

# **PAC CHAIRMAN'S PRESENTATION TO MEETING OF BUDGETARY CONTROL COMMITTEES OF THE EUROPEAN UNION ON 18 AND 19 DECEMBER 2007 (With the Chairman's additional comments)**

## **State of play in the United Kingdom as regards the introduction of national management declarations**

### **Introduction**

I am here to talk, briefly, about the role of national Parliaments in the scrutiny of European funds and the development of an annual consolidated statement on the United Kingdom's use of European Union monies (the national statements). Jules Muis referred to the way the member state parliaments and the European Parliament clap with only one hand. Like him I agree that we must look to clap with two hands.

### **Findings from the European Court of Auditors' report**

Those of us who have taken a keen interest in European affairs over recent years will be all too familiar with the chorus of concern and negative media attention that greets the release of the annual report of the European Court of Auditors. For each of the last thirteen years the Court has, in effect, qualified the accounts of the European Community.

Although the Court has reported some improvement in recent years, it continues to point to problems with the legality and regularity of transactions in key areas of expenditure such as on Structural Measures and parts of the Common Agricultural Policy. This continuing problem has grabbed attention at the highest political levels within the European Parliament and Commission and

with our own national Parliament. As we saw in the debate yesterday we are all involved.

The Budgetary Control Committee of the European Parliament has been very active in pushing for improvement. And, Manuel Barroso, President of the European Commission, made it a strategic objective of his Commission to strive for a positive Statement of Assurance by 2009. Given the scale of the financial management issues to be addressed, however, the aims of the Barroso Commission are, by its own acknowledgement, highly ambitious.

### **Why do we need national management declarations?**

I shall spend the next few minutes describing **action** we are taking in the UK to secure better transparency in the management in the UK of what is, in reality, money belonging to the taxpayers of each of our member states.

The responsibility for the spending of European monies lies, ultimately, with the European Commission. Yet some 80 per cent of expenditure is controlled by the member states. It is for this reason that domestic nations bear a significant responsibility for the financial health of the European Union. As Chairman of the Committee of Public Accounts which holds the UK Government to account for its spending I am obliged to ask "why is it that the Court cannot provide a positive DAS?" As Mrs Stuiveling says EU funds are a relatively small part of total public funds in most member states. That is certainly true in the UK.

We must not forget that in the UK over three quarters of our European expenditure goes through two programmes: the Common Agricultural Policy and Structural Measures. We too face challenges and this year for example:

- In agriculture the Court criticised our management of the Single Payment Scheme - it gave the example that, contrary to

Community legislation, some farming subsidies were give to landlords not involved in farming.

Each year the UK Comptroller and Auditor General reports to my Committee on the results of the European Court of Auditors' work and the progress toward improvement and my Committee has taken a keen interest in the workings of the European Union.

One of our conclusions in the 2005 Report read: *A major factor contributing to the qualified audit opinion is the level of errors identified by the Court. This is partly due to the complexity of schemes and programmes, particularly for payments under the Common Agricultural Policy and Structural Measures.* As others have said, it is as true now as it was then; a key factor in the failure to achieve a positive DAS is the complexity of the systems used to implement these payments. And the Court agrees. For the first time this year in its Statement of Assurance it observes "in the area of CAP expenditure, structural measures and internal policies ... complicated or unclear eligibility criteria or complex legal requirements have a considerable impact on the legality and regularity of underlying transactions".

This organisational complexity is compounded when individual schemes become complex – making them difficult and costly for member states to administer and frustrating for those at the receiving end coping with the bureaucracy. Schemes and programmes, particularly those implemented under the Structural Measures, have a propensity to lead to a high number of errors and therefore to qualification. My Committee drew parallels with the experience of the UK Department of Work and Pensions where complex schemes had led to the Department's accounts being qualified in successive years. We recommended that the European Commission consider the relationship between the desired outcome

of a particular scheme, the complexity of the rules governing it, and the consequential likelihood of an error occurring. This is Jules' point that the more rules then the more errors you will have.

We recognise that there has been some simplification of the regulations as part of the new Financial Perspective and that simplification is also one of the themes in the Commission's 'Action Plan' but it is clear that, before we can hope for a positive Statement of Assurance, we must address this complexity further. This is a formidable task.

### **Actions**

It will be for the Commission and Member State governments to reduce complexity. But this they must do this even if it leads to rougher but clearer justice. Our particular interest at the moment is to work with our Government to improve the United Kingdom's financial management of European Union funds.

Last year, the UK Comptroller and Auditor General put forward a proposal to a committee of our House of Lords advocating the production of a new consolidated account to improve the transparency of expenditure of European Union monies in the United Kingdom. I also wrote to the then Chancellor of the Exchequer, Gordon Brown, in support of the idea. The aim was to obtain a much clearer statement of the way in which European Union monies are spent in the United Kingdom, in particular how much and on what programmes. At present, in the United Kingdom, these monies are accounted for only in large Departmental accounts, such as that of the Department for Work and Pensions, and risk being obscured by other substantial domestic expenditures.

In November 2006, the Treasury announced that it intended to

pursue, in close consultation with Parliament and the National Audit Office, a statement of assurance on the national use of EU funds along the lines we had suggested. The Government intends, subject to detailed discussions, to prepare and lay before the UK Parliament an annual consolidated statement on the UK's use of EU funds. This will be prepared to international accounting standards, and it will be audited by the National Audit Office. The statement and audit opinion will be published and therefore available to the European Court of Auditors and the Commission. This action has support at a high level within the UK government.

The approach is currently being piloted and there are challenges yet to be faced. These include considerations such as consideration of the ease with which an account produced for the UK financial year could be adjusted to the EU financial year. However, we are confident that the exercise will act as a trigger for further discussion on the use and management of EU funds in the UK.

### **Liaison with other Member States**

The UK Committee of Public Accounts recently hosted an International Symposium attended by the Chairs of other public accounts committees, and their equivalents, from across the world. The audit of National Statements on European Union monies was one of the topics for discussion and the debate clearly showed the importance that my counterparts place on the management of EU funds. I have made it a particular feature of my Chairmanship to increase contact between overseas Public Accounts Committees and European Budgetary Control Committees. My Committee has been able to meet with our French, Spanish, Dutch, Danish, Swedish and German colleagues. I support us all working closely together.

While the UK proceeds in the production of its own National Statements we have also been watching with interest, the progress

on assurance statements being made in the Netherlands, Denmark and other Member States.

### **In conclusion**

Let me be very clear: this is not a framework for the UK to report to Brussels; it is about achieving better management and transparency for the use of these monies in the United Kingdom. These arrangements would enhance audit and Parliamentary scrutiny of our own use of EU funds, help to improve control and thus improve financial management. The Court of Auditors and the Commission could take into account the NAO's audit opinion when performing their own audit and controls, but of course that is a decision, ultimately for them to make.

In conclusion I believe this is the way we will get proper accountability, control and transparency of the way EU funds are spent in member states. I believe that this will not interfere with the independence of supreme audit institutions or their parliaments. Indeed it gives national parliaments another weapon to keep track of EU monies.

As you know, much of British public opinion is sceptical about how EU money is spent. If more countries were to show how the money was spent even if we discovered error rate of say 10% that would do much to reassure people. We shouldn't insist on there being no mistakes. I think British public opinion can be a bit arrogant in considering the problems are all elsewhere. But as we know that was not true for the single farm payment because we had a problem there too. In conclusion I think a bit of honesty and transparency would be good for the European cause.

Thank you for inviting me to speak to you on this distinguished platform

