

Department for Environment, Food and Rural Affairs

Report of the Comptroller and Auditor General to the House of Commons

Introduction

1. The Department for Environment, Food and Rural Affairs (the Department) develops and implements policy relating to the environment, food and rural issues. It is also responsible for negotiating European agricultural and rural funding on behalf of the UK. The Department receives funding from the European Commission (the Commission) to deliver the Common Agricultural Policy and other initiatives.

2. I have reported previously on the problems experienced by the Rural Payments Agency (the Agency), an executive agency of the Department, in implementing the Single Payment Scheme (the Scheme). The Scheme was introduced by the European Union as part of the 2003 Common Agricultural Policy reforms which replaced 11 separate crop and livestock based production subsidies with a single payment based on land area.

Purpose of this report

3. The financial statements on the following pages represent the results of the Department for the period from 1 April 2011 to 31 March 2012. This report explains the nature of Scheme related qualifications in 2011-12 and progress made by the Agency in correcting the problems experienced in the past.

4. I have qualified my opinion on the 2011-12 accounts on the grounds of regularity. The requirement to pay material financial penalties ("disallowance") where Scheme regulations are not correctly applied results in a loss to the UK Exchequer which is outside Parliament's intentions in relation to the proper administration of European funding. I qualified my opinion in this respect in 2010-11 and 2009-10.

5. In addition, I have limited the scope of my audit opinion as I was unable to obtain sufficient audit assurance to support the balances relating to Scheme trade receivables of £14.9 million and Scheme trade payables of £56.9 million which are recorded in the Department's accounts. These amounts are administered and accounted for by the Agency, but consolidated into the Department's financial statements. I qualified my opinion in this respect in 2010-11 and 2009-10.

Qualified opinion on regularity due to financial penalties

6. Where the Commission takes the view that the detailed European Regulations have not been applied correctly in processing European Union Scheme transactions there is a risk of financial penalties or disallowance under the Scheme. These penalties are payable by the Department as a deduction from future Commission funding. In anticipation of these financial penalties the Department retains a provision in its accounts for disallowance penalties arising in respect of the Single Payment Scheme, for a number of smaller on-going schemes and for Single Payment Scheme predecessor schemes.

7. During 2011-12 the Department finalised disallowance penalties of £46.3 million, which are reflected in the 2011-12 Statement of Comprehensive Net Expenditure. This includes £29.2 million in respect of administration of the Fruit and Vegetable Scheme, £10.5 million of Cross Compliance penalties and £6.6 million of penalties relating to Structural Funds. I have therefore qualified my audit opinion on the Department's accounts on the grounds of

regularity. The Department incurred disallowance penalties of £175.2 million in 2010-11, £160.3 million in 2009-10, (£9m of which has since been reclaimed by the Department), and £92.2 million in 2008-09.

8. The Department's 2011-12 accounts include a provision for a further £125.4 million in respect of estimated disallowance penalties. This sum includes a total of £20.1 million in respect of the Fruit and Vegetable Scheme (2010 and 2011), £10.8 million in respect of the Rural Development for England (2009, 2010 and 2011), and £94.5 million in respect of the Single Payment Scheme (2010 and 2011). The total value of disallowance penalties finalised since 2008-09 or provided for currently is £590.4 million. Once disallowance penalties are finalised this represents a cash loss to the UK Exchequer.

9. The problems experienced by the Agency in implementing the 2003 Common Agricultural Policy reforms undoubtedly contributed to the disallowance penalties since the Scheme's introduction in 2005. The Department and Agency continue to contest the amounts of disallowance and are working to ensure that as a minimum the level of disallowance does not increase in future. All European Union member states have been subject to disallowance penalties and the rate of penalties applied to the UK is similar to a number of other member states.

Limitation of scope on Single Payment Scheme trade receivables and Single Payment Scheme trade payables

10. The 2011-12 financial statements record Scheme trade receivables of £14.9 million (2010-11: £24.5 million) owing to the Agency in relation to overpayments to farmers. The Agency has provided for doubtful debts against this balance of £7.4 million (2010-11: £13.0 million). The 2011-12 financial statements also record Scheme trade payables of £56.9 million (2010-11: £54.5 million) in respect of amounts owing to farmers due to underpayments.

11. I have been unable to obtain assurance that the balances recorded for Scheme trade receivables and trade payables are at the appropriate amount and represent the total value of Scheme trade payables. As these balances are consolidated into the Department's accounts I have therefore limited the scope of my audit opinion in respect of the valuation, existence and completeness of these balances. This is the fourth year in which the Agency has been unable to provide sufficient audit evidence to support the trade receivables balance arising from Scheme overpayments. It is the third year in which the Agency has been unable to provide sufficient audit evidence to support the trade payables balance arising from Scheme underpayments.

Progress made since the report on the 2010-11 financial statements

12. The difficulties experienced by the Agency, which have contributed to the disallowance penalties and unsupported Scheme trade receivables and trade payables balances, have led to three values for money reports by the National Audit Office, the most recent of which was in 2009.

13. During 2011-12 the Agency made some progress in addressing the issues on which I have previously reported. It has continued to work to quantify the value of Scheme trade receivables and Scheme trade payables by resolving the underlying issues in the quality of data. In particular, the Agency has developed an understanding of the underlying profile of Scheme trade receivables in its books and, in turn, has recovered some historic overpayments and agreed recovery plans with farmers who have made a claim against the Single Payment Scheme 2011.

14. However, the Agency has not made sufficient progress during 2011-12 to identify all Scheme trade receivables and trade payables, and to confirm their value. For this reason, the value, existence and completeness of underlying data in relation to Scheme trade receivables and trade payables has not been demonstrated sufficiently and I am unable to remove my qualification.

Looking ahead

15. During 2010-11 there were a large number of changes within the Agency which included the appointment of a permanent Chief Executive in January 2011 and the replacement of the Senior Leadership team. During 2011-12 the new team, known as the 'Arc' has shown positive signs that it is addressing the underlying operational issues and rectifying the causes which lead to my qualifications.

16. In particular I note that the Agency published, in February 2012, a Five Year Plan to consider the key priorities for the Agency. It will be delivered in two phases, being the Strategic Improvement Plan to redress the problems in administering the current Scheme, and the Future Options Programme to meet the challenges of the Common Agricultural Policy reforms due in 2014.

17. This is the fourth year that I have qualified my opinion. Much remains for the Agency to do before it is in a position to present the Scheme trade receivables and the Scheme trade payables as true and fair in the accounts. In particular, the Agency needs to maintain focus on gaining assurance that the Scheme overpayments population is complete and pay the right amount of money on time to farmers to prevent the overpayment population increasing. The Agency must also continue to resolve the operational issues which prevent it from being able to accurately assess these balances and ensure that the losses borne by the UK Exchequer are minimised.

18. After the problems experienced by the Agency in introducing the Common Agricultural Policy in 2005, the Department and Agency are aware of the challenges posed by the reform of the programme from 2013. The complexity of European Commission Regulations, and the resulting administrative burden, has been a key driver of disallowance in the past, and the Department and the Agency will be mindful of this in their negotiations. In implementing the reforms, the Department will be able to use its experience from the previous Scheme to ensure appropriate arrangements are in place to monitor, challenge and support the Agency. However, I am hopeful that the progress made by the Agency during the last financial year, including the publication of the Strategic Improvement Plan, will continue to improve the situation and place it in a stronger position for the introduction of the next Common Agricultural Policy.

19. I have reported in more detail in my report accompanying the Rural Payments Agency's 2011-12 financial statements (HC 230).

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