

EUROPEAN ECONOMIC COMMUNITY
EUROPEAN ATOMIC ENERGY COMMUNITY
EUROPEAN COAL AND STEEL COMMUNITY

THE AUDIT BOARD

REPORT

on the accounts for the financial year 1974
followed by the replies from the Institutions

VOLUME ONE

Introduction

Part One: The Budget of the Communities

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THE AUDIT BOARD

REPORT

ON THE ACCOUNTS FOR THE FINANCIAL YEAR 1974

VOLUME ONE

This report is submitted in two volumes:

Volume I: Introduction

Part One: The Budget of the Communities

Volume II: Part Two: The Development Funds

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INTRODUCTION

This report, which deals with the accounts for the financial year 1974, is divided into two parts presented in two volumes.

The first part is devoted to the budgetary management of the Communities. It concerns the Budget revenues, the operating expenditures of the Institutions, the expenditures of the European Social Fund, of the European Agricultural Guidance and Guarantee Fund, spending on food aid and spending on research and investment.

The second part of the report concerns the management of the European Development Funds. The Commission provides this management outside the Budget framework.

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In principle, all the amounts shown in this report are expressed in units of account, the value of which is 0.888.670.88 grammes of fine gold.

The currencies of the Community countries are converted into units of account on the basis of the latest parity declared to the International Monetary Fund, which was:

1 u.a. =	7.5	Dkr
	3.66	DM
	50	Bfrs
	5.55419	FF
	0.416667	£.Ir.
	625	Lit
	50	lfrs
	3.62	Fl
	0.416667	£

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In addition to the activities described in this report, the Audit Board has verified, in conformity with Article XVI (4) of the Statutes of that body, the accounts for the financial year 1974 of the Euratom Supply Agency. Following that audit it has drawn up a separate report dated 22 April 1975 which has been transmitted to the Director-General of the Agency.

At the request of their Board of Governors, the Audit Board also verifies the accounts of the European Schools. The reports drawn up on the basis of these verifications are handed to the Representative of the Board of Governors. The last report, concerning the accounts for the financial year 1973, was prepared on 27 May 1975.

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In keeping with the procedure followed since the commencement of its work, the Audit Board has prepared the text of its report after referring the draft to the Institutions and departments concerned. Transmission of the drafts of the various chapters of the report took place during the period from 3 to 26 June 1975.

When this report was produced, on 15 July 1975, no replies had yet been received to the comments relating to the Development Funds, the operating expenditure of the Commission or the research and investment expenditure.

From the partial replies obtained in the other sectors it has, in some cases, been possible either, on the one hand, to conclude that the operations involved have been conducted in a regular manner, lawfully or in accordance with the rules of sound financial management or, on the other hand, to ascertain that the Institutions had already applied or were about to apply measures designed to remedy the defects, irregularities or shortcomings pointed out.

As a result of the investigations carried out and the replies received in connexion with other operations, the Audit Board has deemed fit to make the comments appearing in this report, which are submitted for consideration by the competent authorities, for examination in the context of the decision as to discharge in respect of the implementation of the Budget.

The Institutions are, moreover, reserving the right to prepare replies even after the lodging of the report. In accordance with the provisions of the Financial Regulation, these replies, of which the Audit Board has not yet had cognizance, will be annexed to the report when it is submitted to the Council and to Parliament.

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As in the past, the Audit Board has been able to count upon the competence and devotion to duty of the members of its staff and would like to express its gratitude to them.

PART ONE :

THE BUDGET OF THE COMMUNITIES

CHAPTER 1: GENERAL COMMENTS

1. The Budget of the Communities for 1974

The overall Budget of the Communities for the financial year 1974, adopted on 6 December 1973 and published in Official Journal No L 115 of 29 April 1974, provided for revenue and expenditure corresponding to total funds of 5 079 465 923 u.a.

These estimates were modified by a supplementary Budget adopted on 26 November 1974 (OJ No L 347 of 27 December 1974), which was essentially intended to finance the initial contribution of Community participation in emergency aid to the developing countries worst affected by the crisis.

The supplementary Budget brought the total of appropriations for the financial year to 5 224 972 971 u.a. The breakdown of this sum, shown alongside comparative figures for 1973, was as follows:

	1973 Appropriations		1974 Appropriations	
	u.a.	%	u.a.	%
Guarantee Section of EAGGF	3 806 546 000	74.14	3 513 100 000	67.24
Guidance Section of EAGGF	350 000 000	6.82	325 000 000	6.22
European Social Fund	282 950 000	5.51	327 800 000	6.27
Development Aid	48 177 000	0.94	259 500 000	4.97
Euratom research and investment expenditure	74 686 830	1.45	84 107 919	1.61
Flat-rate reimbursement of the cost of collecting own resources	260 467 841	5.07	315 375 819	6.03
Administrative and operating expenditure	311 666 200	6.07	400 089 233	7.66
Total	5 134 493 871	100.-	5 224 972 971	100.-

2. Completion and transmission of the accounts

Article 206 of the EEC Treaty (to which Article 180 of the Euratom Treaty and Article 78 (d) of the ECSC Treaty correspond) provides that the Commission shall submit annually to the Council and to Parliament the accounts of the preceding financial year relating to operations under the Budget, together with the report of the Audit Board.

Article 91 of the Finance Regulation stipulates that the revenue and expenditure account, the balance sheet and the report of the Audit Board, together with the replies to comments, shall be submitted by the Commission to the European Parliament and the Council not later than 31 October.

The accounts for the financial year 1973 were forwarded, subject to decisions to be adopted by the Council, to the Audit Board on 5 July and 14 August 1974 and were submitted to the budgetary authority in December 1974, together with the report produced in French by the Audit Board on 1 October 1974 but without the replies of the Institutions to the comments. Issue of that report in all the official languages of the Community had still not taken place in July 1975.

In May 1975 the Commission amended the 1973 accounts. The amendments followed two developments: on the one hand unwillingness on the part of the budgetary authority to approve transfers of appropriations within Chapter 33, "Expenditure on Research and Investment", which transfers had been included in the revenue and expenditure account; on the other hand the adoption by the Council of Regulation No 3259/74, which led to adjustment of amounts entered in the accounts as own resources.

It must be emphasized that such correction of closed accounts must always be regarded as an exceptional measure.

For the financial year 1974 the revenue and expenditure account and the balance sheet were forwarded to the budgetary authority at the beginning of July 1975 without the Audit Board's report, as the latter was completed a few days later, on 15 July 1975. Subsequent transmission of the report together with the Institutions' replies to the comments is planned.

The Audit Board considers that stricter compliance with the provisions of Article 206 of the Treaty ought to be secured.

3. Absence of decisions giving discharge

The most recent decision giving discharge in respect of the implementation of the Budget of the Communities relates to the financial year 1970. That decision was adopted by the Council on 19 February 1973 and by the European Parliament on 9 May 1973, with publication in Official Journal No L 145 of 2 June 1973.

For 1971 and subsequent financial years no discharge decision has yet been adopted. Those financial years were, moreover, intended to be governed by the application of the new procedure introduced by the Luxembourg Treaty of 22 April 1970, under which procedure discharge for implementation of the Budget is to be given by the Council and by Parliament.

The absence of discharge results from difficulties which have arisen in establishing the relative shares of the Member States and the reference amounts (interpretation of the provisions of Article 3 (3) of the Decision of 21 April 1970 introducing the Communities' own resources) when the accounts for earlier EAGGF accounting periods prior to the direct finance system have not yet been closed.

The absence of discharge decisions seriously jeopardizes the proper financial management of the Communities and might have other unfavourable repercussions.

Article 3 (3) of the Decision of 21 April 1970 relating to the replacement of financial contributions by the Communities' own resources stipulates that variations from one year to another in the relative shares of each Member State shall remain within certain limits.

Clearly, the purpose of that provision is to secure progressive adjustment to the new system, thus obviating excessive change from one year to the next during the transitional period. Such a provision is meaningless unless implemented early enough, year by year, over the period involved: most of its intended effect is lost if its application is postponed for several financial years.

Moreover, there may be special difficulties for the financial year 1971, which was the first year of application of the own resources system and the direct financing of EAGGF Guarantee Section expenditure.

However, any measures which might be called for because of those difficulties should be provided for in the discharge decision and should not take the form of postponement of that decision.

In a resolution of 19 June 1975 the European Parliament emphasized the irregularity of the situation arising from the absence of discharge, calling upon the Commission to close the financial year 1971 and the Council to decide upon the revenue and expenditure accounts for 1971.

4. Delay in submitting supporting documents

The Audit Board is, of course, concerned about the long delays in producing the accounts of the Institutions and in drawing up accounting statements to the end of the financial year.

It is understood that, because extension periods were granted for accounting for own resources and expenditure of the Guarantee Section of EAGGF, the new Financial Regulation of 25 April 1973 postponed the time limit for

producing the revenue and expenditure account from 1 March to 1 June of the year following the financial year in question. There was compliance with this timing for the 1974 accounts, which were forwarded to the Audit Board on 27 May 1975, with the proviso that they were subject to decisions to be taken by the budgetary authority concerning the carrying forward of appropriations.

As can happen in such circumstances, extension of the time limit was accompanied by a general prolongation of the time taken to close the accounts, even in sectors in no way affected by the above-mentioned extension periods.

Although the supporting documents from the Commission for the first three quarters of 1974 were passed to the Audit Board within a reasonable time, the bulk of the documents for the fourth quarter, by contrast, were not forwarded until 14 May 1975. A very large proportion of these papers relates to operations (particularly administrative expenditure and other operating expenditure) which should have been entered in the accounts and paid not later than 15 January 1975.

Under the provisions of Article 86 of the Financial Regulation these documents should have been forwarded not later than 15 February 1975; the Audit Board trusts that, in keeping with the assurances given by the departments of the Commission, the 1975 documents will be forwarded more promptly.

For the operations financed from research and investment appropriations the supporting documents and other accounting papers relating to the management of the Ispra establishment for December 1974 had still not been forwarded when this report was being written. The documents for the Geel establishment for December 1974 were received on 18 June 1975.

For the part of the Budget relating to the Council there ought to be efforts to obtain considerable reduction of the time taken to close the accounts and draw up balance sheets as at the end of the financial year.

It is all the more necessary to draw attention to the time taken for these procedures because, unlike the previous year, the financial year 1974 did not have an extension (1 January - 15 February) for expenditure and revenue relating to staff.

The Audit Board considers it unacceptable that accounting documents are forwarded to the Board so late. The Board also takes the view that statements of account as at the end of the financial year should be drawn up more quickly, especially for spheres of operation to which no extension period applies.

Prompter transmission of documents ought to be achieved not only by speeding up work and procedures but also by having less recourse to records in sundry debtors and creditors accounts, imprest accounts and other accounts to be regularized. Moreover, greater attention should be paid to clearing these accounts during the course of the financial year. In this connexion it may be pointed out that at 31 December 1974 the accounts of the Secretariat of Parliament showed 63 imprests, 12 of which had been paid off and 51 of which were still outstanding, in some cases for more than a year.

5. Measures to be taken to implement the auditing of commitments

During the financial year 1974 the auditing of commitments by the Audit Board remained partial and insufficient, especially in the matter of administrative expenditure.

In the case of Community Funds (except for the Guarantee Section of EAGGF, for which Article 107 of the Financial Regulation has prescribed a system of provisional global commitments) the Audit Board is customarily informed of decisions involving entry into commitments by means of notification of decisions to grant aid as soon as those decisions are made.

By contrast, in administrative matters the information which the Audit Board receives about commitments is the information shown, after payment and often in an incomplete state, on payment order forms or in the supporting documents accompanying them.

Article 86 of the Financial Regulation of 25 April 1973 prescribes that each Institution shall, on a quarterly basis, forward to the Audit Board the supporting documents and certificates in respect of correct application of the provisions which govern the implementation of the Budget and relating to the commitment of expenditure and the establishment of revenue.

It is true that the Commission has made arrangements to enable on-the-spot consultation, in the departments responsible for management of funds, of papers relating to commitments. But such inspection cannot take the place of the forwarding of documents as prescribed by the Financial Regulation.

The departments of the Commission have stated that from 1975 onwards they will provide a monthly return of commitments. The Audit Board considers that such a return should be accompanied by proposals for commitments and any supporting documents.

6. On-the-spot auditing in Member States

Since the Financial Regulation of 25 April 1973 came into force the Audit Board has, under the provisions of Article 87 of that Regulation, been entitled to be present during the inspection visits carried out by the Commission of the Communities in Member States in connexion with the auditing of own resources and the auditing of the expenditure of the Social Fund, the Guarantee and Guidance Sections of the EAGGF, and spending on food aid and Euratom contracts.

Presence during inspection visits carried out by the Commission has certainly proved to be very helpful and the Audit Board considers that cooperation of this kind (which should be augmented by more systematic communication of the reports, correspondence and findings arising out of the inspection operations) ought to be extended to the audit of the EDF projects.

By contrast, no progress has been made by the Audit Board in arranging audits of its own in the Member States.

In a letter of 21 March 1973 the Audit Board advised the Council that the Board wished to perform, where own resources of the Communities and expenditure of the Guarantee Section of EAGGF were concerned, the duty of on-the-spot audits and audits based on records which is conferred on it by Article 206 of the EEC Treaty.

The Audit Board requested the Council to arrange with the Member States for the Board to be granted the facilities necessary to carry out such audit of accounts and supporting documents. The Board also asked for the practical means of access to the national bodies managing these revenue and expenditure operations to be specified and for determination of a procedure for contacts with the national authorities responsible for supervision or inspection of the operations.

In two further letters, dated 16 May 1973 and referring to the auditing of expenditure of the Social Fund and the Guidance Section of EAGGF, the Audit Board informed the Council of its intention to put into practice, by agreement with the national authorities, an autonomous system of on-the-spot verification which it could apply on its own initiative and independently. The Council was requested to be good enough to notify the Member States of this proposal for on-the-spot verification, as such notification should assist the Audit Board in making initial contacts with the competent national authorities.

No reply has yet been received to the requests made in those three letters. The Council authorities asked the Audit Board for further information, regarding which there was an exchange of correspondence in September and October 1973.

On 13 March 1974, in another letter to the Council which has also remained unanswered, the Audit Board pointed out the necessity of agreeing without delay on the setting up of an efficient audit of the operations carried out by the Member States in connexion with financial affairs of the Communities. The external audit body of the Communities, which should be enabled to carry out on-the-spot examination of operations taking place in the Member States, is the body in the best position to ensure that there is uniformity of interpretation and implementation of Community regulations.

Apart from a fact-finding mission to Germany in May 1974, at the invitation of the Government of that country, the Audit Board has not yet been able to proceed with autonomous investigations in the Member States.

Without such investigations by far the greater part of the Community Budget virtually escapes examination by the external audit body, as the documents and information received in Brussels are usually very scanty and not easily verifiable in the absence of thorough on-the-spot examination.

In a recent interview which the President of the Council kindly granted, the Chairman of the Audit Board expressed the Board's concern at the failure to reply to its letters and emphasized its intention of contacting the Member States with a view to arranging on-the-spot examinations.

7. Relations between the national and Community external audit bodies

In Point 3 of its 1973 report the Audit Board described the contacts which it sought to establish with the senior external audit bodies of the Member States.

The aim of these contacts was to enable both sides to be better informed and to work out possibilities of cooperation in auditing large sectors of Community finance (own resources, Guarantee and Guidance Sections of EAGGF, Social Fund, food aid, etc) the management of which is largely in the hands of authorities and agencies of the Member States.

The Audit Board emphasized in that passage that in addition to contacts and general exchange of information it would be desirable for cooperation with the senior audit bodies of the Member States progressively to assume other forms, such as:

- transmission to the Audit Board, either automatically or upon request, of comments and reports prepared by the senior national audit bodies;
- organization of specific verifications by those bodies upon the request of the Audit Board or in consultation with it and, possibly, in the presence of one of its representatives;
- organization of verifications by the Audit Board in conjunction with the senior national audit bodies concerned and, possibly, in the presence of one of their representatives.

The Audit Board pointed out that the legal obstacles to this kind of cooperation which exist in most of the Member States ought to be removed by improving Community law.

Little progress has been made during the last twelve months in this matter, which is partly linked with the plan to set up a European Court of Auditors. The Audit Board hopes for a more definite advance in the next financial year.

This wish is shared by the senior audit bodies of the Member States, which also believe that the contacts begun ought to be allowed to develop into fruitful cooperation.

8. Relations between the Audit Board and the Financial Controllers of the Community Institutions

Since the Financial Regulation of 25 April 1973 came into force the Audit Board has from time to time been notified of decisions by Community Institutions to override withholding of approval by their Financial Controllers.

Under this procedure, notification of eight decisions to override withholding of approval was given in respect of the financial year 1974. These decisions all came from the Commission of the Communities and involved:

- maintenance, after the benefit period of sickness insurance cover for an employee who had qualified under Regulation No 259/68;
- regularization of ordering of two studies for the Essor reactor at Ispra;
- justification for secondary chargings within Euratom's operational budget for 1973;
- granting of aid by the EAGGF Guidance Section to five projects for construction of potato grading and storage establishments;
- rate of increase for the year 1974 in pay of local staff employed in Brussels;
- a case of exceeding the commitment for printing a publication;
- justification for applications for payment of aid for 23 projects financed by the Social Fund;
- revision of the contract of an employee working in Washington.

From the technical point of view of establishing that revenue has been received and expenditure incurred in a lawful and regular manner and that the financial management has been sound - and therefore without prejudging either the legal interpretation of the statutory provisions by the competent authorities or any other factors which the body that decided to override withholding of approval may have taken into consideration - the Audit Board believes that the Financial Controller's refusals of approval for those items of expenditure were justified.

Although the cases mentioned here were the subject of decisions to override withholding of approval (and some of these cases will be discussed in greater detail in the chapters of this report dealing with the affairs to which they relate), the Audit Board hopes that the existence of such cases will help to promote the adoption in future of measures more consistent with the principles of correct handling of revenue and expenditure and with the standards of sound financial management.

Closer coordination between the Institutions' external and internal audit is also necessary; as has already been stressed, in particular in the 1972 report (Point 2, i) and the 1973 report (Point 4), the Audit Board considers that it should be kept better informed about internal audit activities.

Such information should cover the programmes of internal audits, the checks performed and the results of such checks, the inspection visit reports, details of any withholding of approval which impeded procedure, the comments or reservations expressed to administering departments, etc. This would enable each of the audit bodies to retain its independence and its own sphere of responsibility, whilst permitting the achievement of more rational organization and more efficient auditing.

At present the Audit Board learns scarcely anything about internal auditing activities except when advised of decisions of the Institutions to override withholding of approval. That information is manifestly insufficient.

Such a situation is incompatible with the requirements of establishing that financial management has been sound and with Article 89 of the Financial Regulation, which expressly stipulates that the Institutions shall give the Audit

Board all the information at their disposal as a result of the audits which they have carried out, in accordance with the rules laid down by the Community, within the departments responsible for the management of the finances of the Community and for effecting expenditure on its behalf.

9. Points made by the Commission of the European Communities in its replies to the comments contained in the 1973 report of the Audit Board

In its replies to the 1973 report of the Audit Board, and in particular in the last section of Point 4 of the replies, the Commission of the Communities made several comments on the organization of the work of the Audit Board and on the latter's conception of its rôle.

Those comments may be summarized as follows:

- a) The Audit Board has never officially given a mandate, as Article 85 of the Financial Regulation gives it the right to do, to one or more of its members to carry out certain tasks or certain actions of verification; the Commission has, moreover, never received notification of an allocation of responsibilities among the members of the Board.
- b) The audit operations are effected solely at the level of implementation. The Commission itself is not consulted at the stage of the preparatory work. No dialogue has been established at the institutional level.
- c) Drafts of parts of the report of the Audit Board are sent to the departments involved, for their comments. The comments which the latter make are only seldom taken into account when the definitive text of the report is drawn up. Even at the level of the senior officials there is as a rule no discussion and no hearing of both sides.
- d) Insufficient allowance is made for policy guidelines and options or for the understanding of policy required in judging whether there has been sound financial management.

The comments quoted above call for clarification by the Audit Board, in connexion with both the grounds for the statements and the procedure adopted for making them.

- a) The Audit Board possesses, and should retain, sole competence for the organization of its own work. It is the Audit Board itself which is best in a position to define and to apply working methods which properly take into account on the one hand the demands imposed by the specialized nature of the duties involved and on the other hand the necessity for ensuring that the Board acts uniformly and collectively.

This arrangement for the organization of the work is perfectly compatible with a search for constant improvement in relations with the Institutions audited.

b) The Audit Board consistently refers to the Commission, at the highest level, the draft of the various parts of the Board's report but there is a persistent lack of response to such notification. The Audit Board is justified in pointing out that it alone takes initiatives to establish dialogue with the Commission at institutional level and that these initiatives have so far borne little fruit.

c) Sending drafts of the various parts of the report to the Institutions audited and departments involved should give them good time to make all the comments they think fit concerning the draft text of the report. In order to provide suitable conditions for this discussion procedure the Audit Board did not hesitate to postpone lodging of its report by more than two months in 1973 (see 1973 report, Introduction, p. 2).

The Audit Board is even less able to understand the accusation that it does not heed replies when preparing the definitive text, because in fact the Institutions audited have the last word. Present practice is to allow the Institutions to produce definitive replies after the report has been lodged and those replies are then annexed to the report.

d) The Audit Board is somewhat puzzled by the invitation now extended to it to make greater allowance for policy guidelines and options as factors underlying implementation of the Budget. Policy considerations belong to the sphere of competence of the authorities required to give discharge in respect of the implementation of the Budget. In drawing up its report the Audit Board is not expected to insert its assessment in place of that of the said authorities.

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Since the Commission has annexed observations of such nature to the report of the Audit Board, and has done so without the Board having prior knowledge of those observations, review of the long-standing procedures for issuing the report seems to be desirable, in order to bring them into line with the spirit and the letter of the Financial Regulation.

CHAPTER 2: REVENUE

10. Revenue for the financial year 1974

In the 1974 Budget estimated revenue (including supplementary appropriations made available in the course of the financial year) totalled 5 224 972 971 u.a. In 1974 the entitlements established and paid in totalled respectively 5 038 269 579 u.a. and 4 224 338 433 u.a.

An analysis of these sums over the various categories of revenue is shown in the table annexed to this report. It should be pointed out that the supplementary Budget adopted on 26 November 1974 contained various amendments in the revenue estimates, with a view to closer approximation to actual receipts.

The total charges to be covered by the revenue of the financial year (namely the 1974 appropriations used, including the portion carried forward to 1975 and after deduction of appropriations brought forward from 1973 and not used) amounted to 5 038 166 437 u.a. (1), made up as follows:

- 37 248 417 u.a. covered by the Institutions' own revenue;
- 18 000 000 u.a. covered by part of the ECSC levy;
- 10 007 511 u.a. covered by contributions of Member States to the Euratom complementary programmes;
- 636 050 173 u.a. covered by the three new Member States;
- 2 449 095 774 u.a. covered by own resources paid in by the six original Member States;
- 1 887 764 562 u.a. covered by the contributions of the six original Member States as stipulated in Article 3 (2) of the Council Decision of 21 April 1970.

In calculating the appropriations to be made available pursuant to the Council Decision of 21 April 1970 relating to determination of the relative shares of the Member States there have been included expenditure and revenue under the programme for European cooperation in the field of scientific and technical research (COST), which programme is financed in accordance with a special tariff of contributions by the 18 participating countries.

The Audit Board considers that steps should be taken to prevent calculation of the relative shares of the Member States from being influenced by the financing of a programme extending beyond the scope of Community affairs.

(1) The difference between the total entitlements established for 1974 (5 038 269 579 u.a.) and the total charges to be covered by revenue for the financial year (5 038 166 437 u.a.) is explained on the one hand by the inclusion of -288 058 u.a., arising from entitlements cancelled and from revenue under Chapters 53 and 59 obtained from special contributions, and on the other hand by the inclusion of +184 916 u.a.. arising from entitlements for 1973 omitted from entitlements established as at 31 December 1973 (Items 9311 and 9290).

The observations set forth below are concerned with Commission's accounting for revenue, information on management and audit of own resources and some specific points arising from checks carried out in the Member States.

11. Commission's accounting for revenue

a) Collection orders and revenue and expenditure account

For audit of own resources the Audit Board has to rely above all on accounting documents of the Commission (collection orders and summary statements of account), from which overall arithmetical verification of the various categories of own resources can be performed by comparing these documents with the monthly returns from the Member States. A formal audit of this kind, without autonomous verification on the spot (cf Point 13 c below) can never be regarded as convincing evidence that the total revenue recorded is the full correct amount.

Moreover, the documents relating to own resources established by the Member States in November and December 1974 and entered in the Commission's accounts during the extension period were forwarded to the Audit Board during the second half of June 1975. It has been stated that such delay will be avoided in future.

As to the "revenue" part of the revenue and expenditure account, this should contain more notes to facilitate comparison, especially concerning entitlements established and revenue paid in, because the entries being made under present practice relate to different periods. The Directorate-General for Budgets has stated that it will try to take steps to arrange this.

b) Delays in accounting for movements in cash accounts

In Point 9 of its 1973 report the Audit Board mentioned that from the Commission's accounts during the financial year it is not possible to know what totals are entered to the credit of the accounts held in the Treasuries of the Member States.

In 1974 there has been no change in this situation, which is partly attributable (as the Commission pointed out in its reply to the 1973 report) to the fact that the information necessary for making out collection orders is not forwarded by the Member States until several days after collection has been effected by deposit of the funds.

The collection orders are not made out until some considerable time after the date of deposit. In the second half of the financial year this interval averaged 11 days.

Provisional accounting procedures have been introduced in an attempt to remedy this situation. These procedures consist of recording the deposits, subject to subsequent confirmation when the collection order (to be made out by the authorizing officer and approved by the Financial Controller) comes to hand.

Even so, the provisional accounting itself has often not been performed until more than a fortnight after the date of deposit. In the circumstances, the amounts which appear in the accounts do not agree with those in the accounts at the national Treasuries, despite the introduction of special procedures which are not in line with the regulations in force and consist of provisional accounting for revenue when the collection order has neither been made out by the authorizing officer nor approved by the Financial Controller.

c) Accounting for revenue entitlements established

The Commission's accounts departments have made a considerable effort to improve accounting for entitlements established. Nevertheless, the following amounts owing which had not been entered among the entitlements established for the financial year were discovered for 1974:

- No collection orders had been made out for fees for interpreters provided for the Council of the Communities from April to December 1974 and the corresponding sum (1 400 700 u.a.) will appear among the revenue items paid in for the financial year 1975. Nor had any collection order been made out for a fine of 100 000 u.a. imposed by the Commission on 19 December 1974 in connexion with proceedings under Article 86 of the EEC Treaty;
- The interest owed by two Member States (15 794 u.a.) for delay in depositing contributions to the Euratom complementary programmes for 1974 is also missing from the entitlements established for the financial year, although collection orders for these two items owing had been made out before the end of the financial year.

d) Accounting for compensatory amounts levied on exports

Since February 1973 the provisions in force have required offsetting between the refunds made and the compensatory amounts levied on export operations.

The Italian administration has not carried out such adjustment, as payment of the refunds is made by an organization separate from the one which levies the compensatory amounts.

Entry of these revenue and expenditure items in the Commission's Budget accounts was refused approval by the Financial Controller and could only be dealt with by adoption by the Council of two regulations, dated 19 December 1974 and 30 May 1975, requiring that compensation be applied on the basis of overall percentages. These regulations were applicable respectively for the financial year 1973 and for subsequent financial years (see the part of this report relating to EAGGF, Guarantee Section, Point 63 c).

Despite refusal of approval by the Financial Controller and the lack of any decision to override this refusal, the revenue in question was entered in the Budget accounts before the above-mentioned regulations had been adopted. For the financial year 1974 the revenue appears in the revenue and expenditure account forwarded to the Audit Board on 27 May 1975, although the Financial Controller did not definitively approve it until 3 June 1975.

12. Information on management and audit of own resources

a) Verification provided for by Regulation No 2/71

Audit of own resources is essentially based on the information which can be collected in the Member States.

Regulation No 2/71 provides that the Commission may attend, at its request, the audits performed by the Member States in respect of own resources. Under the provisions of that Regulation the Commission made 22 visits in 1974. The Audit Board was present during two of these visits, in accordance with Article 87 of the Financial Regulation, which provides that the Board may be present, at its request, during the operations carried out pursuant to Regulation No 2/71.

In order to assess the results of such audits and ascertain how the findings have been followed up, the Audit Board has asked the Commission of the Communities for a copy of reports on on-the-spot investigations and of correspondence with Member States concerning the observations made in those reports. The Board has also asked for a copy of minutes of meetings of the Advisory Committee on Own Resources set up by Article 25 of Regulation No 2/71.

So far there has been partial response to two of these requests. In accordance with the opinion given by the Advisory Committee on Own Resources on 10 June 1975, the Audit Board has not been given a copy but has been afforded facilities for reading in the offices of the Commission of the Communities the reports on on-the-spot investigations produced by that Institution and the minutes of meetings of the Advisory Committee.

The Audit Board considers that there is no justification for not forwarding these documents to it and that the matter should be reviewed.

Moreover, there has so far been no response to its request to be given a copy of the exchange of correspondence with Member States.

b) Absence of autonomous audits by the Audit Board

As already pointed out in the "General Comments" in this report, the Audit Board has not yet been able to carry out audits of its own in the Member States in the matter of own resources. Its letters to the Council in which it sought to put such audits into practice have remained unanswered.

In the circumstances, the external audit body necessarily concludes that it has not been put in a position to perform the task of on-the-spot audit based on records which is entrusted to it by Article 206 of the EEC Treaty. This situation deserves examination by the competent authorities.

c) Annual reports of Member States

Article 5 of Regulation No 2/71 requires each Member State to submit annually, before 1 June of the following year, a report on the establishment and audit of own resources.

At the time of writing of this report the documents relating to the financial year 1974 had only just been forwarded and were available only in the original language. It is planned that the Advisory Committee on Own Resources will examine them in the second half of 1975.

d) Report of the Commission on the working of the own resources system

The Commission was due to report to the Council before the end of 1973 on the working of the own resources system (Regulation No 2/71, Article 24, (4)).

As a result of shortage of satisfactory material for 1973 the report was not produced. Its submission in the second half of 1975 is now planned and the report will include information on associated inspection visits performed in 1974 in the Member States.

13. Observations arising from visits for the associated inspection of own resources carried out in the Member States

a) Legality of amounts remitted and written off as bad debts by the Member States

In Point 9 b) of the previous report attention was drawn to the remission of amounts and acceptance as bad debts practised by the German administration in respect of sums due as own resources when collection could not be effected or would have caused serious problems to the debtors.

The Commission has argued that such remission or writing off of sums owing to the Communities is illegal. The question arose during a visit in December 1973 and has led to discussions between the national administrative authorities and the Commission, the procedures applied by the other Member States having also been taken into consideration. Prompt solution of the problem and harmonization in this matter is desirable.

b) Entry in accounts of proceeds of flat-rate charges

Difficulties have also arisen in connexion with the import duties levied on a flat-rate basis by the German administration and credited to a national account.

The duties involved are those applicable to "small packets" sent to private individuals as exceptional, non-commercial imports of little value. The levy includes both elements forming part of the national revenue and other elements, assessable at about 10%, which come under the own resources system of the Communities.

The necessary steps should be taken to determine the part due to the Communities.

c) Delay found in audits by national administrative units

An inspection visit to Italy revealed a lengthy delay in examination by the competent national departments of accounting documents relating to customs operations. At the time of the visit, in September 1974, examination was still being carried out for the financial year 1969.

Such delay reduces the value and relevance of auditing. It is desirable that Member States should adopt the necessary measures to secure prompt examination.

d) Absence of accounting for disputed debts

During the same visit it was discovered that establishment of own resources and entry in the accounts of the Communities took place only for amounts which were not disputed.

Revenue arising from charges or parts of charges which are disputed is not entered in accounts until the dispute has been settled. This procedure does not comply with Community statutes. The amounts due should be included in the accounts irrespective of disputes concerning them, because accounting for own resources is effected on the basis of entitlements established. Where necessary there can be subsequent amendment of the debts thus entered in the accounts.

The necessary steps should therefore be taken to ensure complete accounting for the entitlements established.

e) Checking the destination of goods exported

An inspection visit to France revealed shortcomings in the checking of the destination of cereal exports to other Member States of the Communities.

Regulation No 2182/73 requires that where cereals moving between two points situated within the Community otherwise than by air are to leave the territory of the Community during transportation, a check concerning the destination must be made if exports of like goods to third countries are subject to a levy. The dispatcher must provide a guarantee and this guarantee will be released in proportion to the quantity in respect of which proof is produced that the goods have reached their destination.

The investigations showed that exports of this kind had been made without deposit of guarantee. The national audit body drew up a list of cereal exports concerning which evidence from the person or firm responsible was awaited. Checks on the submission of that evidence will be carried out later on.

CHAPTER 3: THE OPERATING EXPENDITURE OF THE
INSTITUTIONS

A. STAFF EXPENDITURE

14. Numbers of staff in employment in 1974

Comparison of the numbers in employment at the end of the financial years 1973 and 1974 (officials, temporary staff, establishment staff at Euratom) shows a further appreciable increase in the staff, again mainly due to the enlargement of the Communities.

	Number in employment at 31 December		Numbers authorized by the 1975 Budget
	1973	1974	
Parliament	881	940	1 206
Council	1 101	1 185	1 481
Economic and Social Committee	230	261	292
Audit Board	22	25	30
ECSC auditor	4	5	5
Commission:			
- operating expenditure	6 485	7 157	7 776
- research and investment exp.	2 161	2 050	2 183
Court of Justice	192	232	261
Total	11 076	11 855	13 234

To the numbers occupying posts provided for in the Budget must be added the auxiliary and local staff and the special advisers, totalling 1 370 persons. At 31 December 1974 the breakdown was as follows:

	Auxiliary staff	Local staff	Special advisers
Parliament	107	180(1)	1
Council	1	8(2)	2
Economic and Social Committee	8	6	-
Commission:			
- operating expenditure	82	472	15
- research and investment exp.	28	445	-
Court of Justice	7	8	-
Total	233	1 119	18

- (1) Not including 10 servants attached to the "Alain Poher" crèche.
 (2) Not including 21 servants remunerated directly from the funds of the Council restaurant.

At the end of the financial year 1973, 218 auxiliary and 875 local staff were employed in the Institutions of the Communities.

Measures designed to facilitate recruitment of nationals
of the new Member States

15. Provisions adopted for the termination of service of officials consequent upon the enlargement of the Communities

Special temporary measures in connexion with the recruitment of nationals of the new Member States and the termination of service of officials of the Communities were introduced by Council Regulation No 2530/72. In the case of the Commission these measures were confined to officials paid out of appropriations under Title I of the Budget. Under Council Regulation No 1543/73 similar measures became applicable to officials paid from research and investment funds.

Regulation No 2530/72 was applied to 245 officials of the Commission, 16 of the Council, 11 of the European Parliament and 1 of the Court of Justice. A termination-of-service arrangement as provided for in Regulation No 1543/73 was implemented for 110 officials of the Commission.

At 31 December 1974, 87 allowances were still being paid from the Commission pursuant to Regulation No 259/68 which originated the application of special measures designed to facilitate termination of employment of officials, at the time of the merger of the executive bodies.

The conditions laid down by Regulations No 2530/72 and No 1543/73 are in several respects markedly more advantageous than those of the 1968 regulation. For the 12 months immediately following termination of service the allowance equals the last full year's remuneration (compared with 6 months in 1968) and other allowances during service may be added without deduction. After the first year the allowance is equal to 80% of the basic salary for 30 months and to 70% thereafter (in 1968: 70% from the 13th to the 66th month and 60% thereafter). Further rights to retirement pension are acquired throughout the period of allowance (not during a maximum of five years only).

As in 1968, officials other than those in Grade A 1 or A 2 were permitted to opt between the special scheme under the regulations and the normal scheme of being placed on non-active status and thus being given priority for appointment to a vacant post. None of the persons concerned opted for placing on non-active status.

An official who had not completed 15 years' service at the end of the benefit period could irrevocably renounce his pension rights and receive a severance grant. Seven officials from the Commission and one from the Council applied for payment of this grant.

Recipients of an allowance under the old ECSC scheme have been given the right to request that their remuneration be determined on the basis of the ECSC regulations. However, the remuneration of recipients of an allowance under that scheme is not determined on the basis of the former ECSC provisions alone. In fact, the salary scale in force at the time of payment is taken into consideration: this procedure involves combining the more favourable method of calculation specified by the old ECSC scheme with the highest rate of salary applicable at the time of payment.

From the Commission 13 officials formerly of Grades A 1 and A 2 have obtained remuneration under the arrangements laid down in Article 42 of the ECSC Staff Regulations (officials removed from their posts in the interests of the service), which grants them payment for three years of an allowance equal to their last remuneration (less expatriation allowance if this applied). These allowances may be freely "cumulated" with other earnings. At the end of that period they receive, irrespective of age, a pension which because of the extremely advantageous calculation of rights (annual rights doubled) probably reaches the maximum rate, i.e. 70%, in all cases.

Twenty former ECSC officials of the Commission from grades other than A 1 and A 2 have applied for their allowance to be determined on the basis of Article 34 of the ECSC Staff Regulations. They will receive for two years an allowance equal to their last remuneration (excluding expatriation allowance) and for the following two years half of the allowance. The pension which they receive at the end of these four years is worked out according to exceptional rules.

The Financial Controller opposed the application of the provisions of Article 42 of the ECSC Staff Regulations in favour of one of the recipients of an allowance under the 1973 provisions (because the person concerned had not "before 1 January 1972" held a Grade A 1 or A 2 post under the ECSC Staff Regulations) but in April 1975 the Commission decided to overrule this withholding of approval.

16. Currency used for payment and weighting

These matters are governed by Article 3 (3) of the regulations. According to those provisions:

- the allowance is weighted for the country where the recipient provides proof of residence. If the recipient appoints a place outside the Community countries as his residence, the weighting for Belgium is applicable;
- the allowance, expressed in Belgian francs, is paid in the currency of the country of residence of the recipient.

As with pay and pensions, conversion of the Belgian franc into another currency is made on the basis of the parities accepted by the International Monetary Fund which were in operation on 1 January 1965.

- a) Several former officials of the Commission receiving allowance under the regulations have established residence outside the Community countries. Some of them are paid, under the terms of Article 3, in the currency of the country of residence (notably two former employees with residence in Switzerland, who have taken advantage of the rate of exchange applied since the revaluation of the Swiss franc in 1965). On the other hand, a former official who has been resident in the USA received his allowance in Belgian francs until April 1975. It would seem that after that date he was resident in Denmark and has been paid in Danish kroner since then. A former official of the Council, who is now working as an EDF deputy controller in Tananarive (see 1973 report, Volume Two, Point 140 d), second sub-paragraph), is also paid in Belgian francs.

Admittedly, the combined effect of the weighting for Belgium and greatly devalued currencies converted on the basis of 1965 parities would seem to be very disadvantageous to the persons concerned. Nevertheless, the fact is that the payments in question are not in conformity with the provisions now in force.

- b) As to the recipients resident on Community territory, their allowance should, therefore, have the weighting prescribed for their country of residence and should be paid in the currency of that country. In fact, this provision is evaded in many cases. Thus, many Italian officials who have returned to Italy after termination of their service and have obtained reimbursement of resettlement expenses for their country of origin have claimed residence in Belgium, in order to receive payment of their allowance in Belgian francs. On the other hand, some German officials are having their allowance paid on the basis of claimed residence in Germany, whereas according to some indications they are still living in Belgium.

The administrative units of the Communities try to obtain from the recipients the production of documentary proof in support of their claim of residence. A copy of a leasehold agreement, a residence permit issued by the authorities of the country of residence or evidence concerning employment, if any, could serve the purpose. Although documents of such kind have actually been produced by a fairly large number of persons concerned, the proof seems very dubious in many cases.

17. Income received in new employment - Application of the provision designed to prevent cumulation

- a) The income accruing to a former official in any new employment during the period after the first year of allowance is deducted from the allowance in so far as that income plus the allowance exceeds the total remuneration last received by the official (Article 3 (4)).

No deduction has been applied in the case of former officials who have asked for their remuneration to be determined in accordance with the provisions of the old ECSC scheme.

In an attempt to check on the pay position of the persons concerned, the Community's administrative units have asked them to sign a declaration. At the time of writing this report two recipients of allowance under Regulation No 2530/72 who are former officials of the Commission had not yet returned that declaration, despite having received reminders.

The declaration was required to be supported by documents and certificates relating to the new employment. In the event of having no employment, the persons concerned were asked to produce a tax exemption certificate or, failing this, any documentary evidence to establish that they had no taxable income from employment.

In fact, the documents submitted have not always been satisfactory. Declared income, especially when it comes from professional work, is difficult to check: hence, the application of the provision designed to prevent cumulation is very largely based on the personal declarations of the former officials concerned.

- b) At the time of drafting this report a former JRC official at Ispra whose service there terminated on 30 June 1974 and in respect of whom a warrant for arrest was issued shortly afterwards by the Italian judicial authorities (for subversive activities potentially damaging to the security of the Italian State) was still being paid by the Commission the allowance and family allowances, although the person concerned is now a fugitive and has not replied to several letters from the Institution asking him for the information necessary to determine his payment rights. The Audit Board has just been informed that from July 1975 onwards the payments will no longer be made to the person concerned but placed in a suspense account.

c) Since any change in one of the components (allowance, income from employment, family allowances) of the total income of a former official also affects the amount of deduction to be applied to the allowance, and since such change frequently occurs, and usually with retroactive effect, calculation of the allowance is very complicated and is a heavy burden on the administrative units.

Moreover, the absence of precise stipulations as to the methods of calculation to be used is regrettable. The method which has been applied for comparison between the last total remuneration and the new income has been opposed by the Financial Controller of the Council, especially in the aspects of weighting and tax, but a decision to override his objection has been given in 1975.

It may be noted that the method of comparison is based on gross amounts: there does not seem to be better justification for that approach than for comparison on the basis of net amounts.

18. Last total remuneration used for calculation of deduction from the allowance

The "last total remuneration" to be used for calculation of any deduction from the allowance is comprised of the basic salary plus, where applicable, family allowances payable (household allowance, allowances for dependent children, education allowances).

If a change in the family circumstances of a former official after the termination of employment entails an increase in the family allowances payable (for example as a result of the birth of a child, entitlements to education allowances, etc), the Institution increases the last total remuneration accordingly. By contrast, change in the family circumstances creating complete or partial loss of entitlement to family allowances received by the former official at the time of termination of the employment is disregarded and the last total remuneration is therefore unaffected by such change.

Since deduction from the allowance is made only in so far as new income (allowance plus income from employment) exceeds the last total remuneration, the loss of a family allowance is offset, under this system, by a higher payment for the allowance itself. For example, a recipient under these provisions who lost his entitlement to two allowances for dependent children between July 1973 and December 1974 has since then had a reduction of 40 u.a. per month applied to his allowance, whereas the deduction was previously 160 u.a. Throughout the period of allowance the amount of allowance withheld will be made up from the last remuneration taken for calculation of the deduction.

The method of calculation applied, which has considerable financial repercussions, is not based on any logical reasoning and is in no way required by the text of the regulations: on the contrary, by permitting the former officials concerned to obtain during the period of allowance an income exceeding the remuneration which they would have received if they had remained in the post, this method is manifestly contrary to the spirit of the regulations.

19. Compensation for unused leave

If an official has not used up his annual leave at the time of termination of service he is paid, as compensation for each day of leave which he has not used, an amount equal to one-thirtieth of his monthly remuneration (Article 4, sub-paragraph 2, of Annex V of the Staff Regulations).

At the time of termination of service very many recipients of allowance under Regulation No 2530/72 or Regulation No 1543/73 obtained compensation for considerable quantities of leave not taken, extending up to 47 days for the Commission and 50 days for the Council.

In the Commission a whole set of payments, some of them amounting to more than 4 000 u.a., has been made in connexion with large amounts of leave carried over from the previous financial year: indeed, in several cases this compensation corresponds to the whole of the leave entitlement for that financial year (30 days). Article 4, sub-paragraph 1, of Annex V of the Staff Regulations limits to 12 the number of days of leave which may be carried forward to the next year (unless reasons of work prevented the leave from being used).

No justification of these carry-overs in excess of the 12-day limit was advanced in support of the payments, nor was any such justification found in the individual files of those concerned.

A former head of division, whose termination of service was fixed as 1 May 1973, has obtained payment for 40 days' leave (3 031 u.a.), 30 of these days being carried forward from 1972, when he had been on sick leave since March 1972.

Expenditure under Title 1 also included a payment of 3 610 u.a. (corresponding to 37 days' leave) made to a former Director-General of the JRC whose service terminated at the end of 1973. For a large part of 1973 the person concerned had, for reasons of health, been absent from work (see 1973 report, Point 104). This expenditure should have been charged against research and investment appropriations.

The General Secretariat of the Council recently stated that it had taken measures to limit strictly as from 1975 the carrying forward of amounts of leave exceeding the limit of 12 days.

20. Membership of the sickness insurance scheme

Under Article 3 (6) of the regulations, officials whose service has terminated (and the members of their family) may continue to belong to the sickness insurance scheme of the Communities, provided that they cannot be covered by another public sickness insurance scheme. The administrative units have asked persons concerned to state on their honour whether or not they can be so covered.

In April 1975 the number of former officials of the Commission who were still covered by the Community scheme was 196 and 92, respectively, under Regulation No 2530/72 and Regulation No 1543/73. At the same date 12 officials who had left the Council, 10 from Parliament and 1 from the Court of Justice still belonged to the scheme.

21. Comments on promotion of former secretaries to the post of senior secretarial assistant or secretarial assistant

a) Continuation of secretarial allowance beyond the date of effect of promotion

Following the creation, from 1 July 1972, by Council Regulation No 1453, of the posts of senior secretarial assistant (career brackets B 3-2) and secretarial assistant (career brackets B 5-4), the Commission held an internal examination in 1973 to award about a hundred posts of this kind. The promotion to Category B of candidates successful in that competitive examination meant the loss of the secretarial allowance which they had received during their service in Category C.

The Commission did not withdraw the secretarial allowance from the officials concerned from the date of effect of the promotion, 1 March 1974, but did so two months later, the reason for proceeding in this way being that the promotions were not announced until May 1974.

In respect of those two months several of the secretaries promoted continued to receive in addition the overtime allowance (74 u.a. per month).

In the European Parliament 15 secretaries were promoted to the post of secretarial assistant in July 1974, with effect from April, June and July. The secretarial allowance was continued for those employees until 30 September 1974.

From the point of view of the regulations all the above-mentioned payments are unjustified.

b) Payment of a compensatory allowance not envisaged by the provisions in force

Following their appointment as officials in Category B, some former secretaries have had a total net remuneration lower than that paid to them before promotion. This reduction is the consequence - which is, indeed, pointed out in the notice of competitive examination - of loss of entitlement to secretarial allowance and to overtime payment.

The Commission agrees that it is impossible to make up for the loss of remuneration caused by non-payment of overtime but as to the secretarial allowance, it considers that because of the origin and nature of that allowance, it may be regarded as part of the basic salary. Thus, it has proposed, in the latest draft amendment of the Staff Regulations, that a compensatory allowance be paid to an official who, by reason of appointment as senior secretarial assistant or secretarial assistant, loses his entitlement to the secretarial allowance (1). That allowance is each month to be equal to the difference

(1) Article 30 of the proposed Regulation amending the Staff Regulations of Officials and the Conditions of Employment of Other Servants of the European Communities (O.J. No C 88 of 26 July 1974).

between the last remuneration received in the former grade, including secretarial allowance, and the remuneration received in the new grade.

The Council has not yet adopted the amendments in the proposed Regulation. However, pending a decision several Institutions have chosen to implement the proposal for the payment of such compensatory allowances. The expenditure of the Economic and Social Committee and of the Court of Justice for the financial year 1974 include several compensatory payments of this kind to secretaries promoted to Category B during that financial year.

In the Commission the application of the amendment providing for payment of compensatory allowance was refused approval by the Financial Controller. In March 1975 the Commission decided to override that refusal of approval and to apply the amendment with effect from 1 March 1974.

The Audit Board feels obliged to emphasize that the Institutions have proceeded to implement a measure not yet adopted by the competent authorities. In the absence of a decision from those authorities the payments made lack any foundation in law.

22. Cumulation of a retirement pension and emoluments by a former official also receiving regular assistance

In the past, and notably in the 1973 report (Point 18 b), the Audit Board has already drawn attention to the payment of emoluments to former officials receiving pensions, such cumulation seemingly being contrary to the provisions of Article 40 of Annex VIII of the Staff Regulations.

In the Economic and Social Committee a former member of the staff receiving a retirement pension of about 108 u.a. (and another allowance of about 90 u.a., under a national scheme) has been employed as a messenger and paid on an hourly basis. For this work he received 996 u.a. in 1972, 1 426 u.a. in 1973 and 2 588 u.a. in 1974. The Committee considers that those payments cannot be regarded as a salary within the meaning of Article 40 of Annex VIII of the Staff Regulations. The same former member of the staff receives in addition a special assistance grant (which was 42 u.a. per month in 1974), on the basis of Article 76 of the Staff Regulations, which provides for the possibility of granting assistance to members of staff or former members of staff who find themselves in a situation of special hardship owing, in particular, to serious or prolonged sickness or to family circumstances.

When asked to explain the justification for granting continuing assistance to this former employee, the General Secretariat of the Committee replied that it would see that the case was reviewed at the end of the year, in the light of the whole income of the person concerned.

23. Granting of loans under Article 76 of the Staff Regulations

Many officials of the Economic and Social Committee have been granted substantial interest-free loans, on the basis of Article 76 of the Staff Regulations, chiefly for the purchase or building of a dwelling or the purchase of furniture. For example, a loan of 2 400 u.a., to be repaid at the rate of 200 u.a. per month, was granted to an official recruited in England for the purpose of fitting out his flat and purchasing furniture. That person also received reimbursement of 761 u.a. for removal of his furniture from Great Britain to Brussels. In 1974 three other officials received loans, ranging from 2 400 u.a. to 2 880 u.a., for the purpose of financing the building of homes.

The existence in those cases of special hardship (such as mentioned in Article 76 of the Staff Regulations) was not apparent and the Audit Board has asked the Committee for justification of those loans. The reply received was that the application of Article 76 is governed by an internal directive giving instructions that for a period of five years an official may on two occasions receive a loan up to a maximum equal to the total of two months' basic salary. It seems that the directive in question involves a very debatable interpretation of the provisions of Article 76 of the Staff Regulations.

24. Prolonged payment of temporary daily subsistence allowance

Article 10 of Annex VII of the Staff Regulations provides that an official who proves that he must move from his place of residence in order to live at the place of employment shall receive a daily subsistence allowance for a maximum of 180 days if he is entitled to a household allowance and for a maximum of 120 days if he is not entitled to a household allowance. This provision is applicable to a member of the temporary staff (Article 25 of the Conditions of Employment of Other Servants). If the person concerned has the status of probationary official the daily subsistence allowance may be paid for 10 months. Auxiliary staff receive the allowance for a maximum period of one year (Article 69 of the Conditions of Employment of Other Servants).

Those periods were exceeded for some members of the staff of the Economic and Social Committee successively employed as auxiliary staff, temporary staff and officials. Thus, a servant received the allowance for 11 months, comprising 7 months as a member of the auxiliary staff and 4 months as a member of the temporary staff. A member of the temporary staff who upon completion of his contract was appointed as a probationary official received the allowance for 180 days (as a member of the temporary staff) and then for a further 10 months. Another employee who held successive appointments as a member of the auxiliary staff, member of the temporary staff and probationary official received the allowance for 4 months, 2 months and 4 respectively.

The Economic and Social Committee considers that upon assignment to another kind of appointment each post should, for the purpose of grant of daily subsistence allowance, be treated as separate. The period prior to the new appointment should therefore not be taken into consideration. The Committees of Heads of Administrative Services interprets the matter in the same way as the Economic and Social Committee. But the Audit Board believes the line taken to be difficult to defend from the point of view of sound financial management.

B. EXPENDITURE RELATING TO BUILDINGS

25. Rental of buildings and associated expenditure

The geographical dispersion of the Commission's departments, which was mentioned in the previous report (Point 22) was further increased in 1974.

The commitments rose from 7 833 005 u.a. in 1973 to 11 380 457 u.a. in 1974, thus rising to double the commitments in 1972 (5 704 446 u.a.).

This upward movement of expenditure was caused by increases in rents, which are linked to the consumer price index, and by a large expansion in the floor areas rented.

In 1973 the Commission was already leasing the Joyeuse Entreée/Cortenberg/Loi and Berlaymont complexes, where its services had been regrouped, and took up leases for eight other buildings providing a total of 526 offices or equivalent floor areas. The basic rent of these buildings, before additions due to changes in the consumer price index and before property tax, totalled 1 558 154 u.a.

In 1974 six more leases, for a total of 575 offices or equivalent floor areas, were taken on, at an overall basic rent of 2 451 075 u.a. Some of these 14 buildings or parts of buildings are for specific purposes, such as the Manhattan Center conference rooms, storage space or the nursery centre.

In Luxembourg, too, new premises were rented: two more floors at the Tour du Kirchberg, completion of occupation of the Eurooffice building, occupation of new premises at the Computer Centre and a building at 50, route d'Esch. The total basic rent of these premises was 1 001 467 u.a.

Premises were rented in Tokyo for the delegation of the Communities (142 815 u.a.).

A few properties in Brussels, some of which had only recently been occupied and fitted out, were given up in 1974. These were the stores at Diegem, the crèches in the rue du Taciturne and the avenue de la Brabançonne, and the depot in the rue Guillaume Tell. The conditions for the termination of these leases have in some cases been onerous. For the premises at avenue de la Brabançonne, which had only been occupied for 15 months, the charges for termination of the lease and restoration were equivalent to eighteen months' rent. For accommodation to be given up shortly there has in some cases been heavy fitting-out expenditure for a short period of occupation (for example 121 162 u.a. for the property avenue de l'Astronomie).

In its previous report (last paragraph of Point 22) the Audit Board deplored the absence of a "buildings file".

There has been a marked improvement in this respect as far as new rentings are concerned. A file for each property contains all the financial and technical papers and information, arranged according to a definite system. However, these files ought also to include information on maintenance and running costs and on the distribution of premises between the various departments.

26. Excessive costs resulting from delay in moving into newly-rented premises

In its report on the financial year 1973 (Point 20), the Audit Board pointed out the undesirable effects, from the financial point of view, of allowing long intervals to elapse between the taking on lease of premises and their actual occupation.

It urged that all possible steps be taken to shorten as much as possible the various legal and technical stages involved in moving into new premises, particularly by arranging for some of the stages to run concurrently.

This principle is not always put into practice in the Commission, as witness the case of the move to the premises at 84 and 86, rue de la Loi, Brussels.

Since commitments exceeding the budgetary allocation for the financial year were involved, the Commission submitted to the Council, on 10 July 1974, a memorandum on its needs in respect of premises and, in particular, asked to be permitted to lease these two properties.

The Council authorities supported the request and the Council gave a favourable decision on 29 July 1974. The Commission had already informed the lessor, on 22 July 1974, that it wished to go ahead and the lease of the two properties took effect from 1 September and 1 December 1974, respectively.

The two buildings were rented completely unfurnished and the Commission's departments had meanwhile entered into negotiations with the lessor with a view to obtaining from the latter a quotation for partitioning. The lessor turned down the proposals put to him and the Commission's departments decided to make their own arrangements for the partitioning to be carried out.

The ACPC was informed on 9 December 1974 of a proposed direct contract. The sum to be spent on partitioning was 347 600 u.a.

Whilst supporting the proposal put to it, the ACPC deplored the loss of time, stressing the fact that this entailed a waste of funds, because high rents had to be paid for this unusable accommodation.

In giving his approval, on 12 December 1974, the Financial Controller pointed out the flagrant violation of the principles of sound financial management revealed by the papers submitted to him for examination and placed on record that

the amount of rent paid for unoccupied accommodation during the design, production and fitting of partitions greatly exceeded the cost of partitioning.

At a rent of about 20 000 u.a. per week, plus charges, the loss sustained by the Commission by 31 May 1975, when the premises were still unoccupied 40 weeks after 1 September 1974, may be put at approximately 800 000 u.a., which is more than double the cost of actual partitioning.

The time granted to the contractor for completion has been prolonged by the delay on the part of the departments in informing him of the partitioning plan. The preparation of this plan, which must meet the particular needs of the administrative units which are to occupy the accommodation, depends on decisions of principle to be taken at the highest level in the Institution.

When DG XII was asked to move into one of these properties it did not give its agreement until 21 March 1975. At the time of writing of this report no decision had been reached about occupation of the second property, which had meanwhile been partitioned, so that the rent which the Commission was still paying for these premises constituted a waste of funds.

27. Expenditure on fitting out and maintenance of premises

The methods adopted in relations between an Institution and its suppliers call for some comments.

The Institution often consults only a small number of firms or even deals with its usual supplier without justification of the transaction being included in the papers. This remark applies above all to joinery, metal-work, brick-laying and painting.

In some cases the payment arrangements used, as for example payment of a large sum on account when placing the order, seem to be inappropriate.

Sometimes the order form gives scant information as to unit prices and the nature of the work and there is not always clear reference to a request for, and provision of, a quotation.

Moreover, many purchase orders are made out simply to regularize a verbal order, for example: maintenance of the blinds at Berlaymont (Art. 213 - 5 751 u.a.), repairs to escalators, replacement of the runners (1 773 u.a.), replacement of a water heater (334 u.a.), purchase of fittings for the partitioning of 5, rue Archimède (1 917 u.a.).

To allow for contingencies, the commitment often exceeds the estimate (5% to 10%, or even 15%, of the value of the order). Such surplus commitments are then used to cover additional work which ought normally to be included in the order.

Suppliers' invoices should describe in greater detail the services rendered and should, where applicable, be referenced by the relevant unit of the Commission to the inventory or the buildings file.

In addition, there are instances of departments commissioning from a supplier, without the knowledge of the administering department, work involving considerable expenditure, for example when the shelves of the document cabinets at 120 rue de la Loi were moved (1 374 u.a., including cost of repairs).

The sum invoiced is sometimes substantially more than that shown on the order form, for example for building interpreters' booths on the 7th floor of the Cortenberg building (134 789 u.a.) or for fitting partitioning at 6, Rond Point Schuman (195 093 u.a.), in which cases the invoice exceeded the estimate by some 10%. Any excess on an invoice should always be based on a supplementary document sent to the supplier.

28. As in previous years, appropriations under the Budget were again greatly augmented by transfers of funds during the financial year (579 500 u.a. in 1973, i.e. 44.6% and 1 319 000 u.a. in 1974, i.e. 281.8%).

Abnormally large amounts of appropriations continued to be carried forward. Out of 1 689 973 u.a. committed in 1973, 899 310 u.a. (53.2%) was carried forward to 1974. Out of 1 733 259 u.a. committed in 1974, 730 694 u.a. (42.2%) was carried forward to 1975.

For premises newly leased in 1973 and 1974 heavy fitting-out expenditure (1 812 296 u.a.) was incurred for installing partitioning or for adapting partitioning and fittings to the needs of the departments. When premises are used for a purpose other than that originally envisaged the fitting-out costs are especially high (the fitting out of conference rooms at the Manhattan Center cost 618 943 u.a.).

Plans for fitting out new premises should be more complete and more precise. In fact, the Commission had to have recourse to additional work and make further payments after initial contracts had been signed. The supporting documents refer to the need for supplementary orders because of "insufficient materials".

The surveys from which requirements are assessed (connexions, safety arrangements, air conditioning, etc) and requests for quotations are made should be more thorough, so that there is less improvisation about managing premises. Alterations which are not absolutely indispensable should be carried out at a later stage, in order to obviate a mixture of orders which are difficult to verify.

It should be mentioned in this connexion that additional work on the premises at 6, Rond Point Schuman cost 272 083 u.a. and on the "Nerviens" property 19 024 u.a. Additional work (3 207 u.a.) on the premises at 5, rue Archimède cost more than the main order.

29. From September 1973 to March 1974 (7 months) the Commission rented closed circuit television equipment for transmitting information to the staff.

Ten receivers were installed in the messengers' rooms at the entrances to the Berlaymont and Joyeuse Entrée buildings. Special systems of cables, including coaxial cable, had to be laid.

During the seven months of rental, transmission only took place on a few occasions at lunchtime. Because of the lack of interest aroused, as the subject-matter was already known from written information and the position and time were ill-chosen, the scheme was abandoned in March 1974.

Although such experiments seem attractive when first suggested, there should be better preparation. Serious studies of the suitability should have been made beforehand.

30. In addition to fitting-out work in the strict sense, the Commission has continued for some maintenance work to obtain contractors' labour from various firms, separately from maintenance contracts and other contracts governed by specifications; this contractors' labour, although employed by the contracting firms, works under the supervision of the Commission's staff (see also Audit Board report for 1973, Point 28).

The total work carried out in this way amounted to 124 235 hours in all, compared with 118 000 hours for the financial year 1973.

However, the system of hiring contractors' labour has disadvantages and the Audit Board considers that it would be advisable to use only the procedure of contracts governed by specifications, as is the practice elsewhere than in Brussels and in the other Institutions.

The performance of everyday maintenance work by outside labour, with some of the workers concerned being employed full-time throughout the year on the premises of the Institution but without any direct attachment to it, must raise questions of personnel management, and a query as to the correct and expeditious performance of the work.

In connexion with entry of expenditure in the accounts and matters of personnel management, it should be noted that the Institution regularly employs workers whose pay is included in the expenditure charged to the Budget heads relating to maintenance of buildings. According to the invoices, there is an average of 58 workers from various contractors, about two-thirds of them forming a relatively stable nucleus, working in this way alongside officials and other employees whose working conditions they do not share: rights, obligations, pay, hours, leave, official holidays.

As regards the obligations of the contractors, these amount to making available to the Commission, on request, a work force of a varying number of skilled workers, for a number of hours not less than the minimum for the year stipulated when the contract is awarded.

Under this arrangement the contractors are not required to guarantee satisfactory performance of the work or to provide supplies or equipment. Nevertheless, the agreed hourly rate is close to that quoted by firms which undertake jobs under specifications, with the firm supplying its principal not only with the work force but also the foremen and supervisory staff, at the same time undertaking responsibility for satisfactory performance of the work by the agreed date. Where contractors supplying labour are also contractors for work governed by specifications, as in the case of the firms concerned here, market competition makes them naturally inclined to assign their best workers to the latter type of service

However, the Commission has taken the precaution of stipulating to its advantage that it shall be entitled to require the removal or immediate replacement of any worker, without obligation to give reasons to the contractor. It has made use of this entitlement on several occasions, above all for reasons of security, without the contractors making difficulties. The very fact that the Commission has put a proviso of this kind into contracts suggests that the Institution has sought means of overcoming shortcomings in the selection of labour. But it is still debatable whether it is actually able to check that the skills of the workers do, in fact, match the summary provisions of the specifications.

Problems of using contractors' labour have already been mentioned in Point 28 of the 1973 report. The Commission's departments are responsible for preparing invitations to tender and contracts; planning the work; ordering, accepting, inventorying and supplying to the site the equipment and the supplies from stores; estimating the number of hours of work; obtaining from the contractors the work force considered necessary according to day-to-day requirements; allocating the tasks; checking and recording the hours of work claimed; checking the number of hours invoiced; and producing figures for the breakdown of expenditure on maintenance.

Because of the increase in the volume of maintenance work and continuing expansion in the floor area occupied, administrative tasks of this kind are taking up more and more of the time of the Institution's staff, including that of the staff initially intended to make site checks of the suitability of the hired workers and to supervise satisfactory and speedy performance of the work. Checking the suitability of the workers is rendered all the more necessary by the fact that there is no direct relationship between the Institution and the workers employed on its behalf on its premises.

To provide for its future needs the Commission, on 18 September 1974, issued seven invitations to tender to a total of 75 firms but only 14 of these firms submitted quotations. For three firms the mail was undelivered, five of the firms informed the Commission that they were not interested and all the remainder failed to reply to the invitations received.

The small proportion of positive replies would appear to be basically due to the uncertainty felt by undertakings without experience of this type of contract or of the Commission's methods at the lack of precision in the specifications. It could also be explained by the discrepancy between the estimates given in the

invitations to tender and the services actually required, the firms seeing in that discrepancy an element of uncertainty which led them to avoid taking the risk involved. For example, the discrepancies between the annual estimates for 1975 and 1976 and the actual hours invoiced for 1974 are as follows:

for joinery : 8 000 hours, compared with 25 570 invoiced
 for electrical work : 8 000 hours, compared with 24 301 invoiced
 for painting : 4 000 hours, compared with 14 803 invoiced
 for brick-laying : 4 000 hours, compared with 22 110 invoiced.

Moreover, it is not unusual, despite the sole contractor condition, for contracting firms to bring in sub-contractors when the Commission's labour requirements substantially exceed the amounts that could normally be inferred from the provisions of the contract.

The considerations put forward here suggest the conclusion that the normal arrangement of contracting on a specific job basis seems more desirable.

C. EXPENDITURE ON EQUIPMENT

31. Expenditure relating to stationery and office supplies (Article 230)

Budgetary management in 1974 was marked by a large increase in appropriations. The initial allocation of 1 800 000 u.a. was raised by successive transfers (including 810 000 u.a. authorized by the Council) to 2 650 000 u.a.

Admittedly there were sharp price rises in 1974. There were rises of 67% for offset paper, of 108% for duplicator paper and of 103% for "extra strong" paper used for letters, xerographic copies, etc. But the leap in expenditure was caused not only by the higher cost of paper but also by much greater consumption, mainly by the document copying services and by photocopying.

In its report on the financial year 1973 (Point 32) the Audit Board emphasized the necessity of limiting offset printing by making duplicator copies from stencils and of supervising the use of photocopying machines.

As regards the document copying services of the Commission, the printing figures were made up as follows:

Financial year	Number of pages printed	
	stencil	offset
1973	99 557 648	209 675 095
1974	77 365 625	242 788 940

These figures show the opposite trend to that sought by the Commission's internal directives on the use of the various document copying methods.

32. In the matter of photocopies the Commission introduced new arrangements which undoubtedly influenced the amount of copying done by the services.

Under these arrangements, between 15 July and 1 October 1974 the Commission withdrew from the services half the xerographic photocopying machines (14 units), replacing them successively with seven small decentralized copying units, called "print shops", for making small numbers of copies of papers and documents. The contract made with the supplier involves providing the equipment - which remains the property of the supplier -, the minor materials and the operatives. The Commission, for its part, undertakes to supply the paper.

Invoicing is based on the number of pages printed. There is a sliding scale of charges (from 0.61 BFRs to 0.3192 BFRs), based on both the mean number of copies of an original and the mean monthly total of copies.

At 31 March, after six months in operation, the print shops had produced twice the number of photocopies that had been made by the xerograph machines still in use. From the point of view of overall cost of these two methods of copying, by extrapolating to a full year the figures available at that date the increase in expenditure in 1974 compared with 1973 may be put at about 18% (380 000 u.a., compared with 320 000 u.a.).

Hence, if the unit price per photocopy produced by the print shops comes to half the price of a copy made by the machines which have remained in use the saving thus achieved is not merely absorbed but exceeded by a fairly wide margin because of increase in the number of pieces of copying. There is a risk that the speed and ease of the process, together with the fact that it is operated by the supplier's personnel, will cause the number of pieces of copying to rise, thus producing higher overall expenditure.

It should be emphasized, moreover, that the copying process in the print shops is akin to that used in the central services and that the former accept production of up to 200 copies and/or 40 pages printed on both sides per document, namely a unit volume compatible with the equipment in the central services. Although the two sets of copying facilities come under the same directorate-general, they are managed by different directorates. Therefore, the supervision and recording procedures applied in the central services are not required practice in the print shops. The Audit Board believes that this anomaly in management must be eliminated without delay.

33. A few matters in connexion with the recovery and sale of old papers and of waste paper from the copying services should be raised, especially in view of supply difficulties and rising expenditure.

The combined total of sales of waste paper by the Commission and the Council amounts to more than 300 tonnes. However, there is a difference between the two Institutions in the organization of collection, the selling arrangements and the price obtained.

For example, in the Council the quantities taken away are checked by counting the bags and from submission of weight notes. In the Commission no check of this kind is made and there is only a count (without investigating weight of the load) of the trucks leaving the Berlaymont building.

Differences in accounting may also be noted.

The Council enters the receipts under Item 990 of revenue, which would appear to be justified, whereas the Commission credits the proceeds of such sales to the accounts as deductions from expenditure under Item 2130 (cleaning and maintenance), which does not seem to conform well to the provisions of the Financial Regulation.

It would be advisable for the Institutions to come to an arrangement on uniform procedures in this matter.

34. Cost of hire of computer and associated equipment, including the requisite supplies and outside services (Item 2240 of the Budget)

Commitments entered into against appropriations for the financial year 1974 amount to 2 002 814 u.a., showing a rise of 5.5% compared with 1973.

Hiring the equipment and the technical assistance for operating the ECDOC system, for which the 1973 commitments were very small, are from 1974 onwards being charged to Article 226 and these produced further costs of 390 720 u.a.

Readers will be aware that the Computer Centre has two independent sets of equipment.

In August 1974 the configuration of the IBM 370 computer was expanded. The capacity of the main memory was increased from 512 to 768 K; the capacity of the direct access store was raised from 1088 to 1856 K. As regards the peripheral equipment, mention should be made of the addition of 2 disc 3 magnetic tape units and 2 printers.

During 1974 the Commission signed long-term contracts (24 months) for a large proportion of this computer equipment (other than the central processor). This gave a reduction of the order of 15% in costs of hiring the equipment involved.

As a result of the increase in the processing capacity of the equipment a marked rise in cost has been apparent. It may be mentioned that in April 1975 the numbers employed in the Computer Centre itself and by the analysis and programming units totalled 108 persons. About 40 posts, 30 of which were created under the Budget for the financial year 1975, were vacant at that time.

However, good progress has been made in recruiting, so that it should be possible to look for a reduction in the near future in expenditure on data-processing work contracted to outside agencies. For 1974 the costs of technical assistance to the Centre and of analysis and programming, processing, punching and encoding performed by outside agencies (411 015 u.a.) amounted to 23.3% of payments under Item 2240.

In addition, the amendment of the Staff Regulations adopted on 14 April 1975, introducing a system of continuous shiftwork by the staff of the Centre, should permit the rate of utilization of the capacity of this equipment to be still further improved.

As regards data-processing work performed outside the Centre, it may be mentioned that as from June 1974 a new time-sharing contract was concluded for DG XII, Research, Science and Education. The operating costs for 1974 amounted to 7 193 u.a. However, the time-sharing arrangement made on behalf of DG XVII was not fully utilized, since expenditure under that head was about two-thirds less than in the previous financial year.

Through failure to pay within the stipulated period, the Commission forfeited the 2% discount for cash payment granted by some suppliers. Rebates lost in this way totalled about 2 200 u.a.

A similar comment was made with regard to previous financial years and the Audit Board wonders whether the adoption of quicker clearance procedures would enable payment to be speeded up, so that worthwhile savings could be obtained.

In its previous report (1973, Point 12 b) the Audit Board pointed out the existence in the Commission of two separate computer file-systems for administration of staff matters.

A similar observation may be made in connexion with the Secretariat of the Council. Indeed, since the end of 1974 that Institution has been using not only two computer file-system but also two sets of non-compatible computer equipment, each with its own programming and operating staff.

The Secretariat of the Council has stressed that so far as matching the equipment is concerned, studies are in progress with a view to replacing the older computer and using the data for other purposes of the General Secretariat.

Problems relating to the Computer Centre have attracted the attention of the European Parliament. By a decision made in May 1973 that Institution set up a committee of inquiry to examine, in collaboration with the Commission, a constructive solution to the problems arising from the Computer Centre.

The Audit Board has joined in the work of the committee of inquiry. This work led to a debate in the European Parliament and the passing, on 10 March 1975, of a resolution pointing out most of the problems which have caused the Audit Board concern (working document No 486/74 of 17 February 1975).

D. EXPENDITURE ON STUDIES AND EXPENDITURE ON MEETINGS

35. Management of appropriations for studies

The total spent by the Commission from appropriations under Chapter 26, "Expenditure on studies, surveys and consultations", was 9 500 000 u.a. for 1974, compared with almost 10 000 000 u.a. for the previous year and about 4 435 000 u.a. in 1972. Expenditure on non-statistical studies and surveys, namely Chapter 26 excluding Article 264, amounted to slightly less than half of this total. Only 31% of this expenditure was against commitments for the current year. The whole of the remainder involved appropriations brought forward from the financial year 1973. Of payments in 1974 against appropriations for the current financial year and appropriations brought forward from 1973, 25% were made during December.

These percentages reveal, as in previous years, the slow rate of utilization of the appropriations and, at the same time, the high proportion of funds carried over. It is also noticeable that among the expenditure charged or chargeable against appropriations brought forward a high proportion of the commitment and clearance operations takes place at the end of the financial year, either to permit automatic carry-over or to prevent the cancellation of appropriations already carried over. Each year the number of contracts placed in November and December exceeds the total for the first ten months.

The volume of appropriations for studies and surveys calls for a variety of measures aimed at elimination of the risks inherent in the decentralization of their management by substituting a more central organization than hitherto and henceforth subjecting these appropriations to more effective management from the point of view of coordination of programmes, costing, more centralized supervision of contracts in progress and greater objectivity in assessment of results.

In reply to the comments made by the Audit Board in Points 38 to 43 of its 1973 report, the Commission has stated in principle that on 26 June 1974 it adopted new directives designed to improve the conditions of utilization and management of appropriations for studies. In particular, it has set up under its administration an Advisory Committee on Commissioned Studies, with the task of rationalizing both estimates for and the implementation of appropriations for studies.

That Committee was not set up until the middle of the financial year and was therefore unable to exert influence on the allocation and management of appropriations for all the expenditure laid out or even committed during the year. In any case, the steps taken in June 1974 could not be expected to have more than slight effect on rationalization of the execution of contracts during that year.

Since 22 June 1973, a registration number in the historical archives has been issued only when the computer services have delivered a work done slip. If that number is not quoted, the Financial Controller is required to refuse to approve the expenditure. It is obligatory to file a copy of each study in the archives, together with a summary,

also supplied by the computer services, giving an assessment of the study.

The centralization which has been progressively introduced since 1973 should very soon bring about the desired level of efficiency.

In fact, the internal directives have not precluded the payment of fees in full upon registration, on condition that the study is later supplied to the central archives. Moreover, the summary has not always accompanied the document passed to that department. Expenditure on fees for studies chargeable against appropriations to Chapter 35, Expenditure on health measures, have even been habitually approved by the Financial Controller in Luxembourg without the registration number having been duly shown on the work done slip, the latter being accompanied by the payment order and, usually, by a copy of the final report normally intended for the archives.

The practice of registration on condition that the study is supplied later has arisen under pressure of circumstances, in order to reduce delay in payment of fees due to experts whose work has been validly presented in a form permitting immediate use, before decoding or reorganization for purposes of filing in the archives, as has been the case for example with certain computer or statistical studies. This exceptional practice is admissible where the author of the study provides the results of the work on punched cards or magnetic storage devices and is sometimes justified for revisions of texts but is likely to be misused if rules for its application are not laid down and if there are not specific stipulations as to the conditions for permitting exceptions, their limits, the time allowed for regularization and the penalty for omitting regularization.

36. Statistical studies and surveys (Article 264 of the Budget)

The initial appropriations amounted to 1 826 000 u.a. and were raised to 5 367 000 u.a. by several transfers of appropriations from Chapter 98, approved by the Council between 4 June and 20 December 1974.

Meanwhile, the programme of statistical studies and surveys for 1974 was approved by the Commission in several stages from 31 May to 20 December 1974.

In 1975 progress was achieved: the programme for 1975 was approved by the Commission on 19 March 1975.

The procedures for releasing appropriations under Chapter 98 of the Budget, the cumbersome internal administrative formalities prior to authorization by the Commission of programmes for studies and, finally, the delays - sometimes lengthy - in finalizing and signing contracts are all reasons for the slow rate of utilization of appropriations and for the abnormally large percentage carried forward from 1974 to 1975. Commitments for expenditure totalled 5 005 965.58 u.a., which was 97% of the sums available.

About half the commitments were entered into after 15 October 1974. At least 65 contracts were signed in December 1974, 34 of them on 30 December 1974. About 5% of the 1974 contracts were fully cleared in 1974. No payment whatever was made in 1974 on more than 60% of the 1974 contracts. Of total commitments, 82% were carried forward.

The contractual time for forwarding results has not always been met.

For example, for a Community survey on manpower in 1973 which was assigned to 7 national institutes the results from 5 institutes reached the Office 4 to 6 months late. For the survey of the structure and distribution of wages in 1972, carried out by 6 national institutes, the findings were forwarded some 3 to 11 months late.

The organizations concerned put forward a variety of reasons for these delays (strikes in one country, multiplicity of arrangements to be made because of the federal structure of another country, provision of computer cards with errors requiring correction, faulty working of a computer in one country, etc).

The officials of the Statistical Office have stated that they gave reminders, either in writing or by telephone or by personal contact at meetings, in an attempt to obtain compliance with the scheduled timing.

As a general rule the fees payable under contracts were stated either in u.a. or in the currency of the country of domicile of the recipient.

However, some exceptions were found, for example for contracts made with experts domiciled elsewhere than the headquarters of the Institutions, in which Belgian francs were used.

Authorization of payment and payment of fees expressed in u.a. were sometimes performed in the currency of the country to which the sum was remitted and sometimes in Belgian francs.

The unit of account was converted in accordance with the latest parities declared to the IMF.

Checks carried out in respect of expenditure in the first three quarters of 1974 show that the total amount of Belgian francs transferred to other countries (mainly to Italy, France, the United Kingdom, Denmark and Ireland) exceeded 70 million.

According to the Statistical Office, the practice of payment in Belgian francs has been adopted when there were large fluctuations in rates of exchange, and in the absence of precise instructions, with a view to maintaining a certain level of payment to payees living in countries with weakened currencies. The practice was abandoned towards the end of 1974.

Under the rules now in force, contracts must be expressed and executed in the currency of the country of domicile of the body undertaking to perform the contract.

37. Travel expenses and allowances paid to persons attending meetings

An improvement was made in 1974 in respect of the rates of exchange used for reimbursement of expenses. A comment on these rates was made in Point 6 b) of the 1973 report of the Audit Board.

Since November 1974 the Commission of the Communities has applied to these reimbursements, as well as to payments made to the experts and interpreters, up-to-date rates of exchange, instead of the former fixed parities employed for such transactions.

These former fixed parities, with the added opportunity of choosing which Member State's currency payment is to be made in, continue to apply to sessions of the European Parliament.

Considerable differences between systems for refunding expenses and paying allowances to persons attending meetings have persisted. Readers will be aware that, in the absence of a system applicable throughout the Communities, each Institution (Council, Parliament, Commission) has decided for itself what arrangements to adopt for persons attending meetings. There have been Council decisions on the system applicable to members of the Economic and Social Committee and to members of the Consultative Committee of the ECSC.

Persons attending meetings are entitled to reimbursement of travel expenses. The Council does not grant any subsistence allowance to national officials, as such expenses are to be dealt with by the administrative authorities of the person concerned. In the Commission different systems are in operation alongside each other: Government experts attending meetings of some committees receive travel expenses only but for meetings of other committees subsistence allowances are also paid.

The members of the Economic and Social Committee and the members of the Consultative Committee of the ECSC receive not only travel expenses but also allowances for the number of days of the meeting and for the days of travel. The days of travel are calculated on a fixed basis from the distance and do not correspond to the actual time required for the journey, especially if one takes into consideration the improvements which have taken place in the last few years in travel facilities between the main cities of the Communities.

Since 1964 the system applied to members of the European Parliament has consisted of payment of travel expenses calculated on the basis of fixed kilometric rates, hence without considering what expenses were actually incurred.

As is the case with the system mentioned immediately above, the arrangements give rise to payments, as travel allowances, of amounts which are more in the nature of fees. If these amounts are justified they ought not to be paid in respect of the journey but in connexion with services rendered at the place of the meeting.

E. EXPENDITURE ON INFORMATION

38. The Audit Board has several times emphasized (see 1971 report, Point 74(b); 1973 report, Point 47) the necessity of applying to their original purpose the sums allocated to Article 272, Expenditure on information and on participation in public events, namely for operations, hence the need to avoid using them to meet ordinary running costs, because charging such costs to this Article reduces by that amount the resources applied to information in the strict sense.

These comments are still valid for 1974 and when questioned in this connexion the Institution confirmed the position that it had already adopted in previous financial years, expressing the view that "information appropriations constitute an overall allocation which can equally well be used to pay for supplies of materials and equipment or for providing services".

The Audit Board therefore considers that it is incumbent on the budgetary authority to stipulate the rules for use of these appropriations, in the light of the nature of the funds.

In the field of information, as in other spheres of Commission activity, payment orders are required to be accompanied always by supporting documents showing that the service carried out has been satisfactorily performed. Assessment of the service rendered cannot always be made from papers relating to the case where functions as difficult to measure as the influence of information on public opinion are concerned.

However, where very precise standards have been laid down there should be strict conformity with them. In this connexion one may point out contracts made with an accredited press correspondent working for periodicals, under which he was to establish with that section of the press useful contacts for making public opinion better informed about the European Institutions. The latest of these contracts covered a period of two months. It specified monthly fees of 700 u.a. and maximum monthly amounts of 350 u.a. for reimbursement of office expenses and 200 u.a. for reimbursement of translation costs.

A single payment of 2 500 u.a. was made, the maximum amount being thus paid for translation costs, but no evidence of actual costs was attached to the payment order, the only document accompanying that order being a round-sum estimate to the amount of the agreed maximum.

39. In its previous reports (1972, Point 14 and 1973, Point 45), the Audit Board mentioned the introduction in the Directorate-General for Information of accounting methods based on the system of rationalization of budgetary choices (PPBS).

Although it has not as yet been possible to bring a true PPBS system into operation in DG X, it is appropriate to acknowledge the administrative work which has been performed by the Commission for the purpose of implementing those Articles of the Budget under the management of that Directorate-General.

Articles 272 and 273 are subdivided according to a "Budget Programme". Accounting for commitments on "programme sheets" showing the commitment against the initial appropriation is performed manually on the basis of the subdivisions called "actions" (of which there were 412).

At the time of writing the Directorate-General for Information has not yet obtained practical assistance from the Computer Centre in the form of production of computer statements which are indispensable for supervising the implementation of the Budget Programme on the basis of certain sorting categories.

Although an improvement in utilizing data obtained from the application of the Budget Programme may be noted, the administrative work is regrettably somewhat burdensome. The formal application of an internal budgetary system obliges the units involved to make a great many modifications in the form of corrections (nine sets of corrections in 1974) entailing offset printing and fairly wide distribution.

The manual maintenance of the programme sheets also seems to be rather inefficient compared with other means employed. Perhaps these accounting records could be made out by the equipment recently brought into use in the "Accounting Centre".

Pending the application in 1975 of the measures of implementation of the Financial Regulation of 25 April 1973, imprest-holders at external offices, including those who do not come under the Directorate-General for Information, have continued during the financial year under review to comply with an internal instruction of the Commission which has been in force since 8 March 1971.

Before that date imprest-holders, who at the same time hold the positions of treasurer and local accounting officer, nevertheless lacked instructions on procedure to be used locally for committing their expenditure, so that they often had the status of local authorizing officers, with a large measure of autonomy vis-à-vis both the local staff and the central administration.

The Audit Board points out in this connexion that payments to be made to a country other than that of the office concerned are made direct by means of imprests, whereas if the central cash office at the headquarters effected this transaction there would be a saving of bank charges relating to conversion of currency.

F. EXPENDITURE ON SOCIAL WELFARE

40. Accounting systems of the restaurants and of the staff supermarket

From examination of the accounts of the restaurants and of the Commission's staff supermarket in Brussels it has been found that the accounting systems of these establishments give a very incomplete picture of their financial position.

Operating expenditure, charged to Article 142 of the Budget, "Restaurants and canteens", does not appear in the accounts of the restaurants. Nor is there any accounting for other major components of the administration of the restaurants and the staff supermarket, which are incorporated in the Commission's Budget: pay of local staff and officials, expenditure on rent and equipment, water and electricity charges, heating, maintenance, cleaning, removals, etc.

All this expenditure amounts to at least 20% of turnover and it is not reflected in any way in the accounts of the units concerned.

Moreover, there are instances where sums recorded as own income of the restaurants and of the staff supermarket come, in fact, from indirect subsidizing of the Budget: such is the case with interest of 20 453 u.a. received on funds in a bank account, which was granted as a result of cash facilities provided by the Commission, since the Commission was advancing the amounts involved when it paid certain invoices.

41. Purchases and sales

Stricter standards of practice are necessary in the matter of purchasing. Admittedly the day-to-day running of restaurants often requires recourse to simplified procedures but this fact is yet another reason why purchasing operations should be arranged in liaison with the specialized units of the Commission and under the supervision of the Advisory Committee on Procurements and Contracts. The Audit Board must also point out the consistent absence throughout the financial year of invitations to tender and of written contracts.

On a similar matter, it has been discovered that kitchen waste has for many years been sold to the same purchaser at the unchanged price of 360 u.a. per annum.

Moreover, the restaurants sell to the Red Cross at the price of the "plat du jour" 400 meals a week for supply to disabled persons. This is a charity operation which is not specified in either the Budgets or the accounts and the figures involved are incorporated into the general income and expenditure of the restaurants.

42. Stocks and equipment

Again, the accounts of the restaurants and the staff supermarket do not expressly mention loss or disappearance of goods worth 4 384 u.a. ascertained in the supermarket's stock-taking of wines and spirits during the period from 1 April to 30 June 1974. The sum was included in the inventory movement in the operating account.

Moreover, true checking of stocks, by comparing amounts in store with inward and outward movements of goods, was not introduced by the Institution until 1 April 1974 and that system of checking has been abandoned from 1 April 1975.

As for the loss or disappearance of duty-free parcels of goods, in the sum of 602 u.a., this does not appear in the accounts.

It should also be mentioned that the staff supermarket's 1974 results were improved by 15 644 u.a. upon revaluation of the stock of wrapping paper at the end of the financial year. Previously this paper was completely written off upon purchase.

As regards the furniture purchased by the administration of the restaurants and the supermarket, this has been neither capitalized nor depreciated in the accounts.

G. EXPENDITURE ON PUBLISHING

43. Exceeding of initial estimate

In its report on the financial year 1973 (Point 49(e) the Audit Board emphasized the consequences, from the point of view of budgetary management, of the lack of financial responsibility on the part of the departments which produce the text of publications. The result is that the sums invoiced exceed the estimates, in some cases by a large amount.

An example of the invoice exceeding the estimate, because of a regrettable lack of coordination between the department responsible for the text, the authorizing department and the Office for Official Publications, is provided by the printing cost for the publication "Système de diffusion des offres et demandes d'emploi en compensation internationale" (SEDOC).

This publication has been produced in the form of seven separate single-language booklets and one four-language volume.

Examination of the file has revealed a discrepancy between the specification and invitation to tender and the technical data supplied for the written procedure, made on 27 February 1973, for authorization by the Commission of the expenditure.

According to the invitation to tender (issued on 8 May 1972), it was intended to print one section of the publication, the "Répertoire" (more than 300 pages) in the single quadrilingual volume only. However, according to the supporting papers for the written procedure, this text was to be inserted in the seven separate single-language booklets also.

In addition, the print-run was changed.

Despite the changes in plans for the booklet, the ACPC accepted the results of the invitation to tender.

Furthermore, following gross errors in calculation when examining the tenders, the order was not placed with the printer which submitted the lowest offer - and, in fact, that printer's quotation was incomplete. The offer chosen was 5 213 u.a. higher than the lowest offer.

The errors in calculation which had been made also affected the amount of the commitment. The latter was for 28 720 u.a., whereas the exact sum in the estimate for printing was 36 090 u.a. Prior to this, in the above-mentioned written procedure, the Commission had been asked to authorize an expenditure of 60 000 u.a.

The order placed in consequence of the invitation to tender was in the sum of 25 430 u.a. Apart from the change in the print-run, the order form was made out on the basis of the unit prices in the tender, without taking into account the inclusion of the full "Répertoire" in the seven single-language booklets.

The publication was finally produced with inclusion of the "Répertoire" in all the booklets. Other additional work arose while the order was being carried out, for example an increase in the number of pages and a change of typeface.

The invoice was for 67 209 u.a.

The Financial Controller withheld approval of the supplementary commitment, for the following reasons:

- breach of Articles 40 and 41 of the Financial Regulation (work not covered by the original commitment);
- breach of Article 16 of the Commission Regulation on the management of budgetary appropriations (exceeding the expenditure authorized by the Commission);
- non-compliance with principles of sound financial management (the operation took place in such manner as to prevent ascertainment of the competitiveness of the supplier's price and to jeopardize the reliability of any estimate of publication costs).

The Commission recognized that the Financial Controller's objections were well-founded but was obliged to conclude that it was faced with a contractual obligation which it must honour. At the same time it stated that in future steps would be taken to ensure that such a situation could not occur again.

The Office for Official Publications

44. Expenditure

The commitments of the Office for Official Publications for 1974, as shown in the revenue and expenditure account for the Office, totalled 3 871 865 u.a., after deduction of the accountable stock of stationery and office supplies. This total was an increase of 44% over expenditure in 1973, which in turn had been 40% higher than in 1972.

The increase arose mainly in expenditure on staff (+535 646 u.a.), expenditure on buildings (+386 903 u.a. in consequence of rental of the new building throughout the year), postage and delivery charges (+97 000 u.a.) and expenditure on equipment (+85 209 u.a.).

45. Cover for expenditure

Against expenditure (excluding investment costs and accountable stock), the Office's accounts show as revenue 2 745 954 u.a., arising from sales (345 448 u.a.) and from the cost invoiced to the Institutions for services of the Office (2 400 506 u.a.). The reservations expressed in Point 50 b) of the previous report and relating to the bases of calculation used to determine the cost of intervention of the Office remain valid for 1974. For 1974 the cost of intervention, expressed in terms of amount per corrected page or in terms of a rate per hour, was fixed by the Management Committee in May 1973 from estimates of cost and work for the various sectors. These bases were not revised despite the large increase in certain expenses of the Office, adjustment having been postponed to 1975.

For the "Official Journal" sector (including consequential legislation but excluding tables) the subsidy of 366 Bfrs per page yielded at the end of the financial year a surplus of receipts over expenditure of 162 293 u.a., i.e. 20%. 131 784 pages were printed, as opposed to the estimated 100 000. However, the "Official Journal Tables" show a shortfall of receipts amounting to 63 816 u.a., or 45%. For the workshops the cost of the service (omitting acquisitions and depreciation of equipment) was given as 889 394 u.a. and receipts as 584 174 u.a., making a deficit of 305 220 u.a., or 34%. For the "Sales" sector the shortfall of receipts was 715 345 u.a. (compared with 344 853 u.a. in 1973).

The two last-mentioned sectors were especially affected by the increase in rent. In addition, higher postal charges produced a marked change in the expenses of the "Sales" sector.

The apportionment indices used to distribute certain expenses between sectors of activity of the Office (Official Journal, Official Journal Tables, Publishing, Workshops, Sales) have fluctuated during the course of the last few financial years and were changed again in 1974. These changes followed alterations in the administrative structures of the Office and were also imposed by the fact that (as a result of a comment made in the Audit Board's previous report) management expenses were no longer charged to the medium- and long-term translation department.

Comments on operations of certain sectors of the Office for Official Publications

46. The workshops

The Office did not undertake any heavy expenditure on equipment for its workshops. Nevertheless, it may be noted that for 1974 the printing runs

amounted to 66 million pages, expressed in terms of DIN A 4 size, compared with 49 million for 1973. For comparison, the offset printing works of the Commission produced 242 million pages and those of the Council about 50 million (the Council does not express the figure for its printing runs in terms of DIN A 4 for statistical purposes).

As in previous years, the Office did not work out the coefficient of use of its machines for 1974.

47. Sales department

The gross receipts from sales shown in the 1974 accounts were 1 392 479 u.a. (compared with 927 617 u.a. in 1973). However, the amount entered in the accounts does not correspond to the actual volume of sales in the financial year. In fact, the sales entered in 1974 include a sum estimated at 200 000 u.a. from publications dispatched in 1972 and 1973 which were not invoiced until 1974.

In 1974 there was no change in the situation described by the Audit Board in Point 53 e) of its previous report, concerning direct distribution of the Official Journal by the Office. However, since April 1975 the Office has carried out direct distribution of the Official Journal to subscribers in the Netherlands. For Germany, Belgium and France direct distribution by the Office is planned to take place from 1 January 1976 onwards.

48. Accounts department

No change occurred in 1974 in the organization and operation of the analytical accounting system and the comments in that connexion which were made in the previous report (Point 50 b) therefore remain valid.

A doubtful matter in the financial statement of the "sales" sector of the Office should be pointed out. This statement showed a net balance of 1 418 964 as at December 1974. The balance, obtained from the difference between the amounts shown under the asset headings (cash in hand and debtors) and the liability headings (suspense accounts) is made up of:

- sums payable to the Institutions in respect of sales in 1974 (including the portion payable to the Commission)	758 487 u.a.
- total owed by debtors as at 31 December 1974	550 797 u.a.
- bank interest received by the Office in 1971 and 1972 and not yet transferred to the Commission	<u>57 636 u.a.</u>
	1 366 920 u.a.

The difference of 52 044 u.a. between this total and the net balance appearing in the financial statement has not yet been explained. The extra amount involved originated several years ago, dating back to the period preceding the introduction of a new system of commercial accounting. Investigations to clear up this difference should be actively pursued.

It would be helpful if the methods used to determine the share of sales proceeds allocated to each of the Institutions were to be simplified.

The distribution is, in fact, made on the basis of collections and the Institutions enter in their accounts only their share of the debts collected by the Office. However, these debts are determined from the invoices sent out during the financial year, less sums not yet paid and with the addition of payments on invoices from previous financial years.

The justification for such a method of calculation does not seem clear and the accounting system of the Office ought to contain a heading under which the sales proceeds to be distributed between the Institutions can be seen in plain form.

The unpaid invoices call for some special comments:

At 31 December 1974 the total involved was 550 797 u.a. (compared with 275 476 u.a. at 31 December 1973). However, the accounts show a total of 10 252 u.a. paid into a suspense account, for unidentified receipts, payments not yet invoiced and amounts paid on account against invoices, and also a sum of 7 396 u.a. to be refunded to customers.

Debts originating in 1974 and not yet paid at the end of the financial year amounted to 419 711 u.a., and amounts outstanding since 1973 totalled 116 435 u.a. The remainder, 14 651 u.a., dated back to the period 1968 to 1972.

In February 1975 one sales office paid 1974 invoices totalling 186 983 u.a. Sums owed since 1973 include a disputed debt of 37 578 u.a. owed by the sales office in Copenhagen, and a debt of 30 900 u.a. owed by a sales office in Oldham (United Kingdom).

In Point 53 b) of its 1973 report the Audit Board emphasized the need for more vigorous efforts to obtain settlement of debts. Apart from a request for payment of an invoice, sent by registered post to the sales office in Oldham, reminders have been sent only in respect of unpaid invoices relating to the opening months of 1973 (up to 15 May 1973). These reminders were issued in August 1974, by sending the customer a photocopy of the invoice (according to the Office about 5 000 reminders were sent out).

At the end of the financial year 1974 the Office treated more than 900 debts totalling 3 318 u.a., relating to sales in the period 1968 to 1972, as bad debts. These were invoices for amounts of 10 u.a. or less and for the most part involved overseas customers. The debit balances waived were written off as sales expenses as a deduction from the Office's receipts.

49. Price increases not expressly provided for in contracts initially made for printing the Official Journal

For printing the Official Journal of the European Communities the Office for Official Publications made two-year contracts commencing on 1 January 1973 with:

- a printing firm in Luxembourg, for the greater part of the editions;
- a group of three German printing works.

The Office for Official Publications also made arrangements by letter for the collaboration of a printing firm in France when certain of the issues were to be particularly bulky.

These contracts contain price revision clauses which have not been applied strictly in accordance with the provisions of the contracts.

Thus, the contract made with the printing firm in Luxembourg provided for higher payments only in the event of wage increases occurring after 1 January 1974. While the contract was in effect the printing firm raised the question of the increased cost of paper. The Office for Official Publications considered that in view of the exceptional and unforeseeable situation in the paper market the claims put forward by the printing firm were justified.

The Advisory Committee on Procurements and Contracts (ACPC) gave a favourable opinion, subject to prior signature of a supplementary clause. That supplementary clause, signed on 7 August 1974, came into operation as from 1 January 1974 in respect of changes in prices resulting from movements in wages and paper costs.

The contract made with the German printing works provided for changes in prices as a result of movements in both wages and raw material costs, but solely for changes occurring after 31 December 1973.

The condition allowing for prices to be changed according to wage movements applied as from 1 January 1974. However, the contracting parties have taken into consideration increased wage costs in 1973 as well as in 1974.

In the case of the French printers, the price increase granted as from 1 January 1974 also took account of wage movements in 1973.

When questioned about the discrepancy with the provisions of the contracts, the Office replied that wage increases in the Federal Republic of Germany were not on the same pattern as in Luxembourg and that since the composition of wages was more complex, estimates could not be drawn up as accurately as in Luxembourg.

That reply cannot be regarded as satisfactory and the Audit Board considers that the application of price variations should have been determined in the manner stipulated in the contracts.

Moreover, the Office's reply is contradicted by the new agreement, for five years from 1 January 1975, made with the same printers, now collaborating in a joint enterprise. The new agreement makes provision, in the case of all the printing works, for increases in rates in accordance with rises in the cost of paper and of labour, the threshold of application of such increase being 10% in 1975 and 5% in subsequent years.

The new contract follows an invitation to tender published in the Official Journal of the Communities for 15 July 1974. The joint enterprise formed by the present five contracting suppliers was the only tenderer.

The Audit Board deplores the fact that in these circumstances the Office has failed to reserve for itself the possibility of revision at its initiative of certain clauses of the contract.

H. AID, SUBSIDIES AND FINANCIAL CONTRIBUTIONS

50. Appropriations for the purpose of financing a diversity of activities are grouped together under Title 4 of the Budget, "Aid, subsidies and financial contributions".

- Firstly, there is a set of commitments relating to structural improvements undertaken in the Sahel countries and in Ethiopia (35 000 000 u.a. in addition to 600 000 u.a. already committed in 1973), interventions to assist the Palestinian refugees (8 150 000 u.a.) and emergency aid assigned to Honduras (300 000 u.a.), to Somalia (240 000 u.a.) and to the victims of the Flixborough disaster (51 120 u.a.).

Comments arising in connexion with those operations are given in the part of this report relating to development aid (Title 9 of the Budget).

- Five organizations on the Consumers' Consultative Committee received financial assistance (to a combined total of 140 000 u.a., charged against appropriations brought forward from 1973) to subsidize studies in the field of consumer protection.

According to the terms of the remarks in the Budget, the appropriations to Article 415 are required "to help consumer organizations to improve their structure on the European level and to finance activities undertaken by these European organizations representing consumers to enable them to carry out their duties in the best possible way".

Finance totalling 200 000 u.a. in favour of the five organizations concerned, which was charged against the appropriations for 1974, was carried forward to the financial year 1975.

- In addition, subsidies were granted to institutions of higher education, to European movements, etc.

Under the terms of Article 89 of the Financial Regulation, the granting of such subsidies is subject to the acceptance by the recipients of the Audit Board's examination of the utilization of the amounts paid to them. The Audit Board has performed such audits in the case of some recipient organizations.

- Subsidies for balancing budgets were granted for the operation of the Euratom Supply Agency (198 819 u.a.), for the operation of the European Cooperation Association (661 403 u.a.) and for the Community Business Cooperation Centre (42 342 u.a.).

In connexion with the two first-named bodies, readers are asked to consult the respective references in the Audit Board's report on the 1974 accounts of the Supply Agency and in the part of the present report relating to the Development Funds.

The subsidy for balancing the budget granted to the Community Business Cooperation Centre was 40 581 u.a.

The expenditure committed for the operation of this decentralized organization was made up as follows:

- Rental and maintenance of premises	16 664 u.a. = 39.36%
- Travelling and subsistence expenses of staff	10 632 u.a. = 25.11%
- Hire of IBM equipment	4 114 u.a. = 9.72%
- Furniture, equipment, office supplies, books and subscriptions	3 995 u.a. = 9.44%
- Telecommunications	3 005 u.a. = 7.10%
- Survey	3 000 u.a. = 7.08%
- Printing work	205 u.a. = 0.48%
- Meetings of the Advisory Committee	725 u.a. = 1.71%
	<hr/>
	42 340 u.a. = 100 %

The staff expenditure incurred in operating the organization is charged to Title 1 of the Budget.

- The contributions granted for 1974 to the European Schools amounted to 10 684 276 u.a., compared with 8 526 316 u.a. for 1973, an increase of 25.30%.

On 27 May 1975 the Audit Board completed the report on the accounts of the European Schools for the financial year 1973. In that document, which was submitted to the Board of Governors of the Schools, the Audit Board thought fit to make certain comments concerning the extreme complexity of the system of payment of the teaching staff and on the relatively large sums held by the Schools as reserve funds.

CHAPTER 4: THE EUROPEAN SOCIAL FUND

51. The European Social Fund, which is provided for in Article 125 of the EEC Treaty, has been made subject to a reform decided upon by the Council on 1 February 1971 (O.J. No L 28 of 4 February 1971). This Decision came into force on 1 May 1972 after approval by the Council on 24 April 1972 of the final implementing texts.

The Council Decision of 1 February 1971, setting up the new Social Fund, abolished the assistance under Article 125 of the Treaty, as implemented by Council Regulation No 9 of 25 August 1960. Nevertheless, operations begun before 1 May 1972 and ending not later than 30 June 1972 remained eligible for intervention from the former Fund. In view of the time limits for presenting and examining applications for aid, the Budget for the financial year 1974 still included appropriations intended to cover expenditure under the former Fund. Such appropriations will progressively decline during the next two financial years and will probably disappear in 1977.

The total allocations to the Social Fund entered in the Budget for the financial year 1974 amounted to 327 800 000 u.a., comprised of 267 800 000 u.a. for the new Fund (Chapters 50 to 52) and 60 000 000 u.a. for the former Fund (Chapters 53 and 54).

The appropriations available for the financial year 1974 are as follows:

Chap.	Art.	Item	Heading	Appropriations
50	500		Expenditure under Article 4 of the Council Decision of 1 February 1971	98 800 000
51	510		Expenditure under Article 5 of the Council Decision of 1 February 1971	168 400 000
52	520		Pilot schemes and preparatory studies	600 000
53	530		Expenditure provided for under Art. 125 of the EEC Treaty (former Fund)	
		5301	- vocational retraining	56 000 000
		5302	- resettlement	4 000 000
			Totals	327 800 000

A more detailed table showing the appropriations for the year and also the commitments, payments, carry-overs and cancellations is given as an annex to this report.

52. The former European Social Fund (Article 125 of the EEC Treaty)

For the former Fund the interventions charged to the appropriations of the 1974 Budget break down as follows: (in u.a.)

Member State	Retraining	Resettlement	Totals
Belgium	1 727 786	219	1 728 005
Germany	21 074 433	640 614	21 715 047
France	3 821 296	86 923	3 908 219
Italy	23 198 061	62 667	23 260 728
Luxembourg	-	-	-
Netherlands	3 546 035	19 725	3 565 760
Totals	53 367 611	810 148	54 177 759

The decisions to grant aid from the former Fund, as adopted by the Commission on 20 December 1974, amount to 52 769 857, of which 51 959 709 u.a. was for vocational retraining operations and 810 148 u.a. for resettlement operations carried out during the financial years 1970 to 1974. In addition to this sum, a further 1 407 902 u.a. was committed in 1973 for the 1974 retraining appropriations (Commission decision of 21 December 1973 in favour of the Netherlands).

The payments charged against the appropriations for the financial year include only the assistance sanctioned in December 1973 (1 407 902 u.a.). No payment was made in 1974 in respect of assistance granted during the financial year. The corresponding appropriations were carried over automatically to the following financial year and the payments were made in March 1975.

Payments amounting to 40 425 108 u.a. were made in February 1974 in respect of the assistance granted against the 1973 appropriations. These payments corresponded to the total commitments which were still outstanding at 31 December 1973 and for which appropriations had been brought forward automatically to 1974.

Payment applications in respect of the last operations eligible under the former Fund were required to be submitted to the Commission before the close of the financial year 1974, with the exception of applications relating to workers undergoing compulsory military service. Submission of applications was postponed for a period equal to that of the compulsory service involved (Council Regulation No 37/67).

Owing to the small number of applications submitted during that financial year, applications awaiting decision at 31 December 1974 totalled only 17 790 197 u.a., compared with 68 163 592 u.a. at the end of the previous year. They included a total of 16 886 065 u.a. for vocational retraining, of which 2 171 118 u.a. related to applications submitted by Member States during the financial year 1974 and 14 714 947 u.a. was for applications in previous years.

The total applications for payment under the head of resettlement awaiting decision at 31 December 1974 amounted to 904 132 u.a., made up of 224 074 u.a. under applications submitted during the financial year 1974 and 680 058 u.a. applied for in previous years. The latter sum includes applications made as far back as 1968 relating to the resettlement of Italian workers in Germany and France and still awaiting a decision on the granting of assistance, owing to discrepancies between the applications of the original country and those of the host countries as to the number of workers complying with the unemployment and re-employment conditions, and as to the periods in which the resettlement operations were carried out. This matter ought to be cleared up promptly, perhaps in the light of the principles applied by the Commission in 1968 and 1970 in resolving similar disparities for the period from 1961 to 1967.

53. The new European Social Fund (Council Decision of 1 February 1971)

Unlike the once-for-all reimbursement procedure of the former Fund, the financial management of the new Fund is characterized by the possibility of granting successive part-payments as and when the operations proceed but up to a limit of 85% of the aid. The Commission may not pay the balance until the operation is closed after receipt of a general statement of the expenditure, accompanied by supporting documents (Council Regulation No 858/72 of 24 April 1972).

Moreover, the Financial Regulation of 24 April 1972 laid down that the commitment authorizations for the two following years can be included in the Budget for any financial year. In this way the remarks in the Budget for the financial year 1974 authorize the Commission to enter upon commitments for 1975 and 1976 up to an amount of 110 000 000 u.a. and 50 000 000 u.a. respectively.

a) The first two spheres of intervention decided upon by the Council in December 1972 under Article 4 of the Decision of 1 February 1971 were vocational retraining of workers leaving agriculture and interventions in favour of workers leaving the textile industry or intending to obtain new skills in that industry.

During the financial year 1973 the commitments entered into against the appropriations of Chapter 50 involved only 28 087 669 u.a. for these two areas i.e. 40% of the appropriations available. However, payments relating to these commitments were not made until 1974, the 16 311 518 u.a. paid corresponding to only 58% of the appropriations committed in 1973 and automatically carried over to 1974 and 23.7% of the appropriations initially available.

On 27 June 1974 the Council decided to open up Article 4 of the Decision of 1 February 1971 to interventions to assist physically handicapped persons and migrant workers.

Altogether, for the four spheres of intervention open, commitments entered into against appropriations for the financial year 1974 involved 39 897 062 u.a. In addition, commitments for 35 880 725 u.a. and 16 802 535 u.a. respectively were entered into against the 1975 and 1976 appropriations.

Taking into account the commitments entered into in 1973 against the 1974 appropriations, the total for commitments charged to the appropriations for the financial year was 47 437 267 u.a., accounting for 48% of the funds initially allocated to Chapter 50. However, out of this total only 1 968 562 u.a. had been paid by the end of the financial year, which represents barely 4.1% of the appropriations committed and 2% of the initial allocation.

The commitments entered into in 1974 break down as follows:

Country	Commitments 1974	Commitments 1975	Commitments 1976	Total Commitments
Belgium	925 600	1 021 400	-	1 947 000
Germany	9 288 918	499 784	-	9 788 702
France	9 420 713	6 447 521	2 484 305	18 352 539
Ireland	6 655 793	2 802 380	196 432	9 654 605
Italy	4 700 483	24 353 804	13 877 969	42 932 256
Netherlands	861 188	-	-	861 188
United Kingdom	8 044 367	755 836	243 829	9 044 032
Totals	39 897 062	35 880 725	16 802 535	92 580 322

b) During the financial year 1974 the Commission adopted various decisions approving expenditure under Article 5 of the Council Decision of 1 February 1971. This is expenditure totalling 209 647 871 u.a., of which 158 770 935 u.a. was to be charged against appropriations for the current financial year, 41 400 786 u.a. and 8 994 752 u.a. respectively were to be charged against commitment authorizations for 1975 and 1976, and 481 398 u.a. committed in December 1974 was to be charged against commitment authorizations to be entered in the 1975 Budget for the financial year 1977.

Taking into account the commitments already entered into by the Commission during the financial years 1972 and 1973 against the 1974 appropriations and the changes made in those commitments in 1973 and 1974, the total commitments charged against appropriations under Chapter 51, Expenditure under Article 5 of the Council Decision, under the head of the 1974 Budget were 167 334 274 u.a., out of which only 6 671 901 u.a. had been paid by the end of the financial year, i.e. 3.9% of the sums committed.

Under the Council Decision of 24 September 1974 the balance available under Chapter 50, Article 500, Expenditure under Article 4 of the Council Decision of 1 February 1971, namely 40 712 331 u.a., was carried over to the financial year 1974 and at the same time transferred to Chapter 51, Article 510, Expenditure under Article 5 of the Council Decision of 1 February 1971. Out of this amount 40 711 413 u.a. had been committed and paid by the end of November 1974.

Moreover, at the close of the financial year 1973 properly committed sums totalling 152 223 220 u.a. which it had not been possible to pay were automatically carried over to the financial year 1974, in conformity with Article 6, paragraph 1 c) of the Financial Regulation. From the sums carried over 129 441 434 u.a. was paid in 1974.

The following table shows the breakdown by country and allocation year of the approvals given in 1974 under Article 5 of the Council Decision of 1 February 1971:

Country	Commitments 1974	Commitments 1975	Commitments 1976	Commitments 1977	Total commitments
Belgium	5 394 659	3 274 700	203 000	-	8 872 359
Denmark	12 162 573	-	-	-	12 162 573
Germany	18 661 348	444 180	88 853	-	19 194 381
France	31 994 081	3 116 104	246 817	6 137	35 363 139
Ireland	9 527 591	1 010 035	145 951	-	10 683 577
Italy	21 219 869	19 752 062	7 296 789	168 945	48 437 665
Luxembourg	5 020	-	-	-	5 020
Netherlands	5 618 025	-	-	-	5 618 025
United Kingdom	54 187 769	13 803 705	1 013 342	306 316	69 311 132
Total	158 770 935	41 400 786	8 994 752	481 398	209 647 871

c) During 1974 the Commission also charged commitments totalling 598 144 u.a. against the appropriations provided for in Chapter 52, Pilot schemes and preparatory studies.

Twelve pilot schemes, ten study contracts and a supplement to a 1972 study contract were arranged, to that total, between the Commission and public and private bodies. These schemes and contracts were for purposes of investigating programmes for training, retraining and occupational and social resettlement of physically handicapped persons, also of studying and developing training programmes specific to particular sectors of industry and/or particular regions.

Payments made against appropriations for the financial year totalled 93 313 u.a., there being only two contracts for which final settlement could be made during the year.

At the end of the financial year 1973 the Commission automatically carried over to the financial year 1974 appropriations of 527 992 u.a. for payment of balances outstanding on contracts made in 1973. In fact, only 470 312 u.a. was paid from these sums carried over, as one preparatory study could not be terminated and various savings were possible after completion of pilot schemes.

54. Delays in payment of assistance

Only a very small proportion of sums committed for the financial year was paid.

For the former Fund this proportion was 32.6% in 1973 and dropped to 2.6% in 1974. In previous years almost the whole of the commitments entered into were paid during the same financial year.

For the new Fund the level was only 0.8% in 1973 and 4% in 1974.

With the former Fund this situation has arisen from tardiness in reaching decisions on the granting of assistance. Such decisions are usually taken at the end of the financial year after consultation with the Committee of the Social Fund. (In 1973 assistance granted on 21 December was not paid until February 1974; for 1974 the decisions made on 20 December did not produce payments until March 1975.)

As regards the new Fund, Member States are often so slow in submitting applications for payment that this causes considerable delay in checking and approving the assistance, especially when the application is insufficiently detailed, so that further information from the national authorities is required.

It should be emphasized that the Directorate-General for Social Affairs is working under difficulties: changeover to the new Fund - with entirely new rules and methods of administration; the enlargement of the Communities; the restructuring of its various units, particularly the one concerned with the European Social Fund - all these changes have been accompanied by greatly increased expenditure, which is more than ten times the amount a few years ago, whilst the number of examining officials has been halved.

Delay, and above all over-estimation, in the applications submitted by the Member States leads to cancellation of appropriations already committed. In 1973, appropriations totalling 6 229 058 u.a. carried over automatically from the financial year 1972 were cancelled. In 1974 sums totalling 34 615 616 u.a. carried over from the financial year 1973 were cancelled but according to the Commission's departments submissions of applications to a total of nearly 10 000 000 u.a. under the programmes for that year are still to be expected.

Obligations undertaken by the Commission vis-à-vis Member States responsible for these delays are not altered on the grounds of delay. Therefore appropriations from the 1974 and 1975 allocations have had to be frozen, thus reducing the amounts available in those years.

The Commission has proposed to the Council that Article 6 of the Financial Regulation should be amended to allow automatic carrying forward for two years of appropriations in the Social Fund corresponding to payments outstanding on commitments undertaken. Such amendment would merely bring the regulations into line with the present lengthy periods of administration of appropriations.

It would appear that the only way of achieving better organization and greater dispatch in the administrative work would be to make more use of part-payments, whilst fixing final dates for submitting applications for payment.

55. Attendance at on-the-spot audits

During the financial year 1974 the Audit Board was present at two on-the-spot audits, one of which related to the former Fund.

- a) The last-mentioned audit was carried out in Berlin and concerned six applications for assistance submitted by two public bodies, for a total amount of 1 100 409 u.a. Three of these applications were in connexion with retraining operations and the other three involved resettlement operations. Investigations made in conformity with Regulation No 113/63 revealed one case in which intervention by the Fund could not be invoked. Therefore, by application of Article 4 of Regulation No 113/63, the amount of the assistance was forthwith reduced by 0.71%, being the proportion of cases examined and found not to meet the conditions prescribed by the regulations. As the former Fund is coming to an end, no comments on its operation other than those already made in our previous reports are called for.
- b) Another on-the-spot audit, at which the Audit Board was present for the first time in connexion with the new Fund, took place in London. The programme drawn up by the Fund's departments involved three applications for payment of assistance, with a combined total of 8 267 383 u.a. Two of these applications were under Article 4 of the Council Decision of 1 February 1971 and the third was under Article 5 of the same Decision. This audit enabled the Audit Board to appreciate the difficulties encountered in operating the new Fund, difficulties which appeared in a particularly acute form in the case in question. The findings of the audit were as follows:
- All the documents submitted were merely in the nature of supporting reports; they had already been seen at headquarters at various levels.
 - The applications submitted made great use of complicated averages and extrapolations, some of which were based on statistics from several years earlier. In some cases there was even a complete absence of data to support the averages.
 - In the absence of instructions, the recipient body had continued, for the first half of 1973, to use a method of calculation and a classification of the assistance for retraining which complied with former national principles but did not correspond to Community regulations.

In the circumstances, although supplementary information was supplied later, the Financial Controller refused to approve the proposal for payment submitted by the Fund. The Audit Board can only agree with the attitude adopted by the Financial Controller. The Board considers that the evidence submitted in support of the expenditure did not comply with the stipulations of the regulations and cannot accept the points made by the Commission in its decision to overrule this refusal of approval.

56. Evidence in support of applications for reimbursement of expenditure

The difficulties in replacing the former Fund by the new Fund are easily discovered. During the financial year 1974, 23 payment orders were refused approval by the Financial Controller (5 for Denmark, 8 for the Netherlands, 5 for France, 4 for Britain, 1 for Germany) to a combined total of 48.6 million u.a. The main reasons given for these refusals of approval were the use of averages, statistics and global estimates and the absence of the information required by Article 4 of Regulation No 858/72.

On 15 January 1975 the Commission decided to overrule the refusals of approval by the Financial Controller, adopting the view that the new provisions governing the ESF implied progressive adjustment of the practices in operation in the Member States and, especially in the new Member States, an adjustment which could not be completed in 1973. However, the Commission arranged for an investigation of the problems to be solved and the improvements to be made in Community rules governing the European Social Fund.

In the light of the on-the-spot audit made in London and from study of the various refusals of approval upon internal audit, the Audit Board considers it to be of paramount importance to set up in the Member States a rational system of accounting which complies with the rules of the Fund and enables applications to the European Social Fund for reimbursement to be properly substantiated. In fact, Article 3 of Council Regulation No 2396/71 stipulates that assistance from the Fund shall be granted "on the basis of the actual cost of the operations": this implies the submission of precise and conclusive evidence of the expenditure in respect of which reimbursement is sought. It is not a new development that the rule mentioned, which was made in connexion with the former Fund, is not always obeyed, but the situation seems to have deteriorated, so that results are less satisfactory than they were earlier. The sole exception to the rule concerning actual cost is mentioned in Article 2 (1) of Council Regulation No 2397/71, which provides that, for reasons of administrative convenience, certain expenditure relating to aid of types A 1 and A 2 (Aid for the preparation, operation and administration of courses and aid for the purpose of facilitating attendance at courses) may be supported by the submission of "global" information, provided that the nature of such expenditure can be identified.

The Audit Board considers it to be important to determine in what cases it is necessary or desirable to resort to the method of average rates as an exceptional expedient. The Board is of the opinion that in order to ascertain that average rates genuinely match actual costs it is necessary to check the justification for all the components used for calculating the averages and to test the results by comparing the amounts obtained by application of the averages with the actual expenditure of one or more representative centres.

Even so, it would be helpful if decisions of the Commission approving intervention by the European Social Fund could be made before the beginning of the operations. The fact that these decisions are retroactive is a source of uncertainty to the Member States and can constitute a reason for failure to apply the rules of the European Social Fund. It is therefore desirable that the administrative procedure prior to the Commission's decision be speeded up, in order to obtain uniformity of management of the Fund in all the Member States.

57. Communication of reports on on-the-spot audits

As mentioned above, one of the main reasons given when the Financial Controller has refused approval has been insufficient evidence in support of expenditure. That insufficiency applies both to documents supplied by Member States and to information contained in reports on on-the-spot audits.

The Fund authorities are aware of the shortcomings of the papers submitted and have produced and sent to Member States and national organizations forms to be completed from the financial year 1975 onwards when applications for payment are lodged, together with precise instructions as to submission of these forms, with a view to supply of the essential information required if the Fund is to undertake expenditure. In respect of on-the-spot audits, the Fund has laid down instructions to be followed by its officials in carrying out verification and producing a report which must be sufficiently detailed and must supplement the supporting documents submitted by the Member States. The Audit Board considers it to be indispensable to the fulfilment of its task that it, too, should have a copy of reports of the Fund's units on audits performed on the spot.

These reports containing payment proposals are essential items in connexion with settlement of the expenditure. It is therefore of fundamental importance that they be examined in order that the documents made available to the inspectors may be checked; without this information the Audit Board does not know the circumstances in which payment has been made.

Moreover, this situation confirms the need for the Audit Board to be informed systematically and in sufficient time of on-the-spot audits which Directorate-General V decides to perform.

In fact, the Administration and Finances Division of the Directorate for the Social Fund carried out 62 inspection visits in 1974, including two under the former Fund. The average duration of these inspections, usually carried out by one official alone, was 4 to 5 days.

58. Determination of expenditure eligible

Another important matter which emerges from the files on which approval was refused is the inclusion in applications for payment of certain expenditure which was ineligible or incorrectly calculated.

In this connexion, depreciation of buildings and machinery may be mentioned as being especially significant. In one case a notional rent was applied in respect of buildings belonging to the State, In another case the depreciation of machinery was calculated according to an updated cost price,

Errors of this kind seem to arise from the vagueness of the texts governing the operation of the new Fund and reflect the uncertainty of Member States as to the interpretation of those texts. The new instructions which are attached to the forms for submission of applications and which are being implemented by the Commission from the financial year 1975 onwards should enable improvement in this situation to be achieved.

59. Absence of autonomous audits in the Member States by the Audit Board

The Audit Board would emphasize again the point which it has made in previous reports, that it considers that the performance of audits of its own in the Member States is still necessary.

CHAPTER 5: THE EUROPEAN AGRICULTURAL GUIDANCE
AND GUARANTEE FUND

1. GUARANTEE SECTION

60. Limitations imposed on the Audit Board's audit

In Point 60 of the previous report a statement was made concerning the severe restrictions imposed on verification by the Audit Board, which has not yet been afforded by the Council and the Member States facilities for the performance in the Member States of audits of its own of the expenditure of the Guarantee Section of the EAGGF.

No change in this situation has occurred during the financial year 1974 (see in this connexion Point 6 of this report). Accordingly, only very limited examination by the Audit Board of the operations of the Guarantee Section of the EAGGF has been possible. As in previous years, the Board has not been in a position to form its own judgment on the manner in which the operations have been conducted or to give an opinion on the reliability of the financial management of this sector of expenditure. Such a circumstance is irreconcilable with the specific task which Article 90 of the Financial Regulation requires of the external audit body and should receive attention from the Council and the European Parliament.

Concrete examples of the consequences of the limitations imposed on the audit are set forth in subsequent paragraphs of this report, above all in connexion with olive oil and the amounts fixed for intervention operations.

61. The Commission's verification in the Member States of the expenditure financed by the EAGGF Guarantee Section

Under Regulation No 729/70 (1) the Commission has right of access to the books and supporting documents kept in the Member States and relating to the expenditure financed by the EAGGF.

During the financial year 1974 the Commission was primarily concerned with finalizing the accounts for 1971 and 1972: 113 days of inspection were spent in the Member States. In four countries Audit Board officials accompanied the Commission for the purpose of examining certain accounts. Although presence in this way was instructive, it still did not constitute audit by the external audit body, because the latter was unable to carry out a programme of its own or perform investigations of its own.

(1) O.J. No L 94 of 28 April 1970, p. 13.

The Commission acknowledges that for the purpose of its own verification it needs to be better informed than at present about the internal administration and audit arrangements of the Member States. Good knowledge of these matters is necessary to efficient and rational planning of verification programmes.

The Audit Board still considers that the Commission's efforts in this verification or audit work are unlikely to be sufficient to ensure that the work is performed effectively. Reinforcement of the Commission's staff by national experts has been planned and so far three experts have been recruited. The practical consequence of the staff situation for the closing of the accounts for 1967/68 to 1970 are discussed in Point 62 of this report. This situation accentuates the necessity of the Audit Board's being able to proceed without delay with the performance of audits of its own in the Member States.

62. Closing the accounts for periods prior to 1 January 1971

a) The accounts for the periods 1962/63 to 1965/66

The accounts for the periods 1962/63 to 1965/66 have been closed.

b) The accounts for the 1966/67 marketing year

Upon closing of the accounts in 1972 the total amount charged to the Guarantee Section in respect of that marketing year was 455 540 429 u.a. Consequent upon the decision of the Court of Justice of the European Communities on appeal by the Netherlands concerning products exported by way of food aid (Case No 13/72), a supplementary amount of 108 328 u.a. is owed to that Member State, which will receive the settlement during the financial year 1975.

There was some delay in notification of balances, which was given on 12 March 1975. At the end of May 1975 two Member States had still not cleared their debit balance, although under the terms of Financial Regulation No 64/127 (1) payment of this sum should have taken place within the month following the month of notification.

c) The accounts for the periods 1967/68 to 1970

- Regulation No 2030/73 (2) fixes 31 December 1974 as the latest date for determining aid for those periods. There has not been compliance with that date and as yet a new date has not been set.

The changes in parities of currencies which occurred in 1969-1971 created problems leading to further delay. In December 1974 agreement was at last reached within the Council as to the parities to be applied to the EAGGF Guarantee Section accounts.

(1) O.J. of 27 February 1964, p. 599.

(2) O.J. L 207 of 28 July 1973, p. 1.

- The Commission has stated its intention of devoting special attention in its work during 1975 to checking and closing the accounts for the periods 1967/68 to 1970 and taking the measures necessary to secure that final decisions can be made before the end of 1975.

It has explained that the verifications to be carried out on the spot will be essentially of an accounting nature and will be concerned with the most important heads of expenditure: these examinations will if necessary be supplemented by detailed investigation of doubtful cases and of errors discovered. In examination of documents forwarded to the Commission there will be particular concentration on "second category" expenditure, which is the only expenditure which can be investigated thoroughly. There will be consultation with the national bodies in respect of the other expenditure. The effort will be above all concerned with the financial year 1970, as the most recent and the most important, because it is the starting point and reference year for the implementation of the own resources system. Upon careful consideration it seems that any other method of audit would be inopportune and would prolong delay.

Examination of supporting documents may be expected to be difficult, or even impossible, in some cases, in view of the interval of seven or eight years. The length of on-the-spot inspections in each of the Member States will be limited but must permit closing of the accounts in 1975. Since the audit will cover four accounting periods, it will be impossible to achieve the objective set otherwise than through the simplified procedure described above.

The difficulties which the Commission is facing are inevitable when closing of accounts is performed so late. It becomes difficult to obtain many of the supporting documents and the explanations required. The necessity of closing the files may lead to considerable relaxation in standards of audit and may thus increase the risk of failure to detect errors and irregularities in the accounts.

It is therefore extremely regrettable that the closure operations are being carried out so late and the Audit Board trusts that such situations will be avoided in future. The Commission shares the Audit Board's concern in this matter and has expressed its intention of ensuring that for subsequent periods verification will take place within acceptable intervals.

63. The accounts for periods subsequent to 1 January 1971

a) General financial comments

1. Financing of expenditure and closure of the accounts

A description of the revised system of financing of the Guarantee Section of the EAGGF, which provides for advances of Community funds to Member States and annual closure of accounts, is given in Point 64 a) of the 1973 report of the Audit Board.

2. Concept of the payment date

Point 64 b) of the 1973 report mentioned the dispute which had arisen between the Commission and the Azienda di Stato per gli Interventi nel Mercato

Agricolo (A.I.M.A.) concerning the concept of payment for operations of the Guarantee Section. In that point the Audit Board emphasized the necessity of clearly stipulating the conditions applying to payment and of making sure that all the payment agencies complied strictly with those stipulations.

A Decree of the President of the Italian Republic dated 4 July 1973 stipulates that expenditure on aid for olive oil and for durum wheat shall be paid by the A.I.M.A. after audit of the data forwarded by the competent regional offices. The new procedure came into operation in 1973 but since there is some doubt about the actual implementation of the decree, the expenditures for the financial year 1974 declared by the A.I.M.A. have not been booked as payments in the EAGGF accounts.

3. The monetary compensatory amounts

Regulation No 974/71 (1) prescribes that in trade with third countries the monetary compensatory amounts granted on imports shall be deducted from the import levies and that those received on exports shall be deducted from the export refunds (see 1973 report, Point 64 c). Problems have arisen in the latter case for some Member States where different agencies are responsible for collecting the compensatory amounts and granting the export refunds.

Regulation No 3259/74 (2) provides for the possibility for Member States of not applying the above-mentioned procedure but adopting a global method for determining the total of the monetary compensatory amounts to be deducted from the refunds.

For the financial year 1973 the problem has been solved in the case of Italy by the application of a "fixed amount" to be deducted from the refunds. The rules to be applied to subsequent years were not laid down until May 1975, therefore the expenditures declared by the Intendenza di Finanza di Roma for the financial year 1974 had not yet been booked as payments in the EAGGF accounts at the time of writing this report.

4. The expenditures declared by Italy

In view of the arrangements applied for the expenditures of the A.I.M.A. and the Intendenza di Finanza, the authorizing officer has suspended from February to November 1974 the booking as payments of the whole of the expenditures declared by Italy, "in order to conform to the clarity indispensable in accounting for expenditure". The Audit Board considers that it is unacceptable to exclude in this manner from booking as payments in the financial year the expenditure of the intervention agency on sugar, which was properly committed.

(1) O.J. L 106 of 12 May 1971, p. 1, amended by, inter alia, Regulation No 509/73 (O.J. L 50 of 23 February 1973, p. 1).

(2) O.J. L 349 of 28 December 1974, p. 10.

5. The procedure for the final clearance of accounts

The Regulations in force (Nos 729/70 and 1723/72 (1) specify the documents which the Member States must forward for the final clearance of accounts, also the time limit for such forwarding - which is to be not later than 31 March next after the end of the financial year, with an exception under the Regulation for expenditures financed under the head of 1971.

Although it has not been amended, the date of 31 March appointed by the Regulation has never been observed. An exemption was granted for 1972, as by way of exception the accounts for January 1973 were attached to that financial year. For subsequent years the time limit has been systematically postponed for six months.

In fact, for 1973 only five Member States sent in their accounts by the new deadline. For Ireland and the Netherlands the accounts were forwarded in January 1975 and the statements from France and Italy had still not been received in April 1975. Italy invoked problems arising from the changes in currency parities to explain lateness on its part; France claimed the difficulties caused by the multiplicity of its payment agencies.

Moreover, the regulations in force contain no indication as to the procedure to be followed in the event of adjustment of accounts after audit. The complexity of the Guarantee Section arrangements would probably create difficulties in acceptance of adjustments resulting from audit. It is no surprise that the Member States have disputed some of the corrections proposed by the Commission to the accounts for 1971 and 1972 and further delay in final closure of the accounts may therefore be expected.

Persistent failure to comply with the provisions of the regulations and prolongation of the time allowed for the final clearance of the accounts are manifestly detrimental to sound financial management. The Audit Board considers that the Commission ought either to insist on compliance with the provisions of the regulations or, if that proves impossible, to re-examine the whole procedure for transmission, verification and final clearance of the accounts, at the same time establishing a procedure to be applied to adjustments which seem necessary after examination.

b) The financial years 1971 and 1972

The examination of the accounts for these two financial years was completed by the Commission towards the end of 1974 and revealed that large amounts of expenditure declared by the Member States were not, according to the Commission, eligible for Community finance. The adjustments arose mainly from inclusion among expenditures of advances not taken up, from exceeding the time limits fixed by Community regulations, from irregular accounting and/or discrepancy between summary statements and detailed statements, from inaccurate application of amounts laid down; from errors in carrying over certain amounts, etc.

(1) O.J. L 186 of 16 August 1972, p. 1.

Furthermore, the information transmitted by the Member States contained a number of inaccuracies and the repetition of these errors could seriously affect the future process of final clearance of accounts. The Commission informed the Member States in December 1974 of the adjustments which it considered necessary, emphasizing that these came from an initial provisional assessment and in no way prejudged the final adjustments. The replies from the Member States are at present being examined by the Commission and have not yet been passed on to the Audit Board.

c) Financial year 1973

In Point 64 f) of its 1973 report the Audit Board pointed out that the appropriations carried over to the financial year 1974 totalled 681 269 703 u.a., of which 536 602 997 u.a. pertained to the A.I.M.A. and 88 592 660 u.a. to the Intendenza di Finanza, whilst 56 074 046 u.a. resulted from refusals of approval by the Financial Controller for certain 2nd category expenditure.

After further information the following amounts were entered as payments in 1974:

A.I.M.A.	500 062 352 u.a.
Intendenza di Finanza	82 702 660 u.a.
2nd category expenditure	<u>53 266 870 u.a.</u>
	636 031 882 u.a.

The difference, i.e. 45 237 821 u.a. is to be cancelled.

The financial position for the year, after entering the payments against appropriations carried over from 1973 to 1974 and before final clearance of the accounts, is as follows:

1st category expenditure	2 899 794 851 u.a.
2nd category expenditure	<u>714 577 196 u.a.</u>
	3 614 372 047 u.a.

The Commission has stated that it hopes to be able to examine the accounts for 1973 (and 1974) at the beginning of 1976.

d) The financial year 1974

The initial appropriations entered to Titles 6 and 7 of the General Budget for the financial year 1974 totalled 3 513 100 000 u.a. By transfers approved by the Council they were reduced to 3 443 550 000 u.a., including a sum of 3 000 000 u.a. for discharge of liabilities for the accounting periods prior to 1 January 1971. For the financial year 1974 the Member States had at their disposal funds totalling 3 244 544 130 u.a. to cover the expenditure of their paying services and agencies. These funds were made available to them as follows:

	(in u.a.)
- monthly advances	3 137 880 000
- special advances	35 200 000
- sums in hand at the beginning of 1974	63 155 942
- separate entry of a compensatory measure in favour of the Netherlands	8 308 188
	<hr/>
	3 244 544 130

There were thirteen Decisions relating to the monthly advances to cover expenditure in the financial year 1974. The last of these Decisions, involving a sum of 41.56 million u.a., was adopted on 18 December 1974. It was intended to cover certain expenditures which were already foreseeable in November but whose amount could not be calculated at that time.

Three special advances were granted. One of these was granted to the United Kingdom by a Decision of 17 January 1975 and was intended to cover expenditure in 1974.

The compensatory measure in favour of the Netherlands (Regulations Nos 3141/73 and 2544/73) constitutes a Community contribution to the aid granted to farmers in the Netherlands following a rise of 5% in the control rate for the florin which occurred in 1973.

The declared expenditures totalled 3 107 375 241 u.a., were made up as follows:

	(in u.a.)
- entered as payments	
. 1st category expenditure	2 152 145 767
. 2nd category expenditure	481 374 464
	<hr/>
	2 633 520 231
. compensatory measure in favour of the Netherlands (Regulation No 3141/73 (1))	8 308 188
	<hr/>
	2 641 828 419
- detailed commitment brought forward (A.I.M.A. and Intendenza di Finanza)	432 938 494
	<hr/>
	3 074 766 913
- provisional global commitment brought forward	32 500 000
	<hr/>
	3 107 266 913
- commitment for final clearance of accounts of the 1966/67 marketing year	108 328
	<hr/>
	3 107 375 241

(1) O.J. L 321 of 22 November 1973, p. 1.

64. Aid to production of olive oil

The common organization of markets in the oils and fats sector was established by Council Decision No 136/66 (1). The regulations prescribe for olive oil, for each marketing year (1 November to 31 October), the fixing of a production target price, a market target price, an intervention price and a threshold price - all these prices relating to a standard quality of oil. The production target price must be set at a level which is fair to producers, in the light of the need to maintain the volume of production required in the Community, and the market target price must be set at a level permitting normal marketing of the olive oil produced, taking into consideration the prices of competing products. If the production target price is higher than the market target price at the beginning of the marketing year, aid equal to the difference between these two prices is granted to producers of olive oil extracted within the Community from olives harvested within the Community.

Hence, the aid is granted not for olives harvested but for the quantity of oil produced from that harvesting.

For the 1973/74 marketing year the production target price for olive oil was fixed at 137.17 u.a. per 100 kg (Regulation 1355/73 (2)) and the market target price was fixed at 95 u.a. per 100 kg (Regulation 3206/73 (3)), these prices relating to semi-fine virgin olive oil of a specified quality. Thus, the aid to producers was 42.17 u.a. per 100 kg.

Regulation 3209/73 (4) requires each Member State producing olive oil to set up a system of administrative supervision to ensure that the quantity of olive oil for which the aid is claimed matches the quantity of olives harvested within the Community and used for the production of that oil, also that the actual quantity of olive oil produced and the production potential of olives and oil during the marketing year in question are in line with each other. Each producer of olives for oil production is to send in a cultivation declaration and the Member States are to carry out on-the-spot investigation of the accuracy of these declarations. Target yields for olives and for oil are to be set for each production area by the Member States, who are to oblige the oil mills to keep records of their stocks.

Regulation 3423/73 (5) specifies the data to be supplied in the aid applications and in cultivation declarations and the method of fixing target yields. The Regulation stipulates that on-the-spot investigations must cover not less than 5% of the cultivation declarations.

The Special Committee of Enquiry (see Point 66 c) of the 1973 report of the Audit Board) has produced a report on the oilseeds and olive oil sector (document COM(75)37 final). The Committee has noted the absence of precise data on the amount of fraud in connexion with olive oil, also the existence at present of difficulties in checking which are much greater than in any other agricultural market. A report on the state of the olive oil market published by the Commission

(1) O.J. 172 of 30 September 1966, p. 3025; (2) O.J. L 141 of 28 May 1973, p. 27;
(3) O.J. L 327 of 28 November 1973, p. 12; (4) O.J. L 327 of 28 November 1973,
p. 15; (5) O.J. L 351 of 20 December 1973, p. 16

in 1972 leads one to suspect that some of the aid paid for olive oil production has not been warranted by the amounts actually produced. The first impression given by the figures in that report is that these unwarranted payments might account for about 20% of the aid advanced. Up-to-date versions of the data in that study have not been produced for the following years.

The report shows that in Italy there are more than a million olive growers and more than 12 000 mills, whilst in France there are nearly 40 000 olive growers and about 300 mills. From the outset the main concern has been to check on oil production at the mills but there have been great difficulties, partly because of incomplete accounting for stocks, and for the 1973/74 marketing year investigation of the accuracy of accounting for stocks at the oil mills was no longer compulsory. The proportion of verification of crops for the marketing year fell far short of 5%. The Special Committee recommended stricter inspection on the premises of olive growers and better verification of the quantities of oil produced at the mills, as well as improvement in methods of determining mean oil yields from the plantations and in administrative procedures for the aid. The Special Committee considers that efforts must be made to assess the amount of fraud and irregularity occurring in this sector.

In the 1974 Budget sums totalling 325 000 000 u.a. were appropriated to aid to olive oil production (Item 6310). The commitments for the year amounted to 134 997 387 u.a. and payments were 202 353 u.a., leaving 134 795 034 u.a. to be carried over to 1975. It was also proposed that, subject to the consent of the Council and the Opinion of the European Parliament, available funds of 190 000 000 u.a. should be carried forward to 1975. This proposal was approved "with the greatest reservations" by the European Parliament on 20 June 1975.

Italy provides 99% of Community production of olive oil. As already mentioned, there are more than a million olive growers and more than 12 000 mills in Italy. Examination of the aid applications is complicated and slow, which considerably delays payments to the growers, sometimes by as much as 18 months or more. Despite the amount of documentation demanded and the time spent examining it, the agencies are unable to cope with the verification.

The very fact of carrying over such a large sum is detrimental to good management of the budget and of the funds. The Audit Board appreciates the difficulties that exist in Italy but believes that all possible steps should be taken to improve and expedite the process of investigation and payment.

The Audit Board has not had the benefit of any facilities for on-the-spot examination in the producing Member States of methods of determining and managing aid to olive growers or of detecting fraud and irregularity. It has therefore been unable to form from its own experience any judgment as to the efficiency of financial management in this sector. However, the Audit Board must conclude from the observations put forward by the Special Committee of Enquiry that the financial management does not appear to be very sound and that the Commission and the producing Member States should devote a great deal of effort to rectifying the situation. This is an example of a sector where the Audit Board ought to keep a close watch on

the conduct of affairs, in order to clear up problems, and one where it should, pursuant to Article 206 of the Treaty, be at liberty to make its own arrangements to carry out such audits as it thinks fit in the Member States.

65. Determination of fixed amounts for calculating net losses of the intervention agencies in the sectors of cereals and butter

Regulation No 2824/72 (1) stipulates that where, within the scope of organization of markets, a sum per unit is fixed for an intervention measure, the resulting expenditure shall be met entirely by Community funds. For so-called second category intervention measures, consisting of purchase, storage and sale, the financial regulations in force prior to 1971 have remained in operation as transitional measures, pending the establishment of general rules. The EAGGF pays the net losses sustained by the intervention agencies, which losses are determined with the help of accounts for each product. Several components of these accounts are fixed amounts uniform throughout the Community. These fixed amounts are determined by the Commission after study by the Management Committee and after consultation with the Fund Committee.

The appropriations for the financial year 1974 and the expenditures declared for that year (for storage of cereals, for storage of butter and procedures for the reduction of surplus butter fat and for food aid from public stocks of butter) were as follows:

	<u>Appropriations</u> million u.a.	<u>Expenditures</u> million u.a.
Cereals	28.5	28.4
Butter	263.5	263.3

New levels for the fixed amounts were introduced as from 1 January 1974 (Decision of 19 December 1974 - doc. COM(74)2121 final). By way of example, the table below shows for cereals and for butter the costs declared by the Member States as percentages of the fixed amount:

Nature of costs	Costs declared by the Member States as percentage of the fixed amount	
	lowest	highest
<u>Cereals</u>		
Costs for placing in stores	59	134
Costs for removal from stores	47	151
Storage costs for common wheat (per month)	118	184
<u>Butter</u>		
Fixed costs for placing in stores and removal from stores	36	147
Storage costs (per day)	73	123

The amounts declared by the Member States for cereals were for the 1973/74 marketing year, whereas those declared for butter begin at 1 January 1974.

(1) O.J. L 298 of 31 December 1972, p.5.

This table reveals that there is no apparent relationship between the fixed amounts which constitute the base for the refunding of intervention expenditure and the actual costs as declared by the Member States. In some Member States the costs are sometimes much lower than the fixed amounts, in others they are higher. A similar situation is found in other sectors.

The Commission has explained that the criterion applied in determining fixed amounts is that the amounts should be representative of the largest interventions. Therefore from the amounts declared by the Member States a weighted mean is worked out and serves as a base for determining the fixed amounts.

The Commission proposes that the method of determining these fixed amounts should be changed in future. To that end an exchange of views on the basis of the actual costs in 1974 would be necessary. The actual costs would be obtained by enquiries put to the intervention agencies by the Commission. The existing system will probably continue for the financial year 1975 but efforts will be made to arrange a different system for application as from 1976.

During the financial year 1974 the Audit Board has not been afforded any facilities for examining the intervention procedures and the costs in the Member States. The Audit Board finds that under the present system there can be such a large gap between the level of refund to Member States and the actual cost that the system is not entirely satisfactory and does not permit sound financial management. Therefore the Audit Board recommends that action to revise the system should be taken as quickly as possible. The Audit Board will be looking for progress in this matter.

66. Transfer and sale by the Italian intervention agency of Community wheat held by the German, French and Italian intervention agencies

After the Italian Government had reported (in June 1973) serious difficulties in supplies of wheat for human consumption, above all in southern Italy, it was authorized by the Council (Regulation Nos 1984/73 (1), 2043/73 (2) and 2103 (3) to bring on to the market 107 000 tonnes of common wheat held by the intervention agency.

The preamble to Regulation No 2104/73 (4) stated that the quantities of wheat thus released for sale on to the Italian market were insufficient to restore the supply position to normal and that in order to do so it was necessary to make available to the Italian intervention agency part of the amounts of common wheat which the intervention agencies of other Member States still held in stock, so that this produce could be placed on sale in the areas where needs were no longer being adequately met.

(1) O.J. L 201 of 21 July 1973, p. 43; (2) O.J. L 207 of 28 July 1973, p. 35;
(3) O.J. L 214 of 2 August 1973, p. 1; (4) O.J. L 214 of 2 August 1973, p. 2.

The German, French and Belgian intervention agencies were required to keep 150 000, 47 000 and 3 000 tonnes of common wheat, respectively, available to the Italian intervention agency until 30 September 1973 and that agency was enabled to take delivery of the wheat without prior storage. Italy was authorized to sell the produce taken over, by agreement with individual purchasers, and was under obligation to take the measures necessary to ensure that the wheat thus sold was used solely for the manufacture of food products and for supplying the population of the regions in difficulties.

According to particulars given to the Audit Board by the Commission, the Italian authorities were to be responsible for determining the quantity to be taken over, up to this limit of 200 000 tonnes. Wishing to provide sufficient supplies to quieten the domestic market, the Italian Government decided to take over the whole amount of 200 000 tonnes. That operation was carried out in the second half of 1973 and the first half of 1974. The Italian intervention agency resold 60 000 tonnes by agreement with individual purchasers between the time of delivery and the third quarter of 1974 and resold by auction 52 000 tonnes in December 1974, 58 000 tonnes in January 1975 and 10 000 tonnes in March 1975. In April 1975 a final auction was held for the balance, amounting to 20 000 tonnes.

The Italian authorities applied to the Commission for permission to resell a total of between 15 000 and 20 000 tonnes of wheat at a price equivalent to that of feedgrain, because of these quantities having deteriorated, probably as a result of insufficient drying. Part of the quantity involved was sold to millers in the first auction, at higher prices than the intervention price.

Regulation No 2104/73 specified that the Italian intervention agency was responsible for transport of the wheat but that the Guarantee Section of the EAGGF would bear the transport costs. Subject to later verification, those costs were estimated at 8.86 million u.a. The value of the 200 000 tonnes of wheat held by the three Member States was estimated by the Commission at an aggregate of 20.64 million u.a. in intervention prices.

According to the mean prices of intervention grain, in national currency (for sale and for end-of-year stock) and on the basis of the conversion of expenditures into u.a. as applied for accounting purposes, the 200 000 tonnes of grain were worth 23.4 million u.a. in the Member States supplying them and 29.2 million u.a. in Italy. This would give a profit on sale of 5.8 million u.a. (although the Commission admitted that this figure was only a provisional estimate) and the net cost of the operation to be met by the Guarantee Section of the EAGGF would be 8.86 million u.a. less 5.8 million u.a., i.e. 3.06 million u.a.

Although Italy took over the whole amount of 200 000 tonnes between 1973 and the end of the first half of 1974, only 60 000 tonnes were used for emergency sales and arrangements for marketing the last 20 000 tonnes were not made until April 1975. Therefore the Audit Board asked the Commission why it had not been planned to keep stocks to be made available in the Member States which were to provide them, allowing Italy to draw only the quantities actually brought on to its market.

The Commission replied that in Summer 1973 there was a severe shortage on the Italian grain market and this was causing price inflation. Stocks of wheat in the regions of Italy affected, rather than in Germany, France and Belgium, could help to bring prices down. The Audit Board is not convinced that the objective would not have been achieved by immediately transferring to Italy the quantities needed (apparently between 50 000 and 60 000 tonnes), leaving the remainder available in reserve in the other three Member States. If arrangements of that kind had been made there could have been a large saving on transportation costs. However, it is clear that in the case in point political rather than economic considerations prevailed.

67. Fraud and irregularities

- a) A description of the measures prescribed by Regulation No 283/72 (1) is given in Point 66 of the Audit Board's 1973 report.
- b) The Commission arranged meetings with delegates of the Member States, held in Brussels on 29 January, 5 February, 11 March and 3 June 1975, to study information supplied pursuant to Regulation No 283/72. The Audit Board was represented at those meetings.
- c) In Point 66 c) of the previous report it was mentioned that a Special Committee of Enquiry had been set up to examine possibilities for fraud and irregularities in the management of Community funds. The sector first chosen by the Committee for investigation was that of milk and dairy products under the Guarantee Section of the EAGGF. The Committee's report on that sector was produced in October 1974 and the observations in the report may be summarized as indicating four main needs:
 - improvement in Community regulations (the Audit Board stressed the importance of this matter in Point 66 h) of its 1973 report);
 - improvement in inspection systems;
 - improvement in the training of staff;
 - sterner action against fraud and improvement of the possibilities of recovering aid paid where it was not due.

Several suggestions were made for specific action, such as greater precision and improvement in the regulations, improvement in inspection systems, greater cooperation between Member States, prompter supply of information to the Commission, improvement in on-the-spot inspections by the Commission's departments, setting up a data bank at European level, establishing the right of one Member State to take proceedings against another, elimination of disparities in sanctions, harmonization of criminal law, etc.

In February 1975 the Special Committee submitted a second report, on the oil-seeds and olive oil sector. As regards olive oil that report is mentioned in Point 64 above.

(1) O.J. L 36 of 10 February 1972, p. 1

The Audit Board considers that steps should be taken quickly to implement the various recommendations put forward by the Special Committee.

The Commission is at present working out some measures to be applied and has asked the Special Committee to proceed to investigations of the beef and veal sector.

d) Cases of fraud or irregularity reported to the Commission

The Audit Board has had no contact with the agencies in the Member States, therefore it has no first-hand knowledge of the measures taken to prevent or detect fraud or irregularity or of how national authorities have acted when fraud has been discovered. The Board's information is based solely on information which the Commission has received from Member States and which reveal the following situation.

1) Cases of irregularity from 1971 to 1973

According to the revised figures, the Member States have notified the Commission of 89 cases of irregularity relating to the years 1971 to 1973, involving a total of 11 739 894 u.a. The nature of the irregularities under reference was discussed in Point 66, e) to g), of the Audit Board's previous report.

So far, payments have been recovered in 50 cases, yielding 9 242 525 u.a. A sum of 2 497 369 u.a. from 39 cases, comprised of 4 cases to a total of 495 915 reported in 1971 and 8 cases to a total of 1 415 275 u.a. reported in 1972, is in the process of recovery. The Member States show little diligence in advising the Commission of progress with these recoveries, which often take a long time, chiefly because of the delay arising from legal proceedings.

2) Cases of irregularity reported in 1974

By the end of April 1975 the Member States had reported 57 cases of irregularity, involving a total of 3 547 298 u.a. Of that sum, 342 814 u.a., from 16 cases, had already been recovered, leaving 3 204 484 u.a., from 41 cases, still to be recovered. As in previous years, the greatest numbers of fraudulent practices were in the cereals sector (31 cases totalling 371 451 u.a.) and in the milk and dairy products sector (11 cases totalling 2 259 782 u.a.). Nineteen cases (to a total of 2 947 761 u.a.) related to irregularities in export refunds and most of these involved false declaration of destination, of quantity, of quality or of tariff number. One false Customs declaration for goods which were not in fact exported was discovered (1 789 604 u.a.) and there were cases of more than one application for refund for a single export of goods (316 159 u.a.).

Thirty-eight cases (for a total of 599 537 u.a.) involved intervention on the domestic market. With cereals they related to end-of-marketing allowances

and storage allowances (false declarations of quantities); in two cases denaturing premiums were granted for quantities of wheat already denatured (6 702 u.a.) and in one case for inadequately performed denaturing (250 835 u.a.). In the milk and dairy products sector there had been discovery of three cases of fraudulent diversion of butter allocated for sale at reduced price to welfare organizations or other social services (265 554 u.a.), two cases of false declarations of quantity and quality for skimmed milk powder to support false entries in the accounts (13 503 u.a.) and two cases of

false declarations of quantities of butter processed (for 3 463 u.a. in one case and the amount in the other case had not yet been determined). Most of the irregularities appeared as incorrect entries in the accounts or as falsification of supporting documents to support entries which seemed at first sight to be in order. Most of the cases were discovered on examination of the accounts of the firms concerned.

The breakdown by Member State of irregularities reported in 1974 is as follows:

	<u>number of cases</u>	<u>amount in u.a.</u>
Denmark	6	608 816
Germany	29	620 708
France	5	2 232 102
Ireland	2	(x)
Italy	7	19 697
Netherlands	8	65 975
	<u>57</u>	<u>3 547 298</u>

(x) amount still to be determined

Belgium, Luxembourg and the United Kingdom declared that they had no irregularities to report.

3) The present situation as regards implementation of the provisions of Regulation No 283/72

The Commission has tried to obtain more detailed and fuller information from the Member States and to shorten the delay in forwarding information, so that more use can be made of it. However, there is still room for improvement in some respects.

There are still disparities between the Member States in interpretation of the concept of irregularity and of the time when an irregularity should be the subject of the primary administrative or judicial findings of facts and should therefore be reported to the Commission pursuant to Article 3 of the Regulation.

The Commission did not possess until the beginning of 1975 all the information required under Article 2 and relating to laws, regulations and administrative provisions of each Member State, together with a list of the authorities and bodies responsible for preventing and dealing with irregularities occurring to the detriment of the EAGGF. At the time of writing this information is still under study. Although there has been progress as regards the information provided by the Member States as required by Articles 3 and 5 and in forwarding the information more consistently, still greater efforts are needed.

It is noticeable that the Member States are rather slow in notifying each other and the Commission of irregularities which might have effects outside their own territory or of irregularities revealing the use of a new kind of fraudulent practice (Article 4 stipulates that such notification shall be effected "without delay"). Moreover, the Commission is not informed of what steps the Member States have taken after such notification.

Very little has resulted from the existence of the procedure whereby, under Article 6 and at the request of the Commission, the Member States are to carry out an administrative enquiry in the case of presumed fraud. The Commission acknowledges that strong grounds for suspicion are needed for the purpose of justifying the setting up of a formal enquiry and has therefore introduced a "pre-6" procedure under which it asks the Member States for fuller information on suspected cases before deciding whether or not an enquiry as indicated by Article 6 is necessary. Point 4 of Article 7 prescribes that Member States shall consult each other where the application of particular provisions in force would open up a loophole damaging to the interests of the Community. That rule is not yet being applied correctly.

The best method of discovering irregularities is by examining accounts. However, there are great differences between the procedures in use in the various Member States, and harmonization of these procedures, including close coordination of stocks records and financial accounts, is necessary.

The Commission plans to produce detailed documentation on the information received in respect of fraudulent practices and to intensify endeavours in the above-mentioned spheres.

Advances in all the methods of investigation, consultation and harmonization in the field of prevention and detection of fraud are desirable.

II. GUIDANCE SECTION

68. The Guidance Section established by Council Regulation No 25 assists in financing measures undertaken to increase productivity and improve structures in the agricultural sector (Art. 39 (1) a) of the EEC Treaty).

The bases of financial intervention under this Section as originally defined by Regulation No 17/64 of 5 February 1964 have been further articulated by Regulation No 729/70 of 21 April 1970.

The aid financed concerns:

- individual investment projects approved by the Commission;
- special measures;
- joint schemes implemented by the Member States.

The available funds of the Guidance Section for the financial year 1974 totalled 501 186 001 u.a., made up as follows:

- Appropriation for the financial year 1974 325 000 000 u.a.
- Appropriations brought forward from
1973 to 1974 by Council Decision 176 186 001 u.a.

Of these funds, the sum of 405 000 000 u.a. was allocated to investment projects; 70 621 041 u.a. to joint schemes and to aid to groups of hop producers and to development operations in priority agricultural regions; and 25 564 960 u.a. to special joint measures or special measures.

Commitments entered into against these funds totalled 293 881 348 u.a., comprised of 265 832 764 u.a. for individual projects, 5 132 903 u.a. for joint schemes and 22 915 681 u.a. for special measures.

In addition to the above-mentioned commitments, payments pending from commitments in previous years amounted to 577 933 750 u.a. for individual projects and 1 816 464 u.a. for conversion in the cod-fishing sector.

Payments made in 1974 totalled 128 412 435 u.a., of which 17 965 352 u.a. was from appropriations for that financial year and 110 447 083 u.a. was from appropriations brought forward from previous years.

A table showing the application of Guidance Section funds is included in the Annexes to this report.

It should be mentioned that the remarks appearing in the Budget in respect of Article 850, Development operations in priority agricultural regions, and Article 880, Appropriations held back in previous financial years to finance the expenditure of Chapters 81-84 inclusive, refer to "appropriations reserved", which, however, are not included in the Budget totals. These are, therefore, reserve sums intended for measures still to be decided in the context of the EAGGF Guidance Section.

At 31 December 1974 these reserved appropriations totalled 125 million u.a. for Article 850 and 550 991 664 u.a. for Article 880.

On 18 March 1975 the Council decided to allocate 150 million u.a. to finance the European Regional Development Fund by taking the whole of the amount available to Article 850 (125 million u.a.) and 25 million u.a. from Article 880.

A. Financing of Individual Projects

69. In 1974 aid under the Guidance Section was granted to 934 investment projects, making an aggregate of 265 832 764 u.a. These commitments accounted for the whole of the appropriations brought forward from 1973 (169 999 963 u.a.). In addition, for the first time since 1969, aid to be charged against the appropriations for the current financial year was granted (95 832 801 u.a., i.e. about 41% of the total appropriation).

The total amount of aid granted was distributed as follows among the Member States: Germany: 178 projects, 65 552 532 u.a.; Belgium: 112 projects, 13 621 737 u.a.; Denmark: 16 projects, 7 870 170 u.a.; France: 108 projects, 49 377 732 u.a.; Ireland: 42 projects, 11 335 467 u.a.; Italy: 309 projects, 71 523 020 u.a.; Luxembourg: 4 projects, 282 560 u.a.; Netherlands: 50 projects, 17 534 183 u.a.; United Kingdom: 115 projects, 28 735 399 u.a. (1).

The granting of aid from the Fund to five projects for constructing potato grading and storage establishments was refused approval by the Financial Controller. The ground given for withholding approval was that the operations of the beneficiary were concerned with marketing of produce and not its production. Therefore these operations could not be financed by the Fund, because for "marketing" projects (as opposed to production projects) aid could only be intended for products covered by a common organization of markets, which was not yet the case with potatoes.

The Commission decided to override the refusal, expressing the view that "warehousing and grading of potatoes are generally recognized in agriculture as belonging to the production sector, since these operations are performed before the produce is brought on to the market".

(1) The total of these sums corresponds to three Decisions to grant aid, published in the O.J., Nos C 101 of 31 August 1974, C 114 of 27 September 1974 and C 47 of 27 February 1975. These Decisions make up a total of 265 832 800 u.a., whereas the total of commitments entered in the accounts is 265 832 763 67 u.a. The difference arises from rounding off in conversion of the currencies.

Operations of storage, preservation and increasing the market value of products are subject to paragraph 3 of Article 12 of Regulation No 17/64. That paragraph expressly invokes Article 11 (c), even in the case of performance of these operations "on farms", hence at the very heart of the production sector. The point at issue in the instance under consideration is the limitation imposed by Article 11 (2), not "the objectives" of the Common Agricultural Policy.

The points of fact mentioned by the Financial Controller suggest that the projects at issue relate more closely to the marketing sector than to the production sector and the Audit Board judges that, despite the vagueness of the texts in force, grant of aid from the Fund for such investments could have been avoided.

70. The table on the next page shows the situation at 31 December 1974 in connexion with the endowments for the financing of investment projects.

Completion of programmes under commitments is still very slow. The payments may be put at approximately 12% of commitments per annum. The rate was slightly quicker for the projects accepted in 1973, for which payments made in 1974 amounted to 17.9% of the commitments.

A very large proportion of the aid granted has been cancelled. For 1974 the commitments thus cancelled totalled 9 188 157 u.a.: they related mainly to projects in the financial year 1969 (4 986 176 u.a.), which were coming to the end of the five-year period for automatic carry-over, and projects in the financial year 1968 (2 021 841 u.a.).

The procedure for recording cancellations in the accounts leaves a great deal to be desired. No formal proposal of cancellation is set out in writing by the authorizing officer concerned. The commitments are recorded in aggregate in accounting for all the projects in any given tranche and cancellations or amendments are taken from tables which are not accompanied by any supporting documents. In the present situation the accounting officer has virtually no information on each individual project, as such data are available only in the authorizing departments.

From the lists kept by the Audit Board it emerges that payment of the balance of Community aid was made in 1974 for 326 projects (105 German, 37 Belgian, 59 French, 89 Italian, 1 Luxembourgish and 35 Dutch).

Random sampling checks made by the Audit Board have been especially concerned with those sectors which have received large amounts of funds from the Guidance Section, for example dairies (6 projects), rural and forest roads (10 projects), works connected with land consolidation (11 projects), irrigation and public water supplies (3 projects) and processing of meat and poultry (3 projects).

The Audit Board was informed of on-the-spot examination of 24 projects by the Commission. It had the opportunity to be present during the audit of two of these projects.

Budgets	Endowments (1)	No. of projects	Commitments		Payments		Cancellations	
			u.a.	%	u.a.	%	u.a.	%
1965	BR N	57	9 056 922	100	7 594 839	83.9	1 462 083	16.1
		-	-	-	-	-	-	-
1966	BR N	97	17 134 258	100	13 280 716	77.5	3 695 194	21.5
		-	-	-	-	-	-	-
1967	BR N	254	41 586 875	100	29 922 939	71.9	8 545 111	20.5
		-	-	-	-	-	-	-
1968	BR N	152	26 039 369	100	19 999 255	76.8	2 527 148	9.7
		161	34 114 667	34	24 430 126	71.6	4 624 649	13.5
1969	BR N	277	60 782 708	100	36 391 404	59.8	7 534 644	12.4
		34	8 472 837	5	5 332 213	62.9	969 762	11.4
1970	BR N	629	151 527 163	99	76 671 276	50.5	2 645 769	1.7
		-	-	-	-	-	-	-
1971	BR N	548	159 999 497	100	60 112 589	37.5	1 123 846	0.7
		-	-	-	-	-	-	-
1972	BR N	723	199 943 146	100	56 715 419	28.3	167 979	-
		-	-	-	-	-	-	-
1973	BR N	429	149 998 266	100	30 365 429	20.2	235 447	-
		-	-	-	-	-	-	-
1974	BR N	637	169 999 963 ⁽²⁾	100	123 420	-	-	-
		297	95 832 801	41	-	-	-	-
			1 124 488 472		360 939 625	32.0	33 531 632	2.9

(1) BR: Appropriations brought forward and re-entered; N: New appropriations

(2) This is the amount actually committed. O.J. Nos C 101 of 31.8.1974 and C 114 of 27.9.1974 quote Decisions granting total aid of 170 000 000 u.a. The alteration seems to be due to differences in the rates of exchange applied.

71. Documentation supplied to the Audit Board

The files are not forwarded to the Audit Board except at its specific request. In its memorandum to the Commission, the Audit Board emphasized the need to have all the completed files in its offices, so that it is better able to follow the progress of work in the sector and has fuller documentation available for its verifications.

Even for random sample checks as at present practised by the Audit Board, availability of all the files would facilitate selection and would prevent delays in passing them on.

The actual composition of the files forwarded proves to be somewhat disparate, as there is frequently reference to documents which are not included.

The most important omissions involve in particular correspondence with the Member States and reports on internal studies which have served as a basis for the Commission's decision. Especially relevant items in those reports are the expert opinions, economic aspects of the finance and details of examination of the payment application. Now it is precisely these three items taken together which give a more definite impression of the economic function and the usefulness of the projects financed.

When questioned on the fact that the expert opinions are usually omitted, the Commission explained: "In the relevant cases these are internal management documents which are not obligatory. Since these documents are not required either by the Treaty or by Community regulations, the Commission considers that they do not constitute administrative records within the meaning of Article 89 of the Financial Regulation and therefore belong to the Commission". On the contrary, the said Article 89 mentions "all accounting records or supporting documents, and also administrative documents pertaining thereto". Therefore the Article does not mean records but documents, a term which clearly has a much wider meaning.

Moreover, in order to form a judgment as to sound financial management the Audit Board needs to be able to compare the outturn with the objectives of the decision to finance a project. It therefore needs to know the motivation for that decision, whether it is shown in internal documents or arose from reports submitted by other administrations.

For certain projects (D 26/66 and F 84/71) no grounds for the decision to provide aid appear in the file. Furthermore, when expert opinions are requested the departments responsible for producing these are sometimes not afforded any opportunity of obtaining additional information in connexion with the cases referred to them (D 83/68 and F 5/72).

72. Comments concerning the sectors audited

As regards the construction of roads in farming or forest areas, (D 16/67, D 45/71, D 57/70, D 9/65, D 10/65) reveal that the assistance given to agriculture itself, far from being the sole motive, seems to have been a secondary consideration, to judge from the expenditure required in order to complete the

work, expenditure on a scale which did not imply rural use of the investments. The nature of the fittings included (for example, ample system of drainage channels and gulleys and use of moulded kerbstones), the type of surface (for example, depth of the sub-base and high quality of the aggregate for some stretches) and landscaping of the route, with cuttings and embankments and replanted slopes, are all features which clearly imply a wider range of use. Moreover, in order to reply to an enquiry from the Audit Board as to the exact route of a project (D 16/67) the Commission had to ask the Member State for this information. In the case of a forest project (D 9/65) in which half the expenditure was intended for reforestation the proportion spent on improving and making roads eventually came to more than 70%.

Indeed, in applications relating to two other projects (D 57/70 and D 45/71) the recipient put forward arguments in connexion with tourism in support of the roadbuilding to be carried out.

Where dairies are concerned it is, of course, difficult to obtain an impression of the projects as such without considering how they relate to the system as a whole. These projects have undoubtedly been worked out on the basis of the location of the dairies at the time and only when the works were already in progress did it become necessary to make a great many modifications, imposed by factors extraneous to the case which had been submitted, in order to allow for a series of regrouping operations in the organizations receiving the aid.

Thus, it can even happen, as in the case of Projects D 56/68 and D 67/1/68, that the expected outcome of EAGGF assistance is changed completely by subsequent merger of two enterprises which received aid.

Moreover, with regard to the subsequent use of investments, one on-the-spot investigation serves as an example of the consequences of pursuing the kind of policy now in operation (Project D 44/71). The anticipated effect of the project, namely a higher price to the producer as a result of regional concentration of collection, has not been achieved. Supplies for the new dairy have to be collected from up to one hundred kilometres away, whilst producers in the vicinity supply milk to enterprises other than the new dairy.

Worse still, the investment decision concerned was taken when the competent national authorities could not give sufficient assurance that the project was a good economic proposition in the context of regional policy and despite serious danger that the viability of another project (D 161/70) previously financed might be imperilled by the new investment. Two risks have been incurred: firstly that, for lack of adequate study of the circumstances surrounding the project, the purpose would not be fulfilled; secondly that the cost of operation would be considerably augmented by sacrifice of the benefits of the previous investment.

In this sector of operations it is also apparent that the Commission is not always kept fully informed, in particular about changes in the identity of the recipient of the aid (Project D 44/71, in which at the time of on-the-spot examination the Commission was unaware that the recipient enterprise had merged with another cooperative nine months previously).

73. Verification before payment of aid

The files received do not always contain the correspondence between the EAGGF and the national administration concerning the progress of works and details of how a project is being carried out. In this connexion, Article 3 of Commission Regulation 99/64/EEC stipulates that in the case of schemes or works taking more than a year to complete, the Member State shall forward a document describing the state of progress of schemes or works. This document is always present in one country's files but is missing in files from other sources.

On a similar matter, in connexion with Project D 45/71 one finds that a refusal to supply further particulars - which were clearly necessary - did not prevent the Commission from making the final payment when it lacked the requisite information unsuccessfully requested from the authorities and when it had not carried out an on-the-spot investigation.

In other cases (Projects F 96/69, D 10/65, D 16/67) errors or omissions have been found in the documents attached to certificates of completion of the works which have been forwarded by Member States and the appropriate corrections have not been made in the files.

The file for one project (F 84/71) in which major changes were made during the work contains no comment in that connexion and the aid was paid in full. Even if those changes were eventually acceptable, an explanatory note from which the Commission's reasoning could be ascertained ought to appear in the file.

In the case of one project (F 96/69) the authorities of the country of the recipient asked for payment of a smaller contribution, as the project had cost less than had been expected. That request was based on keeping the percentage of the EAGGF's share of the investment at a constant level. When the EAGGF increased the proportion of its contribution, adhering to the original sum of aid, the Audit Board enquired into the reasons for doing so. The reply was that the granting of aid "constitutes a commitment on the part of the Commission to pay the sum to the beneficiary when the conditions of payment stated in the decision are met and when the amount of eligible expenditure permits payment of the maximum aid possible".

The Audit Board considers that the savings made in the cost of a project should benefit all the parties concerned in proportion to their participation: the maximum amount is not automatically applicable, because it is governed by the cost of carrying out the project and is only a ceiling for that cost.

In connexion with verification by the Commission it should be pointed out that the report on examination of the application for payment is a document essential to the task of the Audit Board, insofar as the report is not limited to formal comparison of the figures in the estimate with those for the completed project but should also contain the explanations or justifications called for by any differences.

74. In the light of the foregoing it should above all be noted that:
- The Audit Board should be able to have available before it files which are as complete as possible, so that it can find for itself the information which it needs concerning the antecedents to the decision, the performance of projects and the acts of management and verification carried out by the Commission;
 - At the time of application and on the occasion of decision on any changes made while the project is in progress, national administrations should supply all the particulars which enable the projects to be assessed according to their economic context;
 - As already emphasized in previous reports of the Audit Board, the effects of investments made should be known to and watched by the Community administrations, so that the latter may ascertain that the projects financed are being put to good use and may learn the lessons to be drawn from them.

B. Financing of Special Measures and of Joint Schemes

75. For this sector of intervention by the Guidance Section, commitments in 1974 totalled 28 048 584 u.a., composed of 22 873 862 u.a. charged against appropriations for that financial year and 5 175 722 u.a. charged against appropriations brought forward from 1973. Payments totalled 23 839 368 u.a., made up of 17 965 352 u.a. relating to appropriations for 1974 and 5 874 016 u.a. relating to appropriations brought forward from the previous financial year.

In the area of joint schemes (excluding payment of a final instalment for the statistical surveys of fruit trees) two schemes were started: these related to conversion in the cod-fishing sector and encouragement of the development of beef and veal production.

For special measures the rate of utilization of appropriations became much more reasonable: appropriations carried over to 1975 amounted to approximately 10% of the 1974 funds, all the rest being committed and paid during the financial year. Amounts carried over mainly involved aid to "groups of fruit and vegetable producers", as appropriations for 1974 in this connexion were barely touched. It must, however, be mentioned that initial funds assigned in the 1974 Budget to special measures (Chapter 89, 41 000 000 u.a.) were used in a proportion of less than 4%.

76. Fixed sums of aid

As desired by the European Parliament, the Audit Board embarked on "detailed analysis of sound financial management of the fixed sums of aid granted for the purpose of improving the production and marketing structures in the sectors of unmanufactured tobacco, olives, olive oil, and fruit and vegetables".

To this end, the Board has so far been able to consult the documentation forwarded by Italy to the Commission, including the report on the situation at 31 December 1974.

Although the findings in this connexion cannot be regarded as final, because of shortcomings which call for further examination, they may be summarized as follows:

in million u.a.

	Tobacco (Regulation 130/66)	Olives, olive oil, fruit and vegetables		Total	
		(Regulation 130/66)	(Regulation 159/66)		
Sum made available to Italy and date:	15 10 March 70	45 1 Aug. 67	87.3 in 1969, 70 and 1971	147.3	100
Granted to specific projects	15	45	79.5	139.5	94.7
Paid to the beneficiary	9.2	28.3	13.3	50.8	34.5
Still to be paid	5.8 = 39%	16.7 = 37%	74 = 85%	96.5	65.5

The salient feature is still the chronic delay in carrying out projects for which commitments have not yet been entered into, although the regulations initially provided for completion of the operations by the end of the transitional period (31 December 1969), when the detailed report, together with supporting documents, was due to be produced. Admittedly there was provision for extension of time limits but up to now these extensions have been limited to 31 December 1971 for tobacco (Regulation 490/70) and 31 December 1973 for aid assigned to olives, olive oil or fruit and vegetables (Regulation 966/71).

Although the reports have been made more informative, they still do not give sufficient information for precise assessment of the use of funds. Moreover, the supporting documents do not provide a clear explanation.

From reports of on-the-spot investigations carried out by the Commission it appears that in the implementation of this programme there has been compliance with the intended objectives.

However, study of the files by the Audit Board has revealed among the projects financed under the head of operations for "fruit and vegetables" the construction of a flower market, for 6 140 000 u.a.

Because of the shortage of documentation and in order to make its study more thorough, the Audit Board contacted the Italian authorities with a view to obtaining indispensable additional information and, as applicable, consulting on the spot certain relevant records which were too bulky to be taken away. Those authorities recently promised to assist the programme of examination of the whole of this material.

77. Other Special Measures

In its previous report the Audit Board pointed out causes of delay in getting these schemes under way in all the Member States. There has been no appreciable change in the situation, because in all instances one notes delay in making the necessary arrangements for implementation, difficulties in interpretation, disparities in national practices and insufficient investigation by official bodies acting as intermediaries before payment claims are forwarded.

Examination of the reports on verification on the spot shows that the Commission's inspectors have been faced with similar problems, discovering "the improvised nature of the examination of the commitments entered into" in connexion with the slaughter of cattle and the necessity of proper verification after uprooting of fruit trees.

The five inspection visits made concerning these matters involved the premiums for slaughter of cows and non-marketing of milk, in Belgium and in the Netherlands; the uprooting premium for fruit trees, in Belgium and in France; and aid for setting up groups of fruit and vegetable producers, in France.

The difficulties occur for the most part at the stage of completing national procedures. Once these procedures have been completed the operations of Community management can proceed reasonably promptly. Thus, commitments for the financial year were wholly paid up in 1974.

In addition to its more general comments on the incompleteness of the records produced by some intermediary agencies, the Audit Board noted on attending two of the above-mentioned inspection visits that applications for uprooting premiums have received consent where no clear justification of the usefulness of the measure was produced.

Thus, out of three farms visited the first case involved a very old orchard from which the fruit had not been sold for a long time and the second a farm where the trees had been uprooted in order to clear sites which had been transferred to a property developer. Both the second and the third farms were second homes and it was impossible to verify that the fruit was still being sold up to the time of uprooting of the trees.

Such operations should not have been allowed Community finance, because they do not assist attainment of the objective of reduced production which is the purpose of the relevant Regulation.

78. Joint Schemes

In this sphere, covered by the Council Directives mentioned in the Audit Board's previous report, the delays already pointed out before continued in 1974.

The only new commitments to be found are:

- seven projects for conversion in the cod-fishing sector (Directive 2722/72);
- an application from the United Kingdom for reimbursement of expenditure on the development of beef and veal production (Directive 1353/73);
- a statement from the Grand Duchy of Luxembourg for costs of surveys relating to plantations of certain species of fruit trees (Directive 71/286).

As to payments, these were confined to settlement of the last two commitments mentioned above. Three other payments which were made were in respect of commitments entered into in 1973 for the building of one tunny boat and two trawlers for French fisheries.

CHAPTER 6: DEVELOPMENT AID

Food aid and financial aid

79. The policy of Community cooperation in development, which, from 1958, has been implemented through the European Development Funds, has also found expression, since 1968, in food aid operations which have been progressively increased and diversified.

More recently this policy has been further extended by the granting of specific financial aid to the countries of the Sahel, Ethiopia and UNRWA, and by Community participation in the special United Nations operation to assist the countries most severely affected by the rise in world prices.

80. The overall financial volume of this Community effort is difficult to determine, however, owing to the complicated budgetary procedure followed to date.

Although the operations carried out under the heading of the EDFs are isolated within the autonomous accounting systems of these Funds (which show a total amount of payments for 1974 of 170 million u.a.), the other Community operations, which are charged to the Commission's Budget, are broken down over several items under Titles 3, 4, 6 and 9 and, furthermore, in the case of food aid, a significant portion of the expenditure, at least as far as some products are concerned, is combined with the general intervention expenditure and it has hitherto been difficult to separate them.

The expenditure under the 1974 accounts appears under 13 headings, as follows:

Chapter 32:	Expenditure on	
	development aid	681 573 u.a.
4000	Community aid to victims of	
	natural disasters	23 777 833 u.a.
4020	Expenditure resulting from	
	the agreements concluded	
	between the EEC and UNRWA	8 150 000 u.a.
6218	Food aid from common stocks	
	of skimmed milk powder	35 330 830 u.a.
6219	Food aid from common butter	
	stocks	50 110 353 u.a.
	Implementation of the 1967	
	and 1971 food aid conventions	
	in the form of cereals	
9003	1970/71 programme	1 075 804 u.a.
9010	1971/72 programme	23 029 675 u.a.
9011	1972/73 programme	23 750 484 u.a.

9012	1973/74 programme	52 025 773 u.a.
9030	Supply of milk products to the World Food Programme (WFP) and the International Committee of the Red Cross (ICRC)	5 026 998 u.a.
9040	Food aid in the form of sugar	1 243 270 u.a.
9041	Exceptional aid to the countries of the Sahel and Ethiopia	222 776 u.a.
9400	UN special fund	62 340 800 u.a.

But the total of the amounts thus recorded, 286 766 169 u.a., represents only part of the financial effort implemented in 1974, for it includes neither the advances granted to the Member States for the execution of the last three programmes, which, charged to extra-budgetary accounts, amounted at the end of 1974 to 20 398 844 u.a. (of which 4 500 000 u.a. was under the head of the financial year 1975) nor the expenditure charged under Title 6 for refunds in connexion with cereals.

81. The disadvantages of this variety of budgetary charging, underlined on several occasions by the Audit Board, have also been noted by the responsible authorities who have, firstly, changed the budgetary nomenclature for 1975 and, secondly, changed the charging rules.

The first reform is to bring together under Title 9 the appropriations which were formerly entered under Chapters 32 and 40. The second, implemented by Council Regulation No 2681/74 of 21 October 1974, is to adopt the same rules for all agricultural products intended for food aid and to charge to Title 6 - EAGGF, Guarantee Section - only the expenditure corresponding to export refunds, with segregation of this expenditure under separate budgetary items (Nos 6101, 6102, 6201, 6202 and 6401).

82. The Audit Board had hoped that this operation to clarify the accounts would be accompanied by a more distinct division of responsibility between the various departments charged, under whatever head, with the task of administering the aid. Some steps have already been taken with a view to achieving better cooperation and others are currently being studied in the context of a reorganization of the Directorate-General for Cooperation and Development.

I. Food aid

Aid decisions

83. The decisions on food aid taken in 1974 involve, firstly, cereals and, secondly, milk products. The normal operations, planned year by year, are increasingly being accompanied by special or emergency operations dictated by the pressure of circumstances.

Community aid in 1974 may be tabulated as follows:

	Cereals	Powdered milk	Butteroil
Normal measures	400 000 t	35 000 t	34 600 t
Emergency operations	180 000 t	19 290 t	10 250 t

In addition, decisions were taken in anticipation of the 1975 programme, relating to 193 000 t of cereals for India and the African countries suffering from drought and 9 000 t of powdered milk for the same countries.

These decisions were spread out throughout the year; some of them were not taken until the closing days of the financial year.

The remarks previously made on the subject of delays in the implementation of aid remain valid.

The 1973/74 programme was not adopted until 23 December 1973 for the part relating to the Sahel countries and Ethiopia and 21 March 1974 for the remainder of the programme.

Between the date of the submission of an application by a country and the date of the Council's decision to conclude an aid agreement the average lapse of time still remains greater than one year.

The Commission, in its reply to the previous report, admitted and deplored these considerable delays, which it attributed to both the decision-making procedures of the Council and the Commission, carelessness on the part of the beneficiary countries and lack of sufficient staff in the Directorate-General for Cooperation and Development.

In order to mitigate the serious disadvantages accompanying such delays in regard to emergency aid, certain special procedures were introduced for authorizing invitations to tender for and delivery of the products immediately following the conclusion of negotiations between the Commission and the beneficiary countries and before signature of the agreements.

Even in the case of this emergency aid, very long delays are still found between the submission of the application and the issue of invitations to tender (examples: Chad, Gambia, etc) and, moreover, this anticipatory procedure is not without risks. Thus for the emergency aid granted to Upper Volta and Niger under the 1971/72 programme, agreements providing for free distribution were signed by way of regularization although the Community authorities had been informed beforehand that these deliveries had been the subject of sales and, furthermore, that these sales had taken place under unknown and unsupervised conditions.

The procedures for the administration of food aid should be reviewed with the aim of arriving at a timetable more in accord with the requirements of such a relief policy.

Mobilization of the aid

84. Not only do delays occur in the initial decision but further delays are implicit in the various phases of execution (mobilization, dispatch, distribution). The table below, showing the position at 31 December 1974, illustrates the significance of these time-lags as far as aid in the form of cereals is concerned:

Year	Aid provided for under the programme	Executed by the end of 1973	Executed in 1974 or in progress	Remaining to be executed
1970/71	353 140 t	346 670 t	4 500 t	1 970 t
1971/72	414 000 t	230 234 t	163 765 t	20 001 t
1972/73	464 000 t	264 900 t	168 612 t	30 888 t
1973/74	580 000 t	-	448 500 t	131 500 t

Thus 336 877 t of the deliveries made in 1974 related to agreements under programmes for 1973 and earlier, and, at the end of the year, 184 359 t still remained to be delivered under agreements already concluded.

In the desire to speed up procedures, the period between publication of the invitation to tender in the Official Journal and the deadline for the submission of tenders is sometimes so short that the free play of competition is distorted. For example, in the case of 25 000 t of maize and 3 165 t of durum meal for Upper Volta, Mali and Niger, the period was 4 working days (OJ Nos L 177 and C 51 of 30 June 1973) and this excessive brevity led to a complaint.

In order to take account of the urgency, certain Community regulations also provide that transport between the stores of the intervention agencies and the destinations may be contracted out under private arrangements at the most advantageous conditions. This procedure is sometimes only applied to the portion of transport between the port of discharge and the distribution areas. As the documentation relating to these contracts is retained by the intervention agencies there is no means of judging whether this last condition has been respected. On the other hand, it is possible to establish that the requirements of urgency invoked for the adoption of this procedure were not satisfied at a later stage and that the products urgently mobilized remained in store for many months (powdered milk supplied to Mali and Chad in July 1973, cereals sent to Chad in February/March 1974, etc.).

85. Mobilization of aid is most often effected on the basis of an all-in price covering the different aspects of the operation (withdrawal from intervention stocks or purchase on the market, processing of the product where applicable, cost of supervision and insurance, cost of transport to the fob or cif stage or in some cases to the destination). Since Community regulations do not oblige the tendering undertakings to give breakdowns of their tenders, the sums in question escape any analysis.

In its reply to the previous report the Commission stated that the information provided by the intervention agencies was considered adequate by its departments and that the tendering system was sufficient to ensure that the best price was obtained.

As in past years, the Audit Board has discovered some significant and inexplicable price disparities for comparable operations (example: delivery cif to Bangladesh of 175 000 t of wheat - tenders accepted varied from 30,11 u.a. to 41 77 u.a., i.e. by 38%; and 19 450 t of skimmed milk powder - tenders accepted varied from 49 30 u.a. to 168 97 u.a., i.e. by 242%). The Board still considers that in the absence of a detailed breakdown of the tenders the Community departments responsible both for administration and for supervision can only rely on the intervention agencies to assess the value of the tenders.

The mobilization regulations and the notices of invitation to tender ought to be standardized to obviate divergent interpretations as to the acceptance of certain additional expenses such as the costs of weighing, supervision and insurance. Substantial differences exist between the methods of invoicing used by the Member States' intervention agencies.

As for the demurrage charges and costs of delays which, where they are attributable to recipients of aid or third parties, should be recovered, these still fail to appear as sums owing in the Commission's balance sheet. For 1968/69 and 1969/70 these costs amount to 25 683 u.a. and for aid in the form of cereals to Bangladesh they already amount to 169 894 u.a. The steps taken to recover them were as half-hearted as they were ineffective.

Dispatch of aid

86. The agreements concluded with the beneficiary countries fix the terms of delivery of the aid (fob, cif or destination).

By reason of the economic situation in the countries assisted, the Community has had to bear an ever-increasing share of the costs of dispatch, especially in connexion with the agreements concluded with the WFP, and aid to the Sahel countries and Ethiopia. In the latter case an exceptional appropriation of 5 million u.a. was actually opened under Item 9041 to cover exceptional transport costs (by lorry or aircraft).

The dispatch of the products from the ports of discharge to the final destinations has often encountered grave difficulties owing to the inadequacy of the transport facilities or, in some cases, default by local transport services.

These shortcomings have led to prolonged periods of storage, significant losses or deterioration of the goods.

The inadequacies of supervision on the arrival of the goods, frequently highlighted in earlier reports, has sometimes led the Commission to call in a private guard company or, in certain countries, to arrange for the attendance of the deputy controllers both at the port of discharge and at the destinations.

From recent investigations it appears that the information which, under the terms of the agreements, the beneficiary countries are required to forward to the Commission about the receipt of the aid is still very incomplete and that intervention by the controllers often ran into difficulties owing to the dispersion of the relief.

These uncertainties have led some intervention agencies to pay the tenderers on the basis of the quantities delivered at the fob stage even though the notices of invitation to tender specified payment on the basis of the quantities unloaded (case of ONIC in connexion with aid to the Sahel).

Similar shortcomings affect the control of quality, but the poor organization of reception procedures makes it difficult to determine and assign responsibility (example: delivery of 13 000 t of sorghum to Mali and Niger under the 1971/72 programme; delivery of 43 000 t of Italian rice to the Bengali refugees in India under the 1971/72 programme).

87. The financial settlement of these dispatch costs has also proved to be attended by many uncertainties.

- In the context of the WFP agreements for the 1970/71 and 1971/2 programmes, the payment of the flat-rate contribution of \$ 14.28 per tonne was calculated, contrary to the provisions of Article 5 (3) of these agreements, on the basis of the quantities of unprocessed cereals and not on the basis of tonnages of flour actually received; consequently there was an excess payment of \$ 88 293 (73 190 u.a.).
- In the case of the aid to the Sahel countries under the 1972/73 programme, Community financing covers the actual costs of dispatch up to the distribution points but the documents produced in support of the amounts invoiced permit of practically no verification (frequent absence of the contracts concluded with the forwarding agents and of goods received notes, lack of information about distances and scales of charges, etc).

With the aid to Ethiopia, the charging of expenses from the African port of discharge to the distribution points appears to have been the subject of contradictory instructions from departments which nevertheless belong to the same Directorate-General.

Distribution; marketing; the special accounts

88. The food aid agreements provide for either free distribution to the population or sale on local markets and, in the latter case, the allocation of the proceeds, via a special account, to the financing of development projects approved by the Commission.

On these various points little progress has been achieved in the situation described in earlier reports.

The periodical execution reports which, by regulation, are to be produced by the beneficiary countries, are forwarded late or sometimes not at all. The information contained in them about the actual conditions of distribution or marketing is fragmentary.

The Commission, in its reply to the last report, states, moreover, that the thorough study of these execution reports, desirable as it is, has not been possible having regard to the staff strength of the Food Aid Division. This situation is regrettable because the intervention of some deputy controllers in monitoring these operations has made it possible, in the case of some countries, to obtain more useful information on the conditions of distribution.

The data supplied on the utilization of the proceeds of sales similarly continue to be very patchy and make it impossible, in fact, to carry out any audit.

The Audit Board is of the opinion that the Institution ought to devote more attention to this question and ought to draw up periodically a statement summarizing the information supplied by the beneficiary countries with regard to the amounts standing on special account and their utilization.

Financial settlement of the aid

89. It was not until December 1973 that it was possible to close the 1969/70 food aid programme and finalize the total expenditure, viz. 37.64 million u.a., of which 15.49 million u.a. was charged to the EAGGF, Guarantee Section, Chapter and 22.15 million u.a. to Title 9.

Since then the time-lags in settlement, connected with the final clearance of the accounts of the EAGGF Guarantee Section, have grown still larger. Against the appropriation of 25 million u.a. intended to finance the 1970/71 programme, entered in the Budget for 1972 and already carried over twice, there was only charged an expenditure of 1 075 804 u.a. covering the flat-rate contributions and the actual costs of dispatch paid by the Commission. Carrying over for the third time is therefore necessary.

At the time of writing, the statements of expenditure have been forwarded by the Member States. Closure of the accounts is scheduled to take place in 1975 with the exception of a quantity of 1 970 t which has not yet been executed.

For the three programmes within the scope of the 1971 convention, that is to say, for the 1971/72, 1972/73 and 1973/74 programmes, EEC Regulation No 1703/72 of 3 August 1972 has substituted the system of financing by monthly advances for that of subsequent reimbursement of expenses laid out. Although the pace of commitment and utilization of the appropriations has been speeded up, the delays in closure have nevertheless not been eliminated.

The Budget estimates for these three items (9010, 9011 and 9012) proved ill-founded and the payment of the advances necessitated numerous transfers. Item 9010, relating to the 1971/72 programme and initially endowed only with a token entry, had to be assigned 25 220 500 u.a. transferred from Item 9012.

Item 9011 relating to the 1972/73 programme, originally allocated 13 million u.a., was raised to 23 9 million u.a. by the same means.

Finally, Item 9012, whose original appropriation of 75 million u.a. had thus been drastically cut, had to be supplemented with 20 million u.a. transferred from Article 600 (Refunds on cereals).

Even if the movement of world cereal prices, the expansion of emergency operations and the rise in costs provide a partial explanation for these transfers, their size nevertheless indicates insufficient care in estimating the financial charges of the various programmes.

In the 1975 Budget, moreover, a sum of 25 million u.a. has had to be added to the 15 8 million u.a. brought forward, in order to supplement the financing of these three still uncompleted programmes.

The carry-overs appearing at the end of 1974 under Items 9030, milk (93.74%), 9040, sugar (95.73%) and 9041, aid to the Sahel (93.74%) demonstrate the delays occurring in the execution and payment of these other categories of aid.

II. Financial aid

In 1974, financial aid amounting in all to some 169 million u.a. was approved for developing countries or victims of natural disasters.

Exceptional aid to the Sahel countries and Ethiopia

90. A Council decision of 10 December 1973 provided for the granting, out of the Commission's Budget for 1974, of exceptional financial aid to the drought-stricken countries of the Sahelian region. The appropriation was fixed at 35 million u.a. and entered under Item 4000. It is intended to finance projects comprising the purchase of transport vehicles, the repair of roads, the construction of storage facilities, water supply installations, etc. On top of this "global" appropriation of 35 million u.a. there is an endowment of 600 000 u.a. for rapid Community aid to victims of natural disasters and a carry-over of 600 000 u.a. from 1973.

The endowments for structural aid to the countries of the Sahel had been committed in entirety by the end of 1974 to an amount of 35.6 million u.a. as a result of conventions concluded with seven States (Upper Volta, Mali, Niger, Mauritania, Senegal, Chad and Ethiopia).

At 31 December 1974 the payments made under this head amount to 23 237 (65%). However, the rate of execution of the projects and hence of the call on funds varies from one country to another, the spread at that date ranging from 28% for Senegal to 90% for Niger.

91. The funds are placed at the disposal of the countries as and when the need arises, on the basis of progress reports on the programmes, which are countersigned by the deputy controllers who retain the supporting documents annexed to the reports.

The implementation reports should be forwarded in support of the payment orders for which they constitute the supporting document prescribed by the regulations.

From the financial point of view the contracts for execution are governed by the provisions of the Council Regulation of 25 April 1973; the EDF general terms and conditions for contracts apply.

The agreements further provide: "That Audit Board also reserves the right to carry out inspection visits in accordance with Article 89 of the Financial Regulations."

The Audit Board intends to subject the execution of these aid programmes to audits similar to those carried out on the EDF projects. For this purpose the supporting documents at present held by the deputy controllers should be forwarded to the Board after the completion of the operations, which should occur by the end of 1975; the Audit Board reserves the right to carry out examinations on the spot.

Other exceptional aid charged to Article 400

92. By a decision of 1 October 1974 the Council decided to grant emergency aid of 300 000 u.a. as relief for the victims of the Honduras disaster (financing of the carriage by air of 90 t of skimmed milk, purchase and distribution of clothing, medicines, shelters, etc).

This sum was immediately transferred to UNDRO - the United Nations Disaster Relief Office - with which an agreement is to be concluded later.

Similarly, by a decision of 30 December 1974, the Council decided to allot to Somalia the residue of the appropriations available under Article 400, in the sum of 240 000 u.a., as emergency financial aid for measures to combat famine.

There is as yet no document specifying the procedures for substantiation and audit of the use of this exceptional financial aid.

Exceptional aid to UNRWA

93. In December 1972 the Community concluded a convention with UNRWA - the United Nations Relief and Works Agency for Palestine Refugees - to run for three years from 1 July 1972 to 30 June 1975 with the purpose of supplying supplementary food aid to refugees of countries in the Middle East.

Under this head the Commission decided to pay to UNRWA out of the appropriations to Article 402 a contribution of 1 610 000 u.a. for the first year (1972/73), 1 610 000 u.a. for the second year (1973/74) and 2 172 000 u.a. for the third year (1974/75).

The agreements stipulate that UNRWA shall, each year before 1 March and 1 September, transmit reports on the conditions of execution of the operations provided for in the conventions.

The payment orders, relating to the two equal half-yearly contributions, have not, up to now, been accompanied by any supporting document.

The Community's contributions have, however, been substantiated by the submission of records and tables analysing the allocation of the aid.

94. In June 1974 the Council decided to grant UNRWA an exceptional contribution to cover the 1974 operating expenditure for the preparatory stage for secondary and technical education provided by the Agency for the benefit of the refugees. A payment of 2 million u.a. was made on signature of the convention in July 1974 and the balance of 4 550 000 u.a. was paid at the end of 1974. These sums were charged to Article 402 of the Commission's Budget, the appropriations to this article having been increased for the purpose by the transfer of an appropriation from Chapter 64. These two payment orders were not accompanied by any supporting evidence.

The convention provides, on the one hand, that UNRWA shall ensure that the Community's intervention in this part of its education programme shall be identified and made known and, on the other hand, that it shall render, within the six months following the date of payment, an account of the utilization of the funds showing the amount and the nature of the expenditure effected.

At the time of writing, no supporting document of this nature had yet been forwarded to the Commission.

The convention further provides: "the Audit Board shall have the right to verify a posteriori the utilization of the funds paid ..." in accordance with Article 89 of the Council Regulation of 25 April 1973, the provisions of which apply to the administration of this contract.

These provisions should enable the Audit Board to carry out, during the second half of 1975, the documentary verification of this operation for 1974, provided that the substantiating documents produced in support of the utilization account are sufficiently explicit. It will perhaps be possible for contact to be made with the internal and external audit bodies of the institutions attached to the United Nations Organization.

Community contribution to the special United Nations
fund for aid to the developing countries worst
affected by the rise in world prices

95. In October 1974 the Council approved the payment of a first contribution of \$ 150 million (124 350 000 u.a.) out of total aid of \$ 250 million.

After approving the first Supplementary Budget which was necessary for implementing this decision, the Community first paid \$ 30 million (24 870 000 u.a.) into a special United Nations account for the emergency operation, then committed the remaining \$ 120 million (99 480 000 u.a.) by concluding conventions with 17 developing countries. A sum of \$ 50 million was allocated to India, \$ 22 million to Bangladesh, while the aid to the other 15 countries ranged between \$ 1 million and \$ 9 million.

In April 1975 the Community decided to allocate a second instalment of \$ 100 million, of which \$ 33 million was transferred to the special United Nations account and \$ 67 million divided between 17 of the countries worst affected by the crisis.

The first payment to the Secretariat General of the United Nations was effected globally simply by requesting the latter to keep the Commission informed of decisions taken on the utilization of these funds for the benefit of the recipient countries covered by the operation.

The letter to the Secretary-General states, further, that "the financial regulations of the Community prescribe that the Audit Board shall have the right, in carrying out its task, to perform the usual verifications in connexion with budgetary matters". It is difficult to see, in advance, what could be the scope of such verification when what is involved is a lump-sum payment unaccompanied by any instructions as to use.

With regard to the remaining \$ 120 million, the aid decisions stipulate that the sum is intended to finance the importing of goods essential to the economic life of the country. The State in question is required to forward to the Commission a list of such imports, which will be the subject of an agreement and which will give rise to the payment of an advance of 40%, which will subsequently be replenished until the appropriation granted has been completely exhausted, on production of supporting documents (receipted invoices, bills of lading, etc).

In this case also, the letter sent to the beneficiary countries mentions the Audit Board's powers of verification.

At 31 December 1974, out of the \$ 120 million committed, payments amounted to \$ 45.2 million (37 470 800 u.a.) consisting of the advance of 40% granted to 14 of the 17 countries concerned. The remaining payments, charged against the appropriations to Item 9400 carried forward to 1975 should be completed by the end of that financial year.

It is still too early to assess the value as evidence of the documents which it will be possible to demand from the beneficiary countries in support of this aid to imports.

96. In the course of recent years and particularly in 1974, Community aid operations to assist the developing countries have been appreciably expanded and diversified. It is not certain that the departments responsible for implementing and administering this aid have always had the means to cope with these operations. The mobilization and dispatch of food aid has to a very great extent been delegated to the intervention agencies. The reception and distribution of this aid is dependent on the administrative action of the beneficiary countries. Community control remains, almost without exception, distant, late and formal. In the case of financial aid, and excepting, perhaps, the structural aid to the Sahel, control of the proper use and efficacy of the aid also runs the risk of encountering numerous difficulties.

CHAPTER 7: THE RESEARCH AND INVESTMENT APPROPRIATIONS

97. Programmes

The research programmes in progress at 31 December 1974 are governed by 15 decisions of the Council of the European Communities (1). They expire on 31 December 1975 in the case of the "indirect actions" (with the exception of the Dragon project, which expires on 31 March 1976) and 31 December 1976 in the case of the "direct actions". The programmes cover both nuclear and non-nuclear projects, the latter being based on Article 235 of the EEC Treaty.

98. Budget

The information given below relating to the implementation of the research and investment Budget is drawn from the revenue and expenditure account prepared by the Commission of the European Communities.

- a) The utilization of commitment appropriations for the financial year 1974 and of commitment appropriations still outstanding at 31 December 1973 leaves a total of appropriations outstanding at 31 December 1974 of 26 551 602 u.a., as shown by the following table:

Origin	Commitment appropriations	Commitments entered	Appropriations cancelled	Appropriations outstanding at 31.12.1974
1st part of the Budget	89 729 039	72 883 642	1 504 306	15 341 091
2nd part:- Work for outside bodies	(2) 24 084 051	(3) 14 842 260	158 761	9 083 030
Re-use	4 662 251	2 534 769	-	2 127 482
Total	118 475 341	90 260 671	1 663 067	26 551 603

- (1) See list in Annexes.
- (2) This amount includes a sum of 7 503 767 u.a. of appropriations outstanding at 31 December 1973
- (3) Commitments amounting to 93 816 u.a. entered in appropriation account 1.50.1 "Scientific divisions" have not been charged to the 1st section of the Budget in the absence of sufficient appropriations to the objectives 2.28.0 "Technical assessment in support of Commission activities" (59 417 u.a.) and 2.53.0 "Remote sensing of the earth's resources" (34 399 u.a.).

b) The payment appropriations gave rise to payments amounting to 91 064 632 u.a. in the course of the financial year 1974. This sum is made up as shown by the following table:

(in u.a.)

Origin	Payment appropriations	Payments	Appropriations carried forward to 1975	Appropriations cancelled
<u>1st part of the Budget</u>				
a) appropriations for the financial year	85 607 919	69 668 996 (1)	14 200 540	1 738 383
b) appropriations brought forward from 1973	9 147 595	8 047 721	-	1 099 874
<u>2nd part: Work for outside bodies</u>				
a) appropriations for the financial year	22 629 052	9 633 411 (2)	12 836 880	158 761
b) appropriations brought forward from 1973	1 914 392	1 179 735	734 657	-
Re-use	4 662 251	2 534 769	2 127 482	-
Total	123 961 209	91 064 632	29 899 559	2 997 018

- (1) Payments amounting to 93 816 u.a. were not charged to the first section of the Budget for lack of appropriations. They will be covered by appropriations for 1975.
- (2) Payments amounting to 195 643 u.a. charged to the first section of the Budget in 1974 will be covered by payments made by outside bodies in 1975.

- c) The commitment situation at 31 December 1974 can be tabulated as follows:
(in u.a.)

Origin	Commitments	Payments	Commitment/ accrual reversal	Commitments still to be cleared
<u>Financial year 1974</u>				
1st part of the Budget	72 883 642	52 343 809	-	20 539 833
2nd part:- Work for outside bodies	14 842 260	9 491 583	-	5 350 677
Re-use	2 534 769	2 534 769	-	-
<u>Earlier financial years</u>				
1st part of the Budget	39 013 358	25 372 908	1 217 761	12 422 689
2nd part:- Work for outside bodies	2 115 080	1 321 563	95 425	698 092
Total	131 389 109	91 064 632	1 313 186	39 011 291

- d) At the time of adoption of the present report the Ispra establishment had not yet forwarded its supporting documents for expenditure for the month of December 1974 nor, as in previous years, had it yet submitted its summary lists of payments to 31 December 1974. For that reason, the amounts appearing in the revenue and expenditure account under the chapters falling within the responsibility of this establishment, which is by far the largest establishment, could not be verified by the Audit Board.

With regard to 1973, the accounting documents relating to the operations at the end of the financial year were forwarded on 31 July 1974, that is to say, a fortnight after the date on which the Audit Board is required by the Financial Regulation to complete its report on the accounts for the financial year.

There were some differences between the amounts shown in the revenue and expenditure account and those shown by the documents relating to secondary charging. It is a question of amounts entered in the accounts without the backing of supporting documents, a procedure which prevents normal verification of the revenue and expenditure account and which has made it impossible for the Audit Board to satisfy itself of the justification for all the apportionments appearing in the revenue and expenditure account. This abnormal situation is likely to recur in connexion with the 1974 accounts.

- e) Article 97 of the Financial Regulation of 25 April 1973 stipulates that, within the chapters and appropriation accounts, "expenditure shall be classified according to its nature".

With regard to the budgetary appropriations for indirect actions, the Commission of the European Communities prepares an analysis of the overall expenditure according to its nature, in such a way as to provide practically a double-entry analysis of the budgetary appropriations.

Such an analysis of the implementation of the Budget (payments and commitments) for all the research and investment appropriations would be desirable. In practice, this would involve a summary of the amounts appearing within the expenditure chapters of the Budget, which could readily be obtained as a by-product of Budget accounts kept by computer.

Reconciliation of the double-entry tables for, on the one hand, the Budget appropriations and, on the other hand, the implementation of the Budget seems all the more advisable because considerable differences may arise merely from the effect of regulations concerning, inter alia, the utilization of provisional appropriations entered in the Budget under a special heading, the re-use of certain items of Budget revenue, or the possibility of carrying out work for outside bodies.

A. Joint programme and supplementary programmes

Direct actions - JRC

99. In its report on the accounts for the financial year 1973 the Audit Board stated that the reorganization of the JRC had not yet been completed and that 1973 could be considered as a transitional period resulting from a series of three important measures concerning the research activities of Euratom. The decisions in question were:

- the Commission's decision of 13 January 1971 on the reorganization of the Joint Centre for Nuclear Research (JRC) aimed at giving that body the autonomy of management necessary for the proper accomplishment of its tasks;
- the adoption of a multi-annual programme (four years from 1 January 1973) by the Council at its meeting of 5 February 1973, a programme whose preparation was commenced on 14 May and completed on 18 June 1973;
- the setting up of a function-orientated Budget as from 1 January 1972.

The Audit Board's comments on the financial year 1973 highlighted various aspects of this transitional situation.

In its replies to these comments, reproduced as an annex to the 1973 report, the Commission indicated that since that time:

- it had appointed new directors-general and directors (page 82);
- the reorganization of the departments had entered the implementation stage (page 82);
- certain problems, and in particular the definition of the criteria for internal invoicing, had been finally resolved in 1974 (page 84);
- it had installed a data-processing system enabling the operations relating to secondary charging to be handled by computer (page 84).

100. Generally speaking, the Commission's replies reveal that there have been substantial improvements in the organization of the JRC which should ensure sounder management and permit the keeping of accounts which correctly reflect the transactions relating to the implementation of the function-orientated Budget.

It is to be regretted that the expected improvement in the situation did not entirely materialize in 1974, as is shown by the present report in which the Audit Board describes the current state of affairs by formulating successive observations on the following matters:

- The organization of the JRC (Ispra establishment)
- The function-orientated Budget
- The administration of research and investment appropriations
- The services performed on behalf of outside bodies
- The extra-budgetary accounts.

Observations on the organization of the JRC (Ispra establishment)

101. In principle, the resources for the implementation of research are in the hands of the scientific divisions, whereas the coordinators of objectives, who are subordinate to the director of the approved programmes, are responsible for ensuring that the research produces results within the framework of the programme objectives.

According to the Director-General of the Ispra establishment, this structure was devised in order to create a "situation of conflict" between the coordinators of objectives, on the one hand, and the scientific divisions, on the other, as to the degree of utilization of the resources for the implementation of research and the method of research to be followed, in order to arrive at a rational use of resources. This structure is further intended to promote competition between the coordinators of the different research objectives: their task is to mobilize the activity of the scientific divisions to meet the needs of the research objective for which they are responsible; the structure in question, it is thought, will facilitate better utilization of the available resources which, in the matter of scientific research, always tend to be less than the requirements.

This dual confrontation which, in principle, ought to create an equilibrium between the opposing forces, has not yet materialized, and there are two failings in the current situation:

- because the post of director of approved programmes was still vacant, the coordinators of objectives were, at the time of writing, still attached to Departments A, B and C;
- the research teams and their leaders, and even the coordinators of objectives, are frequently dispersed over several scientific divisions owing to the multi-disciplinary character of the research activities. This means that the members of the research teams come under both the head of a scientific division (who is also their official superior) and the coordinator of objectives at the same time, whilst the respective interests of these two superiors do not always coincide.

The coordinator of objectives, in keeping with his duties, attempts to ensure that the appropriations provided for his objective are exclusively devoted to that objective. The heads of division, on the other hand, feel impelled to pursue additional goals, such as, for example, that of providing their division with the most highly developed and up-to-date equipment and, consequently, of having staff familiar with the most advanced techniques. Hence their first concern will be to charge to one or more objectives all the expenditure relating to their staff and their equipment.

Given that the head of division is the official superior of the scientific officers, the balance of power between him and the coordinators of objectives will be tilted in his favour. This may have the consequence that the distribution of the available appropriations between research and the support resources will be made to the detriment of the specific appropriations for the objectives.

In April 1975 the Audit Board took note of the intention of the Director-General of the Ispra establishment to draw up an internal regulation relating to the powers and responsibilities of the coordinators of objectives and to create two posts of head of division attached to the director of approved programmes in order to reinforce the authority of those responsible for objectives.

Observations on the function-orientated Budget

102. In its report on the accounts for the financial year 1973 the Audit Board outlined the procedures governing the implementation of the function-orientated Budget. Set up in 1972, the implementation of the function-orientated Budget still suffered from serious shortcomings in 1974.

In the absence of any element of "standard cost" in the scales of charges used for internal invoicing and without periodical analyses of the balances on the appropriation accounts, the function-orientated Budget is hardly suitable as a means of controlling the management of the scientific and support divisions.

The observations which follow refer to the calculation of actual expenditure relating to the various research objectives and to the services performed on behalf of outside bodies.

The present application of this system does not result in an exact determination of the expenditure by research objective or by service contract for the account of outside bodies. In the first place, this shortcoming is due to certain gaps of principle to which the Audit Board drew attention in its report on the financial year 1973.

Secondly, at the level of execution, practices militating against accuracy in the calculation of costs have become apparent to an unexpected extent. The observations which follow are intended to give a general idea of the situation.

103. Secondary charging in 1974 - JRC section

The secondary chargings were calculated in 1974 on the basis of rules finalized at the beginning of the financial year and providing for the monthly invoicing of services rendered according to a prearranged scale of charges; this is basically a flat-rate scale and can be amended after each quarter.

a) Staff costs

The invoicing of staff costs (appropriation account 1 10 1) has been effected on the basis of lists of names of persons assigned to the JRC and according to a scale of charges containing a rate for the following six groups: A1-A4, A5-A8, Category B, Categories C and D, establishment staff, local staff.

- At the time of the monthly invoicing, the data from the establishments at Geel, Karlsruhe and Petten have not always arrived early enough at the Ispra establishment, which is responsible for working out the costs relating to the different groups of staff and applicable to the whole of the JRC. The number of members of staff taken into account for the monthly calculation of these costs never corresponds to the numbers actually present (1). The remuneration of the auxiliary staff and various other staff costs are not taken into account. The Institution was not even in a position to state the total numbers of staff paid out of JRC appropriations in 1974.

- The amounts entered as resources relating to the remuneration of JRC establishment staff (5 528 525 u.a.) exceeded the amounts entered as utilization (5 330 429 u.a.) by 198 096 u.a. This difference would have been greater if the Community tax on remuneration had been entered correctly in the accounts.

- The unit costs of staff expenditure calculated at the level of the JRC and used for the allocation of this expenditure to different objectives correspond to an average of the actual costs. With regard to the remuneration of establishment staff and local staff, the Ispra and Karlsruhe establishments charged to search objectives 169 249 u.a. and 54 241 u.a. respectively more than the remuneration actually paid by them to these two categories of staff.

It was not possible to analyse the expenditure relating to the other categories of staff as the Institution could not supply all the elements by establishment.

- A thirteenth invoicing of staff costs for the purpose of clearing the balance on the relevant appropriation account was effected at Ispra more than two months after the closing of the accounts of the three other establishments. For that reason, the balance (2 589 424 u.a.) is distributed solely among the programme objectives carried out at the Ispra establishment.

(1) The largest disparity relates to the month of January 1974: the four establishments declared a total of 1 288.5 officials and temporary staff, whereas the calculation of the scales of charges was based on 1 344 staff members.

- As the monthly invoicing, reflecting the actual position, resulted in an exceeding of the appropriation of the order of 200 000 u.a. on objective

Direction and coordination, the thirteenth invoicing was used to correct the situation. The adjustment consisted in cancelling the remuneration initially invoiced relating to the group A5-A8, from August 1974, and that relating to the group A1-A4, from September 1974, and concerning the staff of the Directorate-General of the JRC.

b) Expenditure on general infrastructure

The expenditure on general infrastructure (appropriation account 1.20) has been allocated as intended in proportion to the total wages and salaries charged to the other appropriation accounts and to objective 2.90, Direction and coordination. From one establishment to another the amount to be allocated represents between 60% and 80% approximately of the wages and salaries under the accounts concerned. This latter allocation further undermines the accuracy of the allocation of staff costs.

c) Expenditure on scientific and technical support

- The expenditure relating to scientific and technical auxiliary services appropriation account 1.30) has been charged to the users each month on the basis of services rendered on a "work unit" scale of charges prepared at the beginning of the financial year and containing rates varying from one sub-account to another.

The secondary chargings by Ispra relating to the five departments of scientific and technical auxiliary services of that establishment reveal that a number of services rendered were not invoiced to the users:

- . Neither the medical department (which comes under operating expenditure) nor the biology department (managed by headquarters) bore all the charges relating to the services which were supplied to them during the course of the year.
- . Various services performed on behalf of outside bodies were charged to research objectives because the advances paid by the outside bodies were too small.

. The general infrastructure only bore part of the charge relating to the services requested, since appropriation account 1.20 had been closed before the appropriation account for scientific and technical auxiliary services.

- The services invoiced by the sub-account 1.30.4 "Electronics laboratories" were amended at the end of the financial year with retroactive effect from 1 January 1974 as a result of intervention by the Financial Controller. This amendment involved an allocation of expenditure on the basis of 40 387 hours at the rate of 21.78 u.a. instead of 27 900 hours initially invoiced at 31.52 u.a. per hour.

- The expenditure on various sub-accounts of scientific and technical auxiliary services remaining to be allocated before the thirteenth invoicing corresponded on average to approximately 26% of the amount of the utilizations. This rate shows how inaccurate are the monthly allocations.

- The invoicing was based on non-uniform information in the matter of the "work units", these being expressed, without apparent reason, sometimes in months, sometimes in days, sometimes in hours.

d) Expenditure on major installations

The secondary chargings relating to the major installations mainly involve CETIS (account No 1 40 0) and the Medium Activity Laboratory (account 1 45 0). The balances on appropriation accounts relating to the other major installations, appearing after invoicing to outside users, are charged to research objectives featuring in the first part of the function-orientated Budget.

- During the first half of 1974 CETIS (the Computer Centre) charged its hours of services at the rate of 850 u.a. Subsequently the hourly rate was raised to 1 050 u.a. with retroactive effect from 1 January 1974, but only for services rendered internally. Services rendered to outside bodies were invoiced at an hourly rate of 900 u.a. as from 1 July 1974.

The thirteenth invoicing, which took place at the beginning of April 1975 and was intended to clear the balance on the appropriation account, was for 1 345 193 u.a., corresponding to 53.5% of the expenditure. As the accounts of some recipients of services had already been closed by that time, additional invoicing was effected which changed the rates previously used.

The definitive hourly rates for the whole of the financial year were 1 058 u.a. for the infrastructure, 1 055 u.a. for scientific and technical support, 982 u.a. for the Central Bureau for Nuclear Measurements at Geel and 1 219 u.a. for the other users except outside bodies.

- The expenditure relating to the hire of peripheral units (208 538 u.a.) was only charged to the users in the sum of 109 631 u.a. The difference, amounting to 98 907 u.a., was borne by the users of the central unit (IBM 370/165 computer).

e) Expenditure of the scientific divisions

The secondary chargings relating to account 1 50, Scientific divisions, which groups together with the expenditure relating to the scientific staff proper and the corresponding share of the infrastructure expenditure, have been effected by means of a work unit cost and on the basis of the percentages of time devoted by these staff members to research activities.

- At the Ispra establishment this appropriation account records, as utilization, the remuneration of an average of 650 staff. However, the amounts invoiced directly to the research objectives are based on a number of only 480. The charges relating to the remaining 170 staff are considered as expenses of internal administrative support to the scientific divisions and are allocated over the research objectives in proportion to the number of staff declared for each of them.

The documents available in support of these invoiced amounts are very incomplete; they do not allow of any valid analysis. At the time of writing, the documents in support of the final invoicing had not yet been produced.

- At 31 December 1974 appropriation account 1 50 1, Scientific divisions, Ispra/Petten, shows a debit balance of 93 816 u.a. which will be charged against the 1975 appropriations for objectives 2.28.0, Technical estimates in support of Commission activities (59 416 u.a.), and 2.53.0, Remote sensing of the earth's resources (34 399 u.a.), because the appropriations for 1974 have been exhausted.

- During the financial year 1974 this appropriation account showed as utilizations a sum of 133 757 u.a. representing expenditure for 1973 appearing at 31 December of that year under objective 2 13 0, materials Science, in excess of the appropriations authorized. A first version of the revenue and expenditure account relating to the financial year 1973 showed a transfer of appropriations of an identical amount, although the Commission had not submitted an application to the Council for such a transfer until 2 August 1974, that is to say, after the closure of the accounts.

Since the transfer was not approved, the Institution had to carry the expenditure forward to 1974, still under the same objective. The amended revenue and expenditure account for 1973 was forwarded to the Audit Board on 27 May 1975.

104. General observations on secondary charging

- a) The monthly internal invoicing operations as a whole have proved to be unwieldy and very imprecise. The volume of work and the vast quantity of calculations are due in part to the accounting breakdown of the activity of the research workers spread over a large number of research objectives in infinitesimal, even derisory, shares which find no substantiation in the supporting documents.
- The numerous individual decisions applicable with a retroactive effect of several months and relating to the transfer or promotion of members of the staff, as well as changes in remuneration, go only one way towards correcting operations effected previously. This situation accentuates the imprecise character of the numerous operations which these secondary chargings necessitate each month.
- b) Another factor contributing to the lack of precision has already been remarked on in the report on the financial year 1973 (see Point 112, d). This involves the invoicing to research objectives of expenditure appearing in appropriation account 1.5 0, Scientific divisions, at a single man/research rate. The effect of this is that the degree of precision of the secondary chargings relating to appropriation account 1.10.1, Staff, effected by means of 6 different rates corresponding to 6 groups, loses its point.
- c) Some staff costs (overtime, allowances for heavy and dirty work, shift-work and standby duty), amounting to 930 000 u.a. at the JRC, are still charged as primary expenditure to the objectives or appropriation accounts instead of being included in Staff Expenditure (account 1.10).

On the other hand, the proceeds of the Community tax levied on this remuneration constitutes a resource of the appropriation account for staff expenditure. As indicated in the Audit Board's reports for 1972 and 1973, this procedure ^{is} ~~is~~ ^{satisfac} ~~not~~ be reviewed as the Commission's replies to the above observations have ~~not~~ b - .

- d) Budgetary management is made particularly complicated and burdensome by hundreds of transfers of appropriations which stem from forecasts that are too often inaccurate and are dictated both by the necessity of clearing the balances on the appropriation accounts and by concern not to allow the appropriations available at the end of the year on the various appropriation accounts to lapse.
- e) The expenditure recorded as secondary chargings represented approximately 90% of the total expenditure covered by the research and investment appropriations provided for the direct actions (JRC). Despite considerable efforts, the accuracy of the budgetary charging is illusory. In its present form the system as a whole represents a considerable volume of work which is useless at the management level. Vigorous simplification and rationalization is necessary in order to preserve the purpose of the system of function-orientated presentation applicable to the research and investment expenditure.

Other observations on the management of the
research and investment appropriations

105. a) Unwieldiness of procedures for management of appropriations

The JRC (Ispra establishment) has made the internal procedures for the management of the budgetary appropriations more cumbersome by integrating them with the system of "work allocation records", which consist of a highly detailed breakdown of the budgetary appropriations over the various branches of research.

The work allocation records show in advance:

- the study, contract or task to be carried out;
- the staff resources provided and their percentage of occupation throughout the whole year;
- the specific appropriations (primary chargings);
- the use of scientific and technical support and the use of the major installations (secondary chargings).

The commitment of an item of expenditure is at present subject to the availability of the appropriations as shown on the work allocation records.

For several reasons it seems illogical to encumber the management of the budgetary appropriations in this way:

- The existence in the Ispra establishment alone of some 700 work allocation records makes it practically impossible to combine purchases, as would be desirable, because of the rigidity of the computerized procedure.

Too often this procedure hampers the internal progress of the purchasing formalities. The individual processing of purchases increases the work of the administrative departments. As a result, orders are inevitably delayed and this gives rise to complaints by the research workers.

- Finally, it appears that the work allocation records are not used for management purposes. Firstly, they have no mandatory force in connexion with secondary charging. Secondly, the senior management of the establishment has not as yet attempted to reconcile the estimates contained in these records with the actual utilization of the implementation resources.

At Ispra the use of computerized budgetary and accounting procedures (CORIG system) for the work allocation records in respect of primary charging (appropriation of 2 874 900 u.a. in 1974) makes management considerably more cumbersome.

Each commitment and each authorization of expenditure has to be processed twice by the computer: first comes the operation "entering in the accounts" which makes the appropriations available on the work allocation record: then, after approval by the Financial Controller, comes the operation "confirmation" by which the operation is definitively recorded. For each of these operations at least three or four cards must be punched.

In view of the considerable fragmentation of the appropriations and the dividing up of purchases, one can readily imagine the inordinate number of documents to be codified, cards to be punched and lists to be checked, whilst for the card-punching the establishment has had to call in a private firm.

The number of operations frozen and re-started as a result of errors of codification or punching or because of a shortfall in appropriations on the allocation records is substantial (approx. 30%). To these are added the operations resulting from numerous movements of appropriations (transfers, adjustments). Such operations tie up the CETIS installations excessively.

In 1974 almost one-third of the working hours of the Computer Centre, about 700 hours out of 2 150, were used for the CORIG system, although the 1974 Budget had provided 300 000 u.a. for this purpose, corresponding to the utilization of CETIS for 403 hours. In fact, the cost of using CETIS for the CORIG system may be put at one million units of account.

The unwieldiness of the procedures has considerably retarded the management of the appropriations with all the consequences that such a situation implies: difficulties of supply, discontent among suppliers, who have threatened to impose penalties or to institute legal proceedings, discontent among the administrators (research workers).

As could have been foreseen, the CORIG system failed completely at the time of the closing of the accounts: this operation, which was one of the main objects of the system, finally had to be carried out by hand. An immediate overhaul of the system is imperative.

b) Observations on certain purchases

- The drawbacks resulting from the decentralization of purchasing initiated at the Ispra establishment in 1970, were confirmed in the course of 1974. Article 58 (2) of the Financial Regulation ("Calls for tender shall, as a general rule, be published throughout all the Member States ...") has not been fully applied. The invitations to tender, which are usually issued by the research workers, are very often restricted to three or four firms.

- A research worker in a scientific division at Ispra required an analyser in 1973 for the pursuit of his research. The cost of the equipment was over 33 000 u.a. He ordered the complete set of equipment, which was delivered in 1973, although he did not have sufficient budgetary appropriations available to cover the commitment. As and when appropriations became available he committed them *in* order to pay the supplier. In this operation the JRC committed 20 590 u.a. against the appropriations for 1973 - thus exhausting the appropriations allocated to the study in question - and 12 776 u.a. in 1974. The contract was divided up into five orders, the largest of which was worth 7 571 u.a. The researcher also evaded the internal regulations which state that draft supply contracts to be concluded with non-Community suppliers - which was the case here - in excess of 10 000 u.a. must be submitted to the Advisory Committee on Procurements and Contracts (ACPC).

c) Management of equipment

At the Ispra establishment there is unused scientific equipment such as oscilloscopes, microscopes, etc, which, owing to technological progress, is no longer of use to the departments. These instruments and ten or so cars were stored at various places, sometimes exposed to the elements and neglected, without any attempt at reallocation, scrapping or issue to colleges, schools, etc.

A visit to two stores revealed that there is little exchange of information concerning the non-used equipment between the ten or so stores in existence. In one store about 8 500 kg of bar copper is stored, the remains of 10 000 kg purchased in 1965 after withdrawal of 1 500 kg in 1966 and 1967. The same store is holding a stock of about 3 500 kg of special stainless steel alloy remaining from a purchase of 5 000 kg made in 1965.

It seems that Article 99 of the Financial Regulation governing transfers of scientific and technical equipment between research objectives and the corresponding invoicing is a dead letter for the Ispra establishment.

At the time of entry into force of the function-orientated Budget there was no stock-taking or attribution of the equipment to the different objectives. Purchases continued to retain their almost personal character: the Institution is the owner, but the research worker or division which ordered the equipment takes possession of it.

It is impossible to know to which research objective the scientific and technical equipment belongs.

The disappearance of many items of equipment and apparatus sometimes reaches disquieting proportions. Twenty-five declarations of disappearance of apparatus were communicated to the security service in 1974; the unit value of this equipment ranges between 500 and 4 000 u.a. The declarations often mention photographic equipment and desk-top and pocket calculators. Some time ago the administration installed devices for checking staff leaving the area of the establishment but these devices do not appear to have been used.

d) Ordering in the absence of available commitment appropriations

In the context of the Essor project the JRC contracted substantial commitments in 1973 without having the corresponding appropriations available. Pending conclusion of the contract between the Commission and the Italian Government as to the taking over of the Essor project by the Italian Government, the JRC, at the request of the Italian Government, awarded study contracts in June 1973 to two Italian firms relating to the construction of two large high-power water-cooled loops.

The Essor contract was signed in October 1973 but it was not until 27 June 1974 that the JRC prepared two commitment proposals for a total amount of 206 080 u.a. in order to regularize the situation from the budgetary point of view. Basing his objection on Article 40 of the Financial Regulation, which states that a proposal for commitment must precede the other stages of a financial operation, the Financial Controller withheld his approval. In a decision dated 24 July 1974 the Commission overrode the withholding of approval.

Services performed on behalf of outside bodies

106. For services performed on behalf of outside bodies the four JRC establishments had at their disposal in 1974 total payment appropriations amounting to 24 543 444 u.a.

At the Ispra establishment unjustified delays impair the financial management of the contracts.

- Late transmission to the contracting party of the invoices relating to services performed by CETIS has become the rule. The invoices for services rendered in the second half of 1973 were not issued until December 1974.

- Monitoring of the performance of contracts by means of the system of computerized procedures is only possible for commitments which are limited to the contract sum. There is no payment record for each contract which would show that the payments relating to the execution of the work are indeed covered by advance receipts from the outside body which is the party to the contract.

- The files on contracts do not permit ready monitoring of the receipt of funds. It would be desirable for each file on a contract to contain a copy of the receivable orders and also of the documents in support of the expenditure.

- The delay in invoicing is compounded by further long delays, which may reach several months, before the receivable order is made out; moreover, this is often done after the sums due have been received.

Pending the completion of these financial operations, the expenditure committed for the execution of the work - prematurely within the meaning of Article 98 of the Financial Regulation - is charged to research objectives.

Audit of extra-budgetary accounts of the Ispra establishment

107. A number of advances for mission expenses, paid in 1972, 1973 and the first six months of 1974, had not been regularized by 31 December 1974. Finalization clearance must be expedited.

The sums received in 1974 (4 256 u.a.) for services rendered to staff by the medical department of the establishment (before 1974 this revenue was the subject of extra-budgetary "re-use" had not yet been allocated by April 1975.

Various sums received in 1974 (totalling 5 195 608 u.a., of which 5 116 667 u.a. related to the Essor contract) appeared in extra-budgetary accounts for the sole reason that the relevant receivable orders had not been made out.

A debit balance at 31 December 1974 of 549 249 u.a. (1) on the account "Losses on differences in exchange rates" was not charged to the 1974 budget.

Several imprests accounts admitted by Ispra showed balances in excess of the advances approved. However, the advances paid to the imprest-holders never exceeded the amounts authorized: the balances in question relate to expenditure not yet regularized by the competent authorizing officers.

B. Joint programme and complementary programmes

Indirect actions - headquarters

108. Budgetary aspect

For the financial year 1974 the expenditure on indirect actions is spread over 18 chapters of which 14 correspond to 14 research objectives. Two chapters are devoted to services performed on behalf of outside bodies, another to the repayment of borrowings. To the last chapter is charged the remuneration of staff awaiting assignment.

a) Commitments

Expenditure freshly committed during the financial year 1974 amounts to 27 473 539 u.a. Commitments remaining to be cleared at 31 December 1974 and commitment appropriations outstanding at that date amount to 26 199 467 and 11 445 097 u.a. respectively.

(1) A net loss on exchange of 372 506 u.a. arose on the purchase of currency to pay an invoice for the purchase of fuel elements for the Essor reactor, which had been placed at the disposal of the Italian Government; this problem is linked with the question of parities which has already been raised by the Audit Board.

b) Payments

Total payments amount to 33 273 961 u.a. and are subdivided as follows:

Purpose or nature	u.a.		Total
	1974 appropriations	Appropriations brought forward from 1973	
Research objectives	27 036 647	2 699 010	29 735 657
Re-use	2 298 508	-	2 298 508
Services on behalf of outside bodies	1 239 008	788	1 239 796
Total	30 574 163	2 699 798	33 273 961

Payment appropriations carried forward from 1974 to 1975 amount to 8 343 758 u.a. subject to the approval by the budgetary authority of the carrying forward of a sum of 800 000 u.a. as provisional appropriations for the project "Controlled thermonuclear fusion and plasma physics".

109. Staff

At 31 December 1974 the staff complement whose remuneration is charged against the research and investment appropriations - for indirect actions only - was 261 persons. By category this figure breaks down as follows:

A	170
B	73
C	15
Establishment staff	3

For the financial year 1974 the monthly average was 255.6 persons, as follows:

A	166.1
B	71.8
C	14.7
Establishment staff	3

These figures do not include auxiliary or local staff or temporary office staff, the monthly average number of whom was about twenty during 1974.

110. Accounting

The accounting could be improved by more scrupulous respect for genuine dates - these should appear on the accounting documents and in the accounts - and by a more faithful transcription of de facto or de jure elements.

The information making it possible to carry out secondary charging of the expenditure relating to staff at the end of December 1974 was transmitted to the appropriate department on 6 February 1975. The document based on this information, and which in turn serves as the basis for the accounting entries, bears the date of 31 December 1974 against the signature of the authorizing officer, the approval of the Financial Controller and recording in the accounts: this can hardly accord with reality.

The total value of commitments resulting from the signature during 1974 of 71 research contracts in the field of environmental protection amounts to 3 174 290 u.a. The term of all these contracts is fixed at 31 December 1975.

In the revenue and expenditure account the commitments under this head amount to 1 799 377 u.a. The difference between these two amounts is 1 374 913 u.a.

111. Management of contracts

- The Budget for the financial year 1974 contained a payment appropriation of 16 795 000 u.a. (excluding provisional appropriations) for contract expenditure. This sum represents 69% of the total amount of payment appropriations (24 352 712 u.a.) provided for indirect actions. Payments relating to contracts reached 22 750 457 u.a. in all, including payments against appropriations brought forward and payments relating to the re-use of specific revenue items received during the course of the financial year. These payments represent 68.4% of the total payments of the financial year 1974 (33 273 961 u.a.).

- At the invitation of the Commission of the European Communities, the Audit Board has participated to date in five audits carried out at agencies with which contracts had been concluded, involving seven contracts of association.

a) Nature of the audit

Audits at the contracting party's premises enable the reality of the expenditure, its nature and its correct recording in the accounts to be verified. They also provide the opportunity for consultations which facilitate the making of adjustments to the accounts or the correction of material errors which do not require a more formal method. From this point of view the usefulness of such audits is incontestable.

Auditing of the execution of the research is carried out through the intermediary of the joint management committees which forward to the contracting the scientific reports and attach to the minutes of their meetings the lists of publications, communications and all other contributions to the dissemination of scientific knowledge the authors of which belong to the research teams.

b) Bases of audit

The accounts kept by the associated agencies for the associations, which should reflect all the revenue and expenditure connected with the execution of the research provided for in the contracts, do not in every case show the details of the financial transactions in a satisfactory manner.

The accounts for the execution of Contract 024.71.1 FU A I, between Euratom and the Comitato nazionale per l'energia nucleare (CNEN) show certain gaps which ought to be remedied. Thus, the accounts distinguish between priority projects, for which Euratom's contribution is higher than for non-priority projects, but the supporting documents do not enable the expenditure corresponding to these two categories of project to be identified. The amounts of VAT and customs duties repayable by the Italian Government are not shown separately although the provisions of the contract (Article 14 1) stipulate that the list of the supporting documents for these disbursements must be forwarded to Euratom.

The Rijksuniversiteit de Leiden does not keep any separate accounts for the expenditure laid out under Contract 102.72.1 BI A N.

112. Euratom's share of contributions to research expenditure

The extent of the contributions and the method of calculating them vary from contract to contract. The choice of contracting party, assessment of the cost of the studies and the scientific importance of the study decided upon do not appear to fall exclusively within the scope of the Euratom Commission's responsibilities; it seems that the latter body has to reconcile its own powers of decision in these areas with de facto and de jure situations the constraining effect of which, moreover, is variable.

With regard to the system of co-ownership of research equipment and installations financed within the framework of the contracts of association, the Financial Controller withheld his approval in connexion with Contract 100.72.1 BI A F, concluded with the Commissariat à l'énergie atomique (Atomic Energy Commission, CEA) in 1972, holding that the provisions of Article 12 as to the disposal of the equipment acquired with Community funds were unrealistic. In his view, the Commission should have specified at the stage of the contract of association the consideration which it required in exchange for the relinquishment of its rights over the equipment.

In the course of 1973 and 1974 the Commission of the European Communities concluded 6 contracts relating to the disposal of equipment acquired in the context of research to which Euratom had decided that it would no longer contribute. These

contracts govern the assignment by the Community of its rights (including its rights over fissile materials acquired in the course of execution of the research) in consideration for the communication of knowledge in the form of scientific reports which were to be forwarded before 15 January 1975. In fact, it is difficult to establish whether the value of the knowledge imparted is comparable to the present accounting value specified in the contracts for the equipment in question. This value, for all six contracts, amounts to a total of 27 137 457 u.a.

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+ +

This report drawn up in the French language, was agreed to in Brussels on 15 July 1975 by the Audit Board.

MR G. FREDDI, President
MR M. BERNARD
MR R. BURGERT
MR J. FRENCH
MR P. GAUDY
MR H. HARTIG
MR A. K. JOHANSEN
MR Ed. MOLITOR
MR W. MULCAHY

ANNEXES

ANNEXES

- Table 1 : Estimated revenue for the 1974 financial year, entitlements established and revenue paid in at 31 December 1974
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Estimated revenue for the 1974 financial year, entitlements established and revenue paid in at 31 December 1974

(in u.s.a.)

	Estimated revenue	Entitlements established	Revenue paid in
Own resources (Decision of 21 April 1970)			
- Levies, premiums, additional amounts (Art. 2 (a))	265 420 000	255 007 134	209 971 331
- Contributions and other duties in the sugar sector (Art. 2(a))	77 320 000	75 050 260	68 498 021
- Customs duties (Art. 2(b))	2 811 018 189	2 737 806 040	2 232 299 946
Share of proceeds of ECSC levies allocated to administrative expenditure	18 000 000	18 000 000	18 000 000
Financial contributions of the Member States			
- Relating to the research programmes	9 929 610	10 040 373	9 953 707
- For EAGGF Guarantee Section - second half-year 1969 and 1970	3 000 000	108 328	-
- Provided for in Article 3(2) and (3) of the Decision of 21 April 1970	1 993 595 994	1 887 764 563	1 592 030 290
- Provided for in Articles 129 and 130 of the Act concerning the Conditions of Accession - Denmark Ireland, United Kingdom	15 269 348	17 282 512	56 947 924
- For the financing of administrative expenditure relating to appropriations from earlier financial years cancelled and re-entered	350 000	146 493	350 000
Own revenue			
- Commission's own revenue	19 740 100	26 390 012	25 613 350
- idem - research and investment	1 366 000	1 281 403	1 281 403
- Interest on Euratom loans	4 000 000	3 133 902	3 133 902
- Own revenue of the other Institutions	5 963 730	6 258 559	6 258 559
Total	5 224 972 971	5 038 269 579	4 224 338 433

¹The 1974 revenue and expenditure account prepared by the Commission (column "Revenue paid in at 31 December 1974") also includes 328 615 417 u.s.a. as recoveries on entitlements brought forward from 1973.

Utilization of the appropriations of Title 5 - 1974 Budget - European Social Fund
during the 1974 financial year

Chap. Art. Item	Heading	Initial appropri- ations	Amendments under amending budgets or inter-iter transfers	Approp- riations available	Commitments at 31 December 1974	Payments at 31 December 1974	Appropri- ations to be carried forward	Appropri- ations for cancellat- ion.
50 500	Expenditure under Art. 4 of the Council Decision of 1.2.1971	98 800 000	-	98 800 000	47 437 268	1 968 562	96 831 438 ¹	-
51 510	Expenditure under Art. 5 of the Council Decision of 1.2.1971	168 400 000	-	168 400 000	167 334 274	6 671 901	160 662 373	1 065 726
52 520	Pilot schemes and preparatory studies	600 000	-	600 000	598 144	93 313	504 831	1 856
53 530	Expenditure provided for under Art. 125(1)(a) of the Treaty (former Fund)	56 000 000	-	56 000 000	53 367 611 ²	1 407 902	54 592 098 ³	-
5301	- Vocational retraining	4 000 000	-	4 000 000	810 148	-	4 000 000 ⁴	-
5302	- Resettlement	-	-	-	-	-	-	-
54 540	Expenditure provided for in Art. 125 (1)(b) of the Treaty (former Fund)	-	-	-	-	-	-	-
5401	- Conversion	-	-	-	-	-	-	-
		327 800 000	-	327 800 000	269 547 445	10 141 678	316 590 740	1 067 582

¹ of which carried forward automatically 45 468 705,75 u.a.
² of which 1 407 902 u.a. committed in 1983 against appropriations of 1974.
³ of which carried forward automatically 51 959 709 u.a.
⁴ of which carried forward automatically 810 148 u.a.

Utilization of the appropriations made available to the former Social Fund for
vocational retraining and resettlement operations

in '000 u.a.

	RETRAINING				RESETTLEMENT				%
	Appropriations in the Budget	Appropriations brought forward	Appropriations available	Aid granted	Appropriations in the Budget	Appropriations brought forward	Appropriations available	Aid granted	
1962	19 711	20 000	39 711	11 490	9 115	-	9 115	801	8.7
1963	11 640	16 195	27 835	7 247	5 950	3 300	9 250	315	3.4
1964	14 562	11 635	26 197	4 260	8 636	5 950	14 586	380	2.6
1965	16 347	14 562	30 909	5 845	3 328	8 636	11 964	1 355	11.3
1966	18 137	2 863	21 000	8 560	3 345	1 655	5 000	137	2.7
1967	18 291	12 441	30 732	13 849	1 526	3 345	4 871	115	2.3
1968	23 230	16 537	39 767	22 712	1 321	1 872	3 193	3 193	100.-
1969	32 176	16 806	48 982	35 073	1 269	250	1 519	1 519	100.-
1970	60 000	-	60 000	36 391	4 000	-	4 000	651	16.3
1971	56 302	-	56 302	56 302	171	-	171	170	99.4
1972	53 922	-	53 922	53 922	1 078	-	1 078	884	82.-
1973	59 547	-	59 547	59 547	453	-	453	453	100.-
1974	56 000	-	56 000	53 368	4 000	-	4 000	810	20.2
Totals	439 865	-	-	368 566	44 192	-	-	10 783	24.4

Aid granted under the Social Fund (former Fund) and applications pending at the end of the last five financial years

in u.a.

	1960-1969	1970	1971	1972	1973	1974
Vocational retraining						
- Applications pending at the end of the previous financial year	-	35 410 488	44 334 635	43 293 449 ¹	50 887 425	66 673 386
- Applications submitted during the financial year	147 578 893	45 509 780	55 194 977 ¹	61 611 875 ¹	76 720 777	2 172 388
- Applications examined by the ESI Committee during the financial year	112 168 405	36 585 633	56 236 163 ¹	54 017 899 ¹	60 934 816	51 959 709
- Aid granted	109 035 389	36 390 910	56 302 342	53 922 032	60 954 794 ²	51 959 709
- Balance of the applications pending	35 410 488	44 334 635	43 293 449 ¹	50 887 425	66 673 386	16 886 065
Resettlement						
- Applications pending at the end of the previous financial year	-	958 112	1 022 114	1 370 541 ¹	1 330 708	1 490 206
- Applications submitted during the financial year	9 438 168	862 274	634 544 ¹	843 792 ¹	613 527	224 074
- Applications examined by the ESI Committee during the financial year	8 480 056	798 272	286 117 ¹	883 625 ¹	454 029	810 148
- Aid granted	7 815 358	650 791	170 428	883.625	453 090	810 148
- Balance of the applications pending	958 112	1 022 114	1 370 541 ¹	1.330.708	1 490 206	904 132

¹These amounts are different from those shown in our reports for the 1971 and 1972 financial years. They take into account modifications made by the Commission's departments and deriving, firstly, from correction of material errors and, secondly, from the impact of changes in some currency parties which occurred in 1969.

²Including 1 407 902 u.a.

**Financial resources made available to the Member States for the payment of the expenditure of
the Guarantee Section of EAGGF for the 1974 financial year**
(in u.s.)

Date of the decision	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Total
Ordinary advances										
19 December 1973	16 000 000	27 000 000	80 000 000	100 000 000	10 320 000	60 000 000	140 000	46 000 000	25 500 000	364 960 000
21 January 1974	11 500 000	21 200 000	63 400 000	75 000 000	7 200 000	30 000 000	110 000	45 000 000	15 000 000	268 410 000
20 February 1974	13 000 000	17 900 000	20 000 000	80 000 000	5 280 000	25 300 000	180 000	22 200 000	31 200 000	214 760 000
20 March 1974	20 000 000	30 000 000	40 000 000	61 000 000	8 220 000	35 000 000	160 000	56 300 000	12 600 000	263 280 000
19 April 1974	15 500 000	28 500 000	41 000 000	43 000 000	9 600 000	45 000 000	280 000	61 000 000	10 140 000	254 020 000
20 May 1974	12 000 000	18 500 000	55 500 000	24 000 000	10 500 000	16 000 000	160 000	16 000 000	17 100 000	170 060 000
19 June 1974	12 000 000	23 200 000	45 400 000	50 000 000	10 080 000	22 000 000	210 000	20 000 000	26 400 000	209 290 000
24 July 1974	10 000 000	21 200 000	40 000 000	56 000 000	9 900 000	24 000 000	100 000	54 500 000	26 400 000	242 100 000
14 August 1974	12 500 000	24 000 000	48 000 000	61 000 000	9 900 000	48 000 000	150 000	43 500 000	22 500 000	269 550 000
16 September 1974	8 700 000	17 500 000	77 500 000	88 000 000	8 400 000	72 000 000	160 000	41 500 000	18 000 000	331 760 000
21 October 1974	11 700 000	18 000 000	39 400 000	68 500 000	26 640 000	20 000 000	110 000	38 700 000	23 700 000	246 750 000
19 November 1974	5 000 000	26 000 000	75 000 000	45 000 000	42 480 000	20 000 000	200 000	21 000 000	26 700 000	261 380 000
18 December 1974	2 500 000	20 000 000	-	-	-	17 000 000	60 000	2 000 000	-	41 560 000
Additional advances										
11 October 1974	-	-	-	-	5 760 000	-	-	-	-	5 760 000
20 December 1974	-	-	-	-	-	11 200 000	-	-	-	11 200 000
17 January 1975	-	-	-	-	-	-	-	-	18 240 000	18 240 000
Amounts in hand at 1.1.1974	468 948	108 746	-11 056 688	8 778 338	-2 101 232	68 367 236	-10 627	-1 544 564	145 785	63 155 942
Compensatory measures										
1.1.1975	150 868 948	293 108 746	614 143 312	760 278 338	162 478 768	513 567 236	2 009 373	474 463 624	273 625 785	3 244 544 130
	-	-	-	-	-	-	-	8 308 188	-	8 308 188

EAGGF - Expenditure paid out during the financial years 1965/66 (first 2 years) to 1974

(in '000 u.a.)

Guarantee Section	1965 & 1966	1967	1968	1969	1970	1971	1972	1973	1974	Total
- Year	28 723.1 ¹ 50 689.5	97 755.- 180 089.2	62 109.- 277 785.- 267 503.7	58 546.2 508 211.- 1 169 645.1	159 443.2 302 114.3 1 224 150.3	6 605.8 1 122 806.9 90 000.-	1 541 288.3 2 289 723.6	117 755.4		28 723.1 50 689.5 159 864.- 238 635.4 395 540.4 935 157.9 1 478 365.2 1 224 150.3 1 655 203.7 1 631 288.3 2 485 580.7 3 614 372.1 2 641 828.4
- 2nd half of 1969										
- financial year								195 857.1 2 978 340.2	636 031.9 2 641 828.4	2 485 580.7 3 614 372.1 2 641 828.4
Total	79 412.6	277 844.2	607 397.7	1 736 402.3	2 218 104.6	1 219 412.7	3 948 767.3	3 174 197.3	3 277 860.3	16 539 399.-
Guidance Section										
- Year	1 053.7 ² 739.- ²	1 485.3 1 849.8 486.4 45 000.-	1 052.9 2 181.- 12 874.7 1 480.1 20 000.-	877.4 1 598.- 7 599.8 9 239.9 4 381.5 888.-	1 673.9 1 712.5 6 210.7 8 740.8 2 012.7 45 586.9 4 462.2	474.3 2 537.- 2 210.3 3 675.3 7 692.8 6 644.4 12 452.2 749.9	474.3 977.4 1 369.7 7 692.8 3 963.6 8 698.2 6 644.4 20 097.-	578.- 3 963.6 2 070.7 7 120.4 8 698.2 10 172.3 24 283.5	715.6 2 070.7 7 120.4 8 698.2 10 172.3 16 238.9	6 617.5 11 594.7 32 045.2 81 863.2 56 514.6 87 191.8 65 831.5
- 2nd half of 1969										
- financial year						75 329.7	21 577.7 (241.1)	25 851.3 43 494.8 8 232.5	16 106.7 28 585.- 31 929.9 15 472.9	72 547.9 153 650.6 40 162.4 15 472.9
Total	1 792.7	48 821.5	37 588.7	24 584.6	79 411.9	105 086.1	74 060.5	123 733.9	128 412.4	623 492.3
Special Sections			208 250.-	140 250.-	69 250.-					417 750.-
Grand total	81 205.3	326 665.7	853 236.4	1 901 236.9	2 366 766.5	1 324 498.8	4 022 827.8	3 297 931.2	3 406 272.7	17 580 641.3

¹ Amount paid during the financial year 1965.

² Amounts paid during the financial year 1966.

³ The sum of 90 000 000 u.a. paid in 1971 relates to Council Regulation No 2464/69 on measures to be taken as a result of the revaluation of the German Mark. It should be mentioned that payments of 1 793 585 900 u.a. were also made in 1971 as advances, of which 1 541 288 300 was entered in the Budget accounts in 1972.

(=)

Utilization of the appropriations of the EAGGF Guidance Section in 1974

(in u.a.)

	Appropriations for the financial year	Appropriations Available brought forward from 1973	Commitments remaining unpaid from previous years	Commitments during the financial year	Payments, appropriations for the financial year forward	Payments, appropriations brought forward	Appropriations to be carried forward	
							to be cancelled	by Council decision
INVESTMENT PROJECTS								
1974 projects	235 000 000			95 832 801			95 832 801	139 167 199
1973 projects		170 000 000		169 999 963	123 420		169 876 543	
Carry-overs, years 1969 to 1973			553 753 009		94 542 979	6 764 116	433 418 394	1 027 520
Carry-overs, years 1966 to 1968			24 180 741		9 906 668	2 424 041		11 850 032
Total	235 000 000	170 000 000	577 933 750	265 832 764	104 573 067	9 188 194	699 127 738	170 044 751
JOINT SCHEMES								
- structural	3 330 000							3 330 000
- conversion of cod-fishing sector	5 000 000	175 236	1 816 464	5 083 746	874 531	941 933	5 083 746	91 490
- promotion of beef & veal production	48 857			48 857				
- statistical survey on fruit trees	150 000	462 300		300	300			
- groups of hop producers								
- development of priority agricultural regions	50 000 000							150 000
- appropriations to cover expenditure on measures under other chapters	11 454 648							
Total	69 983 505	637 536	1 816 464	5 132 903	874 831	62 858 581	5 083 746	3 571 490
SPECIAL MEASURES								
- producer groups, fruit and vegetables	1 610 566	2 000 000		1 763 166				
- premiums for the slaughter of cows	10 104 797	1 716 236		11 745 956	1 641 158			1 500 000
- and non-marketing of milk								
- premiums for uprooting fruit trees	8 289 028	1 832 229		9 394 455	1 705 427			600 000
- producer groups, fishing industry	12 104			12 104				
Total	20 016 495	5 548 465		22 915 681	4 999 185			2 100 000
TOTALS GUIDANCE SECTION	325 000 000	176 186 001	579 750 214	293 881 348	110 447 083	72 596 054	704 211 484	175 716 241

Table 7

¹This amount is used under the first Supplementary Budget for 1975 for the Regional Fund.

²Appropriations placed to reserve for the financing of joint schemes.

Commitments and payments relating to projects receiving aid from the EAGGF Guidance Section

('000 u.a.)

Budget	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Total
1965 1964 projects - commitments	704	-	2 588	1 951	-	3 069	-	775	-	9 057
- payments	701	-	2 477	1 240	-	2 402	-	775	-	7 595
	99 %	-	97 %	64 %	-	78 %	-	100 %	-	84 %
1966 1965 projects - commitments	755	-	4 969	3 692	-	5 866	275	1 577	-	17 134
- payments	755	-	4 426	2 805	-	4 464	275	1 577	-	13 282
	100 %	-	89 %	76 %	-	59 %	100 %	100 %	-	78 %
1967 1966 projects - commitments	3 280	-	11 600	8 924	-	13 771	899	3 113	-	41 587
- payments	3 136	-	9 571	7 395	-	5 961	856	3 003	-	29 922
	96 %	-	82 %	83 %	-	43 %	95 %	96 %	-	72 %
1968 1967 projects - commitments	2 041	-	7 240	5 745	-	8 835	151	2 027	-	26 039
- payments	1 866	-	6 293	3 704	-	6 131	26	1 980	-	20 000
	91 %	-	87 %	64 %	-	69 %	17 %	98 %	-	77 %
Projects: 1st tranche 1968 - commitments	2 487	-	8 002	7 693	-	12 906	14	3 013	-	34 115
- payments	2 372	-	7 479	4 362	-	7 382	14	2 821	-	24 430
	95 %	-	93 %	57 %	-	57 %	100 %	94 %	-	72 %
1969 Projects: tranches 1a and 2, 1968 - commitments	4 668	-	18 568	13 184	-	19 083	800	4 480	-	60 783
- payments	2 382	-	13 989	7 307	-	7 573	800	4 339	-	36 390
	51 %	-	75 %	55 %	-	40 %	100 %	97 %	-	60 %
1970 Projects: 1st tranche 1969 - commitments	612	-	2 469	2 258	-	2 419	-	715	-	8 473
- payments	463	-	1 806	1 606	-	843	-	615	-	5 333
	76 %	-	73 %	71 %	-	35 %	-	86 %	-	63 %
1971 Projects: 2nd, 3rd & 4th tranche 1969 - commitments	11 214	-	42 632	33 403	-	51 885	94	12 299	-	151 527
- payments	6 561	-	29 937	19 004	-	11 699	94	9 274	-	76 669
	57 %	-	70 %	57 %	-	23 %	100 %	75 %	-	51 %
1972 Projects: 1st, 2nd & 3rd tranche 1970 - commitments	11 665	-	44 964	35 444	-	54 266	375	13 285	-	159 999
- payments	4 231	-	29 601	15 693	-	3 627	272	6 689	-	60 113
	36 %	-	66 %	44 %	-	7 %	72 %	50 %	-	38 %
1973 Projects: 1st, 2nd & 3rd tranche 1971 - commitments	12 525	-	57 122	45 074	-	67 901	1 638	15 683	-	199 943
- payments	5 485	-	27 595	12 520	-	2 868	175	8 072	-	56 715
	44 %	-	48 %	28 %	-	4 %	11 %	51 %	-	28 %
1974 Projects: 1st & 2nd tranche 1972 - commitments	12 034	-	42 101	33 254	-	50 499	943	11 167	-	149 998
- payments	3 339	-	15 547	7 079	-	-	20	4 381	-	30 366
	28 %	-	37 %	21 %	-	-	2 %	39 %	-	20 %
Projects: 1st & 2nd tranche 1973 - commitments	10 033	4 597	39 220	30 865	6 896	47 056	205	11 028	20 000	170 000
- payments	1 123	-	-	-	-	-	-	-	-	123
	1 %	-	-	-	-	-	-	-	-	-
Projects: 1st tranche 1974 - commitments	3 589	3 173	26 333	18 512	4 439	24 468	78	6 506	8 735	95 833
- payments	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
Totals	75 607	7 870	307 778	239 999	11 335	362 024	5 472	85 668	28 735	1 124 488
- payments	31 514	-	148 721	82 715	-	51 930	2 532	43 526	-	360 938
	42 %	-	48 %	34 %	-	14 %	46 %	51 %	-	32 %

Breakdown by countries of the projects which received aid from the
Guidance Section of the EAGGF between 1964 and 1974

Table 9

Budgets			Bel- gium	Den- mark	Ger- many	France	Ire- land	Italy	Luxem- bourg	Nether- lands	United Kingdom	Total
1965	Projects 1964	financed	7	-	9	10	-	27	-	4	-	57
		completed	7	-	9	7	-	22	-	4	-	49
		cancelled	-	-	-	3	-	5	-	-	-	8
1966	Projects 1965	financed	6	-	21	21	-	40	1	8	-	97
		completed	6	-	20	16	-	25	1	8	-	76
		cancelled	-	-	1	4	-	14	-	-	-	19
1967	Projects 1966	financed	20	-	59	33	-	119	3	20	-	254
		completed	18	-	54	26	-	63	3	18	-	182
		cancelled	1	-	3	2	-	39	-	2	-	47
1968	Projects 1967	financed	9	-	31	34	-	59	2	17	-	152
		completed	8	-	28	24	-	41	1	16	-	118
		cancelled	-	-	-	2	-	11	1	-	-	14
1969	Projects 1st tranche 1968	financed	16	-	36	22	-	66	1	20	-	161
		completed	15	-	36	14	-	41	1	17	-	124
		cancelled	-	-	-	4	-	15	-	1	-	20
1969	Projects tranches 1a & 2, 1968	financed	29	-	59	43	-	122	1	23	-	277
		completed	14	-	42	20	-	61	1	22	-	160
		cancelled	3	-	1	4	-	29	-	-	-	37
1969	Projects 1st tranche 1969	financed	5	-	5	7	-	13	-	4	-	34
		completed	5	-	1	3	-	4	-	3	-	16
		cancelled	-	-	-	1	-	4	-	-	-	5
1970	Projects, tranches 2nd, 3rd, 4th 1969	financed	64	-	147	125	-	236	3	54	-	629
		completed	19	-	76	45	-	48	3	35	-	226
		cancelled	1	-	1	-	-	-	-	-	-	2
1971	Projects 1970	financed	71	-	148	114	-	173	2	40	-	548
		completed	22	-	64	32	-	9	1	13	-	141
		cancelled	1	-	1	-	-	1	-	1	-	4
1972	Projects 1971	financed	96	-	161	143	-	282	7	34	-	723
		completed	25	-	40	18	-	7	1	14	-	105
		cancelled	-	-	-	1	-	-	-	-	-	1
1973	Projects 1972	financed	59	-	115	74	-	145	6	30	-	429
		completed	8	-	28	5	-	-	-	7	-	48
		cancelled	-	-	-	-	-	-	-	-	-	-
1974	Projects 1973	financed	92	10	112	70	25	224	2	34	68	637
		completed	-	-	-	-	-	-	-	-	-	-
		cancelled	-	-	-	-	-	-	-	-	-	-
1974	Projects 1st tranche 1974	financed	20	6	66	38	17	85	2	16	47	297
		completed	-	-	-	-	-	-	-	-	-	-
		cancelled	-	-	-	-	-	-	-	-	-	-
Total	Projects	financed	494	16	969	734	42	1 591	30	304	115	4 295
		completed	147	-	398	210	-	321	12	157	-	1 245
		cancelled	6	-	7	21	-	118	1	4	-	157

List of the special joint schemes financed by the Guidance Section of the EAGGF

(Aggregated position at 31 December 1974)

(in u.s.)

	Commitments	Payments	Germany	Belgium	France	Italy	Luxembourg	Netherland	Switzerland
(a) Relief and works after certain agricultural disasters									
- Repair of damage caused by floods, autumn 1956	10 000 000	7 871 206	-	-	-	7 871 206	-	-	2 128 794
- Repair of damage caused by African swine fever in 1967	3 042 253	3 043 253	-	-	-	3 043 253	-	-	-
- repair of damage	108 798	1 07 970	-	-	-	1 07 970	-	-	828
- programme of research									
b) Financing of statistical surveys	2 000 000	7 307 748	1 622 528	256 602	2 012 694	3 135 030	11 598	268 896	692 252
- Enquiry into the structure of farms - 1968	1 200 000	1 200 000	312 720	37 290	337 950	468 000	6 750	37 290	-
- Enquiry into the pig herd: - 1968	1 200 000	1 200 000	312 720	37 290	337 950	468 000	6 750	37 290	-
- 1970	1 200 000	1 200 000	312 720	37 290	337 950	468 000	6 750	37 290	-
c) Financial compensation measures									
- Reimbursement of the expenses incurred to produce the product for the marketing of olives and olive oil (1964-65)	8 000 000	8 000 000	-	-	-	8 000 000	-	-	-
- Improvement of the production and marketing of fruit and vegetables and olive oil and for structures in the unmanufactured tobacco sector	45 000 000	45 000 000	-	-	-	45 000 000	-	-	-
- Measures to adapt agriculture in the Grand Duchy of Luxembourg	15 000 000	15 000 000	-	-	-	15 000 000	-	-	-
- Provisions supplementary to the common organization of the fruit and vegetable markets:	7 500 000	7 500 000	-	-	-	-	7 500 000	-	-
- Year 1966/67	20 000 000	20 000 000	1 242 301	-	62 219	-	-	-	-
- Year 1967/68	22 969 486	22 969 486	546 326	-	127 353	-	-	-	-
- Year 1968/69	31 948 124	31 948 124	761 446	-	120 870	-	-	-	-
- second half-year 1969	12 381 929	12 381 929	245 255	-	110 566	1 504 054	-	-	-
d) Aids to groups of producers of fruit and vegetables to facilitate their operations									
- Year 1969 and 1960	1 304 520	1 304 520	1 242 301	-	62 219	-	-	-	-
- Year 1970	673 679	673 679	546 326	-	127 353	-	-	-	-
- Year 1971	882 316	882 316	761 446	-	120 870	-	-	-	-
- Year 1972	1 859 875	1 859 875	245 255	-	110 566	1 504 054	-	-	-
- Year 1973	1 652 600	1 652 600	551 467	-	50 580	1 050 553	-	-	-
e) Measures designed to re-establish equilibrium between the slaughter of cattle and the non-marketing of milk and milk products									
- Reimbursement of the premium paid in 1970	26 278 684	26 278 684	15 760 844	2 065 930	7 216 577	-	81 983	1 153 350	-
- Reimbursement of the premium paid in 1971	6 124 751	6 124 751	2 461 558	358 846	2 643 348	-	22 512	260 487	-
- Reimbursement of the premium paid in 1972	2 774 922	2 774 922	1 124 202	178 593	1 337 353	-	9 562	125 212	-
- Reimbursement of the premium paid in 1973	1 461 449	7 461 449	4 313 158	616 901	2 237 253	-	25 462	568 375	-
- Credit for the marketing of apple, pear and peach	3 071 477	3 071 477	336 543	1 206 266	371 855	-	-	1 156 813	-
- Reimbursement of the premium paid in 1970	12 481 509	12 481 509	4 806 544	358 439	4 757 842	-	26 995	2 030 573	-
- Reimbursement of the premium paid in 1971	5 123 198	5 123 198	1 831 677	831 161	1 705 427	-	24 477	230 455	-
- Reimbursement of the premium paid in 1972	6 952 510	6 952 510	3 459 904	699 500	2 118 749	-	39 615	634 742	-
f) Aid to producer organizations in the fishing industry									
- Year 1973	12 104	12 104	12 104	-	-	-	-	-	-
Totals	264 205 274	261 383 400	40 114 417	7 159 108	25 885 740	173 415 605	7 762 754	7 045 776	2 821 874

Development aid

Table 11

Aid in the form of cereals granted under the 1967 and 1971 Conventions

(in tonnes of cereals or equivalent)

	1967 Convention			1971 Convention			Total
	1968/1969	1969/1970	1970/1971	1971/1972	1972/1973	1973/1974	
Cyprus						8 000	8 000
Malta						2 000	4 500
Turkey	50 000	51 400	36 600	2	2 500	5 000	143 000
Algeria			11 000	25 000	15 000		51 000
Morocco			28 000	25 000		15 000	68 000
Tunisia	20 000	35 000	27 000	25 000	10 000	7 500	124 500
Cameroon			6 500				6 500
Central Africa						2 000	2 000
Ghana				7 000		4 000	11 000
Ethiopia					5 000	29 000	34 000
Gambia						1 000	1 000
Upper Volta			9 500	5 000	14 900	15 000	44 400
Madagascar					5 000		5 000
Mali		30 000	7 500	17 000	20 000	26 000	100 500
Mauritius					12 000	10 000	22 000
Mauritania					5 000	21 000	26 000
Niger		15 000		7 000	7 500	30 000	59 500
Rwanda			6 000			4 500	10 500
Senegal				8 555	15 000	15 000	38 555
Somalia		8 000		15 000	7 000	5 000	35 000
Sudan	20 000	10 000	9 000		5 000	5 000	49 000
Chad				7 000	6 000	10 000	23 000
Yugoslavia						3 500	3 500
Zambia					5 000		5 000
Jordan			28 000	5 000	5 000	12 000	50 000
Lebanon		15 000	7 500	10 000	5 000	5 000	42 500
Egypt			15 100	20 000	13 000	20 000	68 100
Syria			7 500	15 000	7 000	8 500	38 000
Yemen		14 000	7 000	4 000		10 000	35 000
Afghanistan			21 640	20 000			41 640
Bangladesh				60 000	175 000	115 000	350 000
India	80 000					30 000	110 000
Indonesia	56 000	60 000	26 800	17 000	7 000	21 000	187 800
Pakistan	50 000	80 000	35 000		10 000	28 000	203 000
Philippines					10 000	5 000	15 000
Sri Lanka		14 000		11 000	10 000	16 000	51 000
Bolivia					10 000	5 000	15 000
Chile					20 000		20 000
Peru			15 000	13 500	15 000	5 000	48 500
Uruguay					10 000	6 000	16 000
ICRC	16 700	4 500	35 000	60 000	7 500	15 000	138 700
Joint Church Aid	8 300						8 300
UNICEF			9 000	15 000	5 000	30 000	59 000
UNRWA			4 500	21 945	20 000	20 000	100 000
Quantities provided for	301 000	336 900	353 140	414 000	464 400	580 000	2 449 440
Executed before 1.1.74	301 000	336 900	346 670.5	230 234	264 900	-	1 479 704.5
Executed in 1974	-	-	4 500	163 765	162 612	448 500	785 377
Remaining to be executed	-	-	1 969.5	20 001	30 888	131 500	164 358.5

DEVELOPMENT AID
FINANCIAL AID

Table 12

1. Aid to the countries of the Sahel and Ethiopia
(Article 400 of the Budget)

(in u.a.)

	Commitments	Payments	Balances due
Upper Volta	4 300 000	2 908 709.52	1 391 290.48
Mali	7 400 000	4 858 837.70	2 541 162.30
Mauritania	4 800 000	3 172 569.90	1 627 430.10
Niger	7 700 000	6 935 521.70	764 478.30
Senegal	3 300 000	923 895.36	2 376 104.64
Chad	5 100 000	2 037 600.00	3 062 400.00
Ethiopia	3 000 000	2 400 699.14	599 300.86
	35 600 000	23 237 833.32	12 362 166.68

2. Aid to UNRWA, Somalia and Honduras

(Article 402 of the Budget)

(in u.a.)

	Commitments	Payments	Balances due
UNRWA - Triennial agreement (1974/75)	2 172 000	1 600 000	572 000
UNRWA - Exceptional aid	6 550 000	6 550 000	-
Honduras	300 000	300 000	-
Somalia	240 000	240 000	-
	9 262 000	8 690 000	572 000

3. Special fund for aid to developing countries worst affected by the crisis

(Article 940 of the Budget)

(in US dollars)

	1st tranche (October 1974)	2nd tranche (April 1975)	Total	Payments to 31.12.1974
UNG	30 000 000	33 000 000	63 000 000	30 000 000
Bangladesh	22 000 000	13 000 000	35 000 000	8 800 000
Cameroon	-	2 000 000	2 000 000	-
Central Africa	-	1 000 000	1 000 000	-
Dahomey	1 000 000	-	1 000 000	400 000
Ethiopia	-	1 000 000	1 000 000	-
Ghana	-	2 000 000	2 000 000	-
Haiti	1 000 000	-	1 000 000	400 000
Upper Volta	2 000 000	2 000 000	4 000 000	800 000
Honduras	3 000 000	1 000 000	4 000 000	1 200 000
India	50 000 000	25 000 000	75 000 000	20 000 000
Kenya	6 000 000	2 000 000	8 000 000	2 400 000
Madagascar	3 000 000	-	3 000 000	1 200 000
Mali	5 000 000	2 000 000	7 000 000	2 000 000
Niger	5 000 000	2 000 000	7 000 000	2 000 000
Pakistan	3 000 000	3 000 000	6 000 000	1 200 000
Rwanda	1 000 000	-	1 000 000	-
Senegal	1 000 000	1 000 000	2 000 000	-
Somalia	1 000 000	3 000 000	4 000 000	400 000
Sri Lanka	5 000 000	3 000 000	8 000 000	-
Tanzania	9 000 000	3 000 000	12 000 000	3 600 000
Chad	2 000 000	1 000 000	3 000 000	800 000
	150 000 000	100 000 000	250 000 000	75 200 000

List of decisions relating to research programmes in progress at 31 December 1974

No	Date	Object of the research	Duration of the programme
72/182/Euratom	25. 4. 72	Data processing	5 years from 1.1.72
72/412/Euratom	17. 11. 72	Continuation of the Dragon project	1.4.73 - 31.3.76
73/124/Euratom	14. 5. 73	EAC research and training programme (direct actions)	4 years from 1.1.73
73/125/EEC	14. 5. 73	1. Waste processing and storage - 2. Plutonium and transplutonium elements - 3. Reactor safety - 5. Applied data processing - 6. Information Analysis Office - 7. Central Bureau for Nuclear Measurements (CBNM) - 8. Technical assistance to power plant operators - 9. Training - 10. Supervision and management of research under contract - 12. Protection and coordination - 13. Use of Ispra reactor - 14. Use of Ispra reactor	4 years from 1.1.73
73/126/EEC	14. 5. 73	Standards and reference materials (certified reference materials) - Experimental work carried on for the protection of the environment (activities carried on by the Ispra establishment)	4 years from 1.1.73
73/127/EEC	14. 5. 73	Remote sensing of the earth's resources	4 years from 1.1.73
71/236/Euratom	21. 6. 71	Biology and health protection - 1. Radiation protection (joint programme)	5 years from 1.1.71
Amended by 74/410/Euratom	2. 8. 74	2. Adaptations (complementary programme)	
73/128/Euratom	14. 5. 73	Fusion and plasma physics	5 years from 1.1.71
71/237/Euratom	21. 6. 71		
Amended by 74/36/Euratom	17. 12. 73		
73/129/Euratom	14. 5. 73	Protection of the environment (direct action) - activities carried on at Ispra (supplement to programme present by the Ispra establishment) (supplement to programme adopted on 14.5.73)	4 years from 1.1.73
73/174/EEC	18. 6. 73	Standards and reference materials (certified reference materials) - experimental work carried on for the present by the Ispra establishment (supplement to programme adopted on 14.5.73)	4 years from 1.1.73
73/175/EEC	18. 6. 73	New technologies (use of solar energy and recycling of raw materials) - activities carried on by the Ispra establishment	4 years from 1.1.73
73/176/EEC	18. 6. 73	EAC research and training programme (direct actions)	4 years from 1.1.73
73/177/Euratom	18. 6. 73	1. Fundamental research on materials - 2. Application of nuclear energy for purposes other than electricity generation (hydrogen production) - 3. Technical assessments in support of Commission activities	4 years from 1.1.73
73/178/Euratom	18. 6. 73	Research and training programme for EAEC (indirect actions)	4 years from 1.1.73
73/179/EEC	18. 6. 73	1. Materials-testing reactors - 2. Education and training	3 years from 1.1.73
73/180/EEC	18. 6. 73	Reference materials and methods (Community Bureau of References) CBR (via contracts)	3 years from 1.1.73
		Protection of the environment (indirect action) - via contracts	3 years from 1.1.73

Summary of the expenditure paid out during the financial years 1958 to 1974

(in '000 u.s.a.)

	1958-1964 (aggregate)	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	Total
Parliament												
Council	27 668.2	5 865.6	6 334.9	7 203.7	7 783.4	8 352.5	9 276.6	10 857.3	13 922.-	22 587.5	30 753.3	150 605.-
Court of Justice	26 306.1	6 419.6	7 069.8	8 050.9	8 430.7	9 986.7	10 444.7	16 334.9	21 372.9	27 576.3	36 512.9	178 505.5
Commission	6 361.-	1 311.7	1 364.8	1 447.8	1 624.4	1 784.8	2 165.3	2 462.1	3 116.-	5 389.6	7 151.7	34 179.9
Operating expenditure												
- EEC	134 304.1	34 542.-	40 598.3	43 659.1	75 491.9	86 925.4	94 888.2	103 783.1	142 029.2	187 557.4	267 758.5	1 397 011.3
- EEC	37 855.5	8 557.2	9 395.8	10 250.6								
- EEC	73 811.-	14 268.-	15 353.5	15 976.5								
2. Reimbursement to Member States of cost of levying own resources												
- Social Fund	24 497.3	7 200.6	8 697.-	13 964.3	25 904.4	36 591.9	37 041.7	85 879.1	170 773.3	236 535.1	283 985.7	777 173.2
- 4. ENGIE (Guidance and Guarantee Sections)												
- year:												
1962/63	28 723.1	1 053.7	1 485.3	1 485.3	1 002.9	877.4	1 673.9	474.3	977.4			35 340.6
1963/64		51 428.5	1 849.8	1 849.8	2 181.7	1 598.-	1 712.5	2 537.-	1 369.7			62 284.2
1964/65			74 981.4	98 241.4	74 981.7	7 599.8	6 210.7	2 210.3	1 369.7			191 909.2
1965/66			1 480.1	225 089.2	1 480.1	67 786.1	8 740.8	3 675.3	7 692.8			320 498.6
1966/67			297 785.-	4 381.5	297 785.-	4 381.5	2 012.7	7 657.4	124 399.8			452 095.-
1967/68			509 099.-	267 503.7	509 099.-	267 503.7	205 030.1	12 452.2	9 460.4			1 022 349.8
1968/69			1 169 645.1		1 169 645.1		306 576.5	7 355.7	20 097.-			1 544 196.7
- 2nd half-year							1 224 150.3					1 224 150.3
financial year												
1971							541 409.-	1 122 806.9	21 577.7	25 851.3	16 106.7	1 727 751.6
1972							1 547 529.4	165 329.7	1 547 529.4	46 929.8	28 585.-	1 788 373.9
1973							2 289 723.6	200 654.6	2 289 723.6	31 929.9	2 522 308.1	2 522 308.1
1974							65 250.-	2 978 340.2	2 978 340.2	651 504.7	3 629 844.9	3 629 844.9
- special sections												
5. Development aid (food and financial)												
6. Development Funds												
- 1st Fund	221 138.5	84 825.4	76 706.8	61 738.8	38 625.7	25 638.2	16 102.7	11,408.9	10 118.2	9 885.2	5 518.6	561 707.-
- 2nd Fund	21 878.5	21 878.5	31 625.8	42 850.1	67 885.4	89 347.7	129 537.-	1,004,979.9	78 600.4	49 462.-	25 869.8	657 536.6
- 3rd Fund								224,603.2	42 713.4	98,472.9	140 635.6	304 425.1
7. Oilseeds fund								13,999.4				13 999.4
8. Research and investment¹	261 203.9	98 537.1	127 959.6	117 943.9	71 217.1	65 050.4	64 942.9	68,585.3	69 976.9	72 266.4	77 716.7	1 115 400.2
Total	833 146.3	312 128.8	377 588.5	649 757.4	1 150 199.4	2 224 914.5	2 731 165.6	1,837,364.8	4,649,098.5	4 162 418.1	4 688 392.6	23 616 174.5
Number of staff employed at end of period (officials, temporary staff and establishment staff)	7 148	7 753	8 292	8 823	8 684	8 643	8 625	8 824	9 693	11 076	11 855	

¹The amounts shown include neither the payments relating to services performed on behalf of outside bodies nor the re-use operations (10 613 100 and 2 534 800 u.s.a. respectively in 1974).

REPLIES BY THE COMMISSION OF THE EUROPEAN COMMUNITIES
TO THE OBSERVATIONS CONTAINED IN THE REPORT OF
THE AUDIT BOARD
ON THE ACCOUNTS FOR THE FINANCIAL YEAR 1974

VOLUME I

C O N T E N T SPART ONE : THE BUDGET OF THE COMMUNITIES

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CHAPTER 1 : GENERAL COMMENTS (p. 7)

In its replies to the observations in the Audit Board's report on the accounts for the financial year 1973, the Commission devoted considerable space, in its General Introduction, to the problems raised by the implementation of the Communities' Budget and the auditing of that implementation, both internally and externally, and endeavoured to accord to those problems the scope and emphasis which they appeared to merit. In that introduction the Commission sought, in particular, to place the administration of the Communities' Budget in its proper legal, economic, monetary and political context.

Generally speaking - and reading of the Audit Board's 1974 report only confirms this finding - the context in question has not appreciably changed from one financial year to the other, particularly in the economic and monetary field where the difficulties encountered in 1973 only worsened in 1974. It is sufficient to refer to a few key matters to be persuaded of the truth of this assertion. Inflation, monetary distortions, the growing need for austerity felt by Member States which, despite the fundamentally different nature of the national budgets and the Communities' Budget, have been concerned to apply the same remedies to them, the preparation of the new international economic order - all these are factors which weighed heavily on the administration of the Communities' Budget during the financial year 1974. Moreover, this situation has further continued and deteriorated in 1975.

Under these circumstances most of the facts noted by the Commission in its 1973 replies continue to be valid for the financial year 1974, and it will therefore be sufficient to refer the reader back to that General Introduction to remind him of the major aspects of the situation. That explanation remains necessary if the scope of the observations made by the Audit Board is to be fully appreciated.

On another matter, the Commission is pleased to emphasize its satisfaction at the improvement of its relations with the Audit Board, and it intends to strengthen this dialogue still further, with beneficial results, it is hoped, both for the day-to-day administration of the European public funds and for the Community's "brand image" in the Member States and in the world at large.

The Commission also notes with satisfaction that the Audit Board, in its report, has dealt not only with the examination of the administration of the Commission's Budget but also, whenever it appeared necessary, the administration of the Budgets of the other Institutions.

CHAPTER 2 : REVENUE (p. 15)11. Entry of revenue in the accounts by the Commission (p. 16)a) Receivable orders and revenue and expenditure account (p. 16)

The revenue and expenditure account for the financial year 1975 will be presented in such a way as to satisfy the Audit Board as much as reasonably possible. It is true that the amounts stated in the revenue and expenditure account for entitlements established and revenue collected relate to different periods. This difference was the subject of a communication to the Audit Board in connexion with the financial year 1974, following the request submitted by the latter body to the Commission.

However, the Commission is required to present the revenue and expenditure account in conformity with the provisions of Article 5 of the Financial Regulation, which stipulates:

"The revenue of a financial year shall be entered in the accounts for that financial year on the basis of the entitlements established up to and including 31 December.

The portion of the entitlements established for a financial year which has not been collected at that date shall be entered separately, article by article, up to and including 31 December of the next financial year in the accounts for the next financial year as an outstanding amount from the preceding financial year still to be collected."

b) Delays in entering cash movements in the accounts (p. 16)

The official charged with keeping the cash accounts has the powers of an assistant accounting officer; this gives an official accounting character to the documents which the account officers requires him to keep and also enables the Audit Board to ascertain, at any given moment, the amount of the cash resources held in the accounts opened with the Treasuries of the Member States.

d) Entry into the accounts of compensatory amounts levied on exports (p. 17)

The method used complies with the principles of sound financial management. The accounting officer took the precaution of making sure, before the transmission of the revenue and expenditure account to the Audit Board, that the Commission would be adopting, before 1 June 1975, the regulation setting up the procedure for accounting for certain monetary compensatory amounts (Regulation No 1409/75), the consequence of which would be the withdrawal of the Financial Controller's refusal to give approval.

12. Information on management and audit of own resources (p. 18)a) Verification provided for by Regulation No 2/71 (p. 18)

The correspondence with the Member States on the subject of the audits is filed with the reports on the inspection visits. To examine all the correspondence it is only necessary to consult these reports.

13. Observations arising from associated inspections of own resources carried out in the Member States (p. 19)

The problems raised by the Audit Board under points a, b and c are still under examination by the Commission's departments and the competent national authorities.

a) Regularity of discounts and authorizations by the Member States to declare a nil value on imported goods (p. 19)

No solution to this problem has yet been found. The German authorities suggested that the Commission should investigate the manner in which the legal systems of the other Member States treat similar cases. A survey is under way and a draft directive is being prepared in connexion with this problem which will go some way towards solving it.

b) Entry in accounts of proceeds of flat-rate charges (p. 19)

The Member State in question agreed, during the financial year 1975, to adopt a flat-rate system of calculation. This system will come into operation at the end of 1975 or the beginning of 1976.

c) Delay found in audits by national administrative units (p. 20)

The situation described by the Audit Board in no way lessens the effectiveness of the audits carried out. The Commission's on-the-spot and random-sampling audits carried out at the premises of the customs departments or other departments in association with the national administrative units are in fact indisputably up-to-date.

The Audit Board's comments concern the functioning of the "Ufficio Centrale del Riscontro", a body which carries out a central audit at national level. This audit is preceded by the audit carried out at departmental level by the customs inspectors, at which representatives from the Commission are present. Moreover, a reform of this central auditing agency is planned.

d) Absence of accounting for disputed debts (p. 20)

Under Italian law there is no entitlement to debts resulting from charges which are wholly or partly in dispute. The Commission is currently studying this problem in the various Member States.

e) Checking the destination of goods exported (p. 20)

Following the observations made by the Commission's departments to the French authorities on the subject of the correct application of Regulation No 2182/73 of 8 August 1973, the latter authorities have issued a reminder about the instructions to their customs department.

With regard to the operations which had taken place earlier, the French authorities stated that their customs authorities would carry out the checks which appeared to be necessary in the course of their normal periodical investigations.

It is the Commission's intention to request the French authorities to advise it of the results of these investigations and to carry out an additional check if these results are not such as to provide assurance that every step necessary to safeguard the Commission's interests has been duly taken by the French customs authorities.

CHAPTER 3 : THE OPERATING EXPENDITURE OF THE
INSTITUTIONS (p. 23)

A. STAFF EXPENDITURE (p. 23)

16. Currency used for payment; salary weighting (p. 26)

The anomalies found arise from the application of Article 63 of the Staff Regulations, which lays down the parities to be used.

Even though the strict application of the provisions of Regulations Nos 2530/72 and 1543/73 may have serious drawbacks, the Commission has decided that in future it will cease to depart from the text of the regulations in force governing the salary weighting and the currency used for payment of voluntary-retirement allowances.

17. Income received in new employment - Application of the provision designed to prevent cumulation (p. 27)

b) The official referred to by the Audit Board has in fact left the Commission under the voluntary-retirement scheme.

The Commission had not taken any decision about him by July 1975 because the problems raised were not covered by the Staff Regulations and it was therefore necessary to carry out, parallel to the usual enquiry, a thorough examination of the legal and statutory problems arising in this case.

18. Last total remuneration used for calculation of deduction from the allowance (p. 28)

The question raised by the Audit Board is currently the subject of close examination by the Commission.

19. Compensation for unused leave (p. 29)

Regulations Nos 2530/72 and 1543/73 contain no provisions as to treatment of unused leave. The Commission therefore applied Article 4, 2nd paragraph, of Annex V of the Staff Regulations. In cases where the department of the person concerned indicated that the portion of unused leave from the previous year exceeding the stipulated twelve days was the result of service requirements, the Commission paid a sum calculated on the basis provided by Article 4 by way of compensation.

The justification for the carry-overs and the payments in question lies in the confirmation given by the department in which the person in question works stating that it was in the department's interests that he was not permitted to take his annual leave.

21. Comments on promotion of former secretaries to the post of senior secretarial assistant or secretarial assistant (p. 30)

a) Continuation of secretarial allowance beyond the date of effect of promotion (p. 30)

It is true that the Commission withdrew the secretarial allowance not at the date of effect of promotion but at the date on which the decisions were announced. This action, as well as the action of maintaining the flat-rate overtime allowance for some secretaries, was taken in application of the provisions of Article 85 and in accordance with the opinion expressed by the heads of administrative services at their 79th meeting on 17 June 1974.

b) Payment of a compensatory allowance not envisaged by the provisions in force (p. 30)

The Commission, in consideration of the fact that on the appointment to Category B of officials of Grade C a reduction in net remuneration occurred in several cases, decided to override the Financial Controller's refusal to approve the compensatory allowance.

As the Audit Board knows, the Commission proposed, in the context of the third revision of the Staff Regulations (Article 30 of the proposal for a Regulation amending the Staff Regulations of Officials and the Conditions of Employment of Other Servants - Official Journal No C 88 of 26 July 1974) that the official whose net remuneration following his appointment to the post of senior secretarial assistant or secretarial assistant is reduced owing to the loss of the right to the flat-rate secretarial allowance shall receive each month a compensatory allowance of an amount equal to the difference between his last remuneration in his former grade and the remuneration which he receives in his new grade, calculated after subtraction of the compulsory deductions.

Since the proposed revision of the Staff Regulations, which is at present before the Council authorities, had not yet been passed, the Commission decided to override the Financial Controller's withholding of approval. That decision together with the reasons for making it, was communicated to the Audit Board in the course of the quarterly transmission of the Commission's decisions to override the Financial Controller's withholding of approval.

B. EXPENDITURE RELATING TO BUILDINGS (p. 33)

Before dealing with the individual observations of the Audit Board, the Commission feels it should point out that its expenditure on buildings is governed by the absence of any medium-term policy in this field.

The Commission owes it to itself to emphasize the disadvantages arising from the "blow-by-blow" policy imposed on it by the Council in matters to do with premises. It finds this state of affairs the more regrettable because the Council exhibits a less restrictive attitude to the other Institutions and particularly to its own departments. The latter departments have not been faced with the same difficulties as the Commission; they have been able to command the reserves of space necessary to allow for expansion and this has permitted the Council to deal with the doubling of its staff without having to go beyond the "Charlemagne" building.

It is the absence of such a medium-term policy which has been the source, for the Commission, of the hasty renting of new buildings or parts of new buildings which have had to be adapted at great expense every financial year. There is one important exception to this which should be mentioned, however: the renting of the new FEAL building in Luxembourg which is likely to be effected under the best possible circumstances.

The financial year 1974 was further characterized by the reorganization, within the space of a few months, of the departments of the Commission in accordance with the new establishment plan adopted following the enlargement of the Communities. The latter factor has led, as far as the departments set up in Brussels are concerned, to a geographical dispersion of premises, the effects of which the Commission has attempted to mitigate by grouping all its departments as much as possible around the Rond-Point Schuman, in order not to generate excessive operating costs.

25. Rents and associated expenditure (p. 33)

With regard to the premises vacated in 1974, the Commission wishes to make the following comments:

- Although the property in the avenue de la Brabançonne gave rise to expenses for the termination of the lease and restoration equivalent to eighteen months' rent, this operation should be viewed in conjunction with the operation which permitted the occupation of a property on the boulevard Clovis at a moderate rent although the landlord had agreed to execute the fitting-out necessary to install the crèche intended to serve all the Institutions located at Brussels;
- It is true that the stores at Diegem were vacated after two years' occupation. This provisional renting was necessitated in particular by the delay in the availability for occupation of the premises in the rue Gray. The solution finally adopted proved to be the most advantageous one from the financial point of view because it was possible to finance the cost of the provisional occupation of the Diegem stores from the compensatory payments for delays obtained from the landlords of the rue Gray premises.

26. Excessive costs resulting from delay in moving into newly-rented premises (p. 34)

Apart from the observations of a general nature made above, it should be stressed that the planning of moves into new premises is affected by the ponderousness of the procedure used in connexion with properties, which is described below.

When the appropriations, based on the number of staff employed for the financial year in question, are granted by the budgetary authority, the Commission has to investigate the market, bearing in mind the necessity to find premises close to the Rond-Point Schuman. Then terms must be discussed with the landlords before the lease itself is prepared. The draft lease is submitted to the ACPC which states its opinion, and then to the Commission (by means of written procedure), which takes a decision. When the decision has been taken, the fitting-out and occupation of the premises must be arranged in such a way as to meet the needs of the departments. At this stage the partitioning plans which serve as the basis for the

invitations to tender are drawn up. A report on these invitations to tender is prepared and submitted to the ACPC for its opinion. The Commission's agreement is obtained by means of written procedure. It is only at this stage that the orders for the partitioning can be awarded and the work commenced. The time-lag between order and execution frequently runs at 20 to 25 weeks. Only at the end of these lengthy proceedings can the move finally take place.

27. Expenditure on fitting-out and maintenance of premises (p. 35)

Choice of firms:

Out of the total of 224 orders awarded in 1974 against the appropriations of Article 214 (Fitting-out of premises) for joinery, metal-work, bricklaying and painting, sixteen orders were awarded on the basis of a single tender, for the following reasons:

- of these sixteen orders, six related to a supplier who had already supplied the basic fittings (Thomas: windows for kitchen doors in the Berlaymont; Cloisall: fittings for 6, Rond-Point Schuman; and four orders to Butinco for the erection of partitioning at 5, rue Archimède, using Butinco materials which were already on site);
- three orders related to work which had of necessity to be entrusted to the general firm which constructed the building in question (François: bricklaying at the Berlaymont and Nerviens buildings);
- one order was awarded to a firm selected by the landlord of the building (La Royale Belge) in the context of joint expenses for the Joyeuse Entrée/Cortenbergh/Loi building (Jean de Craen: painting);
- three orders for the supply of bricklaying materials were awarded to the firm which was under contract to provide the contractors' labour necessary for carrying out the work (Leroy);
- one order for the supply of materials was awarded to a firm possessing exclusive rights to a material chosen after a technical investigation of the market (Rog-Métal: hatch covers for the Manhattan Center);
- one firm (Socol) was asked to supply partitions of the type used in the Berlaymont which are not obtainable on the market and of which it still held a few in stock;

- one order was for the supply and erection of partitions (by Strafor, in the Manhattan Center) which had been specified in the lease.

Order forms:

Generally speaking, the order forms do not re-state the information about unit prices and the nature of the work unless such information did not appear in the tenders to which they expressly refer.

Form NCR 890-60, the form currently in use, expressly shows the dates and references of the tenders.

Regularization of verbal orders:

It is true that verbal orders are regularized by means of order forms. This applies particularly in the case of the continuous functioning of installations the break-down of which cannot be allowed to last more than a few hours. Specifically:

- a) the suppliers of the shutters and escalators in the Berlaymont long refused to enter into contracts for the maintenance of these items. It has therefore been necessary to call the suppliers when a failure occurs. Since such failures are by nature urgent, it has been necessary to resort to a posteriori regularization.
- b) the roller-filters are a new item of equipment installed by the landlord; the frequency of replacement could not be determined in advance. It was therefore necessary to replace rollers without waiting for the completion of the ordering procedure.
As regards the maintenance of the items mentioned under a) and b) above, the problem has since been solved by concluding contracts, except for the escalators.
- c) the replacement of the water-heater, at a price of 16 684 Bfrs, took place at the crèche, where the needs of the children meant that the slightest delay could not be tolerated.

- d) the numerous modifications required in the course of execution of the partitioning work at the premises at 5, rue Archimède prevented the departments from being able to foresee exactly the nature and quantity of the accessory equipment which would be needed. When this became known, the departments were forced to obtain a supply immediately in order to avoid holding up the work.

Generally speaking, the departments in question are aware of the difficulties posed by the strict application of the Financial Regulation in the urgent cases which confront them. At the same time they are endeavouring to improve their methods of work; in the present state of the regulations it does not seem possible to eliminate such practices entirely.

Unforeseen technical contingencies:

Unforeseen technical contingencies, especially where fitting-out and/or modifications are involved, are inescapable. This should therefore be borne in mind. Except where it is still possible to obtain firm prices, the extra charges for technical contingencies also cover price revisions.

Presentation of invoices:

In order to obviate the difficulties described by the Audit Board, the departments will make every effort in future to persuade firms always to give a more detailed description on their invoices for services rendered.

Over-spending on appropriations:

The instances of over-spending quoted are the result of numerous modifications made to plans during the course of execution of the work, connected, in the case of the Cortenberg building, with the difficulties encountered during fitting out, and, in the case of the premises at 6, Rond-Point Schuman, with the difference between the plans as shown in the order and the partitioning operations which it was found necessary to execute.

28. Transfers and carry-overs (p. 36)

The increase in the initial appropriations to Chapter 21 for 1974 was due to two factors:

- the renting and fitting-out of the conference rooms at the Manhattan Center: the Council's decision on this matter was taken on 30 April 1974, the Commission having submitted its proposal to the Council on 26 February 1974;
- the renting and fitting-out of the new premises in the rue de la Loi: the Council's authorization was granted at the end of July 1974.

A substantial portion of the appropriations covering both these operations had to be carried over because the invitations to tender for the partitioning of these new buildings or rooms could not be issued until after the Council had taken its decision. Moreover, it should be borne in mind in the case of the Manhattan Center that the fitting-out of conference rooms is a more complex operation than the mere partitioning of offices.

As regards the appropriations to Chapter 20, the sum of 125 000 u.a. provided for the offices of the Communities' delegation at Santiago in Chile had to be cancelled despite the efforts of the Commission, which were once again frustrated by the delays inherent in the premises procedure.

Fitting-out plans (p. 36)

The Commission does not share the Audit Board's view that it is necessary to draw up more accurate and more complete plans for fitting out, for this would have the effect, given the present premises procedure, of slowing down still further the occupation of new premises.

29. Internal television system (p. 37)

In March 1974 the Commission decided to abandon the hiring of internal television equipment for the purpose of transmitting information to the staff; the Commission considered that, having regard to the cost of the system, it did not ultimately offer sufficient advantages over the system of written transmission of information, particularly that of "rapid information".

Nevertheless it is clear that the television system could prove very useful in future if it was the only system enabling the Commission to overcome certain security problems.

30. Work performed by contractors' labour (p. 37)

The Commission notes the Audit Board's comments on the subject of contractors' labour. It considers, however, that recourse to this system is still justified in the following cases:

- a) in the case of maintenance work, this labour is used to carry out numerous short and urgent jobs in one or other of the Commission's buildings. This work consists of repairs and overcoming breakdowns and, to a small extent, preventive maintenance work, the greater part of which is executed under contract. The dispersion of the sites and the variety of conditions under which the jobs - although apparently similar - have to be carried out make a simple and systematic scale of charges impossible. As it is a question of meeting some thirty demands per day, for which an individual tender would be out of the question, it is necessary to resort to blanket contracts for contractors' labour. It goes without saying that the Commission's exemption from VAT ensures that it is able to obtain the necessary labour.

- b) in the case of fitting-out work, the problem is the same as with work of a minor nature (moving of a door, a partition, a switch, a thermostat, etc.).

With regard to the more substantial jobs, the Commission intends contracting to a greater degree on a specifications basis, provided that the time-schedules of technical and administrative procedure can be respected.

C. EXPENDITURE ON EQUIPMENT (p. 39)31. Expenditure relating to stationery and office supplies - Article 230
(p. 39)Offset printing and duplicator printing:

For years now there has been a steady growth of offset printing at the expense of stencil printing in all the government offices of the Member States as well as in the Institutions of the European Communities. It is easier for the secretarial staff to have work printed by offset because the present documents do not lend themselves to the duplicator method and the quality of offset printing is definitely better.

The new methods introduced in the Commission's offices as from 1 October 1974 (print shops) to replace excessively expensive photocopying are therefore not connected with the reduction in stencil printing which has already been observable for several years.

Although the duplication process (stencil) was cheaper per page reproduced than offset printing until 1971, the situation has changed since the price-rises of 1973. Since that time the prime cost of low-volume offset printing jobs has been at least comparable with that of the duplication process (stencil). A comparison of the respective costs of the two processes is given below.

- Prime cost for a run of 25 copies

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1) <u>OFFSET</u>	Plate	1.92	Bfrs
	Spirit	0.01	Bfrs
	Ink	0.006	Bfrs
	Non-wood paper	0.143	Bfrs

i.e.: $1.92 + (0.010 + 0.006 + 0.143) \times 25 = 5.89$ Bfrs
=====

2) <u>DUPLICATOR</u>	Stencil	3.28 Bfrs
	Ink	0.006 Bfrs
	Wood paper	0.129 Bfrs

$$\text{i.e.: } 3.28 + (0.006 + 0.129) \times 25 = 6.66 \text{ Bfrs}$$

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It thus appears that it is cheaper to print 25 copies by offset. Duplication becomes cheaper than the offset process from 60 copies upwards.

It seems therefore that the Audit Board's preference for the duplicating process (stencil) is not justified, at least in the case of low-volume jobs.

32. Print shops (p. 40)

With reference to the comments on the print shops it should be noted that the extrapolation made by the Audit Board is incorrect. The Audit Board appears to state that the withdrawal of half the complement of Rank Xerox photocopying machines will result in a halving of the volume of printing done by the full complement of these machines before the withdrawal. In fact the Commission withdrew the Rank Xerox machines with the highest volume of printing, to replace them with print shops. The production of the Rank Xerox machines withdrawn was 10 000 000 pages, that of the machines still in service is 6 000 000 pages. Once the Audit Board's calculations are corrected in this way it will be seen that it has been possible to absorb without additional expense the whole of the appreciable increase in volume - the result of the enlargement of the Community - by the installation of the print shops, whose printing cost is 0.42 Bfrs whereas it is 1.15 Bfrs for the Rank Xerox photocopying system.

It should also be stressed that the increase in the volume of printing done is in no way due to the convenience of the process but rather to the effects of the enlargement, which from the material point of view attained its full force in 1974, and to the general growth in the Commission's activities.

Finally, the administration of the new photocopying procedure has been entrusted to an administrative unit coming under a different directorate from that responsible for the workshops because the project has been regarded from the outset as a pilot experiment. Although this involves internal problems directly connected with the organization of its departments, the Commission does not rule out the possibility of combining the two units at present responsible for photocopying under one directorate in future on the basis of the experience gained in the course of this first year.

33. Collection and sale of waste paper (p. 40)

As already indicated by the Commission in its reply to written question No. 761/73 tabled by Lord O'Hagan, the removal of waste paper and packing materials from the Commission's buildings has been contracted to a Brussels firm which also recycles the materials.

The quantity of paper removed, in kilogrammes, and the profits derived by the Commission from this operation over the past five years are as follows:

	<u>kg</u>	<u>profit in Bfrs</u> ⁽¹⁾
1969	203,324	62,842
1970	190,330	98,989
1971	136,570	43,059
1972	114,990	47,849
1973	150,825	48,500
1974	278,767	298,676

(1) The sums received are dependent on the weight of the material removed and also on its type and quality.

34. Costs of hire of computer and associated equipment, including the requisite supplies and the outside services required - Item 2240 of the Budget (p. 41)

The Audit Board's observations prompt three comments:

- It was the considerable increase in the volume of work to be handled that led to the increase in the processing capacity of the equipment and not vice versa as the Audit Board appears to indicate.

With a view to finding ways of financing this indispensable extension, the management committee of the Computer Centre decided to take advantage of the reduced rental charges offered by the IBM company by entering a two-year contract. The Commission has reserved the right, however, to rescind the contract at any time against payment to the supplier of a progressively reducing penalty; moreover, the date of expiry of this two-year contract coincides with the date fixed for the installation of the new computer at the Computer Centre.

- As suggested by the Audit Board, the Commission will ensure that the procedures used are made more flexible in order to take advantage to a greater extent of the discounts offered by some suppliers for prompt payment.
- Functional analysis of an integrated staff system with a single file has been set in motion; in this matter the Commission shares the view of the Audit Board.

D. EXPENDITURE ON STUDIES AND EXPENDITURE ON MEETINGS35. Management of appropriations for studies (p. 43)a) Volume of carry-overs from one year to the next

As has already been pointed out in earlier years, the operational procedure prior to the initiation of studies obliges the administrators of study appropriations:

- to make the requisite investigations for finding the experts or institutes capable of achieving the desired object;
- to negotiate and draw up the contracts, which cannot be signed until approved by the Commission.

This procedure becomes even more complex when the studies are financed jointly with the Member States, in that the Commission's departments must then fit in with the timetable of the national authorities.

Furthermore, it should not be forgotten that since many studies are of a multiannual character the time needed for the completion of the studies does not coincide with the length of the financial year.

b) Concentration of commitments at the end of the financial year

Effective intervention by the Advisory Committee on Commissioned Studies in the implementation of the Budget for 1974 commenced at the end of the third quarter of that year.

The reasons stated above inevitably mean that accounting commitments in this budgetary area cannot be executed at a regular rhythm starting at the beginning of the financial year, but must occur at a more advanced date, in other words during the second half of the year.

It should be pointed out, however, that as from 1975, owing to the impetus provided by the Advisory Committee on Commissioned Studies, which submitted a first series of studies to the Commission in February 1975, followed by a second in June, 56% of the appropriations allocated had in fact been committed by 30 September 1975. By that date the Commission had issued completion

authorizations for 68% of the appropriations. The directives adopted by the Commission in 1974 in this matter have therefore led to an improvement in the pace of execution of commitments during the financial year.

c) Premature payment of fees due to experts

The anomalies indicated which, after all, occur in the limited context of Chapter 35 of the Budget, are not connected with the application of the directives.

The procedure imposing the formalities required for entitlement to the "work done slip" arises from the provisions of Article 4 of the Commission Decision of 22 May 1973 (WP 1347/73) which only applied to expenditure chargeable under Chapter 26 of the operating Budget.

The implementation of internal directives imposing the same formalities but with a field of application thenceforth extending to all budget heads permitting the execution of studies did not become effective until September 1974.

Therefore the infringements noted cannot recur and will in future be limited to a few marginal cases.

37. Travel expenses and allowances paid to persons attending meetings
(p. 46)

It is true that the systems of reimbursement of expenses and payment of allowances to persons attending meetings are not identical for each Institution.

In the Commission's case the merger of executives made it necessary, in 1968, to standardize the regulations of the three former Institutions: thus the government experts called for consultations within the scope of activities of the ECSC Treaty ceased to receive subsistence allowances, this change having been made in order to bring the regulations into line with those in force in the other two Institutions.

The Commission's present regulations do not provide for the reimbursement of subsistence expenses to government experts called for consultations in that capacity. The regulations do admit of the possibility, however, that a government expert may be called for consultations in a particular case in a personal capacity, provided that good reasons exist for such a visit; in that case subsistence expenses are reimbursed.

The remarks against Article 251 of the Commission's Budget includes a list of the committees in connexion with which government experts are reimbursed their subsistence expenses.

The allowances of persons taking part in the proceedings of the ECSC Consultative Committee are governed by a Council Decision of 15 October 1968 as amended by a Decision of 25 June 1974.

E. EXPENDITURE ON INFORMATION (p. 47)39. Maintenance of the programme sheets by data-processing methods (p. 47)

The last programmes necessary for keeping the "programme sheets" by data-processing methods have now been finalized.

These programmes will be operational as from 1976.

F. EXPENDITURE ON SOCIAL WELFARE (p. 48)40. Accounting systems of the restaurants and of the staff supermarket (p. 48)

The comments made by the Audit Board should be qualified because some of the expenditure in question did in fact appear in the accounts to 31 December 1974.

The subsidy from the Commission and the pay of local staff did feature in these accounts. However, it was not possible to take account of the "infrastructure" expenses (such as expenditure on rent and equipment, water and electricity charges, etc.). For the accounts of the restaurant and the staff supermarket accurately to reflect the financial position, it would be necessary for the Commission to have an elaborate system of cost accounts for the Berlaymont building which houses the restaurants and the staff supermarket.

The bank interest received is indeed "own income" of the restaurants and staff supermarket. Moreover, the Commission pays only very few invoices abroad and the restaurants have only two bank accounts (in Belgian francs) in Belgium. As payment authorization in foreign currency (payable by the Commission) only takes place at the moment when a transfer of the counter-value in Belgian francs in favour of the Commission is transmitted to the bank, payment by the Commission occurs after receipt of the funds, not by way of advance.

41. Purchases and sales (p. 49)

It is true that no invitations to tender were issued in 1974. This was mainly the result of the fact that the economic situation during that period was highly unstable and that prices in general, and particularly those of perishable goods, varied from day to day; no substantial supplier wished to enter into written contracts under such conditions.

To make good this deficiency very strict checks were carried out almost daily by those in charge of the restaurants and the supermarket in order to monitor the cost of the goods purchased as prices moved.

As soon as the economic situation becomes stable there will be annual recourse to invitations to tender in the conditions laid down by the rules of the ACCP.

In general the Commission intends in future to comply with the provisions governing all expenditure exceeding 12 000 u.a. per contract.

It is true that kitchen waste has for many years been sold to the same purchaser at the same price. Various enquiries have been made of possible purchasers, but without success; the majority of the large firms incinerate their kitchen waste or else grind it up and dispose of it that way.

The facts stated by the Audit Board with reference to the supply of meals through the medium of the Red Cross are correct. The Commission agreed to supply a limited number of meals in return for first aid courses organized by the Red Cross for interested officials.

It is stressed that the supply of these meals (which represent a very small percentage of the total meals served to officials) is effected on the basis of the price of the "plat du jour" and that there is consequently no question of special conditions being offered.

42. Stocks and equipment (p. 49)

With regard to inventory differences at the supermarket, the Commission initiated an investigation by the security office (report of 16 October 1974, No. Dir. 136). This investigation revealed negligence in the keeping of stocks and the storekeeper in charge had to be replaced.

G. EXPENDITURE ON PUBLISHING (p. 50)43. Exceeding of initial estimate (p. 50)SEDOC publication:

It is not true to say that gross errors in calculation when examining the tenders resulted in the order not being placed with the printer who had submitted the lowest offer. The file of invitations to tender kept by the Office for Official Publications shows that the firm with the lowest tender was indeed Albert's Drukkerijen.

On the other hand it is true that the financial commitment for the cost of printing was for 28 720 u.a. whereas the expenditure previously authorized by the Commission amounted to 60 000 u.a. (written procedure of 27 February 1973).

In order to avoid the repetition of this type of error, the Commission has decided to take steps to improve the coordination of administrative procedures between the Commission's departments and the Office for Official Publications. These measures are expected to be reflected in practice in a better coordination between the originating departments, the authorizing departments and the Office.

The Office for Official Publications (p. 51)45. Cover for expenditure (p. 52)

The rates of cover for expenditure in the various sectors of the Office are indeed different. The Office hopes to introduce a completely restructured system of accounts in 1976. Meanwhile, out of concern to maintain relative stability, the administration has tried to avoid making too many partial changes. This is the reason why the cost of intervention by the Office is still based on a flat-rate charge.

47. Sales department (p. 53)

Full direct distribution of the Official Journal from Luxembourg to all subscribers will start on 1 January 1976. This change has required lengthy preparation and several stages of implementation.

48. Accounts department (p. 53)

There is no doubt that the procedures for collecting sales revenues ought to be revised and improved. The Office will tackle this problem in the course of reorganizing its accounting system.

The Office is taking steps to recover as much as possible of the debts still outstanding. One of the difficulties encountered is that many of the debts are for very small amounts which are difficult to collect.

It should be mentioned that the debt due from Oldham (United Kingdom) has now been paid. A second major dispute is in the process of being settled.

CHAPTER 4 : THE EUROPEAN SOCIAL FUND (p. 59)52. The former European Social Fund (p. 60)

With regard to the Italian applications relating to the resettlement of Italian workers in Germany and France, a procedure has already been set in motion based on the criteria used for the period 1961 to 1967. It has been possible for the Italian authorities and the Fund's departments to reach agreement on the basis for calculating the amount to be paid.

53. The new European Social Fund (Council Decision of 1 February 1971)a) Utilization of the appropriations to Chapter 50 (p. 61)

The Commission's reply to the comments in the report on the accounts for the financial year 1973 forecast that the problem of under-utilization of these appropriations would no longer occur in 1975, following the opening of the new spheres of intervention. This forecast has been confirmed by the first six months of the financial year, during which the total amount of the applications to the Fund for assistance under the head of measures under Article 4 of the Decision of 1 February 1971 (1) came to approximately 160 m.u.a.* thus exceeding by 45% the Budget appropriations for 1975 (110 m.u.a.).

In addition, in order to cover the new measures started under the head of Article 4, namely measures to assist young people under 25 without jobs (Council Decision of 22 July 1975) and measures for vocational retraining in connexion with the recession (a proposal on which the Council has undertaken to act before 30 November 1975), it has been decided to carry forward from 1974 to 1975 the sum of 51 362 732 u.a. which had been entered in Chapter 50 of the Budget for 1974 but remained uncommitted at 31 December 1974.

b) Interventions under Article 5 of the Decision of 1 February 1971 (p. 62)

The Commission's observations about these interventions are stated under point 54 below.

* m.u.a. = millions of units of account

(1) Interventions to assist farmers, handicapped persons, migrant workers and workers in the textile industry.

(2) Interventions to assist the unemployed or the under-employed in

/contd.....

54. Delays in final settlement of assistance payments (p. 64)

Out of concern to avoid as far as possible any cancellation of appropriations through over-estimation of expenditure, a new procedure was brought into operation in 1975 whereby, through the year, the project originators receiving Social Fund aid re-assess the cost of the operations in progress in the light of the state of progress. Where such costs are lower than originally forecast, the Commission's departments will propose that the appropriations initially committed should be reduced by that amount, by means of releases. The appropriations thus released are then re-committed to the benefit of aid applications which have not yet been processed.

The Commission's proposal to prolong the availability of the Fund's payment appropriations by one year does not mean that the Commission is resigned to allowing the payment applications to be submitted as late as they are at present. In an attempt to reduce these delays as much as possible an additional article has been inserted into each of the Commission's approvals (starting with the second series of approvals for 1975) stipulating that the Member States must submit their final payment applications to the Social Fund before 30 September of the year following the year in respect of which the commitments were entered into; failing this, there can be no guarantee that it will be possible to make the payment before the appropriations initially committed are cancelled, in accordance with the provisions of Article 6 of the Financial Regulation. In that case payments will not be made until the requisite additional appropriations have been allocated in the Budget or budgetary funds have become available at the end of subsequent financial years.

It is nevertheless still necessary to allow sufficient time for inspection and verification of the payment applications as specified by Council Regulation No 858/72. Even if all the

(2) (.....contd.)

regions in difficulty or threatened with unemployment, or to assist handicapped persons not eligible for assistance under Article 4.

applications arrive by the deadline mentioned above, that only leaves three months in which to complete all the requisite procedures. As the number of cases to be processed increases steadily - owing to the expansion of the Fund's policies - it becomes more and more difficult to complete the entire clearance of the appropriations within the span of a single carry-over year. It is for this reason that the Commission has submitted a proposed amendment to the Financial Regulation which would have the effect of extending the availability of automatic carry-overs from one year to two.

56. Evidence in support of applications for reimbursement of expenditure
(p. 66)

Following the recommendations in the report of the enquiry set up by the Commission to examine the administrative and financial problems of the European Social Fund, an inter-departmental group has been set up to implement these recommendations. The result of the group's work since January was the subject of a report transmitted to the Commission in July. The work has led to several concrete measures to improve the administration of the Fund (see point 54). Other measures will follow, notably in connexion with the admissibility as a basis of calculation of Fund aid of average rates in cases where the expenditure eligible for this aid cannot be isolated from the main body of non-eligible expenditure.

Although it is desirable that the Commission's intervention decisions should be taken before the commencement of the operations, it must be noted that in actual practice the Commission is materially unable to meet this expectation.

Pursuant to Article 3 of Regulation No 858/72, the Commission makes decisions four times a year on the applications submitted to it. Some operations are approved before their commencement thanks to the system of commitment authorizations which, within certain limits, permits appropriations to be committed during the two financial years preceding the year in respect of which these appropriations are entered. But these authorizations do not exceed one-half of the appropriations of the financial year in respect of which they are granted and, moreover, for lack of corresponding applications they

have up to now remained partially unutilized. In fact, the Member States may submit their applications at any time, the only condition being that they must observe the time-limit of three months specified in the Commission's Decision of 28 November 1973 (73/434/EEC).

This is why, bearing in mind the need to examine and compare the applications submitted by the various Member States and to distribute the Fund's appropriations over several spheres of intervention, the larger part of the appropriations is committed in the course of the financial year during which the corresponding operations are carried out and often after the commencement of these operations.

CHAPTER 5 : THE EUROPEAN AGRICULTURAL GUIDANCE
AND GUARANTEE FUND (p. 69)

I. GUARANTEE SECTION (p. 69)

62. Closing the accounts for periods prior to 1 January 1971 (p. 70)

c) The accounts for the periods 1967/68 to 1970 (p. 70)

In its replies to the previous report the Commission confirmed its wish appreciably to expand its systematic on-the-spot verifications to assure itself of the justification for the expenditure under the head of the Guarantee Section.

It has been held back in this endeavour by continuing delays in the final clearance of the accounts. In response to the request which it made to the Member States in 1974, the Commission received, between February and June 1975, temporary assistance from five national experts for the purpose of urgently verifying the old accounts with a view to final clearance for the periods 1967/68 to 1970.

It should be noted that the accounting periods prior to 1 January 1971 (1967/68, 1968/69, 2nd half of 1969, whole year 1970) will be the subject of an ad hoc Budget for the definitive regularization of all the operations involved; this Budget will be presented to the budgetary authority by the Commission in 1976.

63. The accounts for periods subsequent to 1 January 1971 (p. 71)

a) General financial comments (p. 71)

5. The procedure for final clearance of accounts (p. 73)

The Commission is making every effort to secure the final clearance of the accounts for 1971 and 1972 at an early date. It considers that the regulations in force are sufficiently clear and complete for the adjustments resulting from the verifications to be accurately reflected in the accounts.

The Commission is endeavouring to strengthen the application of the regulations. Current progress in making good the time-lag in the verification of the annual accounts should permit, inter alia, greater attention to be devoted to monitoring the implementation of the current Budget; this is already reflected in the launching of ad hoc investigations.

b) The financial years 1971 and 1972 (p. 73)

The Audit Board noted that the information transmitted by the Member States contained several administrative errors. To avoid such errors, the Commission's departments are systematically preparing aides-mémoire specially designed to facilitate the work of the national administrations.

If the national administrations pay greater attention to the suggestions given by the Commission's departments, the majority of these errors can easily be avoided.

64. Aid to production of olive oil (p. 76)

The report on the market situation, prepared by the Commission in September 1972 (Doc. COM(72) 1138 final), leads one to believe that about 20% of the aid paid out in connexion with olive oil was not justified by actual production. The following points should be noted, however:

- 1) Owing to the absence of statistics on the consumption of olive oil, the Commission's departments attempted to arrive at the consumption figures by two different methods:
 - a) firstly, by a method of reconstructing the estimates for the product: stocks at the beginning and end of the marketing year, production (based on payments of aid) and net imports;
 - b) secondly, by a method of estimating, starting from the last known statistics and taking account of economic factors influencing consumption.

Comparison of the results of these two methods threw up an average discrepancy of about 20%, giving rise to the assumption that the production figures based on payments of aid were not justified by actual production.

2) Updating of the report drawn up in 1972 cannot furnish valid elements for assessment. The only firm information on which the report was based was that for the 1966/67 marketing year. For that year:

- it was possible to ascertain the stocks brought forward accurately owing to the allowance granted by the Council to the holders of such stocks at the beginning of the marketing year;
- trade statistics were also available;
- as it was the first season of the common organization of the market and, hence, of the granting of aid, it may be accepted that declared production was very close to real production.

The forward estimates prepared for the subsequent marketing years were based on the data determined in 1966/67; they were drawn up to take account of the trend of the economic state of the market as known to the Commission, with particular reference to the trend of consumption and stocks carried over.

Nevertheless, as time elapses since the marketing year 1966/67 it becomes harder to assess the disparity between declared production and production as ascertainable from the economic situation and the margin of possible error becomes greater. In these circumstances it was not possible to continue to make this estimate after the marketing year 1970/71.

3) One should also point out the difficulties facing the Italian Government in monitoring production ⁽¹⁾. These have their origin in particular in the complexity of the mechanisms, both Community and national, which have to be implemented in view of the very high number of producers. A proposal for a Council Regulation aimed at simplifying the aid system and hence

(1) These were described in the aforementioned report.

mitigating the difficulties encountered in the monitoring operations was annexed to the report. However, the proposal has not been approved by the Council.

4) The Special Committee of Enquiry, set up by the Commission on 3 October 1973, published its report on the oilseeds and olive oil sector on 5 February 1975. A number of suggestions for improving Community aid administration were put forward by that body:

- strengthening the monitoring of oil production at the mill by the systematic utilization of all data enabling their activity to be assessed;
- intensifying the checks on olive-growers and improving the current methods of determining the mean yields of olive oil;
- improving the administration of aid by effectively applying the rule of direct payment to those entitled and encouraging producers to combine to form co-operatives;
- studying the problem of penalties.

65. Determination of standard amounts for calculating net losses of the intervention agencies in the sectors of cereals and butter (p. 78)

1) With reference to the regulations currently in force, it should be made clear that Regulation No 2824/72 stipulates that where, within the scope of organization of markets, an amount per unit is fixed for an intervention measure, the resultant expenditure shall be wholly borne by Community funds. Such amounts exist for refunds and for so-called "first category" interventions. By contrast, in the case of intervention measures for which an amount per unit has not been fixed - so-called "second category" measures, which consist of complex interventions (purchase, storage and sale) - the financing regulations in force prior to 1971 remain in operation as transitional measures pending the establishment of general rules ⁽¹⁾.

(1) Reg. 2824, Art. 2 (2), last amended by Reg. 1175/75.

These regulations provide that the EAGGF shall finance the net losses sustained by the intervention agencies, these net losses being determined with the help of accounts for each product. These standard amounts, which thus relate to the cost of various physical operations such as taking into stock, storage, withdrawal from stock and, if relevant, processing, are determined by the Commission after study by the Management Committee and after consultation with the Fund Committee.

- 2) The standard amounts are determined on the basis of a weighted average. The practice is used of applying amounts which are truly representative for the largest interventions.

The disparities between the costs declared by the Member States also arise from the fact that the distribution of costs differs from one Member State to another. Thus the draft report on cereals reveals that Italy has the highest costs for taking into and withdrawal from stock but that by contrast it has the lowest cost for storage. There is in fact a certain degree of balancing-out at the level of the Member States as a whole. A similar balancing-out sometimes also occurs between different sectors; that is the reason, moreover, why the last fixing covered all the sectors. The system must therefore be viewed as a whole.

- 3) The system of standard amounts has advantages and disadvantages. The main advantage is simplicity of application, which obviates monitoring complications. The disadvantage inherent in all standard-amount systems (disparity between the standard amount and the actual costs) is also to be found, of course.

In order partially to mitigate this disadvantage, the Commission proposed to the Council in March 1972 that the regulations should be amended. It was requested that in cases where the costs of one or more intervention agencies diverged appreciably from the costs of the other intervention agencies, different amounts should be determined, taking into account the disparities found. The Council, however, has not adopted the Commission's proposal because it preferred to deal with this problem later in the context of the establishment of general rules.

In July 1972 the Commission submitted to the Council some proposals relating to general rules on the financing of interventions; it proposed, in particular, that the standard amounts should be replaced by a system of financing the real costs incurred by the intervention agencies (Doc. COM(72) 902 final). The proposal was not accepted, mainly because within the Council the delegations were unable to agree on a system or a definition covering the concept of actual costs. Such a system would be difficult to monitor and would entail risks for the level of expenditure.

- 4) Since that time the Council, on a proposal from the Commission, has extended the application of the system of standard amounts each year on a temporary basis. Meanwhile the Commission has attempted to introduce certain improvements in the determination of the standard amounts, namely:
- a) making them more truly representative for the largest operations;
 - b) better harmonization between the different sectors.

Furthermore, in order to gain a better idea of the elements of cost incurred by the intervention agencies in 1975 the Commission's departments are currently carrying out an investigation with regard to these agencies. This will also make it possible to monitor, if the need arises, the amounts declared by the intervention agencies.

67. Fraud and irregularities (p. 81)

The Commission is continuing its efforts to combat fraud. To this end it is strengthening the application of Regulation No 283/72 and will shortly be submitting a report on the application of that regulation to the Council and the European Parliament.

Furthermore, the Special Committee of Enquiry resumed its work in May 1975 at the request of the Commission. The Special Committee of Enquiry has already presented its conclusions on milk products and oilseeds. It is at present completing the report on beef and veal, which will probably be available during the first six months of 1976.

II. GUIDANCE SECTION (p. 85)A. Financing of individual projects (p. 86)69. Withholding of approval for five projects (p. 86)

With regard to the Commission's decision to override the withholding of approval, mentioned by the Audit Board, it should be pointed out that storage and grading of potatoes are operations traditionally carried out on the farm itself and generally recognized as belonging to the production stage since the products are not marketable until these operations have been performed. The beneficiaries of the projects in question are firms owned by potato growers. Co-operation and joint performance of certain types of work correspond to the objectives of the common agricultural policy. It would seem difficult to conclude from the fact that these objectives have been attained that the project should not be financed.

70. Cancellation of appropriations (p. 87)

The amount of 9 188 157 u.a. appearing in the revenue and expenditure account represents the difference between the appropriations remaining to be paid at 1 January 1974 for the individual projects and the sum of the payments made in 1974 and the appropriations carried forward to 1975.

What is involved in this case are appropriations not utilized owing to the rescindment or cancellation in 1974 of all or part of the aid granted in respect of a number of projects.

In order to regularize the appropriations not utilized during a given financial year, the authorizing officer submits to Financial Control and to the accounts department (during the following financial year) a request for regularization. This request is accompanied by a list of the projects involved and by individual records for each project showing, among other information, the reason for regularization.

Pending action on the Commission's proposal on the possibility of regularizing the unused appropriations, it has not yet been possible to draw up the request for the regularization of the appropriations remaining unused in 1974.

71. Documentation supplied to the Audit Board (p. 89)

With regard to the "internal scrutiny reports", the Commission considers that to communicate such reports to the Audit Board would run counter to the provisions of the Financial Regulation in that it would permit the Audit Board to state an opinion on the appropriateness of the authorizing officer's decision. Under these circumstances it does not seem possible to regard the "internal scrutiny reports" as supporting documents suitable for communication to the Audit Board.

72. Comments concerning the sectors audited (p. 89)

a) Country roads

All the roads financed by the Fund meet very precise criteria, both in regard to their location (they link buildings to fields, farms to other farms, farms to main roads, agricultural hamlets to other agricultural hamlets or to villages or main roads) and in regard to their width (5 metres). Providing access to agricultural or forestry land, these roads principally serve agriculture; secondary utilization (for the purposes of tourism, for example) is of course not ruled out. The very strong road surfaces which are sometimes found are justified by the necessity of catering for heavy transport (timber, tankers, agricultural machinery).

b) Dairies

As stipulated by Regulation No 45/64, the aid applications contain information on the regional context of the project and this information is closely scrutinized by the Commission's departments. All the forecasts are clearly susceptible of modification, especially in the dairy sector where developments

occur at an accelerated and often unforeseeable pace. In the past few years the dairy sector has been characterized by heavy concentration and by rationalization of the processing installations.

When developments necessitate the adaptation of a project financed by the EAGGF Guidance Section, maintenance of the aid - if need be with modification of the initial aid decision - is judged on the basis of the examination of the modified project and its profitability. In its reply to the Audit Board's comments in its report on the financial year 1973, under point 75, the Commission has already had occasion to give a detailed reply with reference to this problem.

Given that the aid can only be paid to the beneficiary indicated in the aid decision, the Commission is necessarily kept informed of changes in the identity of beneficiaries of current projects.

73. Verification before payment of aid (p. 91)

- In the case of Project D/45/71 the German authorities, in reply to the request from the EAGGF departments, confirmed that the work had been carried out exactly as planned. The final payment was made on the basis of this declaration. It was physically impossible for the EAGGF departments to carry out an inspection on the spot.

- With reference to the comment on Project F/96/69, it should be pointed out that the aid was not expressed as a percentage of actual costs but in the form of a certain amount; it is therefore incorrect to refer to the proportion of the EAGGF's contribution to this investment.

B. Financing of special measures and joint schemes (p. 92)

76. Fixed sums of aid (p. 92)

For fixed sums of aid Italy has supplied records containing, in respect of each project:

- a brief indication of the nature of the project
- an indication of the planned quantities
- the total amount of the investment
- the planned duration of the execution of the work
- the number and date of the ministerial decree authorizing the granting of the aid, the amount of the aid and the name of the beneficiary
- the number and date of the ministerial decree authorizing payment of the aid
- the amount and the effective date of payment.

As the files are too numerous and too bulky to be transported, the documents are kept available to the Commission. Random checks carried out on the spot enabled the accuracy of these documents to be verified and the conformity of the finished work with the information gathered on the subject of the state of completion of the work to be confirmed.

77. Other special measures (p. 94)

The reports on on-the-spot audits by the EAGGF's inspectors show that in general the special measures are applied in the Member States in conformity with Community regulations. All the special measures were completed within the prescribed time-limits in all the Member States with the exception of the measures for the citrus fruits sector and for uprooting fruit trees, which were late in being implemented.

CHAPTER 6 : DEVELOPMENT AID (p. 97)Food aid and financial aid (p. 97)

80. (p. 97)

Grouping of the development aid appropriations (p. 97)

The Commission draws attention to the efforts at budgetary grouping undertaken since the financial year 1974 with the object of providing an overall view of all the expenditure in the development aid sector by means of an appropriate budgetary presentation. It should be noted in this connexion that from the beginning of 1975 all planned development aid expenditure is entered under Title 9; exceptions to this rule are firstly the expenditure laid out under the head of the EDF and secondly the expenditure covered by Article 400 (Community aid to victims of natural disasters), which however are of a special character and do not specifically relate to the development aid sector.

With regard to the EDF, the Commission had proposed as early as 1973 that such expenditure should be covered by the Budget as from the commencement of the Fourth EDF. For various reasons the Member States did not feel able to agree to this proposal. Nevertheless the Member States, in an internal declaration, gave notice of their intention to fully integrate the EDF in the budget at a future date. It can therefore be hoped that as from 1980 the whole of the Community development aid expenditure will appear under Title 9 of the Communities' Budget.

Charging of food aid advances (p. 98)

The advances granted to Member States for the implementation of the last three programmes and charged to extra-budgetary accounts (20 398 844 u.a.) break down as follows:

- 15 898 843.72 u.a. was committed globally against the appropriations of Chapter 90 for the financial year 1974; in view of the fact that no expenditure was declared by the Member States for this amount, it was not possible to effect detailed budgetary charging within the meaning of Article 108 of the Financial Regulation;

- 4 500 000.00 u.a. was committed globally against the appropriations of Chapter 92 for the financial year 1975, so this amount was not borne by the 1974 Budget.

82. (p. 98)

Reorganization of the Directorate-General for Co-operation and Development (p. 98)

The Audit Board expressed the desire to see a more distinct division of responsibility between the various departments charged with administering the aid.

In this connexion the Commission considers that the recent reorganization of the Directorate-General for Development, which took place on 1 July 1975, has greatly contributed to clarifying the inter-departmental division of responsibility. This restructuring is based on the principle of the separation of the departments administering the aid, on the one hand, and the departments of planning, relations and policy, on the other hand. Thus the administration of aid of whatever type (food aid, financial aid, technical assistance) and its budgetary charging (EDF, General Budget) will henceforth be concentrated within Directorates C (Projects) and D (Operations, including food aid), and, as regards financial administration, within the administrative unit "Finance and administration".

I. F o o d a i d

Aid decisions (p. 98)

83. Delay in implementing aid (p. 98)

The procedures for administering food aid were changed in 1975 in line with the comments made by the Audit Board in its report for 1973. With regard to normal aid, the Council decided, on 14 April 1975, to replace the agreement concluded by the Council with the beneficiary country by an exchange of letters between the beneficiary country and the Commission; this new procedure will considerably shorten the time elapsing between the adoption of the programmes and the delivery of the products.

In addition, in the case of emergency measures, the Council decided on 14 August 1975 to authorize the Commission to allocate to victims of natural disasters, within certain limits, quantities of products which were to be drawn from reserves.

With regard more particularly to the Sahel/Ethiopia section of the 1973/74 programme, it should be noted that it was indeed adopted on 23 December 1973, only two months after the multidonor mission had submitted its findings on the food needs of these countries, findings which were indispensable to the establishment of the said programme.

Within the scope of the 1971/72 programme the Council had decided, on 19 December 1972 (R/2796/72 COMER 469), to execute Community emergency measures to assist certain countries, namely Upper Volta and Niger, in the following quantities: 7500 tonnes of maize for Niger and 2500 tonnes of maize for Upper Volta (for free distribution). Further, the Council had authorized the Commission to execute these operations before the formal conclusion of the relevant supply agreements.

It became known subsequently, in the course of implementation, that certain quantities of goods supplied for free distribution had been sold. The problem which then arose, and which was referred to the Council authorities for examination, was to determine whether or not the agreement should be signed without altering the content as originally planned. The Council took the view that the Community ought to sign the agreement but at the same time it regretted the attitude of the beneficiary countries.

Mobilization of the aid (p. 100)

84. Emergency mobilization (p. 100)

The Audit Board lists quantities mobilized and then stored for many months; these relate to isolated operations in the course of which the Commission met with serious dispatch difficulties, principally in the Sahel countries. The fact remains that at the time the decision was taken recourse to an emergency procedure was perfectly justified in view of the nature of the needs of the beneficiary countries.

85. Breakdown of tenders (p. 100)

With regard to the breakdown of the price offered by tenderers, the Commission has, from this year, been inserting into the terms of the invitations to tender a provision requiring the tenderers to distinguish the different elements of the price, namely the cost of the basic material and the transport costs; this meets the wish expressed by the Audit Board on this point.

Dispatch of the aid (p. 101)

86. (p. 101)

From the third and fourth paragraphs one gains the impression that the difficulties cited have occurred in a great many cases. This is not so.

In fact, although in some cases, owing to the inadequacy of the transport infrastructure, certain quantities had to be stored longer than planned, it should be stressed that such storage led to no significant losses or deterioration of the goods.

87. (p. 102)

The flat-rate contribution of \$ 14.28 per tonne was calculated on a quantity of 18 305 t of cereals, equivalent to 12 122 t of flour. The total contribution thus paid to the WFP corresponds to the sum to which it was entitled by virtue of the provisions of the supply agreement and the findings of the various reports of the Intergovernmental Committee of the United Nations/FAO relating to the contributions to be paid to the WFP for the dispatch of the cereals. The aforementioned reports show that the flat-rate cash contribution is not a function of the quantity of the goods but solely of their value. Since the supply was effected as provided for in the agreement by making available a quantity of goods equivalent to 18 305 t of unprocessed cereals, the calculation of the flat-rate contribution could only be made on the basis of that quantity.

Using the tonnage of flour equivalent to the quantity of unprocessed cereals would have conformed neither to the spirit of the provision in the supply agreement relating to the flat-rate contribution nor to what had been agreed at the meetings of the Intergovernmental Committee of the United Nations/FAO.

Distribution; marketing;
special accounts (p. 102)

88. (p. 102)

As far as the counterpart funds are concerned, the Commission admits that the Audit Board's comments are justified and that a stricter and more systematic monitoring of the utilization of these funds would be appropriate.

One should not lose sight of the fact, however, that the principal object of food aid intended for sale on the local market is not the creation of counterpart funds but the free supply of products; this constitutes an aid to the balance of payments and hence to the economic development of the beneficiary country.

Financial clearance of the aid (p. 103)

89. (p. 103)

The 1970/71 implementation programme is governed by the 1967 Food Aid Convention. For this reason, and by virtue of Regulation No 2052/69, financial clearance could not take place until after the total execution of the programme and notification of expenditure by the Member States. Closure of the accounts of this programme is expected to take place before 31 December 1975 and the remaining quantity of 1970 tonnes not yet executed will be financed within the framework of the advances to be granted to the Member States.

As regards the programmes governed by the 1971 convention, it should be noted that financial clearance is not linked to the programmes and takes place within the annual framework of the final clearance of accounts.

The system of final clearance of accounts as laid down in the Financial Regulation is being applied for the first time in connexion with the food aid expenditure of the financial year 1973.

Under the terms of the financial provisions final clearance of this expenditure should have taken place before 31 December 1974.

The final clearance decision is expected to be made before the end of 1975, the work of closing the accounts now being practically complete.

The Audit Board's report correctly underlines the weakness of the Budget estimates for food aid. This weakness is due to the fact that up to 1974 the estimates were made on the basis of world prices, which have been subject to sudden and wide fluctuations.

Starting with the 1973 Budget a different method has been in operation: estimation is made on the basis of domestic prices, which are known and are more stable. At the time of the preparation of the Budget the total amount arrived at is divided into a "refund" section and a "world price" section. If, during the financial year, it turns out that the refund expenditure is greater than estimated, a transfer must be made out of food aid; if, on the other hand, the world price proves to be higher, a transfer must be made to Chapter 92 from the EAGGF Guarantee Section (Title 6).

There is reason to believe that with the help of this method the administration of food aid appropriations will no longer be subject to the hazards it has been beset with up to now.

II. Financial aid (p. 104)

Exceptional aid to the Sahel countries and
Ethiopia (p. 104)

91. (p. 105)

In accordance with the contractual arrangements concluded between the Commission and the beneficiary country, every call for funds, duly approved by the Commission's representative, is accompanied by a report on the execution of the programme prepared by the authority responsible for the emergency measure.

This document is used by the Commission as the basis for preparing the payment order relating to the call for funds. The file thus constituted is transmitted to Financial Control and to the accounts department for execution. It is the duty of these departments to forward these documents to the Audit Board. As for the actual supporting documents for the expenditure, they are stored on site by each Commission representative, who verifies them before approving the above-mentioned report on the execution of the programme.

Article III, paragraph c, of the execution contracts also states that these supporting documents must be stored on site. There can therefore be no question of their systematic transmission to the Audit Board. Indeed, Article IV, paragraph d, entitled "Auditing procedures" states that "the Audit Board also reserves the right to carry out inspection visits in accordance with Article 89 of the Financial Regulation".

As to the completion of the operations, the Commission has instructed all its representatives that all the payments must be made by the end of 1975. However, the closure operations will require a regularization period of about three months.

Community contribution to the special United Nations fund for aid to the developing countries worst affected by the rise in world prices (p. 107)

95. (p. 107)

The Audit Board's powers of verification

In paragraph 5 the Audit Board raises the problem of its verification of the payments made to the special account of the Secretary-General of the United Nations.

On this point the Commission can only re-state the text of the communication made by the United Nations with regard to the audit of the administration of the contributions they receive.

".... All the voluntary contributions received by the United Nations are administered in conformity with its financial regulation. This regulation, established by the General Assembly, stipulates inter alia that the verification of accounts shall be carried out by a Committee of Auditors. This Committee, appointed by the General Assembly, is composed of three members each of whom is the general auditor (or an official of equivalent standing) of a Member State. In accordance with your request, the United Nations will account to the Commission for the utilization of these funds".

This should set the Audit Board's mind at rest on this subject.

State of progress of the operations

With regard to the state of implementation of this operation, a distinction should be drawn between the first and second instalments.

In the case of the first instalment, the operations must normally be finished by 31 December 1975, under penalty of cancellation of the appropriations not used.

At the time of writing, the state of progress of the operations has reached a level of 94% including the advances to be justified. There is every reason to suppose that the deadline of 31 December 1975 will be met as far as the first instalment is concerned.

In the case of the second instalment, the operations will terminate at the end of 1976. It would therefore be premature to give figures on execution at this stage.

Justification and utilization of the aid

The Commission holds supporting documents for expenditure on imports financed from Community aid. Audit of the operations is effected, in accordance with the contractual provisions, on the basis of the import documents (bills of lading, import licences, payment certificates, etc.). Up to now the States receiving the aid have fulfilled the Commission's requirements in this matter.

CHAPTER 7 : THE RESEARCH AND INVESTMENT APPROPRIATIONS

98. Budget (p. 109)

d) Forwarding of supporting documents (p. 111)

The Commission is aware that the forwarding of supporting documents was subject to some delay in 1974, partly as a result of late preparation of the data-processing programmes. It has been possible to make good this delay and at present the JRC services are in a position to transmit the accounting documents towards the end of the month following the closure of the accounts for the previous month.

A. Joint programme and complementary programmes (p. 112)

Direct actions - JRC

Observations on the organization of the JRC (Ispra establishment)
(p. 113)

101. Scientific divisions (p. 113)

The scientific divisions, which effectively constitute the principal means of implementation of the JRC's research, group together the scientific and technical staff directly engaged on research. To these are added the internal support staff of these divisions. The Directorate-General of the JRC is currently examining a group of measures aimed at a better adaptation of the structure of the scientific divisions to the fundamental requirements of the function-orientated Budget, and hence the correct invoicing of services to the users (research objectives).

The accomplishment of this task has been appreciably helped by the appointment of the new director of projects (current programmes) who has meanwhile taken up his duties.

Observations on the function-orientated Budget (p. 114)

102. Efficiency of the function-orientated Budget (p. 114)

As the Commission has already stressed in its reply to points 108 to 111 of the Audit Board's report on the financial year 1973, the refinement of the very complex management techniques imposed by the structure of the function-orientated Budget requires thought, experience and, consequently, time.

Since the introduction of the first function-orientated Budget in 1972 the Commission has unceasingly sought techniques capable of overcoming the difficulties posed by the administration of a Budget of this type. Some problems have been solved, others still persist, particularly in the field of secondary charging. The Commission is aware that this situation ought to be put right in the shortest possible time and will spare no effort in this connexion.

The necessity for clearing the balances on the appropriation accounts at the end of the financial year is a specific problem here. As already emphasized by the Commission in its reply to the comments under point 112 of the Audit Board's report on the financial year 1973, this requirement not only causes many transfers, it also considerably restricts flexibility of management. It effectively forces the users of appropriation accounts to reserve part of their appropriations beyond 31 December and from one financial year in order to be able to meet the additional demands of "suppliers of services" appropriation accounts arising from the "thirteenth invoicing" which is intended chiefly for clearing the balances on those accounts.

Generally speaking the Commission considers that the experience gained since 1972, the year of introduction of the first function-orientated Budget, has shown that the function-orientated Budget system as laid down by the regulations currently in force is insufficiently flexible.

Consequently there is reason also to examine the possibilities of an amendment of the individual provisions of the Financial Regulation which relate to research and investment appropriations in order to make both the preparation and the execution of the Budget easier. This examination will form part of the work to be started at the end of 1975 which should result in a general revision of the Financial Regulation.

103. Secondary charging in 1974 - JRC section (p. 115)

In general it should be remembered that, with regard to payments, the operations of secondary charging relating in particular to the appropriation accounts 1.10, Staff, 1.20, Infrastructure, and 1.50, Scientific divisions, cannot be effected until after the end of the management period (month, year) in question.

The inevitable result of this is that a statement drawn up at the end of a month, for example, does not yet reflect all the payments actually made during the month in question. In order to improve this unsatisfactory situation, an instruction was issued at the beginning of 1975 requiring that the appropriation accounts should invoice, from the beginning of the financial year and as an estimate, the services for two months calculated on the basis of the budgetary estimate. This forward invoicing, brought up to date monthly, will henceforth permit a more accurate invoicing of the services actually performed.

a) Staff costs (p. 115)

- In connexion with the number of JRC staff taken into account for the monthly assessment of costs to be invoiced to the objectives, it should be pointed out that in 1974 a number of members of the staff invited to relinquish their duties in application of Council Regulation No 1543/73 (Voluntary retirement) remained in service during the first six months. These staff members were indeed "actually present" but were not assigned to a research objective, which explains the discrepancy between the total number of members of staff paid in 1974 out of JRC appropriations and the number of members of staff invoiced to research objectives.

- With regard to the resources of appropriation account 1.10, Staff, in connexion with the remuneration of establishment staff, it is pointed out that invoicing to objectives is based on a single average cost covering all the establishment staff of the four JRC establishments. This method, the obvious aim of which is to simplify the operations connected with secondary charging, inevitably leads to differences between the utilizations, which record the remuneration actually paid, and the resources, which record the amounts charged on the basis of a single average cost.

On a general level it must be admitted that the simplification deliberately sought in the field of the secondary charging of staff costs entails the acceptance of slight imperfections arising from the use of average costs.

- As to the balance on the appropriation account "Staff costs" in the sum of 2 589 424 u.a., this relates only to the Ispra establishment. The balances relating to the other three establishments were accounted for at the time of closure of their respective appropriation accounts.
- With regard to the adjustments affecting the monthly invoicings to objective 2.90.0, Direction and co-ordination it should be borne in mind that the restructuring of the Directorate-General and the various operations resulting from this necessarily led to an adjustment of the expenditure of this objective.

b) Expenditure on general infrastructure (p. 116)

Although the allocation of general infrastructure expenditure in proportion to the total wages and salaries bill is imposed by the budgetary authority, as moreover is acknowledged in the report, one should not lose sight of the fact that the infrastructure burden shows considerable differences from one establishment to another; to the extent that they reflect this state of affairs, these differences cannot be considered as a factor of inexactitude.

c) Expenditure on scientific and technical auxiliary services (p. 116)

As has already been stressed above, the invoicing of the services of some appropriation accounts entails imperfections which can only be eliminated, partially at least, by means of successive approximations. The steps already taken in this sphere will enable the situation to be improved from 1976.

In addition, it should be understood that the services invoiced to outside bodies do correspond with the amounts laid down in the contracts concluded with those bodies. The apparent shortfalls in contributions from the contracting parties were reviewed at the time of closing the accounts and invoicing was re-established in conformity with the contractual clauses on the one hand and the Budget on the other hand.

The services invoiced by sub-account 1.30.4, Electronics laboratory had to be amended to correct an error made during the period of the introduction of the function-orientated Budget, an error which was rectified during the financial year 1974 following a comment by Financial Control.

The Commission, conscious of the necessity to relate the monthly invoicing as closely as possible to the services actually performed, has introduced a method of monthly invoicing which will make it possible in future to keep much closer to reality in the first 12 invoicings.

The Audit Board draws attention to the fact that the information relating to the "work units" is not uniform. This state of affairs is justified by the diversity of the services performed which correspond to these "work units".

d) Expenditure on major installations (p. 117)

Alteration of the hourly rate charged for CETIS services during the course of a financial year proved essential for obvious reasons of sound management. It was possible to apply the change immediately to services rendered internally, but for outside users under contract the JRC was under obligation to observe the contractual notification period.

The volume of regularization operations carried out at the stage of the thirteenth invoicing is due to programming difficulties arising from the first year of closure of a function-orientated data-processing management system, difficulties which could not be foreseen during this running-in period.

e) Expenditure of the scientific divisions (p. 117)

- An analysis of the last invoicing together with documents showing the movements on each of the appropriation accounts for the financial year 1974 have been forwarded to the Audit Board.
- The Commission acknowledges that the regularization in 1975 of the debit balances on appropriation account 1.50.1, Scientific divisions Ispra/Petten, at the end of 1974 by charging them against the appropriations for the "client" objectives 2.28, Technical assessments in support of Commission activities, and 2.53, Remote sensing of earth resources, should have been avoided. The same applies to the overspending against the appropriations allocated in 1973 to objective 2.13, Materials science/Basic research on materials; this overspending was charged against the 1974 appropriations to that same objective.

However, the Commission wishes to emphasize that these movements of appropriations have been made within the overall total for the approved programmes. Moreover, the settlement of these cost overruns by transferring appropriations, even after the official closure of the accounts for the financial year, in the way the Commission proposed, would have been a better solution than the one finally adopted.

104. General observations on secondary charging (p. 118)

As has already been emphasized in the reply to point 102, the Commission has endeavoured, since the coming into force of the function-orientated Budget in 1972, to introduce techniques which as far as possible enable the secondary chargings to be made in line with the services actually performed. The Commission realizes that the results achieved are not yet satisfactory and that it will therefore

be necessary to continue the efforts to improve these techniques. It will also be necessary to review the present structure of the function-orientated Budget with a view to simplifying and concentrating it, which would certainly have positive effects on its administration.

As soon as the new programme proposals currently under preparation are ready, the Commission will try to concentrate the staff, who are the subject of the major part of the secondary chargings, on a limited number of objectives with a greater scientific and technical content and a greater financial cover.

Other observations on the management of the
research and investment appropriations (p. 119)

105. a) Unwieldiness of procedures for management of appropriations (p. 119)

The Commission considers that the system of work allocation records which entails the analysis of the appropriations for each research objective into smaller units, i.e. into "studies", has proved its usefulness. The constant matching of the estimates contained in these records with the actual utilization of the means of implementation constitutes a very effective management tool for each official responsible for an objective, a tool which is always in use.

The Commission admits, however, that the system as practised in the past has been too cumbersome. To remedy the situation the Directorate of the Ispra establishment has taken the following steps:

- the commitment of an item of expenditure is no longer dependent on the availability of appropriations as shown on the work allocation record but only as shown in respect of the research objective. This step has simplified the purchasing procedures, which has made it possible to award orders at a faster pace than before.
- the number of separate records has been reduced.

With regard to the observations on the computerizing of the budgetary and accounting procedures (CORIG system), it should be pointed out that the obstacles of the first year of management of a function-orientated Budget by data-processing methods have subsequently been overcome. Thanks to a series of measures of simplification and improvement, the day-to-day processing of information by computer is functioning almost without difficulties and management of the appropriations is no longer subject to the delays indicated.

b) Observations on certain purchases (p. 120)

The Directorate-General of the JRC has decided to re-centralize the procurement procedures by creating a purchases and contracts service. The Commission is convinced that this service will ensure the suitable and logical procurement of supplies for the various services of the JRC in future.

c) Management of equipment (p. 121)

In the context of the re-centralization of procurement into this purchases and contracts service, the Commission also intends to rectify the situation with regard to the management of equipment by the Ispra establishment. As for the problem of the disappearance of certain items of equipment, the Directorate of the establishment has taken steps to ensure that the members of staff directly involved are made responsible in this connexion to the fullest extent and to make them more aware of their obligations in this matter.

d) Orders in the absence of available commitment appropriations (p. 122)

The Commission, by virtue of Article 6(c) of the Euratom Treaty, placed the ESSOR reactor complex at Ispra at the disposal of the Italian Government. The contract was signed by the Commission in July and by the Italian Government in October 1973 and came into force retroactively as from 1 March 1973.

In order not to delay the investment relating to the construction of two high-power water-cooled loops which were essential to the pursuit of the ESSOR reactor programme, the JRC arranged for

certain preliminary studies for this work to be carried out during the second half of 1973 without having first committed the necessary appropriations.

This is a rather exceptional case: the decision to place ESSOR at the disposal of the Italian Government had already been taken, which implied that there was an inescapable obligation arising out of the commitments entered into. It was unlikely that the delay in the signing of the contractual document would endanger the execution of the contract itself.

The Commission, while recognizing the correctness of the Financial Controller's action, decided to override his withholding of approval, believing that it was obliged to act in this way by the special difficulties of management of the ESSOR complex by the JCR on behalf of the Italian Government and by the requirements of the timetable facing the JRC during the start-up period.

Services performed on behalf of outside bodies (p. 122)

106. Financial management of the contracts (p. 122)

The contracts for the account of outside bodies, covering activities of a special nature and extending over several financial years, are very difficult to administer within the strict framework of an annual budget. The difficulty is compounded by the unfortunate drafting of Article 98 of the Financial Regulation which will have to be improved in the course of the general revision of the Financial Regulation. The individual procedures have had to be improved. It has not been possible to see their effects until the financial year 1975. The situation described in the report is the consequence of difficulties of execution encountered within the framework of the management of the function-orientated Budget.

Audit of extra-budgetary accounts of the Ispra
establishment (p. 123)

107. (p. 123)

The majority of cases mentioned in the Audit Board's report have already been regularized.

On the subject of the sums received for services rendered to staff by the medical department at Ispra, it should be borne in mind that this department was assigned, in 1973, to the General Budget of the Commission, which gave rise to a number of procedural problems, particularly in connexion with the re-entry of revenue.

With regard to the revenue receivable under the ESSOR contract, the major part was collected within the stipulated time-limits; the issue of receivable orders was delayed somewhat because of difficulties attributable to the data-processing system. This situation has been regularized from the beginning of 1975.

The greater part of the exchange differences found had their origin in operations connected with the ESSOR contract. The relevant charging was delayed pending a decision of principle in connexion with the management and utilization operations at the ESSOR complex (on this subject see also the reply under point 105 d) above).

B. Joint programme and complementary programmes (p. 123)

Indirect actions - headquarters

110. Accounting (p. 125)

The remarks made by the Audit Board can only apply to "internal" operations effected at 31 December of the financial year in question.

It is out of concern to improve the accounting and to respect scrupulously the regulations, particularly Article 5 of the Financial Regulation, that the internal operations which can only be executed after the closure of all the accounting operations of a financial year, notably in the case quoted by the Audit Board, are back-dated to 31 December.

This is a method used in the majority of public and private accounts departments and which was adopted some time ago with the approval of the relevant departments of the Audit Board.

This practice, employed at a time of year when accountancy work is being carried out on two different financial years, enables the operations to be attributed to the year to which they relate, enables errors of charging or classification to be avoided and enables the operations relating to two financial years in the course of implementation to be kept apart by data-processing methods.

It is nonetheless true that the supporting documents produced in substantiation of the accounting forms do indeed show the real date of preparation, which, moreover, enabled the Audit Board to make this observation.

The difference between the total amount of the Commission's contribution as fixed by contract and the amount committed in 1974 arises from the fact that the Commission enters into commitments annually. The contract stipulates a maximum amount which the contracting party may not exceed during the financial year (1974) and it is this amount which has been committed. The balance was committed in 1975.

111. Management of contracts (p. 125)

a) Nature of the audit (p. 125)

In the case of research contracts proper, audit of the execution of the research is carried out directly by the Commission's departments, in application of Articles 3 and 4 of the general conditions applicable to research contracts.

b) Bases of audit (p. 126)Association Contract 024-71-1 FUA 1 - Euratom/CNEN

- 1) As all accounts are based on supporting documents and the Audit Board admits that the accounts of the Comitato nazionale per l'energia nucleare (CNEN) distinguish the priority projects, the Commission is surprised that the Audit Board can assert that the supporting documents do not enable one to identify the two types of project. Since CNEN's accounts are accounts by objective, as soon as the Commission decides that a project should receive priority support (additional contribution of 14.20%, all programmes receiving a contribution at the rate of 29.7%), the supporting documents relating to the equipment connected with that project (e.g. construction of the TOKOMAK are analysed separately in the accounts and thus receive the additional contribution from the Commission. Moreover, these documents were audited on the spot in the presence of a representative from the Audit Board.

With regard to the amount of VAT repayable, it should be borne in mind that purchases of goods and services for the official use of the European Communities in Italy are directly exempted from VAT from 1 January 1975 (Decree of the President of the Republic No. 687 of 23 December 1974 - Italian Official Journal No. 338 of 28 December 1974, and Decree No. 288 of 2 July 1975 - Official Journal No. 183 of 11 July 1975).

For the period 1 January to 31 December 1974 the Commission is awaiting deduction or repayment of the VAT through the medium of CNEN. As regards the customs duties, on the other hand, negotiations with the Italian authorities have not yet been completed.

Association contract with the Rijksuniversiteit, Leiden - -
Contract 102-72-1 BIAN

The Audit Board's comment that separate accounts are not kept for the expenditure laid out under the head of this association contract disregards the fact that all time worked by the research workers assigned to the research programme are entered on quarterly timesheets and that these timesheets enable an effective audit to be carried out.

112. Euratom's share of contributions to research expenditure (p. 126)

The percentage of contribution to the contracts generally varies not from contract to contract but according to the programme. The contribution percentages are sometimes fixed by the Council (e.g. objective "Controlled thermonuclear fusion"). In other cases the Commission endeavours to harmonize the contribution percentages within the limits of the budgetary funds available. By way of example, the average is 50% for contracts in the field of Protection of the environment and 40% for contracts in the field of Biology. As to the method of calculating the reimbursement of expenditure, this is obviously dependent on the structure of the contracting agency.

The choice of contracting party, the assessment of the cost of the studies and the scientific value of the study are the result of negotiation and dialogue between the Commission's departments and the originator of the proposal on the one hand and the Advisory Committee on Programme Management (CCMGP) created by the Council on the other. This committee helps the Commission to examine proposals in the light of the following criteria: conformity with the outline programme adopted by the Council, intrinsic scientific value of the proposal and of the research group, cost of the proposal. It is on the basis of the opinions expressed in the Advisory Committee that the Commission takes its decisions. There is therefore nothing unusual in these decisions being made taking into account a diversity of situations which have their influence on the criteria mentioned above.

Experience shows that it hardly ever happens that proposals are finally accepted by the Commission in their original form: in the great majority of cases, changes are made either to their scientific content or to their budgetary aspect on the initiative of the Commission's departments assisted by the CCMGP.

Moreover, it should be stressed that the Commission can exercise its powers of decision with more independence if it possesses an adequate scientific and administrative staff. The less this condition is fulfilled, the more the Commission is obliged to ~~rely on~~ resort to the opinion of national experts.

With regard to the disposal of equipment acquired within the framework of the contracts of association of the Second Euratom Quinquennial Programme, it is pointed out that in scientific matters the objective value of the knowledge received is difficult to determine. It was for this reason that the Commission calculated the accounting value of the cost of research which had led to the production of this knowledge and decided that it was of equivalent value to the equipment, which, as far as the Commission was concerned, was valueless.

REPLIES BY THE OTHER INSTITUTIONS
TO THE OBSERVATIONS CONTAINED IN THE REPORT OF
THE AUDIT BOARD
ON THE ACCOUNTS FOR THE FINANCIAL YEAR 1974

Mr François Xavier ORTOLI,
President of the Commission
of the European Communities,
200, rue de la Loi,
1049 BRUSSELS

Sir,

I have the honour to communicate to you below the text to be annexed, as the reply of the European Parliament, to the report of the Audit Board on the expenditure for the financial year 1974:

"The European Parliament, as in the past, does not consider it need make use of the right of reply granted by Article 7 of the Financial Regulation establishing the procedures relating to the rendering and verification of the accounts of the common Institutions.

The report of the Audit Board will be submitted to Parliament in accordance with the provisions of Article 10 of that same Regulation, and the European Parliament will have full freedom to formulate the observations which it considers appropriate in the course of the parliamentary proceedings following that submission."

Yours faithfully,

G. SPENALE

At 31 October 1975 the Commission had not yet been notified of the Council's reply to the observations in the report of the Audit Board on the accounts for the financial year 1974.

Mr J. VAN GRONSVELD,
Director-General for Budgets,
1, avenue de Cortenberg

1040 BRUSSELS

Sir,

In reply to your letter of 1 October 1975 concerning the replies of the Institutions to be annexed to the annual report of the Audit Board for 1974, I have the honour to inform you that the Court of Justice considers that it need not make any comments on the observations in the report which concern the Court of Justice.

Yours faithfully,

A. VAN HOUTTE

Registrar

At 31 October 1975 the Commission had not yet been notified of the reply of the Economic and Social Committee to the observations in the report of the Audit Board on the accounts for the financial year 1974.