

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

European Committee B

PROTECTION OF THE EU'S FINANCIAL INTERESTS

Monday 8 February 2016

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The Committee consisted of the following Members:

Chair: SIR EDWARD LEIGH

† Burns, Conor (*Bournemouth West*) (Con)
† Gauke, Mr David (*Financial Secretary to the Treasury*)
Goodman, Helen (*Bishop Auckland*) (Lab)
† Grant, Mrs Helen (*Maidstone and The Weald*) (Con)
† Green, Damian (*Ashford*) (Con)
† Hammond, Stephen (*Wimbledon*) (Con)
† Hayman, Sue (*Workington*) (Lab)
† Hopkins, Kelvin (*Luton North*) (Lab)

Kaufman, Sir Gerald (*Manchester, Gorton*) (Lab)
† Marris, Rob (*Wolverhampton South West*) (Lab)
† Mullin, Roger (*Kirkcaldy and Cowdenbeath*) (SNP)
† Stride, Mel (*Lord Commissioner of Her Majesty's Treasury*)
† Swayne, Mr Desmond (*Minister of State, Department for International Development*)
Clementine Brown, *Committee Clerk*
† **attended the Committee**

European Committee B

Monday 8 February 2016

[SIR EDWARD LEIGH *in the Chair*]

Protection of the EU's Financial Interests

4.30 pm

The Chair: Before we begin, I will outline the procedure. First, a member of the European Security Committee may make a five-minute statement about that Committee's decision to refer the documents for debate. The Minister—or, in this case, the Ministers—will then make a statement of no more than 10 minutes, and questions will follow. The total time for the statement and subsequent questions and answers is up to an hour. Once the questions have ended, the Minister will move the motion and it will be debated. We must conclude our proceedings by 7 o'clock. Does a member of the European Scrutiny Committee wish to make an opening statement?

Damian Green (Ashford) (Con): It is a pleasure to serve under your benign tutelage, Sir Edward. I will take a few minutes to explain the background to these documents and the reasons why the European Scrutiny Committee recommended this debate.

The first document is the Commission's annual report for 2014 on protecting the EU's financial interests, in which the Commission summarises and evaluates measures taken by it and member states to counter fraud and irregularities against EU expenditure and revenue in 2014. It is supplemented by six detailed annexes, including a statistical evaluation of irregularities reported in 2014, a follow-up to recommendations to member states in the 2013 report, and the methodology regarding the statistical evaluation of reported irregularities for 2014.

The European Court of Auditors must report each year on implementation of the EU's annual general budget and the European development funds for development aid. The second document is the ECA's 2014 reports on the general budget and the EDFs budget. The documents also contain the statements of assurance—commonly referred to as the DAS, from the French—concerning the reliability of the accounts and the legality and regularity of the underlying transactions that the ECA is required to produce.

Because the ECA's annual audit reports have for many years revealed serious inadequacies in the implementation of the EU general budget, it has become customary each year for the latest report to be debated with the Commission's annual anti-fraud report. Although the current ECA report affirms the reliability of the accounts for the 21st successive year, there is not a positive statement of assurance, so the European Scrutiny Committee had no hesitation in recommending that this document be debated. We suggested that Members might wish to focus on the Government's efforts to improve EU financial management. They might also examine the ECA's comments about the ineffectiveness of some of the UK's management of EU funds, the Government's response, and the reasons for the welcome

that the Government gave to the qualified statement of assurance in the report of the European development fund audit.

4.33 pm

The Financial Secretary to the Treasury (Mr David Gauke): It is a great pleasure to serve under your chairmanship, Sir Edward. It is also a pleasure to be joined by the Minister of State, Department for International Development, my right hon. Friend the Member for New Forest West to discuss the three reports outlined by my right hon. Friend the Member for Ashford. The Government welcome the three reports—the European Court of Auditors' annual audit report for the 2014 budget, the ECA report on the European development funds in 2014 and the European Commission's "Fight against fraud 2014 Annual Report"—which continue to play a key role in informing the UK's approach to EU fraud and financial management. The Council vote on the discharge of the EU budget in 2014 will take place at ECOFIN on 12 February and will be discussed in COREPER the day after tomorrow. The Government's priority is to hear the Committee's contributions on EU fraud and financial management before those meetings.

As the Committee is aware, the Government take a tough stance on EU financial management. The Prime Minister's 2013 deal, which represented the first ever real-terms cut to the EU budget framework, set the context and imposed financial constraints that are forcing the Commission to prioritise spending and focus on value. Against that backdrop, we welcome the European Court of Auditors' report on the 2014 EU budget, which, in particular, increased the focus on performance and results.

Compliance is important, but without considering performance we will never achieve the maximum value for money. It is necessary, but not sufficient. As Vice-President for budget Kristalina Georgieva said, a 100% compliant road to nowhere

"is a 100% waste of our taxpayers' money".

We are therefore pushing hard for a more effective EU performance framework that delivers results.

Proper financial management is essential and it is clear that the ECA's verdict on the EU accounts does not yet give taxpayers sufficient confidence in the system. While EU revenues and commitments were given a clean audit, the Government regret that there has been no significant improvement in the estimated level of error for EU payments. Consequently, the ECA has been unable to grant EU budget expenditure a positive statement of assurance for the 21st consecutive year. This estimated level of error in the EU budget—reflecting expenditure that is not compliant with EU regulations—stands at 4.4%, which is well above the acceptable 2% threshold, and shows only marginal improvement on last year's 4.5% error rate. We are not achieving the rigorous standards of budgetary management that we expect to see at EU level. We are therefore pushing all those involved to make further improvements.

Until the 2009 audit, previous Governments had consistently voted to approve the discharge of EU annual budgets. However, in 2010, under the current Chancellor, the UK took the unprecedented step of abstaining on the Council decision to approve the Commission's management of the EU budget. Subsequently, for the past four years, the

UK has voted against the discharge of annual EU budgets. We intend to continue to do so this year, issuing our own counter-statement calling for an increased focus on performance and setting out our own recommendations.

On EU spending in the UK, I am pleased to confirm that where the ECA has identified specific cases of potential weakness in the UK, the relevant authorities have engaged with the Commission and the ECA to resolve those issues. In the majority of cases, the necessary recovery action or sanction has either been completed or is under way.

Finally, I turn to the Commission's report on the fight against fraud in 2014. Based on Commission estimates, established fraud is likely to affect only about 0.02% of EU payments. None the less, any fraudulent misuse of EU funds is unacceptable. That is why the Government take a zero tolerance approach to such criminal activity by fully supporting anti-fraud in the EU, including co-operating with the European anti-fraud office, OLAF.

I want to conclude by assuring the Committee of the Government's strong commitment to improving EU budget management, borne out by our focus on three key areas: driving simplification to reduce compliance errors; encouraging a sharper focus on performance and results; and continuous improvement of domestic control systems to ensure the effective management of EU funds in the UK.

I will now hand over to the Minister of State, Department for International Development, my right hon. Friend the Member for New Forest West (Mr Swayne) to say a few words about the report on European development funds. I look forward to the subsequent debate.

The Chair: Mr Swayne, do you wish to make a short statement?

The Minister of State, Department for International Development (Mr Desmond Swayne): Mr Leigh, I had not realised that the statement was voluntary. Had I done so, I might have chosen not to make a statement. However, on the basis that I have prepared one, it is probably best if I deliver it.

The Chair: Make it snappy!

Mr Swayne: I will endeavour to do so.

The issue is of enormous importance to DFID, given that 11% of our official development aid is spent through the EU institutions. It is vital that we ensure it is spent well and according to our own priorities and objectives, to which end we employ 19 officials between Abercrombie House in East Kilbride and No. 22 Whitehall to ensure that that is the case, and we deploy 26 officials as secondees to the European institutions directly. Their main effort is to ensure that the EU's priorities align with ours and that their procedures and standards reflect ours.

I come to these debates with a certain prejudice. When people complain to me about the unsatisfactory nature of European institutions, I am inclined to say, "Not me, gov. I voted no in 1975." Nevertheless, notwithstanding such prejudices, I have been impressed by the quality of European aid delivered by the European institutions. What is more, when overseas in some of the countries in which we operate, I find that humanitarian

staff are equally complimentary of the quality of European aid. Having read the documents, which are not a particularly good read, it seems that the EU is delivering high-quality aid in spite of lapses in some of its management systems. It is vital that we get on top of that, so that those management systems do not begin to undermine the quality of European aid.

We are concentrating on various aspects of the EU's procedures. Members of the Committee may remember that we focused last year on the results framework and how results are calculated. We are currently working on a review of procurement and counter-fraud policies. There is an element of frustration in dealing with the reports, because the Committee will appreciate that we made all sorts of observations and criticisms last year that we would expect to be taken into account, but the period covered by the report precedes the criticisms that we made last year, so there is an element of catch-up. It will take time for our observations and demands to be reflected in the reports that we see before us.

As for the development funds, I expect that the auditors will be quietly confident that the appropriate level of seriousness is being attached to the criticisms that were made, but there is an elephant in the room, namely the European Parliament's report of some two weeks ago, which made headlines in *The Times* in London. It reported that half of EU aid is wasted, more specifically that 53% of €20 billion will not be deployed and will not deliver the intended effects.

However, as Field Marshal William Slim used to observe, nothing is ever as bad as first reported. It turns out that it was not a report of the European Parliament, but of a Member of the European Parliament who had access to an external assistance management report that was published on the European Parliament website in what I would call a rather unnecessary and unwise fashion. We would not publish live management documents of that sort. Some Members may recall the arguments in the previous Parliament over just such a management document: the risk register. This document is a risk register, on which officials would be expected to record everything that could possibly go wrong unless steps are taken to prevent it from going wrong. The document's purpose is to ensure that action is taken to prevent that.

Nevertheless, the document has been used to draw up the criticisms that were made, in particular that it will take some 27.5 years to disburse the commitments that have already been made to development projects. That shows the limitations of using a management document that is a snapshot. There will be always be points in a development cycle when more will have been pledged than has actually been deployed and disbursed, particularly in a humanitarian environment such as we have at the moment with huge crises in Syria, Yemen and South Sudan. Large amounts may have been pledged, but not actually disbursed. I would be more concerned about criticism that we were shovelling money out of the door rather too fast in order to meet commitments, rather than dealing with them proportionately. Typically, a European project lasts some four years, which is to be expected in the circumstances.

Nevertheless, the European Court of Auditors judged that the cost-effectiveness and efficiency of controls have not been demonstrated and it is therefore important that an action plan to deal with that is put in place. That action plan involves intensive management training to

[Mr Swayne]

ensure that officials comply with the rules, and the deployment of new financial tools to ensure that they are complied with.

In 2011, the financial resource management estimate that we made for the European Union in our own multilateral aid review was that it was actually very good. We have to see this report in that context, but it is vital that this is got right, because one of the most corrosive things in relation to international development is the undermining of public confidence in our commitment through people being told that the money is wasted. Therefore, we have to deal with these issues to ensure that there is no question of that arising.

The Chair: We now have question time. Who wishes to kick off?

Rob Marris (Wolverhampton South West) (Lab): It is a pleasure to appear before you, Sir Edward; I do not think that I have had the pleasure before. I have a brief question for the Financial Secretary to the Treasury. I understood him to say that 0.2% of EU spending was thought to be subject to fraud. Have the UK Government made an assessment of the level of fraud and irregularities, which can be different, relating to the UK's share of that EU expenditure?

Mr Gauke: I thank the hon. Gentleman for his question. It is 0.02% that is identified as being fraud. I think that a slightly larger number is suspected of and looked at as being fraud, but when it comes down to it, only 0.02% is established as being fraud.

In terms of the UK comparison, it can be difficult to make exact comparisons. All managing authorities across the UK have in place robust anti-fraud measures. Those include fraud risk assessments, mandatory checks on payments, fraud awareness training and regular referrals to OLAF where suspected fraud arises. We also support OLAF through the work of the designated UK anti-fraud co-ordinator, AFCOS, which is based in the City of London Police alongside Action Fraud. AFCOS continues to engage actively with OLAF and other member states to investigate and bring criminal proceedings against perpetrators of EU fraud. It would also be fair to say, looking at the ECA's assessment of member states, that it samples member states' activities; it is not intended to be a thorough audit of each and every member state to produce those numbers, so there is not a specific UK error rate on fraud, just as there is not for financial management errors.

Kelvin Hopkins (Luton North) (Lab): It is a pleasure to serve under your chairmanship, Sir Edward. Hon. Members may notice a sceptical note in my questions, but—[*Interruption.*] They are just very accurate. We are a very substantial net contributor to the European budget, and 4.4% of the budget going amiss is the equivalent of certainly £1 billion and possibly more. Should we not be more concerned than some of the large recipient countries, because it is our money that is going into the wrong pockets?

Mr Gauke: It is certainly right that we should be concerned about that money. That would be the case regardless of whether we were a net contributor, but the

hon. Gentleman makes a fair point: we make a substantial contribution to the EU budget every year. The UK has traditionally played a leading role in ensuring budgetary discipline in the European Union, and I highlight the Prime Minister's achievement in 2013 of a real-terms cut in the EU budget for the multi-annual financial framework. An important area for us is ensuring that money is spent wisely and that we do not spend too much money at an EU level. We are a strong advocate of sound financial management and are committed to ensuring that EU funds are safeguarded and managed well. The Commission has ultimate responsibility for the implementation and management of the EU budget, but all member states, including the UK, must take responsibility in terms of putting pressure on the Commission and ensuring that money spent by member states is spent well.

Kelvin Hopkins: No doubt there are particular budgets that are more vulnerable and particular countries where the budget is not as appropriately controlled as it might be. The Financial Secretary talked about simplification. Are the British Government targeting certain areas and do they have concerns about particular countries where the budget might not be appropriately spent?

Mr Gauke: In terms of the UK's action in this area, we have in place comprehensive procedures to ensure that EU funds comply with UK and EU rules, including a role in programme audits and preventive anti-fraud measures. The hon. Gentleman raises concerns about particular areas. Structural funds, for example, which are a sizeable part of the EU budget, have to be focused upon. The Commission set up a high level group on European structural investment funds simplification last year, whose work is ongoing. Although the agenda is in its early stages, the UK continues to engage actively by advising on simplified costs and financial instruments.

In agreeing the terms of the 2014 to 2020 structural funds regulations, the UK actively pushed for and achieved greater use of simplified costs, reductions in document retention periods, and lighter and more automated annual reporting. In terms of good practices, DCLG's work in improving public procurement procedures was highlighted in an ECA special report last year. The Department has set up an internal network to review public procurement issues, including the issue of guidance, case studies and reviews of public procurement checks and audits.

As I have said, the UK takes this matter very seriously. Although the Commission has ultimate responsibility for implementation and management of the EU budget, we have a role in taking responsibility to push for reforms.

Roger Mullin (Kirkcaldy and Cowdenbeath) (SNP): It is a pleasure to serve under your chairmanship, Sir Edward. May I say I admire how you have generated such a beautiful gender balance on the bench beside you?

I have two questions, if I may. My first is for the Minister of State. I am interested in this issue because I have spent much of my life in parts of the developing world and on aid projects. I have a very precise question, but, by way of a short preamble, I have a lot of sympathy with those who are at times critical of agencies that

operate internationally. At one stage in my life I was in Yemen to look at a college built with World Bank money and with United Nations Food and Agriculture Organisation development. My terms of reference were simple: we have built this building, now tell us what to do with it. It was not necessarily the best project that had been set up. The Minister mentioned the recent report, published on the EU website, on the amount of money wasted. He said that in his and the Government's view, the report was "very good". Will he explain precisely what "very good" is?

Mr Swayne: I was referring to the multilateral aid review that we carry out periodically. The last update was in 2011. We assess the effectiveness of all the multilateral organisations through which we operate as a prelude to deciding on what terms we are prepared to continue using them as development partners. The EU institutions are part of that review. Specifically, we judged their financial controls and their effectiveness in deploying the finance that they are given to deliver projects on the ground to be very good. I said that to counter the criticism set out a couple of weeks ago that they are too slow and that it will be 27.5 years before they can deploy the finance that they have been given. That is a snapshot, or the use of a management tool to draw a wholly inappropriate conclusion.

Roger Mullin: My supplementary to the Financial Secretary is also about the international aspects of fraud. Many projects funded through the European Union require multinational partnerships. I am aware that some fraud has occurred in more than one member state. Does he have a general view of how the UK compares with other EU member states on multinational projects?

Mr Gauke: There is a general view that the UK is strongly determined to address fraud. We have a strong record of budgetary discipline in the EU and with multinational projects, and we have demonstrated that we take fraud very seriously.

From the documents before us, it is hard to draw comparisons between the UK and other member states. There is no directly comparable error rate for the UK's management of EU funds against which the ECA's error rate for the EU budget can be measured. To our knowledge, there are no national accounts of major economies, including the UK's, that can be meaningfully compared with the ECA's audit of EU accounts. Only a few countries—the UK is one—produce whole of Government accounts. It is hard to compare precisely our record with those of other member states or countries outside the EU. The UK remains determined to root out fraud, wherever it might be.

Stephen Hammond (Wimbledon) (Con): Like so many others, I want to say that it is a pleasure to serve under your chairmanship, Sir Edward. I confess to my right hon. and hon. Friends on the Front Bench that I have not read these documents cover to cover.

Mr Swayne: Shocking!

Mr Hammond: It is indeed shocking, although I thought it would be more useful to spend my weekend trying to ensure that my hon. Friend the Member for Richmond Park (Zac Goldsmith) is elected in May.

I agree with my right hon. Friend the Member for Ashford that it is shocking that this is the 21st year in which the accounts have not been properly audited and signed off. That would not be acceptable in the financial world. With my financial hat on, I read three of the chapters, and I would like to test something with the Financial Secretary. Chapter 3 is about getting results from the EU budget. The common themes include poor performance setting, poor planning and objectives that are not fit for management purposes. My hon. Friend will have noticed that it states that budgetary strategy is not aligned with political strategy, which is an explicit criticism of the inability to make proper financial judgments.

Hidden in the documents—the Commission did not even bother to reply—is paragraph 3.79, which gets to the heart of the lack of results in partnership arrangements. I would like to hear from my hon. Friend exactly how the Government will put pressure on the Commission to respond with more a bit more force than its bland statements.

Mr Gauke: My hon. Friend raises an important point. It is traditional in these debates that we focus on error and specifically on fraud, but as I touched upon in my opening remarks the focus on performance should not be forgotten. We welcome the ECA's increased focus on performance while retaining its valuable role on compliance. That shows there is recognition that compliance without performance will achieve little. Strengthening the ECA's work on performance could help to maximise the efficiency, economy and effectiveness of EU spending.

It is also in line with Vice-President Georgieva's budget for results initiative, which aims to develop a more performance-orientated budget that delivers tangible results for EU citizens. We see this as an important opportunity to help to improve the transparency of EU spending to taxpayers, and its value and efficiency. My right hon. Friend the Chancellor made our position clear at ECOFIN last year.

We are working closely with the Commission on this issue, offering our expertise in areas such as transparency and value for money. The Commission is keen to drive this agenda forward. In particular, it is our priority to ensure that this work feeds into the mid-term review of the multi-annual financial framework this year. It is important that the work in this area is joined up with other related initiatives to improve budgetary management, such as proposals for simplification of the common agricultural policy and structural funds, which were launched earlier this year by the Commission, and the wider mid-term review this year.

My hon. Friend the Member for Wimbledon raises an important point. Having heard Vice-President Georgieva discuss these matters on a number of occasions, I know that she is clearly very personally committed to a move towards ensuring that performance is at the forefront of how EU money is spent, and that is an initiative that we support and welcome.

Stephen Hammond: I am grateful for that response and I am sure that many in this Committee will hope that Vice-President Georgieva's performance will show the result of that next year.

The one other issue that I just wanted to raise with my hon. Friend is the contentious nature of state aid rules and infringements, because obviously that goes

[Stephen Hammond]

quite far towards the heart of trade. Paragraph 6.39 indicates that there were 14 projects that infringed state aid rules and the Commission's response is, "We'll deem whatever action's necessary." Given that these projects are obviously usually highly controversial and get to the source of quite a lot of disagreements, can he assure the Committee that we will be pushing the Commission to act where deemed necessary so that action is taken?

Mr Gauke: In terms of UK infringement of state aid rules, the mandate of the relevant audit authorities for structural funds in the UK includes checks on compliance with state aid rules. The UK project reference here is not identified by the ECA, so it is not possible to comment on the nature of the errors. However, if my hon. Friend's concern is about ensuring that state aid rules are properly enforced, I say to him that we will continue to push the Commission to focus on the areas of greatest error, and we think that that would be beneficial in ensuring that the EU state aid regime works as effectively for Europe as it can.

Rob Marris: I have a question for the Minister of State. In her explanatory memorandum dated 10 December, Baroness Verma, the Parliamentary Under-Secretary of State, Department for International Development, pointed out that the European development fund is the European Union's main development co-operation instrument and that the total budget for it in 2014 was £34.5 billion. She also said that about 15% of that came from the United Kingdom. I say "about 15%", because in paragraph 2 she says it was 14.68% and in paragraph 21, on page 391 of the bundle, she says it was 14.82%—it is about 15%. The Minister of State referred to 11% of DFID's budget being spent via the European Union. Could he say briefly what the process is for deciding the percentage of DFID's budget that is spent via the European Union?

Mr Swayne: The fact that 11% of our overseas development aid goes via the European Union is not inconsistent with the fact that 15% of what the European Union spends is accounted for by us. I am not quite sure how that works out mathematically, but I am confident that it is true. The issue of how much is spent—how much comes from us—is an assessment of our share of the European budget. My understanding is that that works on the same basis—[*Interruption.*] The seventh cavalry has arrived. The ratio of UK funds to the EDF is determined by our gross national income at the beginning of the period. Well, there it is.

Kelvin Hopkins: I have one or two questions for the Minister of State. I have attended many such European Committee debates over the past 19 years. There have been concerns in the past about the allocation of aid by the European Union, including that it is less efficient and less well-directed than British Government aid, but the Minister seems to suggest that that is no longer the case. There were two specific accusations: that the aid was not directed to those most in need—the poorest countries, such as sub-Saharan Africa—and that there was a bias towards the better-off Francophone countries around the Mediterranean. Can the Minister tell us whether that matter has been addressed?

Mr Swayne: The hon. Gentleman refers to the fact that he has experienced these Committees over a number of years. I wonder if it has occurred to him that there is at least a possibility that this might be the last such feast he has to attend, depending, of course, on a democratic process somewhat down the road. Nevertheless, with respect to the substantive issue he raises, I am certainly alive to that concern. I came to this role with a whole series of prejudices that have largely been dispelled in respect of the quality of aid delivered by the EU institutions.

Rob Marris: You might vote yes.

Mr Swayne: There are other priorities.

Given that we spend 11% of our official development aid through the EU institutions, it is important that they reflect our priorities, including that of concentrating on the poorest, rather than on those groups mentioned by the hon. Member for Luton North. I am confident that we have been moving the European Union much more significantly in that direction. I am also satisfied with the progress of the reform programme, certainly in respect of gender—I think we have scored highly on moving the goalposts towards where we want to be.

The Chair: If no more Members wish to ask questions we will proceed to the debate on the motion. I call the Minister to move the motion.

Motion made, and Question proposed,

That the Committee takes note of European Union Document No. 11470/15 and Addenda 1 to 6, a Commission Report: Protection of the European Union's financial interests—Fight against fraud 2014 Annual Report, and unnumbered European Union Documents, the European Court of Auditors' 2014 Annual Reports on the implementation of the budget and on the activities funded by the 8th, 9th, 10th and 11th European Development Funds; agrees that budgetary discipline and robust financial management at all levels remains crucial, and that EU taxpayers must have confidence that their funds are being effectively managed and implemented at an EU level; expresses disappointment that the error rate for EU budget payments shows only a slight improvement on last year; supports the Government's efforts to continue to engage with the Commission and Member States to drive improvements to reduce the error rate, in particular, advancing the simplification agenda; stresses the importance of the EU budget achieving results as well as being compliant; and presses the Commission for a clear action plan to address the European Court of Auditors' recommendations relating to the European Development Fund in order to improve its error rate.—(*Mr Gauke*).

5.8 pm

Rob Marris: I have a few minutes of remarks, Sir Edward, but I know that you wish to make progress.

The Chair: Take as long as you like.

Rob Marris: Please do not tempt me. I congratulate the Financial Secretary to the Treasury. The European Commission report came out on 31 July and he signed off the explanatory memorandum for Parliament on 24 August—during the holiday period. Clearly his family never get their holiday though, and I urge him to change that. Similarly, the Minister in the House of Lords, Baroness Verma, promptly signed off her explanatory memorandum on the European foreign aid report from the Court of Auditors on 10 December, and here we are having a fairly prompt debate.

The explanatory notes, as ever, are helpful—the Financial Secretary knows my penchant for reading explanatory notes carefully. Paragraph 2 refers us to the report:

“The report summarises and evaluates measures taken by the Commission and Member States to counter fraud and irregularities against EU spending in 2014.”

That is a major area of concern, as my hon. Friend the Member for Luton North mentioned. Page 2 of the document from the European Parliament refers to the amount of fraud, saying

“the Commission estimates that tax fraud in all its forms amounts to EUR 1 000 billion in the EU, or EUR 2 000 per European citizen.”

That is a huge amount of tax fraud.

The reports deal with the monitoring and auditing to see that there is not fraud—not only tax fraud, but fraud and irregularities in other spending. The Commission report on page 21 of the bundle refers to measures already taken and to AFCOS, to which the Financial Secretary to the Treasury referred earlier. It also refers to

“a draft directive on the fight against fraud by means of criminal law, proposed in July 2012,”

and goes on to refer to

“a draft regulation on the establishment of a European Public Prosecutor's Office (EPPO), proposed in July 2013.”

The EPPO would be established under article 86 of the treaty on the functioning of the European Union. I hope that one of the Ministers present—I imagine the Financial Secretary to the Treasury—will be able to indicate what progress is being made on that draft directive and that draft regulation. With the passage of time, I hope that there has been progress.

There is a huge problem with fraud and irregularities, not just in terms of tax. What is meant by irregularities? Just as my father used to say—I do not know why he used this example—all St Bernards are dogs, but not all dogs are St Bernards, so all fraud is an irregularity, but not all irregularity is fraud. An irregularity can occur when a beneficiary is not in compliance with the EU rules, which could be down to a genuine mistake.

Kelvin Hopkins: Should we accept that the term “irregularities” is merely a euphemism for fraud and that we should use the term “fraud” when we mean it?

Rob Marris: That is not my understanding of how the term “irregularities” is used in Euro-speak. It could be that there is non-compliance with the rules, but the reason for that non-compliance is not fraud but, for example, laziness, misunderstanding and so on. It does not necessarily have what us lawyers would call the mens rea for fraud.

Kelvin Hopkins: It is perhaps the same as the difference between tax avoidance and tax evasion.

Rob Marris: That is perhaps not the greatest of parallels, but I understand where my hon. Friend is coming from. Of course, tax avoidance is not illegal, but tax evasion is. Nevertheless, some tax avoidance—by, for example, Google—raises serious questions that my hon. Friend and I would agree on.

There is a great deal of difficulty with the error rates, some of which, again, will be driven by fraud and some by non-fraudulent irregularity. Take, for example, funds for jobs and growth on page 382 of the bundle. The hon. Member for Wimbledon talked about chapter 3, but, as lawyers often do, I went to the back to get to the juicy bits. The explanatory memorandum dated 9 December that was submitted by HM Treasury refers to chapter five of the European Court of Auditors annual report. That chapter is on funding for jobs and growth, for which research and innovation accounts for 60% of spending. At paragraph 16, the explanatory memorandum states:

“The estimated error rate for this area of expenditure is 5.6%, an increase on 4.6% for the 2013 budget.”

It refers to the European regional development fund and the cohesion fund. It states in paragraph 20, on page 383 of the bundle:

“The overall estimated error rate is 5.7%, an increase on 5.3% for 2013.”

The *bête noire*, of course, is the common agricultural policy and the common fisheries policy. Paragraph 26 states:

“The ECA estimates that the overall error rate for this area of expenditure stands at 3.6%, the same as in the 2013 budget.”

There are considerable concerns about error rates. A company trading in Britain, for example, with an error rate of 3.6% in its accounts would be open to serious questions about whether it knew what it was doing. The situation is more difficult with the number of member states in the European Union and the number of disbursements that they make to the hundreds of thousands of individuals and organisations in the European Union, but that is quite a large error rate.

In paragraph 4 of the Financial Secretary's helpful explanatory notes, he refers to

“the various initiatives taken by the Commission in 2014 to counter fraud affecting the EU budget”.

If you will forgive me, Sir Edward, I will, because I have questions on these points, read out quite a long quote from paragraph 4. It concerns a series of 10 different areas and, with your indulgence, it will be simpler if I just read those out. They will then be on the record in *Hansard*. The areas are:

“negotiations between the European Parliament and the Council on the proposed Directive on the protection of the EU's financial interests by means of criminal law; ongoing negotiations concerning the proposal to set up a European Public Prosecutors' Office”—

I referred to that earlier—

“a Commission proposal to partially revise the Financial Regulation to align it with the revised public procurement Directive; the 2014 Communication on fighting corruption in the EU; negotiations relating to four delegated and four implementing Regulations on the reporting of irregularities; actions concerning anti-fraud policy in customs; measures taken to fight against VAT fraud; negotiations to include anti-fraud provisions in international agreements; the entry into force of new public procurement rules; a Directive on protection against currency counterfeiting; and progress on the implementation of the CAFS and Hercule and Pericles Programmes.”

For those hon. Members who have temporarily forgotten, Pericles is a European Union exchange, assistance and training programme for the protection of the euro against counterfeiting, so it is not directly of interest to the United Kingdom, but is indirectly; and Hercule is the European Union programme to promote activities related to the protection of EU financial interests, which is

[Rob Marris]

very much of interest to the United Kingdom. I therefore hope that the Financial Secretary, either today or perhaps later in writing, can give me and the rest of the Committee an indication of what is happening as regards those 10 items of anti-fraud policy at European Union level, helpfully delineated in the Minister's explanatory notes, and of how the European Union, in co-operation with the United Kingdom, is getting on in those areas.

The explanatory notes, at paragraph 7, say:

"The Commission considers that Member States have, in general, adequately implemented the recommendations in its 2013 report, for example, the designation of an AFCOS".

I hope that the Financial Secretary can say a little more about what is going on in that regard.

The explanatory notes also say, at paragraph 14:

"The use of false or falsified documentation or declarations remained the most common type of fraud."

The Financial Secretary will remember the debate that we had in Westminster Hall on 14 January regarding VAT fraud on online purchases. Online retail purchases in the United Kingdom have gone up by two thirds since 2010. It is a growing area and will continue to grow as an area of retail sales. One hopes that there will not be a commensurate growth in fraud, but that is of great concern.

The note from the European Parliament—this is on page 2—states:

"Two directives were also adopted in 2013, one on the common system of VAT concerning an optional and temporary application of the reverse charge mechanism in relation to supplies of certain goods and services susceptible to fraud, the other concerning a quick reaction mechanism against VAT fraud".

Will the Financial Secretary indicate, first, what a reverse charge mechanism is in relation to supplies of certain goods and services susceptible to fraud, because I do not know, and, secondly, what is being done about it? Clearly the European Parliament thinks it is a problem, and so do the member states, because a directive was adopted in 2013, more than two years ago—perhaps three years ago.

The second directive is a quick reaction mechanism against VAT fraud. Will the Financial Secretary enlighten us on what the European Union and, indeed, the United Kingdom are doing about a quick reaction to VAT fraud? As he will remember, considerable concern was expressed in the Westminster Hall debate of 14 January on both sides of the House about VAT fraud in online retail. VAT fraud does not only happen in online retail, but online retail is perhaps more susceptible to VAT fraud, as it is more difficult to address. As I have indicated, online retail is a growing area of commercial activity, and it is very big in this country.

Paragraph 22 of the Financial Secretary's helpful explanatory notes refers to four specific recommendations contained in the report from the Commission on financial interests:

"urging Member States to use their AFCOS to its full potential; encouraging Member States to put in place effective measures to tackle conflicts of interest; asking specific Member States to strengthen their detection and/or reporting of fraud against the EU budget; and inviting Member States to inform the Commission of measures taken to fight customs fraud."

Can he indicate, either today or later in writing to members of the Committee, what is happening in each of those four areas in terms of both the United Kingdom

and the European Union? The report has indicated that something should be happening in each of those areas.

The European Parliament report—this is on page 4—states:

"Particular attention should also be paid to the development of mechanisms for prevention, early detection and customs transit monitoring".

Can the Financial Secretary enlighten the Committee on what customs transit monitoring is? I suspect, perhaps wrongly, that it could be related to VAT fraud, which is of considerable concern on both sides of the House.

Paragraph 36 of the Financial Secretary's helpful explanatory notes—he has repeated this today—states:

"The Government believes that the best way to reduce the level of irregularities and fraud is through a more preventative approach, such as greater simplification of the systems and regulations."

I agree that simplification is desirable—he and I have discussed it many times over the years—but I draw his attention to paragraph 14 of his own explanatory notes, which I read out earlier, regarding the use of false and falsified documentation or declarations. Some of that might be addressed through simplification, but if false documents, et cetera, are the most common type of fraud, as he indicates in paragraph 14, I suggest that simplification, as per paragraph 36, although welcome, is not necessarily the best way to address false documentation. I hope he can enlighten the Committee as to what Her Majesty's Government propose to do about false documentation.

5.25 pm

Kelvin Hopkins: It is interesting to sit on one of these Committees for possibly the 19th time. I have debated in almost all of them, if not in every one. I was a permanent member when there was fixed membership of such Standing Committees, and for several years I have taken part in debate on the issue we are considering, as a member of the European Scrutiny Committee.

It is amazing that no one has said how unacceptable and astonishing it is that for 21 consecutive years the European Court of Auditors has failed to sign off the European Union budget. If the National Audit Office could not sign off the budget of a Government Department for 21 years, and up to 4.4% of the Department's funding had gone missing through fraud or irregularities, there would be a scandal.

We should raise our concerns again. We cannot just roll over and say, "Oh, well, it's the European Union. What do you expect?" We should say it is not right. People's money is involved—that is particularly an issue for substantial net contributors, of which we are one. We should not accept fraud or corruption, especially when, as I suspect, it happens in particular countries, and is less likely to happen in the United Kingdom and some of the better regulated countries. Perhaps I am claiming too much, but I suspect that certain countries and budgets in particular are involved.

I remember, going back years, a report of a beef subsidy being paid to a resident of a tower block in Turin. I suspect that there were not too many beef cattle in his tower block flat. I hope that these more extreme cases have been dealt with; nevertheless, there are clearly still things taking place that should not be. I hope that the British Government will take issue with the European Union over the matter in the strongest terms, once again.

As the International Development Minister said, this sitting may well be the last of its kind. Who knows? I would certainly vote for that—not, I may say, with all my Opposition colleagues. Some of us, however, do take that sensible view, as I would describe it.

The level of corruption is ridiculous. Because of my concern, I made a serious suggestion in previous Parliaments that I want to repeat now. Let us consider, setting aside aid that goes to countries outside the European Union, fiscal transfers between members of the European Union. They could be made to member states' Governments, so that there would be a net contribution to the budget of Latvia, for example. I know that there is a substantial net contribution to Latvia, and that a high proportion of its gross domestic product comes from European Union transfers.

If the transfers were done on the basis of GDP per head, so that those with the lowest level of GDP per head received the most net transfers, and those with the highest made the biggest contributions, but it was done to and through Governments, I think we would overcome much of the problem. The Governments of those member states would have the job of sorting out how the money would be spent—whether they would subsidise agriculture or industry, or simply reduce taxes. Whatever they did, it would be their choice, and they would do it democratically through their own Governments.

That would be seen as fair because rich countries would be contributing assistance to poorer countries on a proportional basis.

Rob Marris: My hon. Friend raises the intriguing prospect of a European Union Barnett formula, such as we already have, of course, in the United Kingdom. Perhaps I may take him back a bit, to his reference to fraud of more than 4%, and contrast that with what I understood from the Minister. Perhaps this is a comparison between apples and oranges, but the Financial Secretary mentioned 0.02%. There is a big discrepancy between those two figures. From where did my hon. Friend get his figure—or are we talking about two different measurements?

Kelvin Hopkins: I took my figure of 4.4% from the Minister at the beginning, but I notice that the table on page 37—or 21; there are two figures—suggests that the actual amount involved is €500 million, as opposed to 4.4% of the budget, which would be much more. Nevertheless, substantial fraud is still going on, and substantial sums of money are still going missing inappropriately and sometimes corruptly, so we ought to take it seriously.

My suggestion for simplification is that even if we stay in the European Union, the budget should be allocated simply on a proportionate basis according to GDP per head, so that the fiscal transfers are from rich to poor and the countries themselves decide democratically how they allocate that budget. We would have the same privilege as well if we were in that position. If they want to subsidise their agriculture, they can; if they do not, they should not.

I was in Lithuania a couple of years ago with the European Scrutiny Committee. Lithuania used to be self-sufficient in food, but it is now being paid not to grow food, so thousands of acres in Lithuania are left fallow because the European Union does not want it

producing too much food. That is nonsense. Lithuania ought to be able to decide for itself what it spends its income on. If it wants to stay self-sufficient in food, that is a sensible thing to do.

As I said, I put this particular suggestion in more than one previous Parliament, and the response—not to me personally, but in European documentation—suggested that people did not like it. The reason was clearly that it would weaken the glue holding the EU together, because there would be no European common agricultural policy—or fisheries policy; it would be very sensible to get rid of that. Instead, each country would get a fiscal transfer, or pay out a fiscal transfer, and expenditure would be decided democratically within member states.

That would make the European Union a very different place. If we must have a European Union with large fiscal transfers, it would be a much more sensible way to do it, and we would avoid all the problems with fraud. If there is fraud within countries, it would be their problem to sort it out. If they did not sort out their own fraud, it would in a sense be their problem, and it would be the problem of the democratic electors of those countries to ensure that their Governments did the right thing. Anyway, those are my thoughts. I think it is ridiculous that we have a vast amount of fraud every year, year after year.

I have one final question to the Minister. There is a table on page 129 showing the evolution of budgets and payments from 2010 to 2014. Interestingly, in the last four years, the payments made have been larger than the final voted budget in each case. The last time the payment was less was in 2010. Also, the amount spent on the budget increased substantially between 2010 and 2013, by 21% over those three years, which is way beyond inflation. Last year, because there was such pressure and such concern, it decreased, but payments made were still higher than the final voted budget.

Even over those four years, there is still a 17% increase in budget expenditure, at a time when we are supposed to be more concerned about reducing spending in the European Union. Can the Minister comment on that? He might be able to explain it simply to me as a problem that is not serious, but it looks serious in the table, given the calculations that I have suggested.

5.33 pm

Roger Mullin: Of course it is a terrible problem—absurd, in many ways—that for 21 years a budget of this scale has not been signed off. A major concern on which people have concentrated in this debate so far has been fraud. One thing that we know about fraud is that often it can be underestimated, particularly in situations of great complexity involving many partners. That is the situation that we face, so we must take it seriously, but if I knew what the solution was, I would have mentioned it long before now, because this is a difficult matter.

One of the things I agreed very much with in the Financial Secretary's opening remarks was when he hinted that we needed to move much more towards being concerned about outcomes. As we know, many types of European projects involve a fascination with measuring every input—in education projects, for example, every partner often has to record every single teacher and every single hour worked every day on a particular project. More and more, as that builds up in

[Roger Mullin]

many projects, with many partners, over many years, that can create circumstances in which those who are less scrupulous than others might find an easy way to massage how they record inputs, showing much less concern for moving projects further towards achieving the necessary outcomes. I am not sure of the solution, but the Financial Secretary was wise to say in his opening comments that the Government want to see more pressure towards concern about the impact and outcomes of such projects.

I also share some of the scepticism expressed by my hon. Friend the Member for Luton North—I hope he does not mind me calling him an hon. Friend—about practices in different countries. I hinted at that in my question earlier. Certainly people involved in education projects in the past have come to me and said that whereas in the UK a pretty conscientious approach is taken, they sometimes find that their partners in other countries have perhaps felt slightly less burdened by the need to dot every i and cross every t. Parts of the communities that we represent feel that at times our scrupulousness is not necessarily matched by that of other beneficiaries of EU funding. We do not know the comparative data, but it might be worthwhile raising with the European Union how we satisfy Governments about so many countries and so many participants.

I thank the Minister and the shadow Minister for their helpful and frank responses to the questions. With those few remarks, I will leave it there.

5.37 pm

Mr Gauke: I thank all right hon. and hon. Members for their participation in the debate. I thank the hon. Member for Kirkcaldy and Cowdenbeath for his warm words of appreciation. He brings an amiability to his role as the Member of Parliament for Kirkcaldy and Cowdenbeath that is perhaps unprecedented.

Mr Swayne: In recent times.

Mr Gauke: Indeed.

I thank the hon. Members for Luton North and for Wolverhampton South West for their questions, which I will attempt to address. I also thank other hon. Members who participated in the debate.

As the Committee is aware, the Government have taken an increasingly robust stance on financial management. Although the estimated European Court of Auditors 4.4% error rate from the 2014 EU budget shows a slight improvement in the estimated level of error, it is a marginal reduction from the 4.5% error rate in the previous year and remains well above the ECA's acceptable threshold of 2%.

We want to see more ambition and progress in the area, so, as I confirmed earlier, the Government will vote against discharge of the 2014 EU budget at this month's ECOFIN. That is the most public way for member states to take a tough stance on financial management and the Government continue to make that stand for UK taxpayers. None the less, we welcome the efforts of Vice-President Georgieva to manage the budget better and to focus on performance. The UK is taking a proactive role in driving that agenda forward.

The hon. Member for Luton North asked about the difference between fraud and error, which was touched on by his Front-Bench colleague. Fraud is the deliberate criminal misuse of EU funds. Financial errors are breaches of often complex EU regulations. Of course, the Government take a zero-tolerance approach to fraud. As I said earlier, only an estimated 0.02% of EU payments are established as fraudulent, according to Commission data. The "Fight against fraud 2014 Annual Report" shows that, across the EU, cases of suspected or potential fraud affected around 0.26% of EU payments and 0.8% of EU revenues. Of these, Commission estimates suggest that around 8% are likely to go on to be established as actual fraud. So I do not think we should consider that that 4.4% is all fraud.

Kelvin Hopkins: I thank the Minister for his explanation. However, the discrepancy between definitely defined fraud and the money that has been spent inappropriately suggests a relaxed attitude to expenditure—money splashing about and finding its way into the pockets of people who might be politically helpful and so on. It may not be fraud, but it leans that way.

Mr Gauke: First, where I would agree with the hon. Gentleman is that failures of financial management matter. Whether it is fraud or not, we should have stringent standards and take a robust approach. However, there is another context. We often talk about fraud and error, or error and fraud, in the context of welfare payments, and when politicians allow the percentages that refer to fraud and error to be described as simple fraud, those politicians tend to be criticised. Indeed, I have heard people make the case that we should refer to error and fraud, not fraud and error, because the larger part of the error and fraud budget relates to error and is not proven to be fraud. So I think that approach should also be borne in mind.

It is also the case that, as has been mentioned, much of the legislation governing the EU funds is complex, and the associated guidance does not always offer the necessary level of clarity. Some of the errors identified are systemic, recurrent, and affect various member states and EU institutions. It is therefore clear that the overarching rules governing these areas need to be addressed. I do not wish to downplay the importance of dealing with error or any kind of financial mismanagement, but it is not the same as fraud. It is not synonymous with fraud, and the element that can clearly be identified as fraud is a subset of the overall 4.4% number that we are talking about.

Kelvin Hopkins *rose—*

Mr Gauke: I will give way again, but I am keen to make progress.

Kelvin Hopkins: Clearly, we must not confuse error and fraud. Nevertheless, if the vast proportion of the money that is inappropriately spent is described as error, it enables those who want to play it all down to be successful in reducing concern about the money that is misspent. There might be a penumbra somewhere between fraud and genuine, innocent error.

Mr Gauke: Yes. I do not in any way want to downplay that 4.4% number. It is too high and needs to be addressed. On the 0.02% that is identified as fraud,

there may well be sums of money that in the end are not identified as fraud, but might be getting close to it. I recognise that point. However, I would not want us to consider that the two are synonymous.

The hon. Gentleman raised a point about expenditure levels. It is worth reiterating again that in 2013 the Prime Minister secured the first ever real-terms cut to the multiannual financial framework for the period 2014 to 2020, forcing necessary budget restraint. For example, both the 2014 and 2015 budgets represented cash and real-terms cuts compared with the 2013 budget, which was the last year of the previous MFF. From 2010 to 2013, we were still working on the MFF that had been agreed by the previous Government. Tempted as I am to debate the weaknesses of that agreement, I would rather focus on the successes of the 2013 agreement, negotiated by the current Prime Minister.

Turning to the detailed points made by the hon. Member for Wolverhampton South West, he first raised the directive on the fight against fraud to the Union's financial interests by means of criminal law—the PIF directive. The UK supports the directive's broad aims, but the draft text contained several unacceptable elements, such as the inclusion of VAT in the directive's scope. While the Council's general approach of 2013 removed many of the unacceptable elements, discussions are ongoing and the final text is yet to be agreed. As such, the UK has elected not to opt in to the PIF directive at this stage but continues actively to engage in EU negotiations and will consider the case for a post-adoption opt-in once the final text has been agreed. I will of course keep hon. Members informed of progress in that respect.

We of course continue to take VAT fraud seriously at both national and EU levels. In addition to working to tackle VAT fraud domestically, Her Majesty's Revenue and Customs continues to work closely with other member states and international agencies to combat VAT and other cross-border fraud. Additionally, member states continue actively to work together to share knowledge and expertise through the Fiscalis programme and exchange information on potential missing trade intra-community fraud in the EUROFISC network. The UK has also successfully pushed for the increased use of multilateral control systems, involving a co-ordinated exercise in which two or more member states verify the tax liability of businesses, to investigate cross-border VAT fraud. However, the UK Government's position on VAT fraud is that it should be dealt with at a national level, not an EU level, as it is primarily a national resource.

As for the other detailed points that the hon. Member for Wolverhampton South West raised, I will write to him on the specific policies outlined in the explanatory memorandum to the Commission's "Fight against fraud 2014 Annual Report", which, as he said, I signed on 24 August. I reassure him that it did not get in the way of the Gauke family holiday, much excitement though there would have been at the opportunity to run through the memorandum on a wet afternoon in north Wales. In the event, it did not interrupt us and I think we played Uno instead.

On missing trader intra-community fraud, it is worth pointing out that the estimates of attempted MTIC fraud have now decreased from some £2.5 billion to £3.5 billion in 2008-09, which I suspect we debated back then, to between £0.5 billion and £1 billion, which has

held steady over the past four years. Nevertheless, we recognise that fraud poses a constant threat, but HMRC remains vigilant. HMRC has been in the vanguard of member states developing tools and arguments to deal effectively with VAT fraud, MTIC fraud in particular, and is active in EU forums to ensure the spread of good practice and greater co-operation between tax authorities.

Rather than attempt a definitive definition of the reverse charge this afternoon, I will include one in my letter. In short, it is about shifting the responsibility for reclaiming input taxes within a chain of transactions involving VAT. The reverse charge was something used by the previous Labour Government to counter MTIC fraud. I will write to hon. Members with a definitive definition.

On the European Public Prosecutor's Office, the UK will not participate in the establishment of any European Public Prosecutor. Nevertheless, the Government retain a considerable interest in negotiations on the European Public Prosecutor, given its potential impact on us and bodies such as Eurojust in which we currently play a role. The Home Office leads on that matter.

The role of the anti-fraud co-ordination service varies across member states. The UK's role includes investigating irregularities involving criminal behaviour—a function that the City of London police is well placed to perform. The AFCOS has attended EU conferences designed to facilitate the sharing of information and best practices across member states, enhancing co-operation on the important issue. The UK's AFCOS actively supports OLAF in investigations in Brussels through facilitating interviews, statements and visits to the UK.

On structural funds, the ECA has indicated that a significant proportion of errors in its audits are related to public procurement procedures, which is partly due to the complexity of the rules. The ECA acknowledged in a recent special report on public procurement issues the good practices introduced by the UK since the errors in 2009-10. The UK authorities are aware of the need to continue improvement of public procurement procedures in structural funds programmes for the 2014 to 2020 period.

The UK welcomes the fact that the ECA recognised the different definitions of customs audit applied across member states and revised its assessment accordingly. The hon. Member for Wolverhampton South West raised a further point about preventing the falsification of documents—one of the primary ways in which fraud is committed. The UK has a number of policies in place. The Government support efforts to reduce fraud in the EU, including the work of the European anti-fraud office, OLAF, in detecting and tackling fraud, and in seeking financial redress for the EU budget when it is found.

Finally, the hon. Member for Kirkcaldy and Cowdenbeath raised the issue of different countries' practices in ensuring compliance with EU aid spending. Member states are responsible but ultimate responsibility lies with the Commission, which needs to ensure compliance across the EU by issuing clear guidelines and ensuring that effective control systems are in place.

I hope that those points of information and clarification are helpful to the Committee. I thank hon. Members for their ongoing engagement with the issues and for their continued support of the Government's strong position on financial management and fraud.

Question put and agreed to.

Resolved,

That the Committee takes note of European Union Document No. 11470/15 and Addenda 1 to 6, a Commission Report: Protection of the European Union's financial interests—Fight against fraud 2014 Annual Report, and unnumbered European Union Documents, the European Court of Auditors' 2014 Annual Reports on the implementation of the budget and on the activities funded by the 8th, 9th, 10th and 11th European Development Funds; agrees that budgetary discipline and robust financial management at all levels remains crucial, and that EU taxpayers must have confidence that their funds are being effectively managed and implemented

at an EU level; expresses disappointment that the error rate for EU budget payments shows only a slight improvement on last year; supports the Government's efforts to continue to engage with the Commission and Member States to drive improvements to reduce the error rate, in particular, advancing the simplification agenda; stresses the importance of the EU budget achieving results as well as being compliant; and presses the Commission for a clear action plan to address the European Court of Auditors' recommendations relating to the European Development Fund in order to improve its error rate.

5.53 pm

Committee rose.