

HM TREASURY

Consolidated statement on the use of EU funds in the UK:

for the year ended 31 March 2008

Consolidated statement on the use
of EU funds in the UK:
for the year ended 31 March 2008

Ordered by the House of
Commons to be printed on
15 October 2009



Official versions of this document are printed on 100% recycled paper. When you have finished with it please recycle it again.

If using an electronic version of the document, please consider the environment and only print the pages which you need and recycle them when you have finished.

© Crown copyright 2009

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned.

For any other use of this material please write to Office of Public Sector Information, Information Policy Team, Kew, Richmond, Surrey TW9 4DU
or e-mail: licensing@opsi.gov.uk

Printed in the UK for The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID6129371 10/09

ISBN 970102962284
PU784

Contents

	Page
Commentary	1
Statement of responsibilities	7
Audit Opinion	8
Report by the Comptroller and Auditor General	10
Expenditure Account	16
Balance Sheet	17
Cash Flow Statement	19
Notes	20

Commentary

The background to this Consolidated Statement

1. The Economic Secretary to the Treasury announced to the House of Commons on 20 November 2006 that, as part of ongoing work to improve the accountability of European Community (EC) funds, HM Treasury would prepare a Consolidated Statement on the use of EC funds in the United Kingdom (the Statement). The UK's first Consolidated Statement was published on 17 July 2008 and covered the financial year ending 31 March 2007. This is the second Consolidated Statement and covers the financial year 1 April 2007 – 31 March 2008.

2. The audit and publication of these statements strengthens Parliamentary scrutiny of the UK's management of EC funds and helps to detect weaknesses in control systems, which can then be tackled more quickly and effectively. The Government hopes that the European Court of Auditors and the European Commission will be able to take into account the UK's Statement and the Comptroller and Auditor General's (C&AG) audit opinion and Report when performing their own audit and control work. Similar initiatives are underway in other Member States.

Respective responsibilities of the UK Parliament and Devolved Administrations

3. In accordance with the devolution settlement, relations with the European Union are the responsibility of the Parliament and Government of the United Kingdom, as Member State. Responsibility for implementing EU obligations, which concern devolved matters, lies with the relevant devolved administration. The proper administration of European Funds in Wales, Scotland and Northern Ireland is a matter for them and this Consolidated Statement of the use of EU funds is prepared without prejudice to this devolution of responsibilities.

Preparation of the Statement

4. HM Treasury has taken responsibility for performing the consolidation underlying this Statement on the basis of figures provided by the Managing Authorities¹, which remain accountable for the propriety of the reported spending. It is therefore not the intention that the Consolidated Statement replaces the reporting of the receipts, payments and balance sheet impact of EU funding by UK Central Government bodies. Such bodies will continue to report the impact of EU funding following the principles laid down in the Government's Financial Reporting Manual (FRM) for the relevant period.

5. This is the second UK Consolidated Statement, and along with the accompanying Comptroller and Auditor General's Report, it honours the Government's commitment to present an annual consolidated statement of UK Central Government receipts and use of EC funds. The purpose of the Statement is to bring together the payments and receipts, in respect of EU sponsored projects in the UK, into a single set of financial statements. It also offers greater scrutiny of the UK's management of EU funds and of the financial relationship between the UK and the EU.

¹ For the purposes of this Statement, the Managing Authorities comprise the Devolved Administrations and Westminster Departments managing EU funds.

6. The announcement in November 2006 referred to the preparation of a consolidated statement in accordance with International Financial Reporting Standards (IFRS)² adopted by the European Union (EU), in so far as they are applicable. The UK Government has announced that it will move to reporting on an IFRS basis from 2009-10³ and hence the financial reporting of EU funds in the Managing Authorities' individual financial statements will not move to an IFRS basis until that year. Until then, UK Government financial statements will be prepared under UK generally accepted accounting practice (UK GAAP).

7. The format of the 2007-08 UK Consolidated Statement is essentially the same as in the first year but HM Treasury is continuing work with the UK Managing Authorities to develop the format and content with the aim of improving reporting and disclosure of EC funds in future UK Statements.

The Comptroller and Auditor General's Audit of the 2007-08 Consolidated Statement

8. The Comptroller and Auditor General has audited HM Treasury's work on the 2007-08 Consolidated Statement. His Report is published with the Statement.

Internal Audit of Structural Funds

9. All systems are regularly audited by the internal audit sections of the Government departments or devolved administrations responsible for the control of structural fund expenditure. In addition, these internal audit sections ensure that at least 5% of expenditure at project level is subjected to the controls required by Article 10 of Commission Regulation 438/2001.

10. The results of those audits are used by management to strengthen procedures during the programmes implementation and also at closure to obtain reasonable assurance that the expenditure certified to the Commission is correct.

11. The latest available audits by the internal audit sections in departments and devolved administrations generally reported a positive picture with most management bodies having a satisfactory level of assurance that systems operate adequately. Where this was not the case, action plans were agreed to address any weaknesses.

Internal Audit of Agricultural Funds

12. As required by Regulation 885/06 each paying agency has an Internal Audit Service independent of the other arms of the entity that reports directly to the agency's director. The Internal Audit Services are required to verify that the procedures adopted by the agency are adequate to ensure compliance with Community rules and that the accounts are accurate, complete and timely.

13. Verifications may be limited to selected measures and samples of transactions provided that an audit plan ensures that all significant areas, including the departments responsible for authorisation, are covered over a period not exceeding five years.

² IFRS includes pronouncements by or endorsed by the International Accounting Standards Board (IASB), including the Framework for the Preparation and Presentation of Financial Statements, the accounting standards – international accounting statements (IAS) and international financial reporting standards (IFRS) – and interpretations thereof issued by the Standards Interpretations Committee (SIC) or its successor, the International Financial Reporting Interpretations Committee (IFRIC).

³ Budget 2008, C103

14. The Internal Audit Services's work is performed in accordance with internationally accepted standards, recorded in working papers and result in reports and recommendations which are addressed to the agency's top management.

15. The Certifying Body for the Agricultural Funds reports on whether the annual accounts of the Paying Agencies are in all material respects true, complete and accurate and that internal control procedures have operated satisfactorily. The Certifying Body reports have confirmed that the Internal Audit Services, in all the UK paying agencies, are operating to a high standard.

The UK's Financial Relationship with the EU

16. Member States' contributions to the Budget of the European Communities are made on the basis of the financing system set out in the Own Resources Decision which was agreed by all Member States and incorporated into UK law by virtue of the EC (Finance) Act 2008. The contributions relate to calendar years and are formula based using factors that are in many cases subject to periodic revision over a number of years as better information becomes available. UK contributions to the EC are not covered in the Statement; these are accounted for as part of the separately published Government's Consolidated Fund accounts, and audited separately.

Fund flows from the EU to the UK Government and on to beneficiaries

17. Most EC receipts coming to the UK are paid from the European Commission's account held in the UK, the EC No. 1 account. This account is administered on behalf of the Commission by the Exchequer Funds and Accounts Team in HM Treasury. Funds are transferred from the EC No. 1 account to the relevant Department via the HM Treasury No. 4 account. Managing Authorities make claims to the EU in Euros. These claims are settled by the Commission in Sterling using exchange rates provided by the Foreign Exchange Team at the Bank of England. The Structural Funds payments from the Commission, which are in euros, are converted into sterling using the applicable Bank of England rate.

18. Some claims are not settled through the EC No 1 account – for example, payments to Research Councils. The Commission makes these payments directly to the entity concerned using a commercial bank. The final level of receipts from the EC Budget will be affected by the closure process or by any disallowance, both of which may occur several years after funds have been paid out to recipients.

19. Twinning project⁴ receipts that are to be transferred to other Member States or to mandated bodies as EC funding for their part in the project are not income of the UK Managing Authority and are therefore excluded from this Statement.

20. Intervention stocks⁵ are purchased with UK funds and are not incorporated into this Statement but are accounted for in the financial statements of the Department for Environment, Food and Rural Affairs (DEFRA).

⁴ Twinning projects are EU funded projects that support the capacity building in new Member States or the Candidate Countries. They are delivered by the public sector, usually by central government. These are funded through pre-accession funds.

⁵ Intervention stocks are stocks held by paying agencies in the European Union as a result of intervention buying of commodities subject to market support. Intervention stocks may be released onto the internal markets if internal prices exceed intervention prices; otherwise, they may be sold on the world market.

Events since 31 March 2008

21. Since 31 March 2008, the following material events have occurred in respect of the programmes reported in this statement.

Common Agricultural Policy Funding

Environment, Food and Rural Affairs

AD HOC DECISION NO 28

22. The Commission published Ad Hoc Clearance Decision No 28 (2008/582/EC) on 15 July 2008. This contained corrections which, for the UK, related solely to the Rural Payments Agency (RPA). The total disallowance was around £55m, the vast majority of which concerned the use of remote sensing technology for Arable Crops. Improvements in the technology have reduced the risk of a further financial correction on this issue.

AD HOC DECISION NO 29

23 The Commission published Ad Hoc Clearance Decision No 29 (2008/960/EC) on 19 December 2008. The total financial impact relating to the UK was £28m. The correction is broken down as follows:

- (i) £22.2m for perceived control failings in the administration of the fruit and vegetable operational programme regime by RPA. In response to the findings of the Commission auditors, RPA implemented a rigorous programme of remedial measures in relation to scheme administration with the aim of reducing exposure to further audit criticism. One element of the disallowance related to shared facilities is being contested at the European Court of Justice.
- (ii) £4.87m for perceived failings with cross-compliance inspections in Scotland and England during 2005. The vast majority of this correction relates to RPA (£4.6m) for failure to meet prescribed levels of inspection during the first year of Single Payments System (SPS) (2005). For subsequent years the number of inspections has met the regulatory requirements.
- (iii) £0.94m for insufficient controls regarding casualty animals entering into the scheme for cattle Over Thirty Months (OTMS). There is no further risk of disallowance as the scheme ended in 2006 when animals over thirty months were allowed to enter the food chain subject to passing the BSE tests.

The decision also ratified the disallowance of a further £57.78m for late payments of 2005 SPS claims paid during financial year 2007 (i.e. 16/10/2006-15/10/2007). The sums concerned had already been withheld under budget discipline procedures.

AD HOC DECISION 30

24. In February 2009, the Commission formally presented proposals for Ad Hoc Clearance Decision 30 to the Agricultural Funds Committee and the Decision contained corrections which, for the UK, related solely to the RPA. The total disallowance proposed was slightly less than £9.3m and related to certain export refund payments made during 2003-2007. New IT links between systems have been introduced to reduce the risk of future disallowance.

Northern Ireland Executive

25. A potential financial correction of £28.5m relating to the Single Farm Payment Scheme and land-based Pillar II schemes has been notified by the European Commission for perceived deficiencies with on-the-spot inspections. This case was referred to the EC's Conciliation Body, which considered the matter at its hearing on 1st April 2009 the outcome is still awaited.

Structural Funds

Scottish Executive

26. As a result of ongoing European Commission audit missions a further £19m has been provided to cover any potential irregular expenditure in the delivery of the of Structural Fund programmes. The Scottish Executive is working with Commission auditors and has supplied further information, which should reduce the level of potential irregularities.

Department for Communities and Local Government (DCLG)

27. Three audits of European Regional Development Fund (ERDF) programme expenditure have been closed and so far approximately £8.2m of irregular expenditure has been removed from the declaration to the Commission. Of this £5m has so far been recovered from grant recipients. In addition, as part of the 2000-06 programme closure arrangements across all Member States, a number of audits have been started by ECA and Commission auditors both before and after 31 March 2008. These continue to progress and final decisions are awaited.

28. DCLG works in conjunction with Government Offices to provide further evidence and legal argument to assist in resolving issues and follow up issues that arise with projects, as appropriate.

29. The Commission has announced a financial correction of approx £24.5m (€26m) relating to the 1994-99 Programmes.

Northern Ireland Executive

30. £53m of potential financial corrections was announced by the European Commission at a press briefing in November 2008 and relates to the Northern Ireland Single Programme Document (NISPD) and Special Support Programme for Peace and Reconciliation in Northern Ireland and the Border Counties of Ireland (PEACE I) programmes. Negotiations on the closure audits of these programmes continue and recent revised closure proposals (July 2009) from the Commission has indicated a reduction in the proposed correction to £34m – discussions continue with Commission officials in an effort to reduce this new proposed financial correction even further. Therefore, at this time the final liabilities have not yet been determined.

The Format of these Financial Statements

31. Managing Authorities are required to account for their inward and outward flows on an accruals basis under UK GAAP (and, from 1 April 2009, IFRS), recognising expenditure to beneficiaries as it is incurred, with a matching debtor from the EU. That debtor will not be extinguished until such time as the EU approves the claims – or imposes a disallowance – which can be several years after the expenditure has been incurred. In the meantime, as a result of this time lag between inward and outward flows, the UK Exchequer bears the cost of the EU programme.

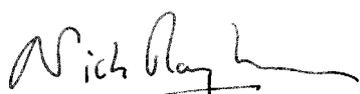
32. Such an arrangement does not easily lend itself to a 'traditional' presentation of the primary statements of an income and expenditure statement, a balance sheet and cash flow statement. Each of these might contain a combination of EU funds and expenditure supported, temporarily, by the UK Exchequer. Primary statements have nevertheless been developed supported by explanatory narrative to aid understanding of the figures in the statement. HM Treasury will continue to improve these primary statements through feedback from users and contributors to the Consolidated Statement.

Ongoing work to improve the quality of information provided by this statement.

33. For the 2007-08 Statement HM Treasury worked closely with Managing Authorities and the NAO to refine our understanding of the underlying transactions and how they should be reported in the Statement. This has led to the auditors (NAO, Audit Scotland, The Wales Audit Office and The Northern Ireland Audit Office) undertaking increased audit testing of EU funding transactions reported in the underlying accounts.

34. For the 2008-09 Statement, HM Treasury will continue to work closely with Managing Authorities and the NAO to further improve joint understanding of the underlying transactions and how they should be recorded in both the Statement and in the general ledger of Managing Authorities. In light of this work we will also review the form and content of the Statement. In addition HM Treasury and the NAO will undertake a joint exercise to examine in more detail what UK temporary funding represents and how it should be best reported in the Statement.

35. Work is ongoing to develop better guidance on the accounting requirements for the Statement. HM Treasury will continue its work with Managing Authorities to develop clearer and more comprehensive guidance on the recognition and measurement of EU funding to be incorporated into the 2010-11 FReM. HM Treasury will also examine the scope for lower level guidance supporting that in the FReM, to ensure that underlying processes are consistent across Managing Authorities.



Sir Nicholas Macpherson
Permanent Secretary HM Treasury
05 October 2009

Statement of responsibilities

Statement of the Responsibilities of HM Treasury's Accounting Officer in relation to the Consolidated Statement on the Use of EU Funds in the UK

1. Following the announcement made by the then Economic Secretary to the House of Commons on 20 November 2006, HM Treasury has prepared a UK Consolidated Statement on the use of EU Funds for the financial year 2007-08. The Statement is prepared on an accruals basis and includes an expenditure statement, a balance sheet and a cash flow statement intended to give a true and fair view of the receipt and expenditure of EU Funds by UK central government sector entities.
2. HM Treasury's Accounting Officer has overall responsibility for the preparation of the Statement, which consolidates the EU Funds accounted for by the individual central government sector entities detailed at Note 2. Responsibility for the recording and regularity of underlying transactions rests with the Accounting Officers of the individual entities that account for the receipt and payment of EU monies.
3. In preparing the Statement, HM Treasury's Accounting Officer has, so far as is relevant to this Statement:
 - observed the requirements of the Financial Reporting Manual (FRM);
 - applied suitable accounting policies on a consistent basis;
 - made judgements and estimates on a reasonable and consistent basis; and
 - stated whether applicable accounting standards have been followed and disclosed and explained any material departures in the accounts.
4. Responsibility for the preparation of the returns of expenditure, receipts and other relevant accounting information for public sector entities accountable for the payment of EU Funds, rests with the Accounting Officers of the relevant entities. These Officers are responsible for preparing data capture returns for that body in accordance with the requirements set by the Treasury. In discharging his responsibilities for the preparation of the Statement, HM Treasury's Accounting Officer relies upon the returns provided by those Officers.

Independent auditor's report to the Economic Secretary to the Treasury

I have audited the Consolidated Statement on the use of EU funds in the UK for the year ended 31 March 2008. These comprise the Expenditure Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Treasury, other Accounting Officers and auditor

HM Treasury's Accounting Officer has overall responsibility for the preparation of this Statement which consolidates the EU Funds accounted for by the individual central government entities detailed in note 2. Responsibility for the recording and regularity of underlying transactions rests with the Accounting Officers of the individual entities that account for the receipt and payment of EU monies. These responsibilities are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the accounting policies outlined in them. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if I have not received all the information and explanations I require for my audit, or if information required by the Financial Reporting Manual, insofar as it is applicable, regarding other transactions is not disclosed.

I read the other information published with the Consolidated Statement and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Treasury and other Accounting Officers in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Statement, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from inconsistent application of accounting policies

As detailed in my accompanying report, the financial statements are not based upon bookkeeping in a single ledger that supports the production of a trial balance. The process of data capture is vulnerable to the risks of inconsistencies among the UK government bodies involved.

As a result, there is uncertainty over the completeness and reliability of data concerning transactions and balances relating to the use of EU funds in the UK. In my opinion, accounting policies have not been consistently applied across the component entities in relation to the identification of debtor and creditor balances and related transactions between entities, the treatment of EU funding, the compilation of cash balances and the recognition of provisions for financial corrections. Accordingly, these consolidated financial statements contain material misstatement, the quantification of which is dependent on professional judgement in the interpretation of those policies. As a direct consequence of the uncertainties surrounding the reliability of the balance sheet, I could not verify the figures for Temporary UK Funding (£182,839,000 in the balance sheet) or Other Receipts Direct from the EU (£108,530,000 in the cash flow statement).

Except for adjustments that would be required to the balance sheet, expenditure statement and cash flow statement as a result of the application of consistent accounting policies, in my opinion:

- the financial statements give a true and fair view of the state of affairs on the use of EU funding in the UK as at 31 March 2008, and of the expenditures and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Financial Reporting Manual, insofar as it is applicable to the Consolidated Statement.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and funding have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

Please see my attached report.

Amyas CE Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
12 October 2009

Report by the Comptroller and Auditor General

Consolidated Statement on the Use of EU Funds in the UK for the year ended 31 March 2008

Introduction

1. This report relates to the 2007-08 UK Consolidated Statement on the use of European Union (EU) funds, and is the second statement produced by the Government. As explained below HM Treasury's Accounting Officer has overall responsibility for the preparation of this Statement. The arrangements for accounting for the use of EU funds are explained in the Commentary to the Statement. Funding from the EU and expenditure made from these funds are accounted for by the UK authorities who receive them and are included in their statutory audited accounts. The Accounting Officers of these authorities are responsible for the recording and regularity of the underlying transactions.

2. I have audited this Statement to give my opinion on whether it presents a true and fair view and whether the underlying transactions conform to the authorities which govern them. In forming my opinion I have considered, in accordance with International Standards on Auditing, the results of specified audit procedures carried out by auditors of the National Audit Office, Audit Scotland, the Wales Audit Office and the Northern Ireland Audit Office on the underlying statutory accounts.

3. The Treaty establishing the European Community (the Treaty) provides the basic legal framework for the Budget of the EU. The Budget includes a number of separate funds, including the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD), the European Regional Development Fund (ERDF) and the European Social Fund (ESF). These are governed by secondary legislation made by the Council of the EU (the Council) and the European Commission (the Commission) which has overall responsibility for implementing the budget. The Council regulations and decisions define the eligibility criteria which final beneficiaries have to meet to be entitled to EU funds. They also specify certain control processes which must be implemented by Member States. Within the Member States, national authorities are responsible for overseeing the implementation of EU funded schemes in accordance with EU legislation. This includes determining whether final beneficiaries have met the eligibility criteria before payment is made. The national authorities also have a financial reporting responsibility to the Commission.

4. My audit is designed to ensure that, in all material respects, correct amounts are paid to eligible beneficiaries who satisfy the criteria. Where the conditions are not met, I consider the element of the transaction which is not in compliance with the regulations to be 'irregular'. Paragraphs 14 to 19 consider the results of my audit in this area.

5. The UK authorities, in common with other Member States, are also required to meet certain procedural and other requirements in EU regulations and decisions. If they do not, the Commission may determine that conditions have not been met and levy a financial correction on the Member State. Where this occurs, the Commission makes a reduction in EU funding made to the Member State for expenditure on programmes. While my audit provides an opinion on the regularity of payments of EU funds by UK government bodies to final beneficiaries, only the Commission is able to determine whether any financial correction is due. Any such shortfall in funding for UK expenditure is made good by the UK taxpayer. I consider

that any expenditure met by the UK taxpayer in these circumstances is outside the intentions of the legislative authorities and therefore irregular.

6. These financial corrections are normally made some considerable time after the payments to final beneficiaries under the relevant programme. They normally result from inspections and audit by the EU authorities, sometimes as part of the formal closure of a scheme or multi-year programme. Hence it can be several years before financial corrections are implemented.

Responsibilities for the preparation of the Consolidated Statement

7. HM Treasury's Accounting Officer has overall responsibility for the preparation of this Statement, which consolidates the EU funds accounted for by the individual central government sector bodies detailed at note 2 to the statement.

Qualified True and Fair Opinion

8. Under International Standards on Auditing (UK & Ireland), I am required to give my opinion on whether the Consolidated Statement presents a true and fair view of the use of EU funds in the UK. I have qualified my opinion for the reasons set out below.

9. The accounting policies for EU funds are set out in the Financial Reporting Manual (FReM), which has been adopted by the UK government as the basis for producing its accounts. All UK entities with EU funding complied, in all material respects, with the FReM in producing their own financial statements and their interpretation of the guidance was within an acceptable range of professional judgement. For the purposes of this Consolidated Statement, however, transactions and balances have not always been recorded in a consistent manner. For example, the specific accounting policies and treatments for recognising EU funding and recognising provisions for financial corrections differ.

10. My audit included consideration of the accounting treatment for recognising provisions and disclosing contingent liabilities as a result of probable or possible financial corrections by the European Union. In my opinion the UK authorities in receipt of EU funds have not been consistent in their interpretations of Financial Reporting Standard 12 ("Provisions, Contingent Liabilities and Contingent Assets") when submitting accounting data for the Consolidated Statement. As a result it is my opinion that the amounts provided for in note 12b do not include estimates for all of the cases where a financial correction is probable.

11. The financial statements are unusual in that they are not drawn up from a single ledger that supports the production of a trial balance, but from a series of returns made by component bodies. As some component bodies have not maintained separate or specific ledger accounts of EU related debtors, creditors and cash balances there is uncertainty over the completeness and reliability of Consolidated Statement data concerning these balances and the related transactions.

12. As a result of the inconsistent applications of accounting policies and incomplete records detailed above, I have been unable to confirm that the provisions, debtors, creditors and cash balances within the balance sheet and related expenditure entries have been compiled on a consistent basis and are materially accurate. As a direct consequence of the uncertainties surrounding the reliability of the balance sheet, my audit could not verify the figures for Temporary UK Funding (£182,839,000 in the balance sheet) or Other Receipts Direct from the EU (£108,530,000 in the cash flow statement).

13. I am content that, with the exception of adjustments which may have been required to the balance sheet, expenditure statement and cash flow statement as a result of these matters, the accounts present a true and fair view of the EU funded activities of the UK central government.

Regularity of payments to final beneficiaries

14. My audit included the examination, on a test basis, of evidence that payments by UK government bodies to final beneficiaries in 2007-08 were, in all material respects, in conformity with the authorities which govern them. As a result of the audit, I have been able to confirm that payments generally complied with these requirements and were, in all material respects, made at appropriate amounts to final beneficiaries who met the eligibility criteria. I noted a number of procedural and administrative matters which, whilst not providing evidence that payments to final beneficiaries were subject to material irregularity, give rise to the risk of the Commission imposing financial corrections in the future.

Regularity of other transactions

15. Where the Commission determines that certain procedural and legislative requirements have not been complied with, it may propose a financial correction. The Commission makes an initial assessment of the consequences of the weakness. It then discusses this with the UK authorities before deciding on the level of the financial correction to be applied. This correction is then made by restricting the level of future funding made available to the UK, with the resulting cost being met by the UK taxpayer.

16. When the UK authorities become aware that a financial correction may be necessary, either from their own knowledge or from notification by the Commission, they provide for these amounts in their statutory accounts. Provisions for potential financial corrections of £441.8 million have been included in the Consolidated Statement. These provisions, relating predominantly to the Commission's findings on expenditure and control systems in prior periods, represent a probable outflow of economic benefit but I do not consider these transactions to be irregular at this point. Once the Commission has determined the final correction, this represents a crystallised loss to UK funds which I consider to be irregular.

17. During the financial year 2007-08, financial corrections totalling £23.9 million crystallised, as set out in Table 1 below. I consider that there are no material EC financial corrections within the Statement for 2007-08 and I have therefore not qualified my regularity opinion in this respect.

Table 1 : UK financial corrections confirmed by the Commission in 2007-08

Department	Amount £m	Funds affected
Department for Communities and Local Government	19.8	European Regional Development Fund
Scottish Executive	3.5	European Regional Development Fund
Department for Environment, Food and Rural Affairs	0.6	Agriculture and Natural Resources
	23.9	

18. In addition, since the balance sheet date, disallowances totalling £116.8 million have crystallised, as set out in Table 2 below. HM Treasury has provided further information in the Commentary on the Consolidated Statement.

Table 2 : UK financial corrections confirmed by the Commission since 31 March 2008

Department	Amount £m	Funds affected
Department for Environment, Food and Rural Affairs	55	Agriculture and Natural Resources
Department for Environment, Food and Rural Affairs	28	Agriculture and Natural Resources
Department for Communities and Local Government	24.5	European Regional Development Fund
Department for Environment, Food and Rural Affairs	9.3	Agriculture and Natural Resources
	116.8	

19. As these decisions occurred after the balance sheet date, I have not considered them irregular in respect of my opinion on this Consolidated Statement for 2007-08.

Impacts of European Commission inspections in the UK

20. European Union expenditure managed by Member States on behalf of the Commission is subject to the Commission's own control inspections, which are usually carried out under the authority of the regulations and decisions that govern the funding scheme.

21. The Commission carried out audit checks in England in 2004 and 2005 which highlighted problems with the UK's management of Structural Fund measures. This led the Commission to suspend payments to six of the English regions in April 2007 until it could be confirmed that control systems were working effectively. The suspension has since been lifted across all the regions and the Commission has subsequently praised the decisive action taken by the Department for Communities and Local Government and indicated that it was satisfied that its earlier concerns had been addressed. However, in March 2008, the Commission confirmed a decision to levy a financial correction of €25 million (£19.8m) in respect of the North West region Objective 2 and Urban programmes. The correction was imposed because the Commission considered that there had been some shortcomings in the Government Office

North West's exercising of its supervisory role as managing authority which had led to some failures among certain of its delivery partners to comply fully with Article 4 of EC Regulation 438/2001.

The Role of the European Court of Auditors

22. The European Court of Auditors (the Court) is responsible for the external audit of the EU Budget. Under the Treaty, the Court is required to examine whether all revenue has been received and all expenditure has been incurred in a lawful and regular manner, and whether financial management has been sound. The Court is also required to provide the European Parliament and the Council (as the budgetary discharge authority) with a 'Statement of Assurance' as to the reliability of the accounts and the legality and regularity of the underlying transactions.

23. I have considered the Court's report for the financial year ending on 31 December 2007, which overlaps with the first nine months of the financial year covered by this report. The Court reaches an overall conclusion for the EU and for each broad area of EU spending. It is neither required to give, nor has it given, an opinion on the UK or any other individual Member State.

24. With regard to the Agricultural and Natural Resources programme area, the Court's report raised a number of concerns about the application of the Single Payment Scheme within England. It assessed that, taken as a whole, England's Integrated Administration and Control System monitoring was "not effective", although inspections were effective. Such weaknesses could lead to the Commission recovering expenditure which it judges does not conform to the appropriate legislation. In November 2007, the Rural Payments Agency completed a redefinition exercise to correct the entitlements of final beneficiaries in England. The Commission has commented that after the redefinition process, the remaining risk for the Fund is low.

25. The Court noted that the reimbursement to Member States of expenditure on Cohesion policies (previously known as Structural Measures) was subject to material error and that the supervisory and controls systems in the Member States and the Commission were only "partially effective". It reported that 54 per cent of the 180 reimbursements tested were affected by legality and regularity errors and that at least 11 per cent of the total amount reimbursed to Cohesion projects across the EU Member States should not have been.

26. The underlying cause of incorrect reimbursements varied between the funds. The most frequent causes of incorrect reimbursements from the European Regional Development Fund were eligibility errors arising from inclusion of costs which should not have been reimbursed due to their nature and serious failures to respect procurement rules. For the European Social Fund, the most common errors were lack of evidence that the overheads or staff costs were relevant to the project; overestimation of staff costs or overheads; and the inclusion of ineligible costs (eligibility errors).

27. When such errors are found by the Court, the Commission considers recovering expenditure where it does not conform to the appropriate legislation. The Consolidated Statement reflects an assessment of the potential impact of errors made by the UK through disclosures on the provision for disallowances (note 12) and contingent liabilities (note 13).

28. The Court also noted that, at the end of 2007, some €138.6 billion (£94.9 billion) of commitments outstanding from the 2000-2006 Financial Framework were yet to be paid (an increase of 5.2 per cent on 2006). Some €84 billion (£57.5 billion) of this related to the

Structural Funds (over 2.3 years' of payments at the 2007 rate), and some €18.1 billion (£12.4 billion) concerned the Cohesion Fund.

29. Final beneficiaries had until 31 December 2008 to spend the 2000-2006 Financial Framework funds allocated to them under the Structural Measures and Cohesion funds but the Commission gave Member States the opportunity to apply for a six month extension. Expenditure incurred after 31 December 2008, or after 30 June 2009, with an extension, is not eligible for European Union co-financing. Member States will continue to make reimbursements to final beneficiaries for eligible expenditure until 2009 for Structural Funds and 2010 for the Cohesion Fund. Member States subsequently have until 31 March 2010 to claim reimbursements from the Commission, or 30 September 2010 with an approved extension. The Commission will not reimburse claims submitted after this date, and costs will be met by the Member State.

Improving the Consolidated Statement

30. This Statement represents the second annual Consolidated Statement of the use of EU funds in the UK, compiled from pre-existing audited accounts for the 2007-08 financial year. In producing the Statement, HM Treasury has made a number of significant adjustments to the data received from UK authorities.

31. HM Treasury continues to improve its processes for capturing data and preparing the Consolidated Statement and is working closely with the UK authorities to address the data quality and consistency issues highlighted in this report. In partnership with those authorities, the Treasury is also developing accounting guidance which will help to simplify the underlying accounting processes and improve the consistency of reporting of EU funding transactions across Central Government. This work has resulted in improvements in the quality of the data provided to HM Treasury for the production of the 2007-08 Consolidated Statement and should lead to continued improvements for future years.

32. The Statements covering 2006-07 and 2007-08 have already led to increased audit and scrutiny of the use of EU funds in the UK. The annual publication of this Statement will help to ensure that this continues. The audit of the annual Consolidated Statement should help to detect weaknesses in the UK's management of EU funds so that they may be rapidly addressed and so that management control systems may be improved.

Conclusion

33. My audit work has identified a number of accounting and other issues which need to be addressed in order to ensure that the annual Consolidated Statement represents a true and fair view of the use of EU funds in the UK. HM Treasury has made improvements to its processes for preparing the annual Consolidated Statement and, with the agreement of the other UK authorities, is addressing the remaining issues through further work to align the detailed accounting policies and other related accounting matters.

Amyas CE Morse

Comptroller and Auditor General, National Audit Office

151 Buckingham Palace Road, Victoria

London SW1W 9SS

12 October 2009

Expenditure Account

For the year ended 31 March 2008

		2007-08	2006-07
	Note	£000	Restated £000
Gross expenditure on EU supported projects	2	4,381,516	4,873,624
Provisions created in year	12	(108,280)	(228,411)
Expenditure net of provisions		<u>4,273,236</u>	<u>4,645,213</u>
Realised foreign exchange gains/(losses) made/met by the UK	3	75,187	(16,857)
Withdrawn from EU claim	3	(31,437)	-
Net EU expenditure	3	<u>4,316,986</u>	<u>4,628,356</u>

Statement of Recognised Gains and Losses

For the year ended 31 March 2008

		2007-08	2006-07
	Note	£000	Restated £000
Unrealised foreign exchange gains/(losses) made/met by the UK	10	(50,787)	(7,036)
Total recognised gains and (losses)		<u>(50,787)</u>	<u>(7,036)</u>

Explanatory Note

The Expenditure Statement shows the EU funded element of amounts paid out by UK Central Government bodies on projects supported wholly or partially by the EU on which the UK anticipates EU funding at the point the payment is made.

Gross expenditure on EU supported projects is recognised in the period in which it becomes payable by UK Central Government to the recipient under the rules of the applicable scheme. The amount shown in the Account represents the amount paid and payable in sterling during the period to bodies outside the Central Government boundary.

Net EU Expenditure represents the amount receivable from the EU (converted into sterling after disallowances and foreign exchange gains or losses) in respect of amounts paid or payable by the UK on EU supported projects.

Balance sheet

As at 31 March 2008

		2007-08	2006-07
	Note	£000	Restated £000
Assets			
Advances to service providers	5	242,591	291,397
EU funds receivable	6	2,412,861	3,424,851
		2,655,452	3,716,248
Liabilities			
EU funds received in advance	7	946,027	771,445
Amounts payable to beneficiaries	8	1,490,293	1,822,531
Repayable to EU	9	36,293	94,526
Disallowances Provision	12	441,757	400,601
		2,914,370	3,089,103
Net Assets/(Liabilities)		(258,918)	627,145
Financed By			
Temporary UK funding	11	182,839	1,027,746
Less Possible permanent UK funding:			
Disallowances Provision	12	(441,757)	(400,601)
		(258,918)	627,145



Sir Nicholas Macpherson
Permanent Secretary HM Treasury
05 October 2009

Explanatory Note

The consolidated statement shows the flow of funds into the UK from the EU and out of UK Government to beneficiaries. The balance sheet shows those assets and liabilities that stem from such cash flows, e.g. where the UK has issued funds to the final recipient and is awaiting settlement of a claim. The exception being the disallowances provision, which are amounts paid

out by the UK for which the UK now believes it is probable that the EU will apply financial corrections, disallowing certain claims.

Temporary UK funding is the cash paid out by the UK Exchequer that will in due course be funded by the EU. Possible permanent UK funding is the element of temporary UK funding for which it is probable that the EU will apply financial corrections. Possible permanent UK Funding represents the funding that will be met by the UK Exchequer if provisions in respect of disallowances crystallise. Possible permanent UK funding will always equal provisions.

As the Consolidated Statement shows funding flows there are no reserves, as there is no trading gain or loss, and there is no taxpayers equity.

Cash flow statement

For the year ended 31 March 2008

		2007-08	2006-07
	Note	£000	Restated £000
Gross EU expenditure	2	(4,381,516)	(4,873,624)
Movement in working capital			
(Increase)/decrease in advances to service providers		48,806	(31,334)
Increase/(decrease) in amounts payable to beneficiaries		(332,238)	(646,684)
Increase/(decrease) in amounts repayable to the EU		(58,233)	42,232
Net Cash Outflows		(4,723,181)	(5,509,410)
Receipts Via Treasury No 4 Account		5,534,745	4,547,589
Increase/(decrease) in temporary UK funding	11	(844,907)	(3,053)
Permanent UK funding:			
Realised Foreign exchange (gains)/losses	3	(75,187)	16,857
Other receipts (direct from EU)		108,530	948,017
Net Cash Inflows		4,723,181	5,509,410

Explanatory Note

The cash flow statement balances the cash paid out by the UK government against the cash received from the EU.

The cash outflows only include that cash paid out on which the UK anticipates EU receipts and is therefore shown net of disallowance provisions and foreign exchange losses.

The EU makes the majority of its payments to the Treasury No 4 account, which the Treasury then pays over to the relevant UK body. However, in some instances the EU will make direct payments to a UK Central Government body as in the case of grants to the Research Council.

Notes to the United Kingdom Consolidated Statement

1. Accounting policies

1.1 The principal accounting policies adopted in the preparation of the Consolidated Statement are set out below.

Basis of preparation

1.2. This statement has been prepared so as to give a true and fair view by consolidating the relevant transactions and balances as recorded by the Managing Authorities in their resource accounts prepared in accordance with the Financial Reporting Manual (FRoM). The consolidated statement is prepared under the historical cost convention.

Boundary of the Statement

1.3 The Consolidated Statement on the use of EU Funds in the UK shows the cash paid out by the UK on EU sponsored projects and the cash recoverable from the EU in respect of such projects. It also shows the timing differences on these cash flows. As such it will show expenditure incurred which is expected to be reclaimed in full and the resulting debtor/creditor balances. The boundary of the Statement excludes the following:

- receipts and payments stemming from commercial contracts awarded to UK central government bodies by the EU.
- details of twinning funds held by UK central government bodies for the benefit of other member states.
- amounts recorded in the Expenditure Statement as withdrawn from EU claim or subject to a disallowance are funded by the UK Exchequer. Where the EU propose a financial correction against the UK the UK will have submitted a claim in respect of the project subject to the potential correction. As such, the proposed correction will be recognised as a contingent liability or a provision as per the accounting policy in this Statement. Where possible the UK Exchequer will endeavour to recover withdrawn or disallowed expenditure from the final beneficiary but the recovery of such amounts and any outstanding balances will not be recorded in the Statement as they fall outside the boundary.

Expenditure recognition

1.4. Gross expenditure on EU supported projects is recognised in the period in which it becomes payable by UK Central Government to the recipient under the rules of the applicable scheme. The amount shown in these accounts represents the amount paid and payable in sterling during the period to bodies outside the Central Government boundary. Net EU Expenditure represents the amount receivable from the EU (converted into sterling after disallowances and foreign exchange gains or losses) in respect of amounts paid or payable by the UK on EU supported projects.

Income Recognition

1.5. Income is recognised by the UK for funding it expects to receive from the EU in respect of expenditure incurred on EU supported projects. For the purposes of this statement income has not been separately recorded as it will always equal the expenditure incurred. Where

disallowance provisions have been recognised they reduce the level of expenditure reclaimable from the EU and thus the level of EU income.

Foreign currency translation

1.6. The Commission makes payments in Euros, with the Managing Authority recognising the receivable in Sterling. Foreign exchange gains and losses occur where the Managing Authority recognises the receivable from the EU at the spot rate and receives the payment from the EU at a different rate. Such gains and losses are recognised in the Expenditure Statement. Any hedging mechanisms used by departments and devolved administrations to mitigate the impact of foreign exchange losses are not included in this statement as they do not impact on the amounts paid out by departments and devolved administrations on EU projects or the funding provided by the EU.

Disallowances provision and contingent liabilities

1.7. Probable disallowances arising from financial corrections are recognised, and contingent liabilities disclosed, following the requirements of Financial Reporting Standard (FRS) 12, Provisions, Contingent Liabilities and Assets.

A provision for a financial correction is recognised where there is a past event (for example, an ineligible payment or a failure to comply with EU scheme regulations) which creates a present obligation and a probable disallowance leading to repayments to the EU. In practice, managing authorities might only know that there has been a past event through inspections or audits and they may therefore raise provisions retrospectively, in a future financial period. The amounts provided for are estimated by the appropriate managing authority.

A contingent liability is recognised in where there is a past event leading to a possible disallowance and subsequent repayment to the EU. Where they are quantifiable, the amounts of contingent liabilities are estimated by the appropriate managing authority.

EU Funding Withdrawn

1.8. Managing Authorities can apply self corrections which result in amounts being withdrawn from an EU claim. Self corrections occur where, due to an irregularity in a claim, the Managing Authority chooses not to claim the expenditure from the EU. This is a member state function and such self corrections are not provisions for the purposes of this statement. The withdrawal of the claim removes the relevant amount from the boundary of this statement through the Expenditure Account as the self correction is funded by the UK Exchequer pending recovery from the UK beneficiary.

Restatements

1.9. The work completed since publication of the 2006-07 Statement on defining the boundary of the Statement has shown that some balances originally included in the 2006-07 Statement were incorrect. Where necessary, such balances have been restated in the main schedules and notes.

2. Analysis of Gross expenditure by UK Central Government Departments and Devolved Administrations on EU supported projects

	Agricultural Funding	Financial Instrument for Fisheries Guidance	European Social Fund	European Regional Development Fund	European Guidance and Guarantee Fund	Other (Note 4)	Total	2006-07 Restated
	£000	£000	£000	£000	£000	£000	£000	£000
England								
Asset Recovery Agency	-	-	-	-	-	83	83	-
Communities and Local Government	-	-	-	476,045	-	-	476,045	527,854
Culture, Media and Sport	-	-	1,627	1,649	-	857	4,133	1,955
Environment, Food and Rural Affairs	1,807,055	7,006	-	-	17,359	14,963	1,846,383	2,160,493
Forestry Commission	12,480	-	-	-	-	-	12,480	12,783
Government Equalities Office	-	-	-	-	-	341	341	-
Home Office	-	-	-	-	-	7,200	7,200	-
Innovation, University and Skills ¹	-	-	296,122	-	-	465	296,587	280,446
Justice ²	-	-	20,081	-	-	163	20,244	21,065
National Archive	-	-	-	-	-	132	132	2
Transport	-	-	-	9,729	-	14,075	23,804	16,886
Work and Pensions	-	-	282,098	-	-	-	282,098	315,714
Scotland								
Scottish Executive	481,984	8,666	46,083	106,657	-	-	643,390	665,140
Wales								
Welsh Assembly Government	236,226	2,522	77,956	133,012	14,076	-	463,792	489,696
Northern Ireland								
Northern Ireland Executive	246,478	2,623	11,955	37,278	6,470	-	304,804	381,590
Gross expenditure	2,784,223	20,817	735,922	764,370	37,905	38,279	4,381,516	4,873,624

¹ The 2006-07 figure for Innovation, Universities and Skills includes £277,202 and £3,244 previously reported against Education and Skills and Trade and Industry.

² The 2006-07 figure for Justice (£21,065) was previously reported against the Home Office.

3. Analysis of Net expenditure by UK Central Government Departments and Devolved Administrations on EU supported projects

	Agricultural Funding	Financial Instrument for Fisheries Guidance	European Social Fund	European Regional Development Fund	European Guidance and Guarantee Fund	Other (Note 4)	Total	2006-07 Restated
	£000	£000	£000	£000	£000	£000	£000	£000
Gross expenditure in the United Kingdom	2,784,223	20,817	735,922	764,370	37,905	38,279	4,381,516	4,873,624
Communities and Local Government	-	-	-	(92,715)	-	-	(92,715)	-
Environment, Food and Rural Affairs	(4,350)	-	-	-	-	(73)	(4,423)	(197,812)
Home Office	-	-	-	-	-	(642)	(642)	-
Scottish Executive	-	-	(10,500)	-	-	-	(10,500)	(23,000)
Welsh Assembly Government	-	-	-	-	-	-	-	(7,599)
Total disallowances provided for	(4,350)	-	(10,500)	(92,715)	-	(715)	(108,280)	(228,411)
Communities and Local Government	-	-	-	27,352	-	-	27,352	(812)
Environment, Food and Rural Affairs	-	9,416	-	-	-	-	9,416	105
Transport	-	-	-	-	-	69	69	-
Work and Pensions	-	-	35,859	-	-	-	35,859	(15,604)
Scottish Executive	-	-	-	-	-	-	-	1,493
Welsh Assembly Government	-	-	-	-	-	-	-	(2,039)
Northern Ireland Executive	-	(17)	2,009	933	(434)	-	2,491	-
Total realised foreign exchange gains/(losses)	-	9,399	37,868	28,285	(434)	69	75,187	(16,857)
Communities and Local Government	-	-	-	(11,204)	-	-	(11,204)	-
Forestry Commission	-	-	-	(195)	-	-	(195)	-
Transport	-	-	-	-	-	(8)	(8)	-
Work and Pensions	-	-	(16,290)	-	-	-	(16,290)	-
Northern Ireland Executive	-	-	-	(3,740)	-	-	(3,740)	-
Total withdrawn from EU claim	-	-	(16,290)	(15,139)	-	(8)	(31,437)	-
Net expenditure	2,779,873	30,216	747,000	684,801	37,471	37,625	4,316,986	4,628,356

4. Other Projects

The following projects are included in the 'Other' category in Note 2.

Department or Devolved Administration	Project	2007-08 £000	2006-07 Restated £000	
Culture, Media and Sport	Director General Research Framework	588	-	
	Technology Projects	269	-	
Environment, Food and Rural Affairs	Transmissible Spongiform Encephalopathy (TSE) Monitoring	13,066	2,927	
	Scrapie Eradication	1,783	4,531	
	Bovine Spongiform Encephalopathy (BSE) Eradication	-	781	
	EU Aid	73	-	
	EU Data Collection	41	43	
	Government Equalities Office	Equal Opportunities For All	341	-
	Home Office	EU Solidarity Mechanism	7,200	-
Innovation, Universities and Skills ¹	Science Programmes	-	3,244	
	EU Marie Curie	206	-	
	EU Euratools	243	-	
	Other	16	-	
Justice	European Refugee Fund	-	4,929	
	(AGIS) Fight Against Crime	163	-	
National Archive	Planets	132	2	
Asset Recovery Agency	Camden Asset Recovery Inter-Agency Network (CARIN)	83	-	
Transport	Trans European Network (TENS)	14,075	16,866	
Northern Ireland Executive	Other Projects	-	1,133	
Total		38,279	34,456	

¹ The 2006-07 figure for Innovation, Universities and Skills includes £3,244 previously reported against Trade and Industry.

5. Advances to Service Providers

These are amounts paid out by the UK in respect of EU supported projects to non Central Government bodies delivering the project (service providers) in advance of claims from such bodies.

	2007-08	2006-07
		Restated
	£000	£000
Communities and Local Government	-	21
Innovation, Universities and Skills	72,267	54,353
Environment, Food and Rural Affairs	26,835	53,763
National Archive	44	-
Work and Pensions	83,528	118,750
Scottish Executive	19,592	18,547
Welsh Assembly Government	21,345	24,474
Northern Ireland Executive	18,980	21,489
Total	242,591	291,397

6. EU funds receivable by Department and Devolved Administration

These are amounts paid or payable to service providers against formal claims for which the UK has yet to be reimbursed by the EU.

	2007-08	2006-07
		Restated
	£000	£000
Communities and Local Government	356,366	504,623
Culture, Media and Sport	1	1,689
Innovation, Universities and Skills	84,470	107,395
Environment, Food and Rural Affairs	1,099,187	1,902,425
Forestry Commission	2,572	1,952
Government Equalities Office	60	-
Home Office	2,800	2,800
Justice	-	4,251
Transport	20	20
Work and Pensions	606,693	577,929
Scottish Executive	104,036	84,966
Welsh Assembly Government	31,119	44,964
Northern Ireland Executive	125,537	191,837
Total	2,412,861	3,424,851

7. EU Funds Received in Advance

These are amounts paid by the EU in advance of formal claims from the UK. The contractual terms of EU funding for projects and programmes often provide for such advanced payments to allow projects to commence.

	2007-08	2006-07
		Restated
	£000	£000
Asset Recovery Agency	-	83
Communities and Local Government	346,972	262,795
Culture, Media and Sport	1,055	1,192
Innovation, Universities and Skills	53,787	108,115
Environment, Food and Rural Affairs	40,000	10,677
National Archive	-	88
Work and Pensions	375,825	278,779
Scottish Executive	112,852	108,999
Welsh Assembly Government	13,153	717
Northern Ireland Executive	2,383	-
Total	946,027	771,445

8. Amounts Payable to Beneficiaries

These are amounts payable to UK service providers and are recognised when claims are received but not yet settled.

	2007-08	2006-07
		Restated
	£000	£000
Communities and Local Government	133,102	146,445
Innovation, Universities and Skills	55,588	25,873
Environment, Food and Rural Affairs	776,964	1,121,191
Transport	151	62
Work and Pensions	370,573	402,742
Scottish Executive	50,143	50,504
Welsh Assembly Government	67,737	62,558
Northern Ireland Executive	36,035	13,156
Total	1,490,293	1,822,531

9. Repayable to EU

These are amounts to be returned to the EU resulting from direct action taken by the UK to identify overpayments against programmes.

	2007-08	2006-07
		Restated
	£000	£000
Forestry Commission	2	16
Work and Pensions	34,571	29,587
Welsh Assembly Government	1,720	4,643
Northern Ireland Executive	-	60,280
Total	36,293	94,526

10. Analysis of unrealised foreign exchange gains/losses made/met by the UK by Department and Devolved Administration

	2007-08	2006-07
	£000	£000
Communities and Local Government	(11,364)	-
Work and Pensions	(34,308)	(7,036)
Welsh Assembly Government	(4,077)	-
Northern Ireland Executive	(1,038)	-
Total unrealised foreign exchange gains/(losses) made/met by the UK	(50,787)	(7,036)

11. Analysis of Temporary UK Funding

	2007-08	2006-07	Movement
	£000	Restated £000	£000
Communities and Local Government	(123,708)	95,404	(219,112)
Culture, Media and Sport	(1,054)	497	(1,551)
Innovation, Universities and Skills	47,362	27,760	19,602
Environment, Food and Rural Affairs	309,058	824,320	(515,262)
Forestry Commission	2,570	1,936	634
Government Equalities Office	60	-	60
Home Office	2,800	2,717	83
Justice		4,251	(4,251)
Transport	(131)	(42)	(89)
National Archive	44	(88)	132
Work and Pensions	(90,748)	(14,429)	(76,319)
Scottish Executive	(39,367)	(55,990)	16,623
Welsh Assembly Government	(30,146)	1,520	(31,666)
Northern Ireland Executive	106,099	139,890	(33,791)
	182,839	1,027,746	(844,907)

12a Provision – Future Financial Corrections (Disallowances) as at 31 March 2008

The EU will disallow claims by imposing financial corrections where the service provider fails to meet the conditions of the applicable scheme. In such circumstances the EU will reduce future payment to the UK.

	£000
As at 1 April 2007 (restated)	400,601
Created during the year	108,280
Cancelled	(43,198)
Utilised	(23,926)
As at 31 March 2008	441,757

12b Analysis of provisions for disallowances by Department and Devolved Administration

	2007-08	2006-07
	£000	Restated £000
Department or Devolved Administration		
Communities and Local Government	72,915	-
Environment, Food and Rural Affairs	345,831	369,363
Home Office	642	-
Scottish Executive	22,369	23,640
Welsh Assembly Government	-	7,598
Totals	441,757	400,601

Establishing the boundary between EU and UK funded expenditure can be a difficult process. The UK Exchequer provides funding to projects in anticipation of such projects being fully funded by the EU. However, failure to meet certain EU rules attaching to EU funding can result in the EU disallowing claims. Although it is standard procedure to recover grants that are found ineligible, this is not always possible and can lead to the UK Exchequer bearing the full or partial cost of a project to which a disallowance has been applied.

Provisional conclusions of the Commission are subject to negotiation and conciliation processes, through which the UK Member State seeks to mitigate the risk of incurring losses.

The disallowance provisions consolidated in this Statement are those recognised by the relevant Departments and Devolved Administrations in their own financial statements.

The resource accounts of the above Department and Devolved Administration provided the following narrative for these provisions.

Communities and Local Government

Following consideration of potential ineligible grant payments in respect of European Regional Development Fund (ERDF) programme expenditure, the Department has raised provisions on the following basis:

- £25.7m in relation to the 1997-99 closure audits in the North East and North West of England. The Commission had concerns relating to specific projects and they extrapolated the amount of irregular expenditure across the whole programme to reach a total potential disallowance.
- £41m in relation to the alleged irregularities identified by audits on the 2000-2006 round.
- A provision of just over £6m has been raised in relation to projects undertaken by Business Links or under programmes in the 2000-06 round.

These amounts are for expenditure considered to be at risk but not yet finalised, and the sums represent best estimates of the amounts involved at the time the accounts were prepared.

Provision for a disallowance of £19.8m was recognised in 2007/08 in respect of grants under the 2000-2006 ERDF Programme in the North West (England). The provision also crystallised during the year and therefore is included in Note 12a as being 'create during the year' and 'crystallised'.

Environment, Food and Rural Affairs

In response to the difficulties in implementing the Single Payment System (SPS), the Department reviewed its recognition point for financial corrections in 2005-06.

As a result, a provision was recognised on the following basis:

- Covering all cases where the EC has notified that a financial correction is being considered.
- Representing for SPS an appraisal of what the Commission is likely to assess as an appropriate correction based on indications previously provided by the EC around partial payments and on perceived weaknesses in complying with EC regulations on control requirements.

Scottish Executive

The Scottish Executive has raised provisions of £10.5m (ESF) and £11.9m (ERDF). The provisions relate to ongoing Commission and European Court of Auditor audit missions which have identified potential irregularities in the delivery of the Structural Fund programmes.

All disallowances are subject to the contradictory procedure. Council Regulation 1083/2006 Article 100 provides further details.

13 Contingent Liabilities

Contingent liabilities are disclosed following the requirements of Financial Reporting Standard (FRS)12 and are those disclosed in the resource accounts of the relevant department and devolved administration.

Contingent liabilities disclosed under FRS 12 as recorded in the Department for Communities and Local Government's (DCLG) 2007-08 Resource Accounts

DCLG has the following contingent liabilities in respect of possible financial corrections arising from potential irregularities of European Regional Development Fund (ERDF) programme expenditure:

- For the 2000-06 round, possible administrative irregularities (Article 4 and 10 checks) where approximately 50% (based on the historical trend of the programme) of the total irregularities value would not be recovered due to insolvency, estimated at £25m.
- Possible obligations to repay European Communities funds in respect of the 1994-1999 ERDF programmes for projects, which were formally closed by 31 March 2003, estimated at £76m.
- Possible financial corrections for irregularities with EC funds in respect of the administration of the 2000-2006 ERDF programmes, estimated at £62m.
- Possible financial corrections in relation to the Interreg programme and for ERDF projects undertaken by Business Links, for programmes in the 2000-06 round, estimated at £11m.

The amounts involved are estimates and subject to uncertainty and reflect judgements based on a reasonable assessment, at the time, of the amounts involved.

Environment, Food and Rural Affairs

A potential disallowance liability in respect of late payments attributed to the SPS, estimated at £4m.

Scottish Executive

Closure of the European Structural Fund Programmes may result in the reduction in the funds recoverable from the European Commission, the financial effects of which, are currently unquantifiable.



information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone Fax & E-Mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Order through the Parliamentary Hotline Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/ General enquiries: 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

HM Treasury contacts

This document can be found in full on our website at:

hm-treasury.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit

HM Treasury

1 Horse Guards Road

London

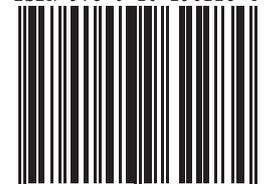
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN 978-0-10-296228-4



9 780102 962284