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REPORTER: Gerry Northam

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EDITOR: David Ross

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ACTUALITY AT BUDGETARY CONTROL COMMITTEE MEETING

SPEAKER: Thank you very much Mr Chairman, honorary members of the Budgetary control committee and all guests present...

NORTHAM: At the European Parliament in Brussels, the issue of fraud is rarely far from members' minds.

SPEAKER: I must say that this is a very serious event today and our commission has very high expectations for this hearing...

NORTHAM: The Budgetary Control Committee spent two days this month considering Europe's attempts to combat corruption and assessing the work of the anti-fraud agency set up 6 years ago. Nobody pretends that the problem has been conquered. As Britain takes up the Presidency of the EU, the talk is of the future of the European vision and the need to reform the way money is spent on agriculture and other areas. But behind the scenes, there's continuing concern that the entire budget may be especially vulnerable to abuse and claims that Europe's accounting systems are too often incapable of discovering it, while the investigative agency doesn't do much investigating.

SIGNATURE TUNE

SWEENEY: This is the file containing the final case report asking the Greek authorities to examine potential crimes under Greek law in relation to the matter of the ecological park programme in Greece. I could show you the 24 boxes of annexes that we also have in my office.

NORTHAM: On the 14th floor of a futuristic office block in Brussels, the investigator James Sweeney surveys the fruits of one of his latest cases. He's one of 400 staff working for the anti-fraud agency, known by its French acronym OLAF. Mr Sweeney thinks a year's work has cracked this case now, it involves an expensive project to make use of redundant agricultural land. OLAF examined subsidies totalling over 6 million Euros and concluded that half of this has been lost to fraud.

SWEENEY: The programme itself was to provide 20 million Euro over a period of 20 years for the purposes of creating ecological parks in certain parts of Greece taking this land out of agricultural use, land that was in particular degraded or overgrazed and turning them into parks that would be open to the public of Greece. And in that way preserve the flora and fauna of those regions and it was drawn to the attention of OLAF by certain sources in Greece that all was not well with the plan.

NORTHAM: What do you think went wrong?

SWEENEY: Well we formed the view that certain companies may have been established for the particular purpose of extracting the funding that was available. They would comply with the initial requirements of getting to be of an approved company for the purpose of obtaining the funding would do a certain amount of the work that was required but then stop.

NORTHAM: Once they'd pocketed the money, some companies simply failed to put up the required fencing, employ the rangers and carry out the planting they were supposed to do. As fraud goes, it looks rather blatant.

ACTUALITY AT KINGS CROSS

NORTHAM: One of the suspect payments OLAF found was made to a company based here in north London, just round the corner from King's Cross. 147,000 Euros, about £100,000, were paid for a consultancy report supposed to help in the reclamation of the arid farmland. The company that supplied the report had its registered office in a building here, one of 65 companies using the same address. There was nobody here to actually deal with the consultancy's business, enquiries were referred on to a firm of accountants. James Sweeney of OLAF soon concluded that this operation was little more than a façade, milking funds from the European Union.

SWEENEY: Basically we found that this company was a post-box company that was established to supply this consultancy report that was supplied completely in English and related mainly to wetlands and bog lands in the North of England.

NORTHAM: Not much relevance to Greece?

SWEENEY: Well that is the view we formed yes. The original company in Greece that had sought the consultancy report, we interviewed the manager of the company who spoke only the Greek language and we asked what use was this consultancy report to him and he had said basically none.

NORTHAM: But he had claimed more than £100,000 for it?

SWEENEY: A claim on behalf of that company was submitted for that £100,000 and that was paid out, yes.

NORTHAM: As a result of OLAF's work, 17 prosecutors throughout Greece are currently preparing cases of fraud, attempted fraud and false accounting against individuals they believe abused the subsidies. Among some financial experts, there's concern that the entire EU budget may be unusually susceptible to fraud, because of the nature of its payments across 25 member states and its foreign aid budget which extends over much of the world. According to the European Commission, the total lost in almost 10,000 frauds and irregularities last year was 1 billion Euros, fuelling demands for the tightest possible financial controls. Widely-welcomed reform of the accounting system was introduced this year. But doubt about its effectiveness has been

NORTHAM (cont): raised by Europe's most prominent ex-official, Marta Andreasen, who was sacked from her post as the Commission's Chief Accountant after she expressed public criticism of the finances. Now a private consultant in Spain, Ms Andreasen argues that the new reforms don't fix a systemic problem in the computer set up – its inability to keep track of changes.

ANDREASEN: The fact that the computer system does not operate properly puts a question mark on the fairness and the legality and the irregularity of all the payments that are being made out of the budget. You cannot be certain if the amounts are correct, you cannot be certain if the beneficiaries correct and you cannot be certain if the purpose of the payment is correct.

NORTHAM: What does that mean about the scope for fraud then?

ANDREASEN: The scope for fraud was immense really and you never know up to what point amounts had been changing in prior years. Transactions can be deleted radioactively.

NORTHAM: And what record is kept of that?

ANDREASEN: No record.

NORTHAM: No record?

ANDREASEN: No record.

NORTHAM: Do you mean that somebody can change part of the accounts and leave no record on the computer that they've done so?

ANDREASEN: Yes.

NORTHAM: Have you known another computer system running accounts which operates on the same principle?

ANDREASEN: No I have never seen this.

NORTHAM: How does this happen in the European commission then?

ANDREASEN: Well it's difficult for me to explain why or how it happens; I can only say to you that it happens. I was the first person to be actually surprised.

NORTHAM: And even with the new accounting system, the computers still work in the old way do they?

ANDREASEN: Yes they haven't changed anything about the computer system.

NORTHAM: At the time of her dismissal, Marta Andreasen was portrayed as something of a lone voice. But her concern has now been reinforced by another of the European Commission's very senior financial guardians, Jules Muis. Mr Muis retired last year from his job as Head of the Internal Audit Service and wrote a stinging memo in which he called the accounting systems 'chronically sordid' and said officials were in 'a persistent state of denial of the problems'. Mr Muis spoke to File on 4 from his new home, Washington DC.

MUIS: Well if you don't get the fundamentals right you have fragile systems and fragile systems lead to risks of malfeasance. For 100 billion your organisation we don't need stand ups and the word chronic is I think an understatement rather than an overstatement we're now in the 10th year that the European Court of Auditors will not be able to express a normal clean opinion on the account.

NORTHAM: How far are your criticisms of this budgeting system still true after the much heralded reforms that the EU has put through?

MUIS: Progress has been made, now the unfortunate thing about the term 'progress' is that it has become kind of an opiate in the public sector of buying time because the question is not whether you make progress, but the question is whether you really get there. The reform program of the commission missed out on the

MUIS (cont): fragility of the accounting systems it did not specifically address that. There are a number of challenges that the commission faces.

NORTHAM: Is challenge a polite word for problem?

MUIS: Yeah but it's a polite word like we've made progress is a polite word for saying but we're not there yet.

NORTHAM: Mr Muis has also revealed that when he raised concern about the state of Europe's financial systems, he was told by one official 'we have ways of breaking people like you'. The task of defending Europe's budget against both critics and fraudsters falls to the Commissioner Siim Kallas, the former Minister of Finance and then Prime Minister of Estonia. Mr Kallas's style is that of a new broom, and we found broad approval in Brussels for his brisk attitude to fighting fraud. But is he, as Jules Muis and Marta Andreasen believe, hampered by accounting systems which simply aren't up to the job?

KALLAS: All these things which Marta Andreasen has said this is not true.

NORTHAM: What she says is that people can change things on the accounts on the computer system without leaving any trace that they've done so; if that's true it will be a real vulnerability wouldn't it?

KALLAS: I don't think so that's true.

NORTHAM: You don't think it's true?

KALLAS: Yes.

NORTHAM: She was the chief accountant of the European commission and she says it is true?

KALLAS: But not now. I hope that this is not true.

NORTHAM: You hope it isn't?

KALLAS: No I am convinced that that's not true because I am responsible for audit and I believe that our audit system is quite serious so all these questions are audited and all these audit reports have stated that clear improvements have been made.

NORTHAM: Well the head of your internal audit service who resigned last year said shortly before he left that the accounting system was chronically sordid?

KALLAS: No again...

NORTHAM: That's not a term that an accountant normally uses?

KALLAS: Yes he used very colourful language also, but he's very serious man, no doubt I met him here...

NORTHAM: But is he right, are the accounting systems chronically sordid?

KALLAS: No I am convinced that this is not the case.

NORTHAM: This year the European Parliament said there's no assurance that accounts are 'complete, accurate and relevant' and 'no assurance that the numbers represent reality'. The former head of the Internal Audit Service, Jules Muis, told File on 4 that in his judgment, it would take a further 3 or 4 years of reform before Europe's accounts could be given a reasonably clean bill of health by the auditors.

ACTUALITY AT EUROPEAN PARLIAMENT

NORTHAM: As the cranes and diggers go to work on new buildings for the enlarged European Union, politically the greatest threat to the institutions comes from within – from fraud by members or officials of the Parliament, Commission and a host of Eurocracies. There's little doubt that the big money from fraud is made

NORTHAM: Robert McCoy is a believer in the European ideal, and had, until then, been one of its loyal civil servants. The MEP who received his letter is the Eurosceptic Chris Heaton-Harris.

HEATON-HARRIS: There are things like magical meetings at the airport when the last plane came in, so you had a meeting at 10 o'clock at night when your plane arrived, which therefore got you your expenses for that particular day. And probably the more magical ones are things like you present an itinerary for a batch of meetings lasting 5 days when the meetings actually only lasted the 3 days in the middle and you've made meetings up at the beginning and the end to fulfil the requirements for you to be paid those extra monies.

NORTHAM: And that's extra money for overnight allowances?

HEATON-HARRIS: That's extra money for overnight allowances and subsistence.

ACTUALITY OF LETTER

READER IN STUDIO: In two cases, I could demonstrate that a member could not have been present at a session for which he claimed attendance allowance, since I had their used train and plane tickets showing what times they had come and gone.

NORTHAM: Europe's anti-fraud office, OLAF, launched an investigation. Its report has never been published, but a leaked copy shows that Robert McCoy was right – a member of the Committee did claim for a day in Brussels when his tickets prove he couldn't have been there. Another member was found by the Committee's own staff to have fiddled more than 10,000 Euros on his expenses. Since he'd subsequently died, the staff took steps to recover this from his estate. A Committee member seems to have systematically claimed twice for the same day's expenses, and appears to have forged a travel document – charges which, if true, OLAF said could land him up to a year in prison. Most damningly, the Committee's senior staff declined to inform OLAF of any of this wrongdoing. The task of responding to the investigation fell to the man who took over the presidency of the Committee after these offences and irregularities had been committed, Sir Albert Bore the Labour leader in Birmingham.

BORE: The number of cases that OLAF investigated out of the thousands of reimbursement claims that were made and the very small sum that was in question here is a testimony if you like to the strictness with which the Committee and Regions operates the reimbursement of members expenses.

NORTHAM: Well what OLAF found was elements of forgery in one person's claims and three times in this report it talks about elements of fraud being uncovered.

BORE: In any organisation however large or however small there are always going to be 'elements' now I think that's the important word. This was not fraud by the greater majority of the members of the Committee of Regions or indeed officials within the Committee of Regions, this was the misclaiming of expenses, the misclaiming of allowances by a very very small number indeed.

NORTHAM: That doesn't make it right.

BORE: No, I'm not saying it makes it alright and you need systems, you need processes which eliminate even those few. I would hope that the systems in place would mean that even those few instances of people misclaiming would be brought to light and those claims would not be dealt with in the way that the member had asked.

NORTHAM: OLAF also complained that no official of the Committee of the Regions who was aware of these elements of fraud has ever informed OLAF, so the Committee's own procedures were falling down, it wasn't just one or two members.

BORE: Well I don't believe that processes did fall down.

NORTHAM: When the Committee carried out its own examination of expenses, it found that the member who was suspected of forgery and fraud had in fact been underpaid and he was reimbursed. OLAF also found cause for concern in another of the whistleblower's complaints, about the awarding of a printing contract by the Committee of the Regions. It found that the winning company had rigged the tender by

NORTHAM: But isn't it your role to manage the Committee of the regions with integrity and if there is systematic and flagrant incompetence in dealing with the tendering procedures and financial management that challenges the integrity of the committee doesn't it?

BORE: Of course it does and as a consequence of receiving the OLAF report I acted on that OLAF report as the president of the Committee of Regions and required the administration to change the practices which hitherto it had adopted.

NORTHAM: The way this case concluded cast a shadow over OLAF itself. The agency was created 6 years ago after the entire European Commission was forced to resign over its mishandling of allegations of corruption. The whole point of OLAF was to bring a Zero Tolerance policy on fraud. But even though its investigators found evidence of fraud and forgery in the Committee of the Regions case, and said individuals could be liable to prosecution, in fact, nobody was charged with any offence. OLAF can't bring its own prosecutions, and the Director General, the German judge Franz Bruner, decided not to send the case file on to the appropriate judicial authorities in Belgium. Why not?

BRUNER: We have competent colleagues from the national judiciary in our services, we presented the findings and they said this is nothing for the Belgium judiciary. I have to follow the advice of the competent people here and they said this is nothing.

NORTHAM: I've seen the report of your investigators on the committee of the regions case and they didn't think it was nothing. They talked about elements of fraud, elements of forgery and shady dealings that's not nothing, that's crime?

BRUNER: Yes but are these suspicions supported in the end by the facts?

NORTHAM: Well that's what your investigators found that there were elements of fraud and forgery?

BRUNER: Elements.

NORTHAM: But that's elements of crime?

BRUNER: Yes, but again my Belgium people said this is not a case for the Belgium judiciary.

NORTHAM: But doesn't it look strange that here are your investigators coming up with very clear conclusions about elements of crime being committed and yet you decide not to take any action over it?

BRUNER: First of all I am not making these decisions, these decisions are made in the board where this is discussed.

NORTHAM: Well you're the director general?

BRUNER: Yep, yep...

NORTHAM: You wrote the letter saying there are going to be no judicial consequences of this investigation?

BRUNER: And yes I have to sign it in the end, yes and I take it you know. I'm not, I'm not saying I'm not responsible I'm responsible for the office but these decisions are taken in a very transparent way through a procedure that is for us very important, its not a kind of one man show.

NORTHAM: This case was a setback for OLAF which, as a young organisation, is keen to show its effectiveness and gain maximum credit for its successes.

EXTRACT OF OLAF VIDEO OPERATION BANANAS

NORTHAM: One of OLAF's promotional videos hails its persistence in tracking down 'the fraud of the century', which turns out to be a Customs swindle involving consignments of bent fruit.

EXTRACT OF OLAF VIDEO OPERATION BANANAS

NORTHAM: This swashbuckling sequence shows teams of agents swarming onto suspect ships moored in Sicily, sporting breezy tabards with OLAF across their chests. But this is surprisingly untypical of the agency's real work. The European Court of Auditors has just completed its first report on OLAF's management of operations, published this month, in which it analyses how the agency handled about 150 of its cases. The auditors conclude that much of the time is spent assembling files of already available information.

READER IN STUDIO: "The sample of investigations examined showed that OLAF's actual investigative activity was often rather limited. The use by OLAF of its powers to carry out on-the-spot investigations, examine witnesses and question suspects is the exception rather than the rule."

NORTHAM: This is a record which seems unsatisfactory to the auditor responsible for this report, Lars Tobisson.

TOBISSON: I think this is a management problem. There is a lot of work being done on other activities than just investigations. We are recommending that OLAF should focus on investigations and that should be given priority all the time. What we think should be done is to focus on investigative work and see to it that that is the main activity performed by OLAF.

NORTHAM: But it does seem surprising doesn't it that a body whose very business is investigations doesn't actually investigate in every case?

TOBISSON: Yes they investigate in every case but not in the sense that we would expect them to do it and with the speed and concentration on this work that we could have asked for.

NORTHAM: You say that the reports of this are inconclusive and the results difficult to identify, the whole point of OLAF is to come up with conclusive reports with clear results isn't it?

TOBISSON: Sure that is the ambition and it should be achieved to a larger degree than is the case at present.

NORTHAM: OLAF accepts that it doesn't concentrate its efforts on original investigations, arguing that member states do a lot of this work themselves. And it insists that management has been strengthened since the cases the auditors were able to examine. But complaints persist about OLAF's approach to cases, and the time it takes handling them. A striking example which finally ended this year in Liverpool has had the effect of turning pro-European politicians into critics of OLAF.

ACTUALITY IN ROPEWALKS SQUARE

ANDERSON: We're standing in what's called Ropewalks Square which is an area which has been knocked through from one street to another street and had trees planted in what's the heart of the Ropewalks area...

NORTHAM: The leader of Liverpool's Labour Group, Councillor Joe Anderson, has been concerned for many years about the conduct of a city centre regeneration scheme largely funded by Europe. In 1999, just as OLAF was being formed, Councillor Anderson was a Board member of the Ropewalks project and became apprehensive that there could be a potential conflict of interest involving members of the Board – including the chairman– whose outside connections, he feared, might be in a position to benefit from European grants awarded through the scheme. The Chairman insists that there was, in practice, no such conflict of interest, but to remove any possibility of doubt Councillor Anderson referred the case to OLAF. The way the agency handled its investigation has left him perplexed and disheartened.

ANDERSON: OLAF sent somebody to see me in November 1999 and I gave them documentation and they took that away and I also raised my concerns with them. I then met them sometime I think later on in January 2000.

NORTHAM: What contact did you have between then and now with OLAF?

ANDERSON: Absolutely none, they haven't had the courtesy to contact me to 1) tell me how that investigations's going or to tell me as the person who made the complaint in the first place exactly what their intentions were. After about 12 months I contacted them and then a period of time after that and again nobody got back to me and nobody gave me any information. So I just more or less give up on it.

NORTHAM: While Councillor Anderson felt he was left in the dark, there was no information either for the man under the spotlight of OLAF's investigation, the Ropewalks Board Chairman David Bebb from Liverpool Housing Trust. Mr Bebb says that the whole Board took care never to be involved in any discussions which might award grants to their organisations. But what concerns him most is OLAF's failure to keep him informed of progress.

BEBB: I first heard of the OLAF investigation through a report in the Liverpool Echo.

NORTHAM: You read it in the paper?

BEBB: I read it in the paper. It said that following allegations by councillor Joe Anderson the European commissions investigations team were going to carry out an investigation into Ropewalks.

NORTHAM: And what contact did you then have from OLAF as the investigation proceeded?

BEBB: I've had no contact whatever with OLAF. I'm actually unclear about what the subject of their investigations has been.

NORTHAM: But you were one of the people at the centre of the suggestion that there was an appearance of a conflict of interest.

BEBB: That's right although the allegations were actually about the principle of the involvement, there was never any allegation of actual impropriety. I was the Chair and I would have expected them to come and talk to me about the conduct of meetings and the general approach we took to conflicts of interest.

NORTHAM: Last Christmas, five years after the investigation started and with no decision in sight, the northwest MEP Arlene McCarthy wrote to OLAF saying the case made the agency appear 'ineffective and incompetent'. In January she got an answer, there were to be no judicial proceedings following the investigation, due to insufficient evidence. No explanation of this decision or the long delay in reaching it.

MCCARTHY: I've been very unhappy with it throughout the whole process. For me the most important issue was that for 5 years we've had this issue hanging over Liverpool's use of European funding and the bottom line for me is that I think really they should decide very quickly whether there's a case to be answered and then get on with it. If there was insufficient evidence why wasn't there insufficient evidence one year later, why did it take 5 years to reach that conclusion?

NORTHAM: You wrote just before Christmas to the head of OLAF saying that it began to look to a number of people you knew as if OLAF was an ineffective and incompetent organisation, what do you say now?

MCCARTHY: That was because we have had in the European parliament continual queries about whether they are doing the job properly. I've a reason why I wrote in such strong terms was frankly I'd got to the end of my tether on this. I have no idea how this investigation was conducted and I have really no idea whether the findings were significant or not. I find it phenomenally difficult to get any information even of the most basic standards from them.

NORTHAM: We asked the Director General of OLAF, Franz Bruner, about the Liverpool case. What is his explanation for the fact that it took 5 years before even the MEP was told it was closed, and no-one was to be prosecuted?

BRUNER: We have to request information in working together with member state services and because it's not a priority these things take a longer time than normal investigations.

NORTHAM: The MEP Arlene McCarthy said that it was a priority for people in Liverpool because they felt the city was under a cloud that it couldn't be

NORTHAM (cont): Prof John Spencer of the law faculty at Cambridge was a leading member of the group.

SPENCER: The main problem is that each of the legal systems in the European Union are either as themselves that those who commit these offences are able to operate in conjunction with one another and you end up with organised conspiracies being fought by a rather disorganised coalition. Each member state has its own criminal justice system with its own criminal code and its own set of offences and its own procedural rules and its own prosecutors. You might get say a fraud to do with import and export duties which is committed by a group of people in say France and Greece, might involve smuggling stuff into the United Kingdom and then you might have in the end the money stashed away somewhere or other, Luxemburg or something like that.

NORTHAM: And that means all those jurisdictions have some kind of stake in the prosecution?

SPENCER: All of them may have. You may find their falling over each other to prosecute for it but you're more likely to find that each of them hopes that the other one will do it.

NORTHAM: Prof Spencer's study group came up with a number of remedies for this problem, beginning with what he thought would be an uncontroversial proposal that all member states should enact common legal codes covering fraud against the European Union budget. This would enable fraudsters to be put on trial for the same offences wherever they were committed. But even this level of agreement has so far eluded negotiators in Europe's anti-fraud effort. OLAF may be blamed for the small number of fraud prosecutions, but at the European Court of Auditors, Lars Tobisson suspects a broader failure of political will.

TOBISSON: OLAF has become a scapegoat many people attack OLAF; but you can't say that everything that they do is wrong and that they purposely tried to avoid doing the things that they expected to achieve.

NORTHAM: And it's the member states of the European institutions themselves which should also bear some of the blame?

TOBISSON: Yes in particular the member states I will say who don't cooperate as you could expect.

NORTHAM: Any particular member states in mind?

TOBISSON: No I shouldn't go into any naming and shaming here.

NORTHAM: Greece and Italy for example figure very highly on the list as does Germany?

TOBISSON: I wouldn't say that those are the worst cases in this respect, I would say that those countries where there are many cases and that is necessarily where the institutions are located are rather slow to react to the cases that come up from OLAF.

NORTHAM: Do you mean countries like Belgium?

TOBISSON: For example.

NORTHAM: Or Luxemburg?

TOBISSON: I come from Luxemburg myself so that happens yes.

NORTHAM: We found a consensus in Brussels that fighting fraud is vital to winning new public trust in European institutions. Many believe that another substantial corruption scandal could prove near-fatal to the whole dream. For some this would be no bad thing, of course. So Europhiles like Commissioner Kallas now have to persuade a more sceptical taxpaying world that our money really is safe in their hands.

KALLAS: We must take these issues seriously. We cannot leave these issues for handling to the Eurosceptics. We are thinking seriously about all critical issues which have been raised and we try to find solutions.

NORTHAM: Is there the political will to root out fraud from every part of the European institutions?

KALLAS: Of course there is a political will. And we have a very serious common understanding with the British Presidency that something must be done. But we cannot avoid bad things. But the question, how do we treat bad things? And my desire is to convince citizens that if bad things happen, the system must handle these cases properly and in time.

SIGNATURE TUNE