

Financial Management of the European Union



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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executive summary

- 1 Each year the Comptroller and Auditor General reports to Parliament on the financial management of the European Union, drawing on the European Court of Auditors' audit of the General Budget of the European Community. In 1999 the Budget totalled 86.9 billion euro (£54.0 billion). The European Commission had overall responsibility for implementing the Budget, although over 80 per cent of expenditure was managed by authorities within the 15 Member States of the European Union.
- 2 This report summarises the findings in the Court's Annual Report for 1999, which included its Statement of Assurance on the reliability of the accounts of the Community and the legality and regularity of the underlying transactions, and other observations on the financial management of Community activities. It also outlines the progress being made to reform the Commission and the action being taken to tackle fraud and irregularity.



- 3 Overall the Court's Annual Report and Statement of Assurance for 1999 showed little evidence of improvement in the financial management of the European Union compared with previous years. The Court's work largely concerned revenue and spending that took place before the Commission had embarked on its current programme of reform and, while progress is being made, much of the reform strategy is yet to be implemented. Many of the reforms will require changes in culture, which will be difficult and take time to achieve. Only when the proposals have been implemented in full, will it be possible to judge their success in improving standards of financial management and accounting, and in reducing levels of error and fraud in Community expenditure.
- 4 The Statement of Assurance provides a valuable assessment of the management of the Community General Budget as a whole. For 1999, the Court drew similar conclusions to previous years and for the sixth year in succession qualified its opinion on the reliability of the Community's accounts. And, also for the sixth year in succession, the Court found an unacceptably high rate of error and therefore declined to provide assurance that the transactions underlying payments (except those relating to staff expenditure) were legal and regular. In relation to the Statement of Assurance for 1999, **we conclude that:**



- in recent years the Court has provided the Commission with useful information about the standards of financial management and rates of error found in different categories of expenditure. The positive assurance given by the Court in respect of staff expenditure for 1999 should provide a stimulus for improvement in other areas. We urge the United Kingdom Government to support further moves in this direction and to encourage the Court to implement the provision in the Treaty of Nice to provide specific assessments for each major area of Community activity. It would also be useful for the Court to explain what the Commission, supported by authorities in Member States, would need to do to secure positive assurance.
 - significant problems with the reliability of the Community's accounts persist, which meant that the Court again qualified its opinion. The Commission urgently needs to implement clear accounting policies to enable the production of reliable, accurate and complete financial statements.
 - it remains a matter of serious concern that little progress has been made in reducing the high level of error, which meant that for the sixth year in succession the Court was unable to provide positive assurance on the legality and regularity of the transactions underlying payments. The Commission's action plan for improving financial management could be enhanced by the inclusion of more detailed timetables and targets against which performance could be monitored. These would help to stimulate and sustain progress towards reducing the level of error. The Commission could also explain why progress towards reducing rates of error is slow.
 - the steps taken by the Commission to simplify some Common Agricultural Policy schemes should help to reduce the extent of error. Further simplification would be desirable to reduce the risk of error, irregularity and fraud, and the Commission, supported by Member States in the Council, should take full account of this in designing schemes.
 - the continuing high level of error in Structural Fund payments is particularly concerning and the Commission and Member States need to work together to ensure that the regulation to strengthen financial control is successfully implemented in all Member States and leads to fewer errors.
- 5 Much of the Court's work involves examining the efficiency and effectiveness of the revenue and expenditure programmes of the Community. As well as the observations in its Annual Report, the Court published 25 Special Reports during 2000 detailing its findings on specific topics. As in previous years, the Court found considerable weaknesses in the management and control of Community funds by the Commission and Member States and **we conclude that:**
- to protect United Kingdom taxpayers, government departments need to take all reasonable steps to ensure that schemes implemented in the United Kingdom comply with European Union regulations, thereby minimising the risk of the Commission subsequently imposing financial penalties.
 - in the light of the Court's conclusions that in some areas the rates of aid paid were higher than they needed to be, the Commission and Member States need to ensure that Common Agricultural Policy schemes achieve the intended balance between the interests of European Union producers, consumers and taxpayers.
 - it would be beneficial for the Commission and Member States to share information on managing Common Agricultural Policy and Structural Fund schemes and to identify good practice for selecting and designing projects, and for developing performance indicators and targets to evaluate their impact.

- the serious delays in closing Structural Fund programmes continue to be a matter for concern, particularly in respect of the European Regional Development Fund. The Commission and Member States need to make a concerted effort to close quickly programmes still outstanding from periods prior to 1994, so that they can concentrate resources on the more recent programmes.
- 6 During 2000 the Commission began to implement its strategy for reform, which had been developed by Commission Vice-President Neil Kinnock following the resignation of the previous Commission in March 1999. In a report issued in February 2001, the Commission concluded that progress in implementing the reforms was substantial and generally on schedule. During 2000 the Commission also proceeded with implementing the European Anti-Fraud Office. However, in a report published in August 2000, the Office's Supervisory Committee was critical of delays in the Office becoming fully operational, which it concluded risked compromising the effectiveness of anti-fraud investigations.
- 7 We welcome the steps being taken to reform the Commission and tackle fraud and irregularity. We recognise that the United Kingdom Government has been supportive of these moves and **we conclude that:**
- some headway has been made in implementing the reform strategy, particularly in terms of strengthening audit, financial management and control. However progress in other areas, including the introduction of new human resources policies, has been patchy. The United Kingdom Government, through the Council of Ministers and its other links with the Community, should continue to support the Commission in its efforts to implement the reforms and ensure that the momentum is maintained.
 - key elements of the reform strategy will entail changes to the Financial Regulation and Staff Regulations and will require the support of Member States and the European Parliament. The United Kingdom Government should continue to work to secure the support of other Member States in order to ensure that the necessary modifications to the legal framework are agreed in a timely manner.
 - the delay in staffing the European Anti-Fraud Office is a matter for concern. The United Kingdom Government should press the Commission to ensure that the Office becomes fully operational as quickly as possible, so that the intended improvements in the effectiveness of anti-fraud investigations can be secured.
 - the convention and protocols on the protection of the European Community's financial interests only enter into force when they have been ratified by all Member States. The United Kingdom Government should continue to press those Member States who have not ratified the convention and protocols to do so as quickly as possible, so that effective action can be taken to deal with fraud against the Community General Budget.
- 8 As well as his reports based on the findings of the European Court of Auditors, the Comptroller and Auditor General also regularly reports on matters relating to the revenue due to and expenditure funded from the Community General Budget in the United Kingdom. The reports published since May 1997 are listed in Appendix 1. Recent reports have focused in particular on agriculture issues, including the Sheep Annual Premium Scheme, the Arable Area Payments Scheme, and the measures introduced in response to the BSE crisis. We will continue to give a high priority to examining the way that Community funds are managed in the United Kingdom.