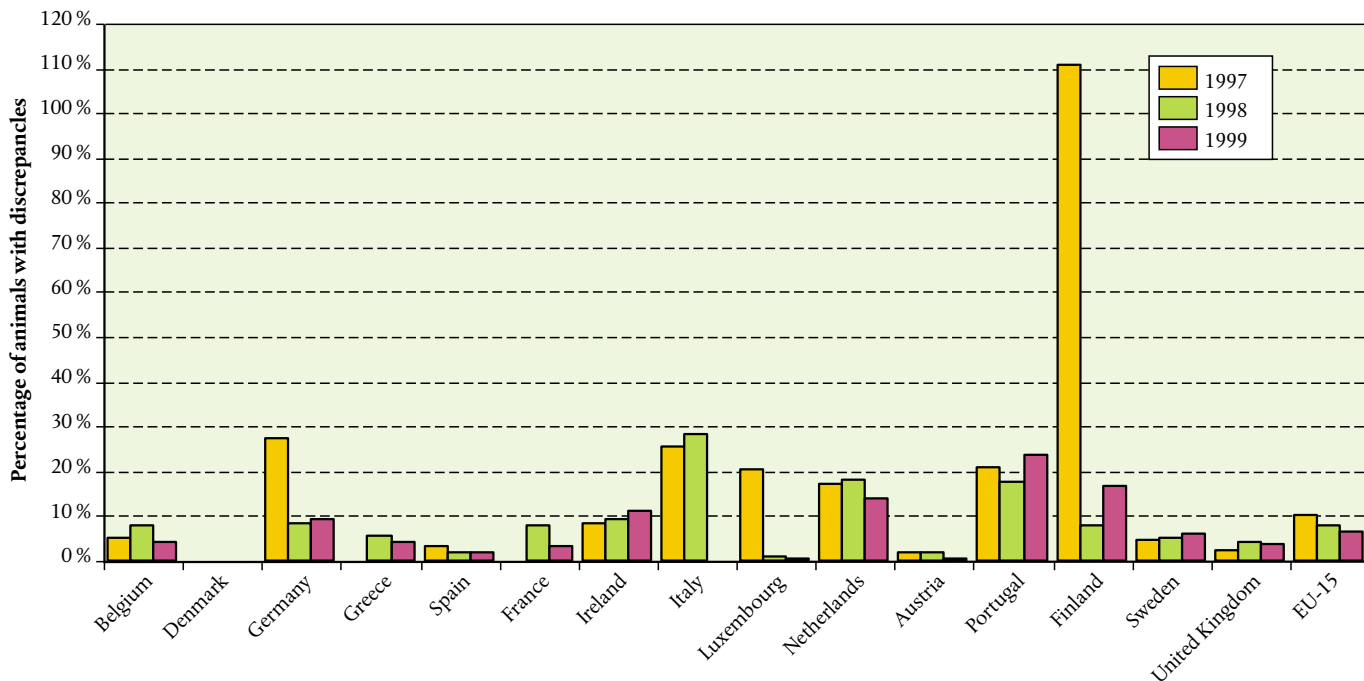


NB: Greece had not provided statistics for 1999 (by 1.2.2001).

Source: Court of Auditors review of the Commission's IACS statistics.

Illustration 12

Special Beef premium — Evolution of discrepancies found during field inspections (%)

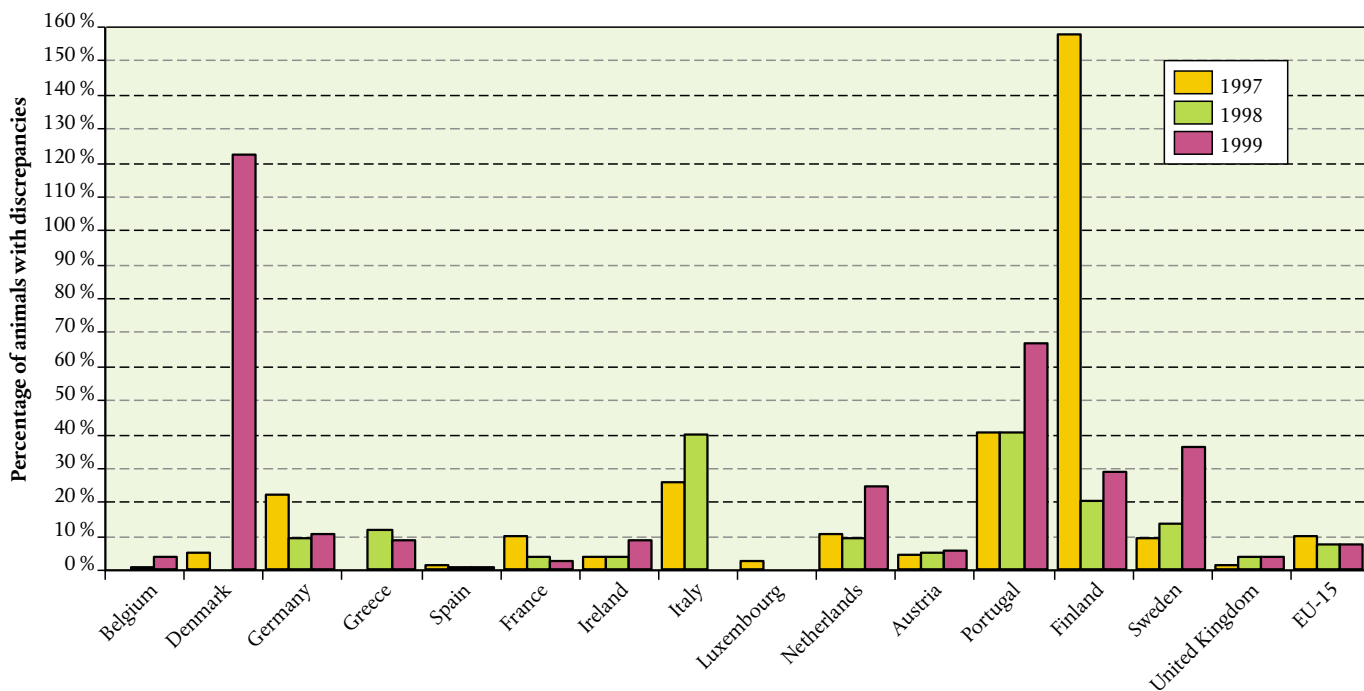


NB: Greece did not provide statistics for 1997 nor Italy for 1999. Denmark did not provide complete statistics for the three years nor France for 1997. Figures for Finland in 1997 are inconsistent as they show a percentage of discrepancy higher than 100%.

Source: Court of Auditors review of the Commission's IACS statistics.

Illustration 13

Suckler cow premium — Evolution of discrepancies found during field inspections (%)



NB: Greece did not provide statistics for 1997 nor Italy for 1999. Denmark did not provide complete statistics for 1998. Figures for Denmark in 1999 and for Finland in 1997 are inconsistent as they show a percentage of discrepancy higher than 100%.

Source: Court of Auditors review of the Commission's IACS statistics.

58. In conclusion, the evidence suggests that administrative controls and field inspections are being applied and reported differently in each Member State.

59. Furthermore, some of the information sought by the Commission from the Member States is not adapted to the specific requirements of the schemes. For example, IACS statistics do not include the slaughter option for the special beef premium scheme. In consequence, incorporating such figures leads to an incorrect analysis of the consolidated statistics.

60. Sound bovine identification and registration systems are needed for the control of bovine aid premiums and to trace animals and beef. However by June 2000, no reports on inspections relating to bovine identification and registration for 1998, i.e. the first year of operation, had been received from Germany, Greece, Ireland, Luxembourg, Austria and Sweden. Belgium sent the proposed structure of a report only. The content of the reports received varies greatly between Member States, making analysis of the state of implementation difficult ⁽¹⁾ (see also paragraph 42 for weaknesses related to bovine identification and registration).

Evaluation of IACS and enforcing implementation

61. Evaluation of the efficiency and effectiveness of IACS is particularly important as it is the principal means of control of most of expenditure under the CAP. The information which is collected is often either inaccurate, late, or non-comparable, which complicates such evaluations (see paragraphs 54 to 59).

62. Some information relevant to such an evaluation has not been sought, e.g. costs of administering IACS in the Member States or savings produced by IACS in terms of reductions made to incorrect aid applications. In its Special Report No 22/2000 ⁽²⁾, the Court pointed out that the Commission did not require paying agencies to quantify sanctions applied, so that the value of errors detected through IACS was not calculated.

⁽¹⁾ The Commission's Health and Consumer Protection Directorate-General was preparing, in July 2000, a Regulation to provide detailed guidance for Member States on the structure of this annual report.

⁽²⁾ Special Report No 22/2000 on the evaluation of the reformed clearance-of-accounts procedure (OJ C 69, 2.3.2001).

63. The information available was not systematically exploited in such an evaluation. Moreover, the implementation of IACS as such is not routinely reported on by the Commission. The last time the Commission produced a document evaluating the overall implementation of IACS was in July 1998, when it reported to Parliament in the context of the 1996 discharge procedure ⁽³⁾.

64. The reports produced following the Commission's missions to Member States for area aid and animal premium schemes as part of the clearance-of-accounts procedure do not systematically report on the implementation of all the elements of IACS, although key and ancillary control weaknesses are identified. *Table 4* summarises these weaknesses identified by the Commission in the Member States. Some reports may nevertheless include a general assessment of the state of implementation of IACS, and in this context the Commission's services have concluded that IACS has not been implemented in Greece, while it has been implemented in Austria, France, Germany, Ireland, Italy, Spain, and the United Kingdom. Nevertheless, weaknesses still exist in all Member States as can be seen from *Table 4*.

65. The Court's findings confirm, in part, those obtained by the Commission during its audits in the Member States (see *Table 5* and paragraphs 69 to 70). However, this is not always the case for various reasons, of which the main ones are:

- (a) the objectives of the checks in the Member States or regions visited were not the same. In 1998, the Commission concentrated mainly on the on-the-spot checks and the application of penalties, while the Court analysed the system in its entirety;
- (b) in Member States with decentralised databases, (in particular, Germany, Spain and the United Kingdom) some regions are only visited, every three or four years.

66. With regard to the latter point, the Commission decided not to undertake a detailed inspection of area aid in the Autonomous Community of Catalonia in 1998 and 1999. The Court's audit of October 1999 found, *inter alia*, that the Autonomous Community of Catalonia did not carry out any automated administrative controls for surface areas up to 1999, which is a key control weakness (see paragraph 70(b)). The Commission has taken immediate action to avoid loss to the EAGGF, as under the reformed clearance-of-accounts procedure, the Commission has a time limit of only 24 months to propose corrections. At least 1 million euro is estimated to be recoverable for 1997.

⁽³⁾ Report on the status of implementation of the integrated administration and control system in the Member States, Doc. VI/6467/98 of 6 July 1998.

Table 4

Summary of weaknesses identified by the Commission in the Member States regarding the year 1998 (mission reports from 1998 to June 2000)

	Area aid							Animal premiums							Other
	Respect of deadlines	Computerised databases	Identification system for parcels	Aid applications	Administrative controls	On-the-spot controls	Penalties	Respect of deadlines	Computerised databases	Identification and registration system for animals	Aid applications	Administrative controls	On-the-spot controls	Penalties	
Belgium	Key	No	No	No	No	Ancillary		No	Key	Key	No	No	Key	Key	No
Denmark						Key						Ancillary	Key		
Germany: national level										Ancillary		Ancillary	Ancillary	Ancillary	
Bavaria										Ancillary				Ancillary	
North Rhine-Westphalia						Key				Ancillary			Ancillary	Ancillary	
Schleswig-Holstein										Ancillary					
Mecklenburg-Western Pomerania						Key									
Greece	Key	Key	Key		Key	Key	Key	Key	Key	Key	Key	Key	Key	No	Key
Spain: national level			Ancillary		Key	Ancillary	Key	Key	Ancillary	Key	No	Key	Ancillary	Key	Key
Andalucia					Ancillary	Ancillary	Key			Ancillary	Key	Ancillary	Key		
Aragon					Key	Ancillary									
Cantabria															Key
Castile-Leon			Key			Ancillary	Key								
Castile-La Mancha					Key										
Cataluna			Ancillary		Key	Key	Key	Key	Ancillary	Key	Key	Key	Key	Key	Key
Galicia															Key
Rioja			Ancillary			Key	Key								
France					Ancillary	Key			No	Ancillary	Ancillary	Ancillary	Ancillary	Key	Key
Ireland						Ancillary			Key	No		Ancillary	Ancillary		Key
Italy	Key		Key			Key	Key		Ancillary	Key		Ancillary	Key	Key	Key
Luxembourg									Key	Key	Key	Key	Key	Key	
Netherlands						Ancillary			Ancillary	Key	Ancillary	No	Ancillary	Ancillary	Key
Austria							Ancillary			No					
Portugal	Key	Key	Key	Key		Key	Key	Key	Key	Key	Ancillary	Ancillary	Key	Ancillary	Key
Finland						Key									Ancillary
Sweden						Key	Key								Ancillary
UK: England and Northern Ireland			Ancillary			Ancillary									Key
Scotland	Key		Key		Key	Key	Key								Key

NB: 'Key' and 'ancillary' control weaknesses are defined according to the Commission's guidelines for imposing penalties under the clearance-of-accounts procedure, except that controls over duplicate payments, and the correct application of penalties, are treated in this table as 'key' controls.

Key	Key control weakness identified
Ancillary	Ancillary control weakness identified
No	No control weaknesses identified
Area not examined	Area not examined

Source: Court of Auditors review of Commission mission reports to Member States.

Table 5

Summary of weaknesses identified by the Court of Auditors in the Member States visited (for 1998 applications — mainly budget 1999)

Member States and regions	Area aid						Animal premiums						Other
	Computerised databases and integrated control system	Identification system for parcels	Aid applications	Administrative controls	On-the-spot controls	Penalties	Computerised databases and integrated control system	Identification and registration system for animals	Aid applications	Administrative controls	On-the-spot controls	Penalties	
Germany: central level	Yellow	Green	White	Yellow	Yellow	White	Yellow	Yellow	White	Yellow	Yellow	White	Yellow
region of Bavaria	Green	White	White	White	Yellow	Green	White	White	Green	Yellow	Yellow	White	Yellow
region of Lower Saxony	Green	White	Green	White	Yellow	Green	White	White	Green	Yellow	Yellow	White	Yellow
Spain: central level	Yellow	Yellow	White	Yellow	Yellow	White	Yellow	Yellow	Red	Yellow	Yellow	Red	Yellow
region of Catalonia	Yellow	White	Yellow	Red	Red	Yellow	White	White	Yellow	Green	Yellow	White	Green
region of Navarre	Green	White	Yellow	Green	Yellow	Yellow	Green	White	Yellow	Yellow	Yellow	White	Yellow
France	Yellow	Green	White	Yellow	Red	Yellow	Green	Green	White	Yellow	Yellow	White	Yellow
Ireland	Yellow	Green	White	Yellow	Yellow	Green	Yellow	Green	White	Green	Yellow	White	Green
Portugal	Green	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow	Red	Yellow	Yellow	Red	Yellow
United Kingdom: central level	Yellow	White	White	Yellow	White	White	Yellow	White	White	White	White	White	Green
region of Scotland	Green	Yellow	Green	White	Yellow	Green	Yellow	Green	Red	Yellow	Yellow	Green	Green
region of Wales	Green	Green	Green	Green	Green	Green	Yellow	Yellow	Red	Yellow	Yellow	Green	Green

White	Not applicable at this level
Green	Good — functioning without problems
Yellow	Average — functioning with some problems
Red	Poor — not functioning at an acceptable level

Source: Court of Auditors.

Other findings

67. With regard to area aid, Member States' calculations of overshoots of base areas are checked at Commission level by the Market and the Clearance-of-Accounts Directorates. These checks were criticised by the Court in its 1996 Annual Report ⁽¹⁾ and the Commission took action to strengthen the information provided by the Member States, allowing better controls. From 2000 ⁽²⁾, the Commission again improved the procedures to be used by the Member States to calculate the overshoots. This procedure, even though not yet guaranteeing 100 % accuracy, can be contrasted with special beef premium ceilings, where there is no similar framework to declare and control the overshoot (see paragraph 54(b)). There is therefore a risk that incorrect calculation of an overshoot by a Member State would go unnoticed by the Commission, leading to overpayments. The Court has identified risk of such errors in Spain, France and Portugal.

THE ROLE OF THE MEMBER STATES

68. Member States are responsible for setting up IACS ⁽³⁾. All management of aid applications, including computer systems and databases, is located at Member State level. During the transitional stage, the Commission could request changes to the Member States' measures for implementing IACS ⁽⁴⁾. Since 1997, the Commission's interventions have been more limited (see paragraph 34).

Main findings at Member State level

69. During the audit of 1998 aid applications in the six Member States the Court found that, two years after the deadline for its introduction, not all features of IACS were fully in place in all Member States: numerous weaknesses were found and considerable delays had occurred. Table 5 offers a concise overview of the situation encountered, with an evaluation according to three categories: good, average and poor.

⁽¹⁾ Paragraph 3.73 of Annual Report 1996 (OJ C 348, 18.11.1997).

⁽²⁾ Commission Regulation (EC) No 2316/1999 (OJ L 280, 30.10.1999, p. 43).

⁽³⁾ Council Regulation (EEC) No 3508/92, Article 1.

⁽⁴⁾ Commission Regulation (EEC) No 3887/92, Article 17, final paragraph.

70. As indicated on this table, the audit found that:

- (a) only in Germany and Ireland were there no major weaknesses in respect of the implementation of IACS in 1998;
- (b) in Spain, the level of development varied greatly between the Autonomous Community of Navarre, which had no major weaknesses, and the Autonomous Community of Catalonia, where, in particular, there were no cross-checks on the parcels. In addition, the national instructions sometimes did not comply with the Community Regulation. In particular, penalties were not imposed in respect of anomalies discovered during administrative checks on bovine premiums. Furthermore, the national cross-checks on bovine animals were very incomplete;
- (c) in France, there were weaknesses in the quality of the on-the-spot checks for area aid applications, mainly as a result of the fact that the checks were largely carried out by temporary staff working alone and receiving a fixed sum for every application checked. Furthermore, where administrative controls or field inspections revealed anomalies relating to previous years, retroactive sanctions were not applied;
- (d) in Portugal, the cross-checks on animals were far from complete (lack of verification of several eligibility criteria, e.g. existence of eartag number allocated; no cross-checking between the payment file for male bovine animals and the payment file for suckler cows ⁽⁵⁾) and the penalties were applied inconsistently;
- (e) in the United Kingdom (Scotland and Wales) cross-checks on the animals were incomplete, in particular in respect of suckler cows, for which a national cross-check was not carried out.

71. Furthermore, the audit revealed that:

- (a) where fraud is suspected, and after the application of sanctions provided for in IACS Regulations, the case could be prosecuted in the national courts. Practices for treating these situations differed widely within and between Member States. Many cases were prosecuted in Germany (*Länder* of Bavaria and Lower Saxony), while the other Member States visited did not exclude many cases from aid for the following year, and sent very few cases for prosecution. This means that farmers are not treated in the same way throughout the EU. Where few cases are prosecuted, an important dissuasive tool is lost;

⁽⁵⁾ In the absence of such a cross-check between premium payments for male bovine animals and suckler cows, there is a risk that aid is paid twice for the same animal, notwithstanding the fact that the premiums are paid for animals of different sex. Such duplicate payments occurred in Portugal.

- (b) in 1998, trade in live bovine animals between the Member States amounted to the equivalent of 1,6 million tonnes (around 20 % of EU production ⁽¹⁾). Even if the Regulations provide that Member States should cooperate with each other to implement IACS ⁽²⁾, there was often a lack of such cooperation regarding the exchange of information on the movement of bovine animals between Member States. This resulted in insufficient checks on the identification and eligibility of animals for aid in the importing Member State;
- (c) there are similarities between IACS and veterinary legislation which result from interservice cooperation at the time of drafting. Regarding the controls required by the new bovine identification and registration Regulation, as described in paragraph 18, there was a general lack of coordination between the veterinary (i.e. bovine identification and registration) and IACS inspections, with a risk of unnecessary duplication of effort. Both Regulations stipulate checks on 10 % (of herds for veterinary inspections and of aid applications for IACS inspections) but it is quite possible to carry out these checks using similar samples, as the risk-analysis criteria are also very similar. Furthermore, where there is an absence of coordination, there is a risk that errors found on one type of inspection will not automatically be communicated to the authority responsible for the other (see paragraph 42(a)).

CONCLUSION AND RECOMMENDATIONS

Conclusion

72. In 1999, 63,6 % of EAGGF-Guarantee Section expenditure was processed by IACS, either directly or indirectly. In 2004, this percentage should exceed 80 % (see paragraph 6). It is therefore important that this system has been well designed, and for the most part is effectively implemented in order to control the European Union's agricultural expenditure and avoid undue payments.

73. The overall concept of IACS by the Commission is satisfactory. The system rests on two pillars, namely the identification of parcels of agricultural land and the identification of animals. Both pillars have to be sound (all parcels of agricultural land and all animals have to be correctly identified) and all computer databases and procedures have to be well designed and implemented. IACS provides a sound basis for controlling most of the EAGGF-Guarantee Section expenditure.

⁽¹⁾ Commission's Comext database and Eurostat monthly statistics of meat (11-2000).

⁽²⁾ Commission Regulation (EEC) No 3887/92, Article 15.

74. In 1998, the sixth year after its creation and the second after the end of the transitional period, there were weaknesses in the implementation of IACS in all the Member States visited. The weaknesses sometimes concerned elements which had not yet reached an acceptable level of completion to allow effective controls and even elements of IACS which had not yet been put in place (see paragraphs 69 and 70).

75. A lack of coordination between the veterinary and IACS inspections could also be observed. This deficiency has resulted in a multiplication of the checks on farmers and financial burdens for the Member States. The implementation of integrated controls at this level would seem appropriate (see paragraph 71).

76. The Commission's Clearance-of-Accounts Directorate is responsible for the control and audit of expenditure, and for imposing financial penalties on Member States. It is also responsible for the management and administration of IACS, for the organisation of changes to the Regulations and for the issuing of guidance to Member States. While the Directorate has been concentrating on assessing the performance of Member States in the context of the clearance-of-accounts procedure, more attention should be given to the role of setting policy and guiding Member States. Furthermore IACS Regulations are complex and subject to frequent amendments. Despite interpretations given by the Commission, there are still different interpretations in the Member States or between the regions of the same Member State and, as a consequence, unequal treatment of the farmers of the European Union. The Commission needs to do more to guide Member States so as to ensure that the Regulations are properly understood and correctly and consistently applied throughout the Union (see paragraphs 43 to 45).

77. As regards the new bovine identification and registration Regulations, and particularly the approval of the databases, there was a general lack of coordination between the Health and Consumer Protection Directorate-General and the Agriculture Directorate-General in 1999. Furthermore, the procedure for approving databases was not adequate and there was no monitoring programme to check whether approved databases remain fully operational and comply with the terms of approval (see paragraph 42).

78. The Community Regulations contain several anomalies. The use of land at 31 December 1991, one of the main eligibility criteria for area aid, is very costly to control (paragraph 48). Inconsistencies between the various Regulations have also been noted (paragraphs 49 to 51).

79. The Community provisions relating to sanctions were not sufficiently precise in 1998, in particular, with regard to area aid (paragraph 52), and to detection and monitoring of cases of deliberate false declarations (paragraph 53).

80. The extent and quality of the information provided by the Member States needs to be improved. The Commission should continue its efforts to improve and evaluate this information, in order to better manage the Member States' implementation of IACS, particularly for the animal aid schemes. Member States are often slow in providing necessary information to the Commission (see paragraphs 54 to 60). The Commission must identify which information it really needs and issue clear guidance to Member States in this regard and, if necessary, put it on a regulatory basis. In particular, more effort should be made to ensure that information supplied by Member States on the results of administrative and on-the-spot checks is consistent and complete. The current limitations inhibit the Commission's ability to effectively manage the implementation of IACS by the Member States.

Recommendations

81. The Court recommends:

- (a) that the rules governing the various measures relating to IACS should be simplified, harmonised and formulated in a more precise manner, and inconsistencies and contradictions should be eliminated from them;
- (b) that an IACS interpretation and procedures manual should be issued and regularly updated and made available to the Member States. This manual should include aid calculation examples explaining how to treat complicated cases;

- (c) that all the agricultural parcels of all farmers receiving Community aid should be included in the parcels database in order to allow effective controls, thus ensuring that several aid payments are not made for the same parcel;
- (d) that all animals carrying an identification number which is not compatible with the new databases should be retagged — a *sine qua non* for conducting effective cross-checks;
- (e) that the Commission should improve its capacity to systematically evaluate the implementation of IACS, in particular by ensuring that relevant and reliable information is obtained from the Member States and exploited, and by reporting on a periodic basis on the progress made;
- (f) that the Commission should consider requiring the Member States to provide reliable financial data on sanctions in order to allow cost-benefit analyses of IACS to be made;
- (g) that the responsibilities of all Commission services involved in the management and administration of IACS should be clearly set out;
- (h) that the Commission should decide on procedures and programmes to check whether approved databases remain fully operational and comply with the terms of approval.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 6 et 7 June 2001.

For the Court of Auditors

Jan O. KARLSSON

President

ANNEX

RULES FOR APPLICATION OF SANCTIONS IN 1998

LATE LODGEMENT OF A CLAIM (Article 8)

1 % reduction of aid per working day of late lodgement (no aid at all if claim is lodged more than 25 days late).

An area aid application need not be submitted by farmers applying for only bovine animals that are exempted from the stocking rate requirement and do not apply for extensification premiums (small producers), or only for ewe or goat premium, or deseasonalisation premium.

AREA AID (Article 9)

If the area actually determined is found to be greater than that declared in the 'area' aid application, the area declared shall be used for calculation of the aid.

If the area actually determined is found to be less than that declared in an 'area' aid application, the area actually determined on inspection shall be used for calculation of the aid. However, except in cases of *force majeure*, the area actually determined on inspection shall be reduced by twice the difference found if this is more than 3 % or two hectares but not more than 20 % of the determined area.

If the difference is more than 20 % of the determined area no area-linked aid shall be granted.

However, in the case of a false declaration made intentionally or as a result of serious negligence:

- the farmer in question shall be excluded from the aid scheme concerned for the calendar year in question, and
- in the case of a false declaration intentionally made, from any aid scheme included directly in IACS for the following calendar year, in respect of an area equal to that for which his aid application was rejected.

For the purposes of this Article, 'determined area' means the area for which all of the conditions laid down in the rules have been met.

Forage areas, set-aside areas and each arable crop area for which a different aid rate is applicable shall be treated exclusively and separately.

Note: The Regulation does not indicate what is to be considered as serious negligence and what is to be considered as false declaration. The corresponding decision is therefore based on the judgment of the administrations concerned in line with the national rules.

ANIMALS (Article 10)

Where an individual limit or individual ceiling is applicable the number of animals shown in aid applications shall be reduced to the limit or ceiling set for the farmer concerned.

If the number of animals declared in an aid application exceeds that found during checks the aid shall be calculated on the number of animals found. However, except in cases of *force majeure* and after deduction of animals dead due to natural circumstances, the unit amount of the aid shall be reduced:

- (a) in cases where an application concerns a maximum of 20 animals:
- by the percentage corresponding to the difference found if this is not more than two animals,
 - by twice the percentage corresponding to the difference found if this is more than two but not more than four animals.
- If the difference is greater than four animals, no aid shall be granted;

- (b) in other cases:
- by the percentage corresponding to the difference found if this is not more than 5 %,
 - by twice the percentage if the difference found is more than 5 % but not more than 20 %.
- If the difference found is more than 20 % no aid shall be granted.

The percentages mentioned under (a) are calculated on the basis of the number declared, and those mentioned under (b) on the basis of the number found.

However, where it is found that a false declaration was made intentionally or as a result of serious negligence:

- the farmer in question shall be excluded from the aid scheme concerned for the calendar year in question, and
- in the case of a false declaration made intentionally, from the same aid scheme for the following calendar year.

Note: The Regulation does not indicate what is to be considered as serious negligence and what is to be considered as false declaration. The corresponding decision is therefore based on the judgment of the administrations concerned in line with the national rules.

Source: Commission Regulation (EEC) No 3887/92, as amended.

THE COMMISSION'S REPLIES

SUMMARY

I. The 1992 reforms of the CAP represented a watershed in the way Community support for agriculture was managed, with a shift from price support to direct payments to farmers. This increased the number of beneficiaries but also the risk of irregularity and fraud and therefore the reform package also included provisions for each Member State to set up an integrated administration and control system (IACS) for direct payments. The IACS aims to cover all aid applications from individual producers. This improves efficiency in processing aid applications and checks on payments.

Under the IACS, Member States are obliged to set up computerised databases to enable electronic cross-checks and on-the-spot checks of holdings. For this type of check to work, it has also been necessary to set up a new system to identify land and identify and register animals, as well as to record details of every beneficiary's applications for aid. Aerial photographs and satellites are used to map land surfaces and verify land use.

Observations made during inspections and in meetings of experts have shown that the IACS has proved to be an excellent instrument for gathering reliable data on the situation in the field and for conducting checks on aid applications.

IV. Having set out the regulatory framework for incurring expenditure under the IACS and providing guidelines and advice to Member States on their IAC systems, the Commission closely monitored the work which allowed any shortcomings in the operation of the system to be identified so that the Member States could take the steps needed to remedy them. If the IAC systems put into place by a Member State prove to be unsatisfactory, the Commission refuses, under the clearance-of-accounts procedure, to finance all or part of the expenditure concerned.

The competence for the IACS lies with DG AGRI's Clearance-of-Accounts Directorate, which operates in close cooperation with the DG AGRI legal and market services, as well as DG SANCO.

V. The fact that there is such a diversity of market regulations emphasises the importance of the IACS in ensuring a harmonisa-

tion of controls. While recognising that not all implementations are totally satisfactory, the diversity of Member States' customs, traditions and existing administrative and legal systems must be taken into account. It is also important to point out that Member States may decide to go beyond the minimum legislative requirements. Therefore, certain differences in practice between Member States are bound to occur.

Many of the amendments referred to by the Court were minor and the great majority relate to changes made for reasons of market management.

VI. The Commission agrees that some Member States have failed to supply some information in a correct and timely fashion.

In relation to the arable crops and animal premium sectors, the Commission has already identified which information it needs and issued clear guidelines to Member States in this regard. Significant steps to improve the supply of information in the animal premium sector had been taken by mid-2000. The need for statistical information from Member States to be supplied punctually has also been stipulated on a regulatory basis as from 2000.

VII. The Court describes in general terms the main control deficiencies established in some Member States. The Commission agrees that, even for those Member States where the IACS has been implemented, weaknesses still exist and are treated accordingly in the context of the clearance-of-accounts procedure.

VIII. The Court's recommendations on management and simplification of the rules are noted, but it must be mentioned that for the most part suitable action has already been instigated. Of particular importance in this context is the current review of existing IACS legislation in the light of experience gained since the CAP reform introduced from 2000.

DESIGN OF THE INTEGRATED SYSTEM

The identification system for agricultural parcels

15. The Court describes the different systems in place in various Member States.

Member States have diverse customs, traditions and existing legal and administrative systems that naturally lead to the different approaches outlined by the Court. While recognising that not all implementations are totally satisfactory, the diversity of Member States' existing systems must also be acknowledged, and taken into account when assessments are made under the clearance-of-accounts procedure. Moreover, without such an approach, it would have been impossible to install a quality control tool so rapidly.

As Member States may decide to go beyond the minimum legislative requirements, certain differences in practice between the Member States are bound to occur.

The integrated control system

Sanctions

32. The rules on sanctions in respect of bovine premium schemes were significantly changed and clarified by amending Regulation (EC) No 1678/98 with effect from 1 January 1999, in particular to take into account the changes to bovine identification and registration introduced by Council Regulation (EC) No 820/97.

THE ROLE OF THE COMMISSION

Guidance by the Commission and regulatory issues

38. Although there appears to be a plethora of regulations amending Regulation (EEC) No 3508/92 and Regulation (EEC) No 3887/92 on the integrated administration and control system, many of the amendments were very minor, particularly for Regulation (EEC) No 3508/92. Moreover, as market rules have been regularly changed in line with policy, amendments of the control rules were inevitably driven by market-scheme requirements.

Management information

39. Information from Member States is not always supplied in complete or timely fashion, thus hindering mission-planning. However, the clearance-of-accounts risk-analysis procedure and annual plan for the different years do indeed take into account the information received.

- (a) It is necessary also to mention the often very complete information supplied to the Commission by Member States with regard to their implementation of market schemes, i.e. guidelines to controllers and producers, standard documentation, etc. This information is systematically subjected to scrutiny.

Evaluation of IACS and enforcing implementation

40. It is also recalled that, in its Special Report No 22/2000 as referred to, the Court was complimentary in its views on the IACS.

Main findings at Commission level

General organisational background

The Agriculture Directorate-General (DG AGRI)

41. The competence for the IACS lies with DG AGRI's Clearance-of-Accounts Directorate, which operates in close cooperation with the DG AGRI legal and market services, as well as DG SANCO.

The Health-and-Consumer-Protection Directorate-General (DG SANCO)

42.

- (a) The obligatory exchange of inspection findings between the national veterinary and the IACS services is covered by legislation (see Regulation (EC) No 1678/98, which became applicable in 1999). The effectiveness of this cooperation is audited by DG AGRI.
- (b) The Court points out the differing progress made by Member States in setting up databases for bovine identification and registration.

Progress on databases in all Member States was monitored and audited by DG AGRI and DG SANCO throughout 1999 and 2000. Shortcomings and delays have been noted for follow-up action.

The adoption of new Regulation (EC) No 1760/2000 of the European Parliament and of the Council of 17 July 2000 has not basically changed the situation; however the 1 January 2000 deadline set for recognition by the Commission of the fully operational character of the national database for bovine animals has been deleted.

(c) To date, the system for recognition of the fully operational character of the national databases has worked as follows.

After an in-depth analysis of the information submitted by the Member States, DG SANCO carries out an on-the-spot visit with the aim of having a full demonstration and a thorough discussion. DG SANCO is examining how best to incorporate checks on the operational character of the databases in its overall control and inspection functions.

(d) The Court notes differing minimum inspection rates accepted by DG SANCO and DG AGRI. However, as regards the inspections conducted in respect of the bovine identification and registration regulations, Member States with a fully operational database and effective cross-checking facilities may consider a 5 % inspection rate. DG AGRI applies the same criteria in principle.

(b) The concept of the 'obvious error' is covered by a working document already in the Court's possession. An even more homogeneous approach is being developed to take account of progress made in modern technology.

(c) Commission Regulation (EEC) No 3887/92 and Council Regulation (EC) No 1258/1999 establish very clear obligations on Member States to recover undue payments, including those paid for earlier claim years. The Commission will further see to a more consequent and uniform application by Member States.

46. The weaknesses mentioned by the Court under points (a), (b) and (c) have been subject to a clearance-of-accounts procedure and in some cases given rise to financial corrections, whereas the other cases are still under an ongoing procedure.

Guidance by the Commission and regulatory issues

Guidance by the Commission

43. The Court suggests that the Commission has allocated too few resources to the general management and administration of the IACS. The significant amendments to the IACS legislation in the form of Regulation (EC) No 1678/98 and Regulation (EC) No 2801/1999, following developments with regard to bovine identification and Agenda 2000 respectively, clearly demonstrate the role of clearance of accounts in both policy-setting and guidance, activities directly benefiting from its detailed and up-to-date knowledge of national implementation.

The abovementioned significant amendments to the IACS legislation furthermore necessitated a whole series of interpretations and guidance issued by the Commission to all Member States, which has been given to the Court.

Moreover, audit observations letters sent to Member States systematically make extensive recommendations both on regulatory compliance and on practical control.

44.

(a) The Commission requested all Member States to provide information on the tolerances for each of the methods used in 2000. Analysis of this information has shown that all Member States apply the technical tolerances at agricultural parcel level, and that Member States have adapted their maximum tolerances to those recommended by the Commission.

47. It is planned that the review of Regulation (EEC) No 3887/92 will involve discussing with the Member States the need for a more specific provision on mutual assistance.

Regulatory issues

48. It is possible to verify compliance with this condition by checking selected satellite images from the period 1986 to 1991, which identify land use on 31 December 1991.

50. With a view to simplifying the rules, the Commission promised, in the framework of the 1998/99 price package, to withdraw the requirement that set-aside land must have been part of the holding for two years.

The Commission deliberately published the Regulation after the end of the period of set-aside, with a view to its application from the following crop year, to avoid favourable treatment for producers who did not fulfil the earlier requirements.

As the explanatory memorandum states, Regulation (EC) No 2490/98 was merely intended for clarification.

51. While agreeing that inadequate cross-checking increases the risk of overpayment, we would point out that an individual cow may be covered by several applications, provided it is suitably replaced. In the circumstances, it is the replacement that must be checked, since multiple application is not in itself irregular. However, the Commission appreciates the Court's remark, and confirms that it has indeed paid attention to this aspect in the Member States, including those mentioned.

52. According to Article 9(2), reductions are applicable only at crop group level. The Commission does not share the Court's view that the Community provisions minimise anomalies. Article 6 of Regulation (EEC) No 3887/92 states that where errors are found in the sample checked, the sample shall be extended. Member States have been recommended in a working document to measure all the parcels within the same crop group, as soon as discrepancies are revealed.

53. The Commission is aware of this problem of avoiding the full effect of sanctions, and is examining the need for relevant provisions in the forthcoming consolidated Commission Regulation on the IACS. The following has to be taken into account:

- the Commission has found, when assessing cases classified by Member States as false declarations made intentionally, that they often involve applicants declaring an area when there is no area at all. Therefore, the second year's sanction is without effect and it is not feasible simply to exclude an area equal to that which was rejected in the first year. The actual dissuasive effect of such a provision would be very limited, as would its impact on risk to the fund,
- a 'blocking' clause could in many cases lead de facto to sanctioning of third persons. If the rejected aid application related to land that was leased in the current year, on a contract terminating at the end of the year, the sanction would be imposed on the owner (or person then entitled). This raises a number of legal problems.

Management information

54. The Commission has already taken regulatory and guidance steps to meet its objectives of better management and control.

- (b) The Court is correct to say that ceilings on bovine premiums have not yet been definitively checked. By their nature (payments can be made up to two years after the claim period) these checks can only be carried out to the required audit standard in claim year + 2.
- (c) Although not appearing in any formal summary report, animal premium statistics are evaluated and subjected to rigorous on-the-spot audit every year, leading to numerous financial corrections under the clearance-of-accounts procedure in most Member States. It is regrettable that some Member States fail to supply statistics on request, but this failing has been corrected via the amendment of Regulation (EC) No 2801/1999.
- (d) The Court observes that national certifying bodies could be used to analyse the IACS implementation.

Certifying bodies report on procedures to ensure compliance with Regulations. However, Regulation (EC) No 1663/95 does not specifically require reporting either of the general implementation of the IACS, or of statistics in particular, because it is not directly concerned with the accounting clearance, for which the certifying body's work is used. However, the Court's observation that certifying bodies might evaluate the IACS implementation is noted for future action.

55 to 59. The Court's observations are based on statistics supplied to it by Commission departments, and are generally very similar to those formulated under the clearance of accounts. Where Member States fail to supply some or all of the required statistics, this failing is systematically taken into account under clearance-of-accounts procedures.

56.

- (b) Some Member States had an error rate of 0 %, as all cases with discrepancies after administrative controls are followed up by field inspections.
- (c) This reflects correctly the situation in reality and the main reason is differences among Member States and the standard of the map material they have at their disposal.
- (d) Similarly to point (c), differences between Member States in the detection and reporting of serious errors are often due to the varying control systems put in place. For both the arable crops and animal premium sectors, such differences are investigated in the context of the clearance of accounts procedure.

58 and 59. Statistics on control results (administrative and on-the-spot checks) were systematically requested from all Member States. Experience gained as more schemes were covered by the IACS meant that the tables initially used to collect information had to be updated.

In order to avoid very wide variations in the statistics reported for area aid, a special pre-printed questionnaire was created with detailed explanations, which the Member States have been asked to complete since 1995. It has therefore been possible to analyse and compare the results of all Member States and to conclude that administrative controls and field inspections are being reported uniformly.

The need for more attention to be paid to the specific nature of some bovine premium schemes was already addressed in 1999 and is being further developed for 2000.

60. The report on controls carried out in 1998 has been received from most Member States (Denmark, Spain, France, Italy, the Netherlands, Austria, Portugal, Finland, Sweden and the United Kingdom). However, the degree of completeness was very varied. The report on controls carried out in 1999 has been received from all Member States except Greece. As provided for in Regulation (EC) No 2630/97 the Commission has laid down the model for the annual reports from Member States on the results of controls made in the bovine sector regarding Community provisions for identification and registration in Commission Regulation (EC) No 1898/2000 of 7 September 2000.

Evaluation of the IACS and enforcing implementation

61. The Commission agrees on the importance of reliable and timely information from the Member States and it takes their performance in this matter into account when assessing situations in the framework of the clearance of accounts. Furthermore, accounts are not cleared until statistical information has been received and scrutinised for any shortcomings.

62. The Commission has not so far carried out any kind of detailed cost/benefit analyses concerning implementation of the IACS.

In view of the extremely high proportion of expenditure to be controlled, the Commission has been more concerned with making the IACS work, rather than with evaluating its cost-effectiveness. Of particular importance is the dissuasive/deterrent effect of the IACS rules on sanctions, which is difficult to quantify. Furthermore, the IACS plays a very low-key but highly effective role in the detection of aid claims for rejection in the initial stages (i.e. before they enter the system proper).

Viewing the cost-effectiveness of checks solely in financial terms is too narrow a perspective. Checks have a wider importance, in making sure that expenditure is incurred in conformity with Community legislation, thereby helping to ensure that the economic objectives of the common market organisations are achieved.

63. The Court states that the Commission does not routinely report on the IACS implementation. It must be mentioned that there is no obligation to do so, although a report on the IACS implementation was indeed sent to the European Parliament in 1998, with subsequent updates on discharge procedures.

Of greater significance is the Commission's ongoing monitoring and reporting of the IACS situation. The Commission takes into

account the effectiveness and efficiency of the required controls, and in its observation letters regularly suggests improvements to the audited Member States.

Furthermore, most audit reports drafted by the Commission's departments evaluate the IACS implementation, either partially or more completely, and all findings of weaknesses and/or non-compliance are illustrated in great detail in the clearance-of-accounts summary reports that appear several times each year, providing a source of information not only on problems noted but also on follow-up action taken by the Commission.

64. The Commission agrees that, even for those Member States where the IACS has been satisfactorily implemented, weaknesses still exist and are dealt with in the context of the clearance-of-accounts procedure. This said, it must be recalled that the clearance-of-accounts procedure is a regulatory procedure, designed to protect the interests of both Community budget and Member States.

In focusing on 1998 alone, the Court does not give due weight to the ongoing nature of the clearance of accounts.

65. The Commission welcomes the Court's findings, which confirm its own. However, the Court's implication that the Commission did not analyse Member States' implementing systems in their entirety (in 1998) is misleading. Clearly, the ongoing nature of the Commission's audit and supervision of the IACS does not require in-depth examination of all aspects every year.

(a) Specifically for 1998, the Commission can demonstrate its preoccupation with matters other than on-the-spot checks and application of sanctions.

(b) It is not considered necessary to visit every paying agency every year, hence the employment of an annual risk analysis by the Commission to determine its audit scope. When a region is actually subject to on-the-spot audit in the context of clearance of accounts, the audit invariably covers several years. Furthermore, these periodical and sometimes regionally-based audits always provide useful information on national implementation.

66. Attention was drawn to a potentially serious problem of lack of checks on forage areas in Catalonia at the time of the clearance of accounts audit of bovine premiums in September 1998, which gave rise to serious doubts regarding legitimacy of declared forage areas.

Other findings

67. Potential overshooting of the regional ceilings for special beef premium is under consideration by the Commission, which is auditing this aspect in the clearance-of-accounts procedure (see also point 54).

THE ROLE OF MEMBER STATES**Main findings at Member State level**

69 and 70. The Commission refers to its detailed response given at point 64.

As regards the Court's Table 5, in respect of the weaknesses indicated as 'Poor — not functioning', the Commission confirms that almost all aspects are already being dealt with in the clearance-of-accounts procedure. Similarly, the clearance-of-accounts procedure has dealt with the areas identified as 'Average — functioning with some problems'. In some other respects the Commission's evaluations are actually less favourable towards the Member States than those of the Court.

With regard to the weaknesses found concerning cross-checks and other controls linked to bovine identification and registration, it should be mentioned that the databases referred to in Article 5 of Regulation (EC) No 820/97 did not have to be operational until 31 December 1999.

- (a) The Commission has established major weaknesses in respect of 1998 in both Germany and Ireland, which are being followed up in the clearance-of-accounts procedure.
- (b) With respect to Catalonia, which gives rise to much negative comment from the Court, the Commission can confirm that following its audit mission of September 1998, a whole series of financial corrections either have been or are being proposed for both regional and national expenditure in the clearance-of-accounts procedure.
- (c) The Court's findings in France correspond largely to those of the Commission, and financial consequences have been or are being applied in the clearance of accounts. Furthermore, the Clearance-of-Accounts Directorate has established some serious deficiencies in respect of bovine identification and registration.
- (d) For Portugal, the Court's remarks are very similar to those of the Commission, which has proposed or is proposing financial consequences in the clearance-of-accounts procedure.

71.

- (a) The Commission is aware of the differing national legal systems and practices in pursuing suspected fraud cases, but Member States are clearly under an obligation to apply the sanctions as provided in Articles 9(3) and 10 of Regulation (EEC) No 3887/92.

The Commission must, however, take account of the principles of Community law, which among other things guarantee means of administrative or legal recourse, as appropriate. It must also allow for the fact that national legal orders are not identical.

The Commission has been asked by some Member States to create a system of objective figures to define discrepancies to which more serious sanctions should apply. The feasibility of this approach is currently being investigated, with a view to including a new system of penalties in the consolidated Commission Regulation on the IACS.

- (b) See response given at point 47.
- (c) The relevant veterinary and IACS legislation are interlinked; Member States may carry out combined inspections, and some of them do so. It should not be forgotten, however, that not all animals or stockfarmers covered by Regulation (EC) No 820/97 are subject to the IACS; efficient coordination is the responsibility of Member States.

CONCLUSION AND RECOMMENDATIONS**Conclusion**

74. The Commission has established that the basic elements of the IACS have been implemented in all Member States, with the exception of Greece and a few Spanish Autonomous Communities where the financial impact is not appreciable. Not all aspects of the IACS are satisfactorily operational in all of the Member States, however, as weaknesses relating to certain key and ancillary controls continue to exist. Every control system is perfectible, and one responsibility of the Commission's auditors is to recommend improvements.

Nevertheless, when weaknesses such as those illustrated by the Court are established, the Commission continues to apply financial consequences in the form of reductions of advances and corrections in the clearance of accounts procedure.

75. The Commission advises Member States to integrate their controls as already allowed.

76. The Court considers that more attention should be paid by the Commission to setting of the IACS policy and guidance of Member States. The significant amending Regulations (EC) No 1678/98 and (EC) No 2801/1999, and the comprehensive administrative work to provide interpretations, as well as the regular organisation of expert group meetings, bear ample witness to the Commission's efforts in this respect. Resulting improvements have been largely due to the expert knowledge, and the ability of the Commission to achieve rapid improvements and practical solutions.

However, correct application of legal texts adopted by the Commission lies firstly with Member States. The IACS legislation is sometimes complex as a result of its role in providing harmonised rules for a wide variety of direct aid schemes, which themselves may involve variations (e.g. live and slaughter model for the special beef premium).

The Commission stresses that many changes were made after changes in market regulations. The Commission emphasises the current review of the IACS legislation that, following its stated intentions to simplify and clarify, will result in a codified replacement of the IACS Regulation.

The IACS has proven to be the essential tool to limit and reduce the risk to the Fund (See the Court's comments in the discharge of 1998 and 1999).

77. All clearance-of-accounts audit reports on bovine premium schemes are sent systematically to DG SANCO, and the Clearance-of-Accounts Directorate is informed of DG SANCO inspections and database approvals. Indeed, the Clearance-of-Accounts Directorate sometimes participates in these missions. Therefore, the implication that either Commission department is unaware of events is incorrect.

The Court is right to stress at point 36 the similarities between IACS and veterinary legislation. This is due to the close cooperation of the different departments. The Clearance-of-Accounts Directorate was active in formulating the Commission implementing Regulations adopted in late 1997 and early 1998 on bovine identification and registration. Likewise, the veterinary services were involved in drawing up the IACS rules on checks and sanctions introduced by amending Regulation (EC) No 1678/98.

78. The Court observes difficulty in checking one of the main eligibility criteria: land use at 31 December 1991.

The Commission can confirm that compliance with this condition can be verified by checks of selected satellite images from the period 1986 to 1991. These remote sensing checks identify land use on 31 December 1991.

79. In response to the Court's observations on imprecision in Community provisions on sanctions, we would refer the reader to the answers under points 55, 56 and 76(a). According to Article 9(2), reductions are applicable only at crop group level and Member States are clearly under the obligation to apply the sanctions as provided in Articles 9(3) and 10e of Regulation No (EEC) 3887/92.

As to monitoring cases of fraud and irregularity, the Member States are required under Council Regulation (EEC) No 595/91 to communicate to the Commission every quarter a list of irregularities which have been the subject of judicial or administrative procedures.

80. Statistics supplied to the Court by the Commission were incomplete, but the fault lies with the Member States concerned. In the animal premium sector, steps have already been taken to improve the future quality of information received from Member States; both by regulatory amendment and by redrafting the model declarations (with explanatory notes for guidance), of which the Court has already received a copy. Financial consequences decided in the clearance procedure for all claim years since 1993 demonstrate that the assessment of statistical information has been properly evaluated.

In relation to the arable crops sector, the Commission has already identified which information it really needs and issued clear guidelines to Member States in this regard and also put it on a regulatory basis. Reference is also made to the responses given in relation to points 58 and 66.

Recommendations

81.

- (a) The IACS legislation is already being reviewed along the lines suggested by the Court. In order to be efficient Regulations (EEC) No 3508/92 and (EEC) No 3887/92 have to take into account the particularities of the market management schemes, which makes it rather difficult to achieve the precision of the IACS rules recommended by the Court.

- (b) The Commission has already gone some way towards meeting the Court's recommendation and regularly distributes a compendium of interpretations and explanatory notes drawn up at the request of Member States. However at present it is not the Commission's intention to provide a general IACS interpretation and procedures manual.
 - (c) The 'compatibility clause' introduced by the new Article 9a into the IACS Regulation (EEC) No 3508/92 should ensure that no undue double aid payments are made for the same parcel.
 - (d) For the Commission to recognise the fully operational character of a national database for bovine animals all bovine animals in the Member State must be recorded in the database.
 - (e) Ways of further meeting the Court's recommendation will be investigated, also taking into account the available resources.
 - (f) In principle, reliable data on sanctions applied by Member States are already available to enable an evaluation of the direct financial benefits of the IACS — but see response to point 62.
 - (g) The management and administration of the IACS lies with the Member States. As regards the responsibilities of the Commission, there is a clear distinction of duties between the different Commission departments as a function of the scope of the legal bases involved. While the market-related units, in particular those dealing with livestock and area aid, are in charge of providing interpretations on the conditions of whether or not an aid application is eligible, the Clearance-of-Accounts Directorate is responsible for the interpretation of the administration and control requirements as provided for by Regulations (EEC) No 3508/92 and (EEC) No 3887/92.
 - (h) The Commission will investigate the possibilities, also taking into account resources available.
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