

Financial Management of the European Union:
**Annual Report of the European
Court of Auditors for the year 2000**



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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executive summary

- 1 As in previous years, the National Audit Office has produced a report on the financial management of the European Union, drawing on the results of the audit by the European Court of Auditors (the Court) of the General Budget of the European Community¹. This report summarises the findings in the Court's Annual Report for the financial year 2000 and draws on information provided by the European Commission on its reform strategy and the action being taken to tackle fraud and irregularity. The report also considers the implications of the forthcoming enlargement of the European Union.
- 2 In the year 2000, total actual outturn revenue in the Community General Budget was €92.7 billion (£57.9 billion)². The European Commission has overall responsibility for implementing the Budget and drawing up the Community's accounts. But over 80 per cent of expenditure was managed by authorities within the 15 Member States of the European Union and in Third Countries. Great diversity was involved in terms of the administrative and accounting cultures, traditions and practices. The Commission was therefore dependent on the co-operation of the national authorities and other bodies involved, to fulfil its ultimate responsibilities for managing the budget.



- 3 The European Court of Auditors is required to provide the European Parliament and the Council with a Statement of Assurance concerning both the reliability of the accounts drawn up by the Commission and the legality and regularity of the underlying transactions. For the year 2000, the Court drew similar conclusions to previous years and for the seventh year in succession qualified its opinion on the reliability of the Community's accounts. The Court did, however, provide assurance on the legality and regularity of the transactions underlying revenue, commitments and administrative expenditure in the accounts, but declined to provide this assurance in respect of the other payments.

¹ *The European Community developed from the European Coal and Steel Community (ECSC) which was established in 1951; the European Economic Community (EEC) established in 1957 and the European Atomic Energy Community (Euratom), also established in 1957. In 1965 the Merger Treaty created a single set of institutions to run the three Communities and in 1992 the Treaty on European Union was signed in Maastricht and created the European Union, a concept comprising the European Communities in a political Union, and introducing the term European Community to refer to them.*

² A conversion rate of €0.6241 = £1 (the exchange rate as at 31st December 2000) has been used in this report.

- 4 For the year 2000, the Court endeavoured to provide more diversified information on the nature, location and causes of the problems affecting the management of the Community's funds and its Annual Report brought together all the principal findings and recommendations contained in Special Reports adopted by the Court during 2001, as well as the findings arising from its statement of assurance work.
- 5 The Court's report noted some positive developments. For the first time the Court gave positive assurance on the Community Institutions' administrative expenditure. It noted that improvements in the design of systems for managing and controlling expenditure on the Common Agricultural Policy had contributed to improved management of large amounts of EU funds. It also praised new developments in management of the structural funds that had helped the implementation of many urban developments throughout Europe.
- 6 But the Court noted that often major objectives behind Commission programmes and projects were not achieved. Objectives were often poorly defined and evaluation by the Commission of the achievement of objectives was inadequate. It also noted that whilst efforts had been made to simplify regulatory provisions and harmonise systems and procedures across Member States, there remain significant problems which prevented better management, reduction of administrative cost and the easing of the regulatory burden on final beneficiaries.
- 7 The Court found persistent weaknesses in checking by the Member States of Community operations in cases where programme management was shared with the Commission. The Court noted a continuing risk of dysfunction of control systems, particularly at the level of the final beneficiary of Community grants. It noted that improving the control arrangements in the Member States was central to ensuring the correct use of Community funds.
- 8 The Commission published a Reform Strategy in March 2000³, in the wake of the resignation of the previous Commission in March 1999 and the reports of the Committee of Independent Experts⁴. The Commission continued to implement the Reform Strategy throughout 2000 and 2001 and there is evidence that the Commission has made considerable progress in initiating

³ *Reforming the Commission - a White Paper (March 2000).*

⁴ *The Committee of Independent Experts was established by the European Parliament and the Commission in January 1999 to examine the ways in which the Commission detected and dealt with fraud, mismanagement and nepotism. The Committee produced two reports, in March and September 1999.*

planned organisational changes, although two major areas of reform - amending the Financial Regulation and the Staff Regulations - remain to be completed. The Court intended to monitor the reform process in future audits. It considered that it would be premature to attempt any overall assessment of the process, given that changes in financial management and control had only recently taken effect and that decisions on aspects of staff management had yet to be reached. The Commission told us it felt it was too early to expect to see tangible impacts from the reform process.

- 9 More cases of suspected fraud or other irregularity were detected and reported by Member States to the Commission in 2000 than in the previous year. This does not necessarily mean that more fraud or other irregularity was occurring than previously; it could equally be due to more robust checking, better detection systems, and more diligent reporting by Member States. Different practices continue to exist between Member States in reporting fraud and irregularity to the Commission. The Court noted that robust working definitions, agreed and understood by all parties, needed to be established, in order to ensure suspected fraud and irregularity were reported on a common basis and to allow meaningful comparisons and trend analysis to be undertaken. The Court noted that the establishment of the new European Anti-fraud Office, commonly known by its French acronym OLAF⁵, had brought about improvements in procedures and that early staffing difficulties had been resolved. But there was a need to modify staff rules and procedures to facilitate investigations within the Community's own institutions.
- 10 The enlargement of the European Union in the next few years will impact on the operation of all the European Institutions. It is crucial for sound working mechanisms to be developed and for efficient and effective financial management in the new enlarged Community to be given appropriate priority, in key discussion arenas such as the Convention on the future of the European Union.

5 *Office Européen de Lutte Anti-Fraude (OLAF)*

Conclusions

- We welcome the Court's move towards providing more diversified information on the nature, location and causes of the problems affecting the management of community funds in its Annual Report. Developments of this kind should be continued to help the Commission and Member States to identify problem areas more easily and target management effort to address them more effectively.
 - The Court has again been unable to provide positive assurance on the legality and regularity of the great majority of Community expenditure and considers that improving Member State checks is central to ensuring the correct use of Community funds. The systems in the United Kingdom have recently been strengthened to comply with new regulations issued by the Commission in the key budgetary areas of the Common Agricultural Policy and the Structural Funds. However, errors and control weaknesses continue to be found and the departments and other authorities should constantly seek to improve the operation of the United Kingdom's systems.
 - Good progress has been made in implementing the changes set out in the Reform Strategy, broadly within the original timetable, although progress on the reform of human resources policy has been slower than envisaged. The two essential, and potentially most difficult, areas where reforms remain to be completed are recasting of the Financial Regulation and the Staff Regulations, both of which require approval from the Council of Ministers. The United Kingdom Government, through the Council 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.
 - We recognise that the improved financial accountability and management which the Commission is seeking to achieve as part of its reform strategy, requires changes in culture, as well as organisational structures, and that the Commission and the Court consider it is too early to judge whether the reforms have been a success. Nevertheless it is important to identify any tangible improvements achieved by the reform process.
 - We note that different practices continue to exist between Member States in reporting fraud and irregularity to the Commission. We agree with the Court that robust working definitions, agreed and understood by all parties, need to be established, in order to ensure suspected fraud and irregularity are reported on a common basis and to allow meaningful comparisons and trend analysis to be undertaken. We welcome the Office Européen de Lutte Anti-Fraude's (OLAF) efforts to take this forward and urge the United Kingdom Government to play a full role.
 - We recognise the enlargement of the European Union in the next few years will have an impact on the operation of all the European Institutions. The United Kingdom Government should seek to ensure that financial management issues are given appropriate priority during the Convention on the future of Europe and in other bodies dealing with the enlargement process.
- 11** This report complements a number of earlier National Audit Office reports on specific aspects of interest on the revenue due 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, agricultural fraud, the Sheep Annual Premium Scheme, the Arable Area Payments Scheme, and the measures introduced in response to the BSE crisis.