

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

THE AUDIT BOARD

# REPORT

on the accounts for the financial year 1973  
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 1973

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 1973, 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 operational 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 gr. 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	F1
	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 of the Euratom Supply Agency. Following that audit it has drawn up a separate report dated 23 April 1974 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 1972, was prepared on 12 March 1974.

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In keeping with the provisions of Article 91 of the Financial Regulation concerning the Communities' Budget, the Audit Board is required to prepare its report on the accounts of the financial year 1973 by 15 July 1974 at the latest.

The Audit Board had not been provided with the full accounts by that date, owing to the delay in the accounting operations and in the closing of the Institutions' accounts. The statement of the research and investment expenditure and the final accounts of the EDF's operations were still not available and other sections of the management accounts were still subject to reservations. The Audit Board was accordingly unable to transmit the draft of some parts of the report to the Institutions in time to obtain the replies required to ensure that the procedure for preparing the document was based upon joint consultation.

The Audit Board therefore drew up its report on 15 July 1974 with due reservations for any changes which any amendments to the management accounts might require and for the Institutions' replies to the comments.

It was possible to complete the examination of those amendments and replies by 1 October 1974 when the final text of this report was drawn up and distributed.

The Institutions have, moreover, so far reserved the right to prepare replies even after the lodging of the report (cf. Comment No 5 below). These replies, of which the Audit Board has not yet had cognizance, will be annexed to the report when it is transmitted by the Commission to the Council and Parliament.

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The Audit Board has been able to maintain relations of trustful cooperation and mutual understanding with the majority of the responsible authorities and departments of the Communities.

With the exception of the cases mentioned in this report, the Board has obtained without difficulty and within a satisfactory period of time the information, explanations, communications and supporting evidence which it has felt it should request in the accomplishment of its tasks.

As in the past, it has been able to count upon the competence and devotion 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 1973

The financial year 1973 is the first financial year of the enlarged European Community. The original Budget for the year, which was prepared with a view to a Community consisting of ten Member States and finalized on 6 December 1972, was for revenue and expenditure of 4 245 282 241 u.a.

The original estimates were subject to four amending and supplementary Budgets, the first dated 21 May 1973 and the other three dated 21 September 1973. The amending and supplementary Budgets included various changes in the appropriations and staff strengths which were primarily intended to allow for the non-accession of Norway, for the programme decisions adopted by the Council with regard to the Euratom research and investment activities and, above all, for a marked increase in the expenditure of the Guarantee Section of the EAGGF.

The appropriations for the year were accordingly raised to a final total of 5 134 493 871 u.a., broken down as shown in the following table which also includes the corresponding appropriations in 1972:

	1972 Appropriations		1973 Appropriations	
	u.a.	%	u.a.	%
Guarantee Section of EAGGF	2 882 190 000	65.91	3 806 546 000	74.14
Guidance Section of EAGGF	839 551 300	19.20	350 000 000	6.82
European Social Fund	97 750 000	2.24	282 950 000	5.51
Food Aid	102 123 000	2.34	48 177 000	0.94
Euratom research and investment expenditure	76 383 543	1.75	74 686 830	1.45
Lump-sum reimbursement of the cost of collecting own resources	185 175 000	4.23	260 467 841	5.07
Administrative and operating expenditure	189 456 875	4.33	311 666 200	6.07
<b>Total</b>	<b>4 372 629 718</b>	<b>100.-</b>	<b>5 134 493 871</b>	<b>100.-</b>

2. The new Financial Regulation applicable to the Communities' Budget

A new Financial Regulation applicable to the Budget of the Communities was adopted by the Council on 25 April 1973 and came into force on 1 May 1973 (OJ No L 116 of 1 May 1973). This regulation amended or supplemented various aspects of the former provisions, especially with regard to the timetable for rendering and auditing the accounts.

a) Time-limit for preparing the management account

The time-limit for preparing the management account was put back from 1 March to 1 June following the end of the financial year, because of the existence of additional periods designed to take into account the own resources and expenditure of the Guarantee Section of the EAGGF.

In recent years these additional periods and other time-limits had meant that the final date of 1 March was regularly and, on many occasions, greatly exceeded. Nor has the final date of 1 June for submitting the 1973 account been respected any more than was 1 March in the case of the 1972 account.

In order not to delay the work involved in preparing this report, the accounting departments of the Commission endeavoured to prepare a first version of the accounts which they forwarded to the Audit Board on a provisional basis: this has had the advantage of reducing the drawbacks caused by non-compliance with the prescribed time-limit. This provisional account did not, however, cover the "revenue" section of the Budget, the research and investment appropriations, the financial statement as at the end of the year or the analysis of the management provided for in Article 81 of the new Financial Regulation. Moreover, some of the figures submitted were subject to reservations or have had to be subsequently revised.

The Audit Board has already emphasized (Cf 1970 Report, No 194) that apart from delaying the closing of the accounts, the creation of additional periods for finalizing the Budget means that, for the various managements, totals fixed on different dates (15 January, 15 February, 31 March) are presented and, in addition to being difficult to compare, are markedly different from the operations actually reflected in the Institutions' accounts during the year.

b) Transmission of supporting documents and verification of the commitments

Article 86 of the Financial Regulation requires that each quarter, in the month following the quarter, every Institution shall provide the Audit Board with the documents supporting the accounts and in particular the documents and certifications concerning the proper application of the provisions governing the implementation of the Budget, the commitment and payment of expenditure and the establishment and collection of revenue.

These provisions were not strictly applied in 1973. Owing to the delays in establishing a "single accounting centre", it was impossible to draw up quarterly accounting statements. Moreover, there were some very serious delays in submitting the supporting documents, particularly as regards the research and investment appropriations and the press offices.

But above all the Audit Board was unable to perform its verification function in connection with the commitment of expenditure. In April 1974, after carry-over decisions had been taken, it received only a collection of commitment notes without any statement of account or supporting documents. In future these notes, together with the supporting documents, should be submitted quarterly like the payment orders.

c) Provisions concerning control

The new Financial Regulation has clearly defined the prerogatives and powers of the Audit Board with regard to the Community Institutions. The new provisions have made it possible to solve most of the problems which the Audit Board encountered in previous years when exercising its functions in relation to the Commission and some services.

As regards control in the Member States, Article 87 of the new Financial Regulation has provided that the Audit Board may attend the verification operations carried out on the spot by the Commission in connection with the own resources or expenditure of the Community Funds.

However, no provision has been made for the carrying out by the Audit Board of autonomous verifications in the Member States pursuant to the provisions of Article 206 of the EEC Treaty.

In three letters sent to the Council on 21 March and 16 May 1973, which have as yet received no reply despite a reminder in March 1974, the Audit Board raised this matter, stating its opinion that any effective verification of the operations carried out by the Member States and relating to the financial management of the Communities must be effected by the external Community audit body which should be empowered to verify the operations on the spot in the Member States.

A Community body of this kind which has the necessary extensive knowledge of national and Community procedures would best be able to ensure that the Community regulations were uniformly interpreted and applied in the nine Member States.



In the meantime, and with the agreement of the Federal German authorities, the Audit Board has been able to carry out an on-the-spot verification of the expenditure on export restitutions of the EAGGF Guarantee Section in Hamburg between 20 May and 7 June 1974. The Audit Board hopes that its findings on that occasion can be supplemented by similar verifications in the other Member States. The audit was carried out in consultation with the Audit Office and concurrently with a similar verification by that Office.

3. Relations between the national and Community external control bodies

Large sectors of the Community funds (own resources, Guarantee and Guidance Sections of the EAGGF, Social Fund, Food Aid, etc.) are managed by the agencies and departments of the Member States.

Audit of these sectors of revenue and expenditure therefore calls for close cooperation between the Community auditing organizations and the authorities who on the national level are empowered to examine the management of the departments and agencies involved.

With this in mind, the Audit Board established direct contacts with the senior external audit bodies of the Member States with a view to improving mutual information and defining the possibilities for cooperation.

Consequent upon these contacts, the Audit Board made an overall comparison of the organization and functioning of external auditing in the Member States. Without giving a detailed account with the various factors compared, it must be commented that some very large disparities occur between the Member States with regard to external auditing, disparities which relate to the institutional concept of such auditing, the extent of the verifications made, the operating procedures and the use made of the findings.

Disparities also occur in the verifications which the national external audit bodies carry out with regard to Community revenue and expenditure managed by the national departments and agencies on behalf of the Community.

The ascertainment and collection of the Communities' own resources are verified in very different ways by the senior national audit bodies and in some cases the verifications deal only with the general revenue accounts.

For Community expenditure also (Guarantee and Guidance Sections of the EAGGF, Social Fund, Food Aid, etc.), the national external audit varies from country to country, particularly as regards the extent of powers over the decentralized administrations and the semi-public or private-law agencies involved in this form of management. Generally speaking, external control over such agencies remains restricted.

These disparities of course have their origin in the internal legal systems of the Member States and to a large extent they are also connected with organizational differences in the internal audit and inspection departments and even the management departments.

Even though recent changes have been made in various sectors and several of the situations noted are being given critical examination, these disparities are not likely to diminish and will continue in future years.

The Community has responsibilities of its own for the management carried on in its name by the departments and agencies of the Member States and it must be able to discharge those responsibilities by suitable audit of those management activities. It must be possible to adapt this audit to the legal structures specific to each Member State and to the various situations obtaining in the different countries.

Cooperation between the national and Community audit organizations and especially the external audit bodies would in no way limit the autonomous powers of those national and Community bodies. Indeed, with a view to efficiency and rationalization, such cooperation is intended to ascertain exactly what the existing controls are, to make the best use of the facilities they offer and to supplement them as expedient.

The senior audit authorities cannot dissociate themselves from the management activities for which the national departments assume responsibility on behalf of the Communities. Their legal, administrative and technical competence is valuable and, in many cases, irreplaceable for the Community whose interventions are quite naturally more removed from the national management level and directed more towards a comparison between the Member States and an awareness and evaluation of the results on the Community plane.

Without prejudice to its autonomous rights of verification and in so far as the management operations relate to Community finance, the Audit Board considers that, in addition to contacts and general exchanges of information, such cooperation should progressively 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 by 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.

In most countries such forms of cooperation face serious legal obstacles which the perfecting of Community law should eventually remove.

The Audit Board feels that it is justified in adding that in many respects its anxieties on this subject coincide with those of the senior audit bodies of the Member States which feel that the initial contacts made in recent years should take concrete form in a fruitful cooperation.

4. Relations between the Audit Board and the financial controllers of the Community Institutions

In its previous report (No 2,i) the Audit Board stressed that in order to organize its work rationally, to give it full effectiveness and to avoid duplication of tasks, it must be correctly informed of the programmes of internal control in general, of the scope of the checks carried out and of the results obtained.

To this end, it must have, more particularly with the Directorate-General of Financial Control, close relations and frequent contacts which in no way impair the independence of a department that is, moreover, invested with internal responsibilities for a priori control.

The new Financial Regulation stipulates that the Audit Board must be informed of decisions to override the refusal of the Financial Controller to grant approval (Articles 43 and 52) and these provisions should make it possible to lay the foundations of closer relations between the two systems of control; these relations should not simply concern notification of any cases of withholding of approval and decisions to override such withholding of approval but should be extended to cover improved information about internal control activities.

In application of the aforesaid provisions of the Financial Regulation, the Audit Board asked the Community Institutions to inform it of decisions to override withholding of approval. It also asked them for information on the actual decisions to withhold approval.

The European Parliament, the Court of Justice and the Economic and Social Committee replied that no instance of withholding of the Financial Controller's approval nor a fortiori of decisions to override such withholding of approval had occurred in their own Institutions in 1973.

At the time of writing, the Commission had not yet replied to the requests made with regard to refusals of approval. No instance of overriding such refusals occurred in the Council in 1973; as for notification of instances of refusals of approval, that Institution stated that the question involved a problem of interpretation which is still being examined.

The Commission communicated to the Audit Board nine decisions to override refusals of approval opposed by the Financial Controller during the period from 1 May to 31 December 1973.

With the exception of a decision concerning secondary charging of items of research and investment expenditure in the financial year 1972, the cases communicated all relate to personnel expenses (appointment without competition of a director and principal director, conclusion of an expert's contract and a retroactive employment contract for a temporary servant, remuneration of technical agents seconded by an external authority, extension of the secondment of an official in the interests of the department, overtime worked in excess of the authorized maximum, purchases of special equipment for missions).

From the technical point of view of the examination of the legality and regularity of the revenue and expenditure and also the control of sound financial management and without therefore pre-judging any legal interpretation of the texts by the competent authorities nor other factors which the authority overriding the refusal may have taken into account, the Audit Board considers that the refusal of the Financial Controller's approval for these items of expenditure was justified.

It hopes that, regardless of the subject matter of a decision to override the withholding of approval the cases examined will help in the future to initiate measures which will be more in accord with the principles of the regularity of revenue and expenditure and also with the rules of sound financial management.

##### 5. Procedure for communicating and examining the report of the Audit Board

Under the provisions in force, the Audit Board prepares its report by applying a joint consultation procedure and finalizes it by 15 July following the end of the financial year. This report must be submitted to the Council and Parliament by the Commission by 31 October together with the Institutions' replies. Article 92 of the Financial Regulation stipulates that the Council and Parliament shall give discharge to the Commission for the implementation of the Budget before 30 April of the following year.

Compliance with these time-limits is essential in order to avoid an excessively late examination of the Audit Board's report.

Although the Audit Board has always finalized its report within the stipulated time-limits, the date fixed for its transmission to the Council and

Parliament has hardly ever been respected, particularly in view of the exigences of translation and the work required for preparing the replies which the Institutions draw up after the report has been lodged.

This procedure of preparing the replies after the report has been lodged has other drawbacks besides the extension of the time-limits. It means that replies are submitted in the form of an annex to the Audit Board's report of which the Board has not been informed and which in some respects may prove incorrect.



Various replies to the 1972 report refer to comments which appeared in the preliminary documents but which were omitted from the final report. Examples are the replies to the section of the report dealing with the Development Funds and to some comments concerning Food Aid. Other statements or corrections - even to statistics - which appear in the replies have proved unjustified.

Thorough discussions with the competent departments at appropriate level and also preparation of the replies should be carried out before the final version of the report is written. As for the submission of those replies as an annex to the report, this should be done by the Audit Board itself, giving whatever information may seem expedient.

It should also be commented that at the time of writing no decision to grant discharge has yet been adopted for the financial year 1972, nor even for 1971. The last such decision adopted therefore relates to 1970; it was published in Official Journals Nos L 145 of 2 June 1973 and L 228 of 16 August 1973. As regards the Audit Board's 1972 report, this was forwarded to the Council and Parliament in March and April 1974 although translations into all the official languages of the Community were not available.

The purpose of the decision to grant discharge is to ascertain the revenue and expenditure, to approve or, if necessary, amend them, and also to give or refuse discharge for all the known circumstances of management to the authority with responsibility for implementing the Budget.

The serious delays in those decisions risk considerably to reduce their value and scope even though Article 92 of the new Financial Regulation stipulates that the Institutions should adopt all expedient measures for acting on the comments in the decisions of discharge and that they should report upon and account for the measures taken.

6. Problems connected with the conversion of the currencies

The Audit Board dealt with these problems in Para.3 of its 1972 report. Since the situation has not changed, the main points are briefly recapitulated below.

a) Accounting for exchange differences

The value of the unit of account in which the Communities' Budget has to be drawn up is defined in Article 10 of the Financial Regulation as being equivalent to 0.888 670.88 gr. of fine gold. For accounting purposes the unit of account is the Belgian franc. Member States' currency transactions are converted into units of account for the purposes of the Budget, while for accounting purposes they are converted into Belgian francs at the most recent parity declared to the International Monetary Fund. Variations in the floating currencies and other reasons may cause the declared parities sometimes to vary widely from the day-to-day exchange rates.

The fact that exchange rates differing widely from the actual rates are employed for Budget and accounting purposes produces some undesirable results. It influences the calculation of the Member States' contributions to the Budget. It affects the amounts recorded in the accounts as expenditure and revenue.

It throws doubt, in view of the possibilities that currencies may be transferred from country to country, upon the actual values of the balance sheet funds which have been converted into units of account from the national currencies at the International Monetary Fund parities. It leads to the recording of substantial sums as exchange differences which in fact are not genuine exchange gains or losses. At 31 December 1973 the accounts showed an alleged exchange loss of 9.3 million u.a.; at 30 September 1973, the recorded "gain" was 31.15 million u.a. but this was transformed into a loss by the end of the year, primarily because of transfers of funds for the Communities' needs effected at that time by Member States whose currencies were floating at a comparatively low level to other Member States with stronger currencies.

b) Application of unjustified exchange rates

In Paragraph 3(b) of its 1972 report, the Audit Board demonstrated the gains which may be made by officials and experts who, after incurring travel and hotel expenses in one currency, are reimbursed in another currency on the basis of an equivalent rate calculated from the International Monetary Fund parity and not from the actual exchange rate. In this way some reimbursements of travel expenses to officials, experts, interpreters and candidates may exceed the expense actually incurred by more than 50%. When it issued a notice supporting the Commission's decision to override a refusal of the Financial Controller's approval for this type of transaction in December 1971, the Legal Department of the Commission considered that this matter of principle should be regularized as soon as possible.

The practice of reimbursing at the official parity and not at the actual exchange rate nevertheless continued to occur throughout 1973. However, the provisions in force do not seem to prevent application of the actual exchange rate as employed by the Council and Court of Justice for reimbursing travel and other expenses and the Audit Board recommends that the present procedure

be revised as a matter of urgency in order that these rates shall be applied.

Similar profits may also be made on reimbursement of removal and medical expenses and also on officials' entertainment allowances and repayments of advances.

In the case of one removal for which the invoice was £597.50, Bfrs 71 000 were refunded to the official concerned, a gain of some 20 % at the current exchange rate.

An official stationed in Chile, who arranged that his remuneration should be paid in three different European countries, managed to obtain reimbursement of his entertainment expenses in DM.

An official stationed in Washington received from the Brussels funds an advance of Bfrs 580 000 following an accident. It was stipulated that the advance should be repaid by stoppages from travel expenses for the annual leave or by recovery from the insurance compensation. In fact the official concerned repaid the sum by means of a bank transfer of \$11 600 which at the official parity was equivalent to Bfrs 580 000 while at the current rate it was equivalent to approximately Bfrs 410 000 giving a saving of some Bfrs 170 000 or 30%.

c) Anomalies in the exchange rates applied to remuneration and pensions

In para. 3(c) of its 1972 report, the Audit Board referred to some anomalies affecting remuneration and pensions, which had been caused by the monetary situation.

The Commission replied that Articles 63 of the Staff Regulations and 17 of Annex VII to the Staff Regulations which stipulate respectively the exchange rate to be employed for converting remuneration from the Belgian franc to another currency and the procedure for transfers of part of the remuneration to the place of origin no longer, in this period of monetary instability, meet the purpose intended in 1962. The Regulations' provisions no longer make it possible to ensure equivalence for the financial obligations of an official at his place of origin. The Commission is studying the expediency of revising the Regulations and will in due course submit its conclusions and proposals to the Council.

The Staff Regulations have not yet been amended. So the anomalies still exist. The Audit Board therefore suggests that the Staff Regulations be revised as soon as possible.



CHAPTER 2: REVENUE

7. The income provided for in the 1973 Budget of the Communities (initial Budget and supplementary Budgets) amounted to 5 134 493 871 u.a. of which 2 485 843 718 u.a. was to be in the form of contributions from the Member States. The details of the estimates and the actual revenue at 31 December 1973 for the various categories of funds are given in the Annex to this Report.

8. Procedure for recording various debts

Articles 23 and 24 of the Financial Regulation stipulate that revenue claims shall be prepared for each debt of the Communities and that the accounting officer must assume responsibility for duly formulated claims and arrange for the recovery of the resources.

These provisions show that it is the function of the accounting officer to approach debtors in order to recover the sums due. In practice the authorizing officers assume this function which is accordingly distributed throughout the Community. The Audit Board recommends that the respective responsibilities of the accounting officer and the authorizing officer be clearly defined.

In Para. 5 of its 1972 report, the Audit Board stated that no accounting record had been kept of revenue claims received by the accounting officer before recovery of the debts, the documents being kept in a file pending recovery; these debts due to the Communities were therefore not recorded in the accounts. Moreover, the revenue claims were in many cases issued only after the recovery of the debt.

During 1973 no accounting record was kept of the debts known to the accounting officer by reason of the revenue claims received from the authorizing officers. At the end of the year the unrecovered debts known to the accounting officer by reason of the revenue claims in his possession were, however, taken into account and included in the assets of the balance sheet as at 31 December 1973.

It is intended that in future the amounts of the revenue claims will be

recorded in the accounts immediately upon receipt. The Audit Board stresses the importance of this procedure since, without it, it will be impossible to ensure the correct recording of the debts. Serious delays sometimes occur between the noting of a claim and the preparation of the revenue claims by the authorizing officer. For instance, ten revenue claims representing 800 000 u.a. were issued at the end of 1973 for invoices relating to interpreting services provided to the Council and the European Investment Bank in 1972.

Large sums were received by the accounting officer in 1973 without prior notification of the debts by means of revenue claims. In these cases the procedure adopted by the accounting officer is to try to identify the revenue through the authorizing officers concerned. This procedure is slow and in many cases the authorizing officers do not seem in any particular hurry to bring the accounting officer's investigations to a successful conclusion. The



revenue remains on a transitional account until it is identified. At 31 December 1972 the balance on this transitional account was 26 714 u.a.; at 31 December 1973 it stood at 161 282 u.a. At the time of the audit in March 1974, revenue of 4 572 u.a. was still unidentified from January 1973, 8 807 u.a. from March 1973, 29 128 u.a. from July 1973 and 63 553 u.a. from September 1973.

Collection of all the Communities' debts cannot be ensured unless a revenue claim is issued for each debt by the responsible authorizing officer as soon as the debt comes into existence and unless the claim is immediately forwarded to the accounting officer for recording. The situation described above gives grounds for suspecting that this procedure is not always followed and that as a result there is a genuine risk that debts may be omitted. The Audit Board therefore strongly urges that the recording and recovery procedure for debts be revised and strengthened as a matter of urgency.

Several credit notes sent to the Commission by suppliers were received by the accounting officer in 1972 but he has not received subsequent information from the authorizing officers with regard to the recovery of the sums credited, either in cash or in the form of deductions from other invoices. The accounting officer received no credit notes in 1973 and so he is unaware whether or not there are any sums to be credited. It is accordingly suggested that the revision proposed above with regard to the procedure for recording and recovering debts be extended to cover the procedure applied to credit notes.

9. The Communities' own resources

a) Control of operations carried out in the Member States

The total revenue in the form of own resources in 1973 is 2 500 988 107 u.a.

In its 1972 report the Audit Board stated that it had not had the opportunity to carry out checks of the operations in the Member States as regards the collection and declaration by those States of the Communities' own resources and that it was therefore unable to give an opinion upon the financial functioning of the "own resources" system. The Audit Board considers that by virtue of Article 206 of the EEC Treaty it has the right and duty to make such checks. It informed the Council of this in March 1973 and March 1974, asking

for the facilities necessary for this purpose to be made available. It has not yet received any reply.

Regulation No 2/71 lays down that at its request the Commission may take part in the checks made by the Member States upon the own resources. In 1973 the Commission made five visits to the Member States for checking purposes. The Audit Board will see the verification reports which the Commission will prepare upon these visits.

Article 87 of the Financial Regulation stipulates that for the purpose of collecting all the information required for fulfilling the function entrusted to it by the Treaties and the measures taken to implement them for, the Audit Board may, at its request, attend the operations carried out pursuant to Regulation No 2/71. It was present at two visits made by the Commission to Member States in 1973.

In reply to the Audit Board's 1972 report, the Commission stated that it was possible to obviate the problems connected with investigations on the spot allowing representatives of the Audit Board to be present, at the Board's request, during the verification being carried out by the authorized agents of the Commission. The Audit Board consider that the two visits in 1973 have been very helpful in view of the information they provided as to the nature and extent of the Commission's verifications and as to the procedures employed in the Member States; it therefore intends to make other visits in future years.

However, a clear distinction must be drawn between attendance at the operations carried out by the Commission and the checks made by the Audit Board itself. The Commission prepares its programme and carries out its verifications on its own responsibility; the Audit Board is present during this verification in order to obtain information and is not permitted to implement a programme of its own. It is clear that the Audit Board cannot fulfil the function bestowed upon it by the Treaties while it lacks the facilities to carry out in the Member States autonomous examinations of transactions relating to the Communities' finances.

b) Regularity of the remissions and exemptions granted by the Member States

During a visit to the Netherlands a defect was found in the control of the exemption from the collection of export levies granted in respect of some dairy products. The Government has since solved this problem by suitable measures.

A visit to the Federal Republic of Germany revealed that the administration remitted or allowed non-value entry of sums due under the heading of own resources when recovery could not be effected or would have caused serious problems to the debtors. The sums thus remitted or accepted as non-values are revenues owing to the Communities and it should be considered whether a Member

State is entitled to waive the recovery of funds belonging to the Community and, if so, under what conditions. This question is important for every Member State; it is under examination and the Audit Board considers that a solution compatible with the Communities' legislation should be found as soon as possible.

c) Lack of financial accounts showing movements during the year of the Commission's liquid assets in cash accounts in the Member States

Article 72 of the Financial Regulation stipulates that the entries relating to the Budget accounts be recorded in books or records which must make it possible to draw up a general monthly balance of the accounts and also a statement for each chapter and item of budgetary revenue and expenditure.

In Para.6(c) of its 1972 report the Audit Board noted the delay found in 1972 in recording own resources collected. This delay still existed in 1973 with in many cases an interval of two or three weeks between crediting in the accounts opened with the Treasuries of the Member States and receipt of the supporting documents followed by the appropriate accounting entry. The Commission's accounts relating to own resources accordingly fail to reflect the financial situation accurately and may often show fictional debit balances as in the following cases:

Account 52.009. Federal Chief Cash Office, Bonn	30 4 1973	u.a.	47 191 558
	25 5 1973	u.a.	115 744 836
Account 52.029. Belgian Treasury	30 4 1973	u.a.	27 669 010
	4 6 1973	u.a.	32 680 993
Account 52.040. Italian Treasury	30 4 1973	u.a.	38 266 983
	15 6 1973	u.a.	30 642 554

Only at the end of the year after antedated entries have been made can full agreement be established between the Commission's accounts and the cash accounts of the Member States relating to own resources. During the year the general monthly balance did not reflect the true position of the Commission's resources. This obviously creates a very unsatisfactory situation and the Audit Board recommends that urgent steps be taken to remedy it.

It was also found that contrary to Article 23 of the Financial Regulation, the revenue claims pertaining to these operations were in most cases presented for the Financial Controller's approval after the sums paid by the Member States had been entered in the accounts.

10. Delays in clearing suspense accounts

Considerable delays occurred before sums entered on suspense accounts

such as:

- Personnel - sums payable or receivable
- Miscellaneous expenditure to be charged
- Advance on the printing of the Official Journal
- Refunds of sums incorrectly paid

were cleared.

It may be mentioned that sums of 7 479 u.a. and 1 114 u.a. were cleared from the first of these accounts after two and three years respectively. Some refunds of incorrectly paid sums totalling 483 u.a. have been awaiting action since 1969. One item of miscellaneous expenditure to be charged, totalling 46 000 u.a., which was entered in 1971, was settled in April 1974 after the Audit Board had intervened.

The Audit Board recommends that in future there should be much stricter control over amounts debited or credited to suspense accounts. To this end close cooperation, which has often been lacking in the past, must be maintained between the authorizing officers and the accounting officer.





**CHAPTER 3 : THE OPERATING EXPENDITURE OF THE INSTITUTIONS**

**A. STAFF EXPENDITURE**

**11. Numbers of staff in employment in 1973**

Comparison of the numbers in employment at the end of the financial years 1972 and 1973 (officials, temporary staff, establishment staff of Euratom) shows a further appreciable increase in staff, due mainly to the recruitment of nationals of the three Member States acceding to the Communities on 1 January 1973.

	Number in employment at 31 December		Numbers authorized by the 1974 Budget
	1972	1973	
Parliament	622	881	1 172
Council	844	1 101	1 330
Economic and Social Committee	169	230	284
Audit Board	21	22	30
ECSC auditor	4	4	5
Commission :			
- operating expenditure	5 684	6 485	7 375
- research and investment exp.	2 221	2 161	2 198
Court of Justice	128	192	254
<b>Total</b>	<b>9 693</b>	<b>11 076</b>	<b>12 648</b>

To the numbers occupying posts provided for in the Budget must be added the auxiliary and local staff as well as the special advisers: these numbered 1 127 at 31 December 1973 and may be analysed as follows:

	Auxiliary servants	Locally-recruited servants	Special advisers
Parliament	75	137	1
Council	13	10(1)	2
Economic and Social Committee	20	4	-
Commission :			
- operating expenditure	79	357(2)	31(3)
- research and investment exp.	3	360	-
Court of Justice	28	7	-
<b>Total</b>	<b>218</b>	<b>875</b>	<b>34</b>

- (1) Not including 21 servants remunerated directly from the funds of the Council restaurant
- (2) Not including 98 servants remunerated directly from welfare funds (restaurant, crèche, etc.).
- (3) Including one special adviser attached to both the Parliament and the Court of Justice, and 15 special unpaid advisers who were former officials remaining at the Commission's disposal until the end of the year.

At the end of the financial year 1972, 258 auxiliary and 758 local staff were employed in the Institutions of the Communities.

12. Comments on the collective statements of staff remuneration

a) Desirable improvement in the security measures for data-processing of the Commission's staff

Some security measures are essential so that the risk of unauthorized or fraudulent use of computers is reduced to the minimum. The Audit Board has examined such procedures in connection with the calculation and payment of the remuneration of the Commission's staff by the Computer Centre in Luxembourg. Some weak points were noticed:

- the analysis files and flow charts should indicate whether the verifications and controls arranged in the programmes are effective and sufficient and

whether the programs are adequate with regard to their contents and functions. These files and charts have not been kept up to date and therefore do not satisfy the auditor's requirements. The Centre has proposed that the situation be rectified.

- Throughout all the operations the functions of the programmer, operator and program librarian should be kept separate. Unless specially authorized, the programmers should not have access to the programs and files once they have been put to use. Each access or use of the tapes or files by the programmers should be clearly recorded. The Centre explained that in view of the staffing situation, it was impossible not to allow programmers access to the library, but the Audit Board's suggestion that such access should be controlled and recorded has been noted.
- Desk sheets should record each programme run and each file used; these sheets should be studied at frequent intervals by the Directorate of the Centre. In the Centre, desk sheets are made out for work done during normal working hours and are examined by the Directorate. There is no such certainty of having a full record with regard to work done outside normal hours. The Centre has agreed on measures to be adopted in future to ensure that all work is completely recorded on the desk sheets.
- The tape library should keep a complete record of the use of the tapes. It was impossible to verify whether the records of use were complete. The Centre has promised to take action to remedy this situation.

b) Duplication of the files kept by computer

Two separate files of the Commission's staff are kept by the computer for use by two administrative sections of the Directorate-General of Staff and Administration. The first, "Renspers", contains information on the staff's administrative situation but has no accounting function while the other, called "Dossier", is used for preparing the remuneration lists. The Audit Board has suggested to the Commission that savings could be obtained by integrating these two files. The matter is being examined.

c) Possibility of centralizing the calculation and payment of the remuneration of the staff of all the Institutions

The remuneration of the Commission's staff is calculated and paid by the Computer Centre in Luxembourg. The other Institutions calculate and pay the remuneration of their own staff: the Council, Court of Justice and Economic and Social Committee by using their own computers and Parliament by means of accounting

machines. The fact that the calculation and payment of remuneration is non-centralized means that a separate program has to be prepared for each computer or accounting machine.

The Institutions' staff are remunerated on a common basis. The present capacity of the calculation equipment is such that it would be possible to use a single program for paying the staff of all the Institutions. Such centralization of the payment of remuneration - as is already applied in the case of pension payments - would probably lead to considerable economies and

the Audit Board suggests that this possibility should be studied without delay. A step in this direction has been taken by the Secretariat of Parliament which has been working on programs for the payment of remuneration by the Computer Centre for the past 6 months.

13. Insufficient results and imperfect application of certain measures intended to facilitate recruitment of nationals of the countries which have acceded to the Communities

Council Regulation No 2530/72 introduced special temporary measures so that nationals of the new Member States could be recruited before 31 December 1973 and the functions of Grades A 1 to A 5 inclusive could be discontinued before 30 June 1973. Officials whose functions were terminated were for one year to receive an indemnity equal to their last pre-retirement remuneration. They were thereafter to receive a reducing indemnity until they reached pensionable age and until the age of 65 at the latest, this decreasing indemnity to be revised to take account of any other occupational earnings. The release of the executive staff was intended to avoid an enlargement of the administrative structure.

For the Institutions as a whole, 319 new positions were created in the 1973 Budget although they were not all reserved for nationals of the new Member States. Moreover, the special measures for the termination of functions released 275 jobs. Of the total of 594 jobs available, 189 were provided by the procedure specified in Regulation No 2530/72, as can be seen from the table below. According to these figures, the special measures seem to have had limited success.

- 26 continued -

	Permanent and temporary positions										Recruitment potential (Totals 1 + 2)	Appointments Regulation 2530/72 (1)	
	Created in 1973					Released in 1973 Regulation 2530/72							
	A1	2	3	5-4	Total 1	non- exec- utive	A1	2	3	5-4			Total 2
Parliament	-	5	16	14	35	-	1	4	3	3	11	46	11
Council	1	7	10	7	25	1	5	2	6	2	16	41	20
ESC	1	-	2	3	6	-	-	-	-	-	-	6	-
Audit Board	-	-	-	2	2	-	-	-	-	-	-	2	-
Commission : - operations	-	6	17	223	246	-	14	42	83	108	247	493	170 (2)
Court of Justice	-	1	-	1	5	5	-	-	1	-	1	6	1
<b>Total</b>	<b>2</b>	<b>19</b>	<b>44</b>	<b>254</b>	<b>319</b>	<b>1</b>	<b>20</b>	<b>49</b>	<b>92</b>	<b>113</b>	<b>275</b>	<b>594</b>	<b>202</b>

(1) Made at 31 December 1973.

(2) For 312 positions which the Commission had decided to allocate to nationals of the new Member States, 170 officials were occupying their posts on 31 December 1973 and 122 others took up their posts between 1 January and 31 May 1974.

Seventeen Commission officials were promoted shortly before they terminated their functions under these special measures: one A 2 official was promoted to Grade A 1 on 1 April 1973 and remained in employment in the higher grade for two months; one A 3 official was promoted to Grade A 2 on the same date and remained in employment in the higher grade for three months; 10 regular officials in Grade A 5-4 were promoted to Grade A 4 on 1 January 1973; 4 officials in Grade A 6, which was not covered by the special measures, were promoted to Grade A 5 on 1 February, 1 March, 1 April and 1 May 1973 respectively; one B 1 official was promoted to Grade A 5 on 1 June 1973 and remained in that grade for only one month.

The administrative practice of granting promotion to officials who were about to terminate their functions under the special measures and who could be kept in their new grades for only a very short time seems expensive and open to criticism in view of the extra sums paid out as indemnities and subsequently as retirement and survivors' pensions. It is also questionable whether promotion from a grade not covered by the special measures to a grade to which they apply, so that the promoted officials can immediately afterwards obtain the benefits of the special measures, is an acceptable practice.

25 former officials remained in service with the Commission after terminating their functions, acting as advisers engaged under contracts whose terms ranged from 15 days to one year, two of the one-year contracts being renewable. Sixteen contracts had terms of more than three months and in most cases the functions covered by the contracts were defined in a very general manner such as "to be consulted upon certain matters in the staff and administration sector", "work relating to labour matters", "work relating to the Social Fund", "work relating to Articles 85 and 86, EEC Treaty", "work in the inspection sector". Apart from reimbursement of some expenses, no remuneration has been granted.

14. The high cost of some expenditure on medical examination before acceptance in the Commission's departments

The Staff Regulations of officials of the European Communities stipulate that, before being appointed, a candidate considered for a position must undergo medical examination by a consultant doctor of the Institution so that the Institution can be sure that the candidate has the physical fitness required to



exercise his functions.

Candidates for positions with the Commission may be summoned to Brussels for the medical examination and for other reasons concurrently, or solely for the medical examination. An examination of the documents for the financial year 1973 has shown that out of a total of 938 payments to candidates summoned to Brussels from countries other than Belgium, 764 were summoned for medical and other reasons and 174, that is 18.5 %, were summoned solely for the medical examination.

Inspection of the documents concerning candidates summoned from Denmark, Eire, Italy, Great Britain and countries outside the Communities has shown that over two hundred candidates had been summoned to Brussels from these countries solely for medical reasons. For some 200 of these candidates the Commission's expenditure was approximately 20 500 u.a. Only seven instances of candidates summoned to Luxembourg solely for the medical examination were found, all in October 1973.

The General Secretariat of the Council and the Economic and Social Committee also summoned candidates solely for the medical examination. However, this related only to the leading candidates.

It is expensive and obviously wasteful to summon candidates to Brussels solely for the purpose of their medical examination. Therefore it has been suggested to the Commission, the Council Secretariat and the Economic and Social Committee that arrangements should be made so that the journey for the medical examination is always combined with other reasons entailing the summoning of the candidates or that medical examinations should be carried out in the candidates' own countries by doctors of those countries who have been approved by the Communities' Institutions.

15. Lack of conformity between the working conditions of some local staff of the Commission and the conditions of employment of other servants

Of the staff employed in Brussels at least 17 local staff are responsible for duties which are not manual or services and which do not therefore come within the definition of the tasks of local staff: accountant, auxiliary or office boy. The definition of the functions entrusted to the staff in question includes, for example, the compilation of files or clerical work in connection with furnishings and fixtures.

It should be clear that to avoid infringement of the budgetary provisions the Commission should review the categories of servants listed as local staff and remove those exercising functions in respect of which the staff table annexed to the Budget has provided for employment positions.

The Commission considers that the above-mentioned duties accord with the

nomenclature of the manual of service duties shown in the "regulation fixing the conditions of employment of locally recruited servants employed in Brussels". However, this is an internal regulation of the Commission and it includes a nomenclature of duties which does not in every respect accord with that of the "conditions of employment of other servants of the Communities".

16. Mission expenditure of the Council Secretariat

The assets of the financial statement of the Council Secretariat at 31 December 1973 include a sum of 104 783 u.a. paid out as advances against mission expenditure.

56 105 u.a. of the advances relate to missions in the financial year 1973 for which the expenditure should therefore be set against the 1973 appropriation carried forward to 1974 for mission expenditure.

However, these appropriations carried forward total only 6 567 u.a. which corresponds to the difference between the allocation for the financial year 1973 and the payments already charged at 31 December 1973. Accordingly there has been overspending against the appropriations for missions and relocation (item 1301 "Staff") totalling 49 538 u.a.

The Secretariat has stated that measures have been taken to prevent future grants of advances in excess of the available allocations.

17. Comments relating both to 1973 and to previous financial years

Some comments made in the reports for 1972 and previous years are still valid as far as the financial year 1973 is concerned.

a) Employment of staff outside the Staff Regulations and conditions of employment of other servants

The Institutions and above all the Commission have continued to make use of numerous personnel often employed on a semi-permanent basis according to arrangements not laid down in the conditions of employment of staff: freelance interpreters; proof readers; experts remunerated in the form of fees; temporary staff supplied by specialist firms; translation work, proof-reading and typing commissioned at home (1972 Report, para. 10(a)).

b) Continued drawbacks connected with the statutory provisions governing certain allowances and reimbursements of expenses

The Audit Board has suggested on several occasions that an attempt should be made to simplify and rationalize the administrative work entailed by the present system of allowances and reimbursements of expenses on staff entering and leaving the service, or being transferred. Despite the annulment of the provision whereby in the event of delayed removal part of the per diem allowances paid were deducted from the installation allowances and despite a stricter interpretation of the period of time in respect of which the per diem allowances

are claimable, the granting of temporary per diem allowances and the installation allowance and also the reimbursement of travel and removal costs are still subject to conditions which are often difficult for the Administration to check (impossibility of continuing to reside in the home, removal estimates, date of installation, etc.) and which sometimes occasion disputes submitted to the Court of Justice (1972 Report, para. 10(c)).

In response to this comment in the 1972 Report, the Commission states that the procedure adopted with regard to this matter is at present governed by the current text of the Staff Regulations and that any revision of the current provisions would entail an amendment of the Staff Regulations. Such amendment is precisely what the Audit Board recommends for consideration.

c) Delays in implementing a regulation for covering accident and occupational disease risks

The drawbacks resulting from the absence of the implementing regulation provided for in Article 73 of the Staff Regulations in the matter of the cover of accident and occupational disease risks have continued during the financial year 1973 (1972 Report, Para. 10(3)).

The Commission has stated that the implementing regulation can be expected to be adopted at the end of the year. The Audit Board considers that this regulation should be introduced as soon as possible.

d) Recovery of reimbursed medical expenses and remuneration paid from third parties responsible for accidents

In its reply to Para. 10 (f) of the 1972 Report, the Commission states that the recovery of sickness costs incurred for an official who has suffered an accident is in nearly every case obtained by amicable agreement whenever the recovery procedure seems expedient, taking into account both the amount in question and the establishment of civil liability.

As regards the possibility of recovering from the third parties responsible the remuneration paid to injured officials during the period when they are unable to work, the Commission replies that that possibility varies from country to country since the Regulations do not include an express subrogation in favour of the Institution for the injured party's rights to remuneration.

In Belgium and Italy case law rules against any such recovery. This judicial impediment does not exist in Luxembourg, France or Germany. So the remuneration has been recovered even by judicial action whenever the sums in question seemed sufficient to justify action before the courts. Partial recoveries of remuneration in 1973 were generally obtained by amicable settlements. They total less than 6 000 u.a. for all the Institutions together.

The Audit Board suggests that the Commission should, as soon as possible, complete the investigation, which has now been in hand for several years, of the expediency of amending the Regulations with a view to establishing in all the Member States the facility of recovering remuneration paid to the Communities' officials in the event of absence resulting from accidents for which third parties have civil liability.

18. Pension expenditure

The expenditure paid out for retirement, invalidity and service pensions (Items 1120 to 1122 of the Budget) amounts to 3 791 124 u.a. as against 2 603 184 u.a. in 1972. The number of persons drawing pensions rose from 580 at the end of 1972 to 718 at the end of 1973.

a) Anomalies caused by the monetary parities applied for paying certain pensions

In Para. 11(c) of the 1972 Report the Audit Board commented on the anomalies caused by the payment of pensions at a time of fluctuating monetary parities. This matter is referred to once more in Section 10 of this report.

b) Simultaneous award of retirement or invalidity pensions and payment for services rendered to the Communities' Institutions

As in previous years, several persons entitled to retirement or invalidity pensions have been receiving fees, sometimes in substantial amounts, for services rendered to the Communities' Institutions while at the same time drawing pensions from the Communities.

The Commission has replied that it is perfectly conceivable that a retirement pension could be awarded simultaneously with fees for occasional services.

However, it is difficult to reconcile the amounts and frequency of the fees paid in some cases with the occasional nature of the services thereby remunerated.

Simultaneous awards of an invalidity pension and of fees for an expert or freelance reviser are more debatable, particularly when they concern remuneration for part-time work for which the Hague Office of the Commission pays a monthly lump sum to an invalid of the European Parliament or when they relate to proof-reading paid for by the Publications Office during nearly 8 months in 1973, also to an invalid of the European Parliament.

B. EXPENDITURE RELATING TO BUILDINGS

19. Budgetary management

The expenditure on buildings, which is charged to Chapters 20 and 21 of each Institution's budget, has undergone a marked rise during recent years. The annual commitments have in fact been:



in u.a.

	1971	1972	1973
Commission	8 688 104	10 203 334	13 954 645
Council	1 472 890	3 757 698	3 268 851
Parliament	718 802	1 366 619	2 282 467
Economic and Social Committee	200 050	462 168	579 763
Court of Justice	101 352	363 413	1 027 735
<b>Total</b>	<b>11 181 198</b>	<b>16 153 232</b>	<b>21 113 461</b>

The growth rate has been caused both by the increase in the number of administrative personnel and the rise in rents, but it is also the result of some economically imperfect procedures.

In Chapter 21, the budgetary management was characterized in 1973, as in previous years, by the size of the appropriations transfers which in the course of the management operations supplemented the original allocations, especially with regard to Article 214 "Fitting-out of premises".

For this item the transfers were, overall, sufficient to double the original allocations:

in u.a.

	Original appropriation	Final appropriation
Commission	1 300 000	1 879 500
Council	48 000	423 000
Parliament	25 000	371 000
Economic and Social Committee	100 000	234 000
Court of Justice	3 000	8 000
<b>Total</b>	<b>1 476 000</b>	<b>2 915 500</b>

Therefore the document adopted by the budgetary authorities provides only a very inadequate assessment of the cost of increasing the stock of available buildings.

In Chapters 20 and 21 the accounts also show that abnormally high appropriations are still being carried forward:

in u.a.

	Commitments	Carried forward	%
Commission	13 954 645	2 892 798	20.7
Council	3 268 851	506 890	15.5
Parliament	2 282 467	667 742	29.3
Economic and Social Committee	579 763	95 705	16.5
Court of Justice	1 027 735	415 488	40.4
Total	21 113 461	4 578 623	21.7

This situation is caused by the size of the commitments entered into at the end of the year for the use of the "fitting-out" appropriations and by the length of some proceedings relating to the leasing.

In Chapter 21 one finds once more that appropriations for which commitments were made in 1972 and which were brought forward to the 1973 financial year have had to be cancelled at the end of that year to such an extent that it arouses some doubts concerning the justification for the commitments entered into or apprehensions about the time required for implementing or settling the operations.

in u.a.

	1972 appropriations brought forward	Cancelled at end of 1973	%
Commission	1 755 852	331 252(1)	18.9
Council	584 784	258 114	44.1
Parliament	316 507	64 338	20.3
Court of Justice	249 184	120 506	48.4
Total	2 906 327	774 210	26.6

(1) Including 183 134 u.a. as orders given for work in the Berlaymont meeting-rooms for which the Belgian authorities accepted responsibility.

20. Examination of the conditions under which the new installations are carried out in Brussels shows the lengthy periods elapsing between the decision to rent a new building and the date when the departments take possession of the premises and also the far from negligible expense caused in some cases by the rents paid before the premises are brought into use.

The action to be taken and the procedures to be followed before a lease is signed are lengthy and complicated:

- investigation of the property market
- formulation of a draft lease
- obtaining the opinion of the legal department
- consultation with the PCAC and obtaining the approval of the Financial Controller
- consent of the Commission in writing.

This welter of formalities, to which, by virtue of the interpretation of a declaration annexed to the Financial Regulation, should apparently be added, prior reference to the Budgetary Committee of the Council, involves delays which are hardly compatible with the rapid fluctuations of a comparatively narrow property market.

The budgetary procedures are somewhat disrupted by this since the transfers of appropriations are slow and the commitments are sometimes not approved until after the commencement of the lease (rue St. Jean, Archimède II, 120, 207 and 209 rue de la Loi, 1 avenue de l'Astronomie, 15 rue Archimède).

Most of the newly leased premises require major preparation, especially partitioning, and the latter in turn involves lengthy periods for planning and execution:

- examination of the installation plan for the services
- specification of the fitting-out work involved
- issuing invitations to tender and examination of the tenders
- obtaining opinion of the PCAC and the approval of the Financial Controller
- notification of the orders and execution of the work.

Therefore long periods may elapse between the commencement of the lease and the date when the departments move in (1 avenue de l'Astronomie: 8½ months, monthly rent approximately 16 500 u.a.; 209 rue de la Loi: 6 months, monthly rent approximately 29 000 u.a.; 120 rue de la Loi: 9½ months, monthly rent approximately 35 000 u.a.; 4 rue St. Jean: 3½ months, monthly rent approximately 6 500 u.a.; 13 avenue des Nerviens: 5 months, monthly rent approximately 43 000 u.a.).

All possible steps must 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.

21. a) Chapter 20 relating to "Capital expenditure on buildings" contains only comparatively small appropriations since the Communities considered that the principle of temporary offices leads to the conclusion, which can be disputed on economic grounds, that leasing should be preferred to purchasing.

The appropriations granted in 1973 in the Commission's Budget for the purchase of a building in Santiago (Chile) and a general sports ground in Brussels have not been used. The former was covered by a commitment in November 1973 which was not followed up and the latter was the subject of a request to carry forward submitted to the Council for 1974.

b) In Article 202 of this chapter, entitled "Other expenditure preliminary to the acquisition of immovable property or to the construction of buildings" the Commission was awarded appropriations for financing a survey on the new Eurooffice building for housing the departments of the Office for Official Publications.

Contrary to the title of this chapter, this relates in fact to a leased building. The budgetary commitment was made only in June 1972 for an order given in December 1971. The planning office was not involved until the building work had progressed so far that no action could be taken regarding the actual design of the building. On the other hand the planning office was able to deal with the internal fittings, heat insulation, sound-proofing, the division of the floor areas, etc.

Nonetheless, this new building will more than quadruple the Office's expenditure on buildings (rental and general charges). The ratio of the area actually used (3 773 m<sup>2</sup> of offices and 5 490 m<sup>2</sup> of technical premises and stores) to the total floor area (16 270 m<sup>2</sup>) does not seem to indicate particularly good economic management.

c) Article 202 also includes, as a charge against the Council's Budget, the charges under the contract concluded with a group of planning offices for erecting the future Council building.

The contract defines the duties involved, the timetable for execution of the work and the timetable for payment of the lump sum fees during the first years.

The proportion for 1972 (reckoned from 1 September), viz. 100 000 u.a., was paid in 1973 as a charge against appropriations brought forward. Of the 1973 instalment, which was fixed at 256 000 u.a. in the contract and increased to 268 000 u.a. by application of the indexing clause, 230 474 u.a. was paid in 1973; 33 561 u.a. is the subject of a claim carried forward to the financial year 1974 and application for carrying forward 3 965 u.a. should have been made to the Council in order to complete the arrangement, since the effect of the indexing clause was underestimated when the commitment was entered into.

The planning offices have prepared several reports of which the most important provide an overall study of the Institutions' property requirements

in 1985 based upon various hypotheses, and also a study of the siting arrangements.

The work is already considerably behind schedule in terms of the timetable laid down in the contract, which stipulated for 1973 the preparation and completion of the competition for the general design, the production of the draft conditions and preparation of the provisional programme. Despite this delay, the payments have been made as originally scheduled.

The Institution states that the delay has not reduced the volume of the services rendered by the group because the competent bodies of the Council requested additional studies. However, no supplementary schedule to the contract has been drawn up to cover these changes in the services while, in the Audit Board's opinion, the additional studies should have been covered by a separate

commitment in order to distinguish the duties commissioned by the original contract from those commissioned by another procedure.

The principle of the payment of annual lump-sum instalments regardless of the volume of services rendered involves some risks, particularly with regard to a contract which is to be subject to annual renewal.

d) Large fees for directing building works have also been charged to Articles 214 and 260 and not to Article 202. In this connexion the same specialist received in 1972 and 1973 14 440 u.a. from the Commission (Article 214), 63 800 u.a. from the Council (Article 260) and 18 900 u.a. from the Economic and Social Committee (Article 260) for duties which should preferably have been entrusted to a Community department acting on behalf of the various Institutions. 18 000 u.a. of the fees provided for in the agreements signed by the Economic and Social Committee and now in hand relate to the preparation of plans and supervision of fitting-out work in the Europe and Ravenstein meeting-rooms for which the building costs are to be borne by the Belgian authorities.

22. The Community departments are becoming ever more widely dispersed. Despite the recent buildings erected on the Plateau du Kirchberg in Luxembourg the departments are scattered amongst some twenty buildings. In Brussels, the Commission, whose departments were regrouped into two buildings (Berlaymont and the Joyeuse Entrée/Cortenbergh/Loi complex) in 1970-71, had to take over new buildings (Archimède and rue St. Jean) at the end of 1972 and then in 1973 had to become even more widely scattered (15 and 25 rue Archimède, 1 avenue de l'Astronomie, 207 and 209 rue de la Loi); this trend is continuing in 1974 (120 rue de la Loi, 13 avenue des Nerviens).

This fragmentation is reflected in increased expenditure on rents, fitting-out costs and the departments' removal costs. The sums incurred under these heads by the Commission have evolved as follows:

in u.s.a.

	1971	1972	1973
Rents	5 264 598	5 704 446	7 833 005
Fitting-out	493 637	964 486	1 689 973
Removal	178 871	237 720	346 891
<b>Total</b>	<b>5 937 106</b>	<b>6 906 652</b>	<b>9 869 869</b>

Even then the accounts provide a clear indication of only some direct expenditure. But it would be worthwhile initiating studies to endeavour to assess the direct and indirect costs of this dispersal of the departments.



Taking a more general view, the management of the buildings should be based upon more precise and more complete documentation than that at present available to the departments. As yet there is no actual "buildings file" in which the technical data (plans, calculation of gross and net floor-areas, details of technical premises and systems, etc.) and financial data (leases and supplementary clauses, charges to be borne by the tenant, maintenance and operating expenditure, heating, cleaning, caretaking costs, etc.) are collected together for each building.

23. Fitting-out of the Commission's reprographic workshop

Since 1969 considerable expenditure (for lighting, tiling and electrical fittings) had been incurred to improve the facilities of this workshop in the basement of the Cortenberg building. In addition, over 30 000 u.a. was spent in 1971 on air-conditioning and humidification equipment.

The environment thus created made it possible to overcome some difficulties concerning the use of paper but was not acceptable to the staff; at the end of 1971 an order worth 76 000 u.a. was issued for new air-conditioning plant after payment had been made for a survey (600 u.a.). An advance payment of 7 000 u.a. against this order was made in June 1972.

Shortly afterwards a decision was taken to instal the basic items of the workshop on the ground floor of the building (1). This move, which made the order unnecessary, involved the loss of the advance payment which was accepted as compensation for withdrawal.

Major works then had to be carried out in the new premises, and by the end of 1973 the expenditure had already risen to more than 114 000 u.a.

At the end of 1973 a commitment for 2 887 u.a. was entered into to pay the architect's fees and modelling costs relating to the construction of a reprographic workshop in the courtyard of the Joyeuse Entrée/Cortenberg/Loi complex. This greatly delayed commitment regularizes the orders given to the owners in mid-1972 which were based on a very improvised assessment involving

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(1) In 1970 12 947 u.a. had already been spent on installing several sections of the offset workshop (block preparation) on the groundfloor and re-allocating the area released on the first basement floor.

a first invoice of 1 861 u.a. for fees and modelling costs followed by a further invoice for 1 026 u.a. for the preparation of a preliminary plan by an engineer.

So this project for installing the workshop in the courtyard, which has since been abandoned, was initiated at a time (June 1972) when the operations on the ground floor of the Cortenberg building had already begun.

Such changes in the decisions for the siting of departments give rise to unnecessarily heavy costs.

24. Fitting-out of the 7th floor of the Cortenberg building

In November 1970 orders totalling 127 000 u.a. were given to various firms for converting into offices the rooms on the 7th floor of the Cortenberg buildings which had been released by the removal of the canteen.

Advance payments amounting to 66 000 u.a. were made to three firms for the supply of partitions, electrical and lighting equipment and for carpentry work.

The Commission subsequently abandoned this plan and, in view of the shortage of conference rooms, decided to instal five meeting rooms in these premises.

This change of use gave rise to the issue of additional orders to some of the firms which had contracted in 1970 and also to the granting of new contracts; these new commitments, entered into at the end of November 1972, amount to 231 600 u.a.

The supporting documents available to the Audit Board do not permit satisfactory assessment of the counterparts to the advances paid under the three contracts and of the use which it has been possible to make of the equipment already supplied under those orders. The notes subsequently forwarded by the department show that it has been able to re-use part of the equipment.

Since then the commitments relating to this new installation on the 7th floor have undergone a further increase of 63 000 u.a. in 1973 and at the end of that year the expenditure paid already exceeded 434 000 u.a. to which payment for the hired labour sometimes used on this site must be added, although the proportion is difficult to estimate.

25. This expensive fitting-out is not the only financial result of the partial re-allocation of the basement of the Berlaymont building. Between 1969 and 1971 over 44 500 u.a. was spent in an attempt to instal conference rooms in the basement, while in 1971-73 more than 56 000 u.a. was paid for studies in an attempt to solve this problem. Between 1970 and 1972 7 510 u.a. was also paid to instal conference rooms on the 3rd, 7th and 11th floors and 4 870 u.a. for installing a room on the 8th floor of the Cortenberg building, while more than

80 000 u.a. was spent on rooms temporarily occupied in the Charlemagne building.

But a new operation was initiated at the end of November 1972 which also threatens to cause unnecessary expenditure.

This concerns the re-organization of three meeting rooms on levels 13/70, 26/90 and 40/10 of the Berlaymont building. The orders so far given amount to 218 800 u.a., and 35 600 u.a. was paid as advances upon them in 1973. Moreover, 1 845 u.a. has been paid as an advance upon fees to an architect appointed by the Commission to prepare the plans and specifications and to supervise the work.

When the Commission subsequently applied to the Belgian Government for permission to carry out the work in question, it was informed that the work could be carried out only under the supervision of the architects employed by the owner of the building and in keeping with the Belgian procedures governing public contracts. So the work could not begin and the project may well be entirely reconsidered. A new commitment for 132 000 u.a. was recorded in the accounts at the end of 1973 for the fitting-out of these three rooms which is to be done by agreement with the owner of the building. The lack of precision in the agreements concluded between the Commission and the Belgian authorities may therefore occasion an expensive revision of the commitments entered into.

The shortage of meeting rooms for the Commission has caused a considerable increase in the costs of renting rooms in Brussels which, having been around 10 000 u.a. in 1971 and 1972, had reached 40 000 u.a. in 1973, and the latter figure does not take into account the expenses relating to the renting and fitting-out of the rooms in the Manhattan Center ("Protocol 22") which were charged to Chapter 25 and will be analysed below.

26. Fitting-out work for the Commission

The Commission is concluding numerous contracts for fitting-out work and maintenance, the former involving work done on a lump-sum basis and the latter the provision of hired labour.

The stipulations of the conditions concerning the lump-sum contracts are not precise and detailed enough to enable an appreciation to be made, in keeping with Article 59(2) of the Financial Regulation, of the "most attractive offer taking into account the price for the services, the utilization costs they entail, the technical merit, the time taken for execution and the professional and financial guarantees offered by each of the tenderers". The lack of precision in the conditions and the specifications of the work explains - but does not justify - the exceptional size of the variations between the bids.

The main contract for the cleaning of the premises (760 220 u.a. in 1973) should contain particulars of the size of the teams to be employed and the minimum hours of work and a systematic control should be applied to the teams provided and the quality of their work. Similarly, the contracts concluded

with the painting firms include no detailed descriptions of the work nor precise particulars of the quality of the materials to be used. Here again, acceptance of the work should be preceded by stricter periodic checks.

27. Fitting-out of premises for the Council

a) A fifth supplementary schedule was signed in July 1973 to the "foliced contract" concluded in 1970 for the fitting-out of the premises occupied by the Council Secretariat in the Charlemagne building. The total work amounted to 1 976 000 u.a. at the end of 1973. No acceptance certificate has yet been issued for the sections of the work which were completed some time ago. It is all the more essential to make these periodic checks since some supplementary schedules modify the work carried out during later stages.

Although no provisional or final acceptance has been granted, the invoices of the general contractor holding the "folioed contract" have been paid in full without any financial guarantee being constituted although Article 64 of the Financial Regulation lays down that the guarantee is compulsory for contracts over 100 000 u.a.

Since the retention money is designed to protect the interests of the prime contractor, it should have been provided for in the contracts and strictly applied.

b) The cost involved in the fitting-out of the two large conference rooms on the 15th floor of the Charlemagne building, which was done in 1970, amounted to 228 600 u.a., excluding the simultaneous translation equipment and the furnishings.

When this work was completed, the interpreters' association demanded changes in the rooms and booths, involving expenditure of 176 000 u.a., which brought the total cost of fitting-out those two rooms to 404 600 u.a.

The Audit Board considers that in future large savings could be made if, before work commences, the Secretariat ensures that the building and installation projects accord with the customary standards.

28. Supplies of hired labour requested by the Commission

This supervision is all the more essential for contracts under which the Commission obtains a reserve force of hired labour from various contractors.

This type of contract which relates to a wide variety of tasks - ironwork electricity, carpentry, painting, bricklaying, handling, etc. - is developing at a rapid pace. In 1973 118 000 hours of such work were invoiced for a total approaching 440 000 u.a. as against 254 000 u.a. in 1972. The invoices cover more than 17 000 hours for maintaining locks and ironwork and for making keys.

For these contracts, invitations to tender are issued on the basis of the number of hours required, which is very often underestimated and which has to undergo considerable upward revision during the year. Lack of precision concerning the qualifications of the personnel again makes it difficult to assess

the tenders submitted. The contractors merely place their personnel at the Institution's disposal and have no liability for the quality of the services rendered.

In some cases (electricity, painting, etc.) one contractor provides labour and also holds a contract for work to order. This duplication of functions makes it possible to invoice hours of work by hired labour on specific jobs. So supervision of these labour-provision services should be reinforced by a



careful verification of the workers' time sheets which should indicate not only the time worked but also the nature and location of the services and the use of supplies and tools taken from the Commission's stores.

29. The European Parliament's expenditure on buildings

Owing to the enlargement of the Communities and the development of the activities of the European Parliament, that Institution has been obliged to occupy new buildings during the year, mainly in Luxembourg and Strasbourg.

a) Two new temporary buildings, with a floor-area of some 2 000 m<sup>2</sup>, have been placed at the European Parliament's disposal by the Council of Europe in Strasbourg. The pertinent contract, signed by the two Institutions on 18 June 1973, stipulates that in return for the use of those premises the European Parliament shall reimburse the total construction expenditure advanced by the Council of Europe (457 312 u.a.), including bank interest on repayment at the rate of 4.25 %, repayment being in eight half-yearly instalments of 63 015 u.a. between March 1973 and September 1976.

Provision is made that at the final payment "a definitive readjustment of the moneys due will be made to allow for the final known liquidation factors and particularly the re-sale value of the buildings".

So in three and a half years the European Parliament is repaying all the building costs with interest although its rights to the building have not been genuinely defined. The Institution considers the half-yearly repayments referred to above to be rental expenditure chargeable to Article 210 "Rents" of the Budget.

The verifications made by the Audit Board also show that the contract was not submitted to the opinion of the Purchases and Contracts Advisory Committee.

b) A second building on the Plateau du Kirchberg in Luxembourg has been occupied in stages from February 1973. At the end of the year the lease relating to that building had still not been signed and the rental payments effected in 1973 consisted of an advance payment of 200 000 u.a.

c) This second building which was originally designed for a Community of six Member States has had to undergo a large amount of fitting-out, particularly to allow for alterations resulting from the enlargement of the Community. The appropriations committed in 1972 and 1973 for the fitting-out were 237 003 u.a. of which 59 415 u.a. was charged to the 1972 appropriations and 177 588 u.a. to 1973.

At the end of the year payments were only 68 242 u.a. 40 457 u.a. of the 1972 commitments were not utilized and the relevant appropriations, which had been carried forward to 1973, have been cancelled.

The successive commitments also show a certain amount of confusion. Thus the justification of a commitment of 60 000 u.a. recorded in April 1973 includes, for a total of 18 958 u.a., expenditure for fitting-out the press room which had already been paid and charged to appropriations brought forward from 1972. Some commitments are recorded in the accounts on the basis of estimates and others on the basis of statements of work done, which sometimes leads to duplication. In the case of several commitments covered by appropriations brought forward to 1974, the documents consulted do not make it possible precisely to ascertain the work to which they relate.

It must also be mentioned that the fitting-out was entrusted, without employing the invitation to tender procedure, to the firm which had erected the building and that no specifications were drawn up. To a large extent the Institution administered the appropriations in the form of a posteriori regularization, as is shown by a "statement of work done" for 62 091 u.a. forwarded to the Secretariat on 7 August 1973 and not recorded in the accounts as a commitment until December 1973 after the requisite appropriation transfers had been approved by the competent authority.

d) The Secretariat considered that it was unnecessary to invite tenders for cleaning the second Kirchberg building and it decided to extend "on the same conditions" a contract which had been concluded with a firm a few months earlier for cleaning the first building.

An opinion to that effect had been formulated by the Purchases and Contracts Advisory Committee on 31 January 1973 in view of the fact that the areas to be cleaned would be subject to a series of changes during the year since the new building would be occupied in progressive stages.

This extension of the original contract is open to criticism because the second building involves markedly higher cleaning expenditure than the first (approximately 15 900 u.a. per month for the second, as against 6 200 u.a. for the first) which entirely changes the contracting conditions.

Moreover, it is not true that the contract was extended on the same conditions: according to information received from the Secretariat, the basic price is Flux 15.36 per m<sup>2</sup> for the first building and Flux 18.39 for the second.

Examination of the invoices shows indeed that for the second building (and excluding the parking areas for which the cleaning is invoiced separately) the price eventually rose to Flux 25.47 per m<sup>2</sup> per month after allowance is made for additional and exceptional services.

e) Commitments totalling 95 780 u.a. were recorded in the accounts during the year for fitting-out and equipping the canteen in the new building. A sum of 88 797 u.a. remained unpaid at the end of the year and was covered by a carrying forward of appropriation to 1974.

These commitments have been charged to four articles or items in the Budget:

- Article 142	"Restaurants and canteens"	8 179 u.a.
- Article 214	"Fitting-out of premises"	6 500 u.a.
- Item 2210	"Furniture - new purchases"	4 960 u.a.
- Item 2220	"Technical equipment and installations - new purchases"	76 141 u.a.

As regards welfare expenditure, headings enabling charging to be effected according to the intended purpose are provided for in Chapter 14 of the Budget. Therefore all the expenditure for fitting out and equipping the canteen should have been charged to the appropriations in that chapter after approval of the necessary transfers.

30. The Court of Justice's expenditure on buildings

The move into the new Palais de la Cour de Justice in Luxembourg which started in September 1972 is reflected in a considerable increase in the expenditure on buildings incurred by that Institution, so that the expenditure rose from 101 352 u.a. in 1971 to 363 413 u.a. in 1972 and 1 027 735 u.a. in 1973.

The rental commitments for the year are 718 558 u.a. (of which 380 041 u.a. was still to be paid on 31 December 1973); the cleaning expenses (not including cleaning of windows and ceilings but after allowance has been made for a considerable number of additional services) were 89 009 u.a., i.e. Lfrs.28.91 per m<sup>2</sup> per month, and the caretaking expenses amounted to 48 651 u.a. (of which approximately one quarter was charged for additional services requested outside the contractual requirements).

Obviously the new building is still not being used to full capacity and the facilities it contains have in some cases little relation to the Institution's current requirements. Careful examination of the various services seems essential with a view to determining which should best be entrusted to outside firms under contract, which should be provided by the Institution's own departments and which should be covered by an organization jointly operated for more than one Institution.

Five members of staff are employed to run the canteen and restaurant. The gross monthly remuneration of this staff is 2 274 u.a. and in two cases an additional 170 hours of overtime for each of them were worked between mid-September and the end of December. Leaving aside the service of drinks, the number of meals in the restaurant ranged from 6 to 32 with an average of 25 a day. In view of this small number, the meals are bought from outside sources; the kitchen installed is therefore unused and its facilities had to be supplemented by purchasing various accessory items for reheating the food.

The new Palais includes an automatic car-washing unit. Yet the number of cars for the Court is 14 and even when allowance is made for some services rendered for the cars of the European Parliament (approximately 6 per week), the unit is considerably under-used. From December 1973 the Institution's staff have been permitted to wash their private cars at a reduced price which

further increases the operating costs incurred by the Institution. It may also be mentioned that although it has a very large garage, the Institution continued to rent private parking spaces for the Members' vehicles.

A large amount of equipment has also been bought for maintaining the site, roads and lawns surrounding the new buildings: a tractor; various mowers; a snow-plough; salt-spreading, sprinkling, cleaning and other plant. A large part of this equipment is used on comparatively rare occasions and its maintenance and operation is liable to give rise to many technical problems.

C. EXPENDITURE ON EQUIPMENT

31. Budgetary management

The expenditure incurred by each Institution under Chapter 22 of the Budget relating to "movable property and associated expenditure" has undergone a very marked increase during recent years:

in u.a.

	1971 (Chapters V and XII and Items 602 to 604)	1972	1973
Commission	2 875 322	3 648 505	5 795 118
Parliament	328 019	868 626	1 184 585
Council	186 723	508 316	523 817
Economic and Social Committee	53 437	145 725	255 278
Court of Justice	161 539	301 616	321 933
<b>Total</b>	<b>3 605 040</b>	<b>5 472 788</b>	<b>8 080 731</b>

For all the Community's Institutions taken together, this expenditure has therefore more than doubled between 1971 and 1973, so that at the end of 1973 it accounted for approximately 11 % of the operating expenditure (Section 2 excluding Chapter 29).





This rise is caused by the increase in the number of staff and in the area of administrative premises used, the increase in prices of materials and by a higher rate of replacement of old equipment. But in part it also reflects some unsatisfactory administrative practices.

In this respect it is regrettable to find that purchases of office furniture and equipment and also supplies are arranged by each of the Institutions separately.

It would seem desirable to study in this field the possibility of setting up an inter-Institutional department which could produce economies not only by extending and coordinating invitations to tender but also by more rational management of the equipment already installed. The printing and reprographic equipment sector and the electronic management equipment could be special instances of this system.

### 32. Printing and reprographic equipment

The statements of interpretation concerning the decision of 16 January 1969 relating to the establishment of the Office for Official Publications of the European Communities include the following comment pertaining to Article 2(3):

"It is understood that the Institutions shall not excessively increase the equipment of their internal reproduction workshops".

This provision seems to remain a dead letter owing no doubt to the absence of a mechanism for inter-Institutional consultation and decision to ensure compliance therewith.

Examination of the purchases of equipment shows that all the Institutions have very considerably if not "excessively" increased their number of machines and their production capacity.

If we confine ourselves solely to the printing and compilation equipment purchased since 1970 we find indeed that the Office for Official Publications has bought (including replacements) only 5 offset machines and 1 collator while the items purchased by the other Institutions are:

- the Court of Justice: 4 offset machines and 3 collators;
- Parliament: 17 offset machines and 1 collator;
- the Commission: 6 offset machines, 5 presses and 3 collators;
- the Council: 5 offset machines, 1 press and 4 collators.

Admittedly the services of the Office do not have to be resorted to when publications are required to be produced for internal use or for limited distribution, but it is questionable whether the limits set by these exceptions are respected and, moreover, whether the statement of interpretation of 1969 whereby "Parliament states that, as in the past, it intends to employ the Office for printing the large majority of its documents" is still valid.

Quite apart from compliance with these rules, sound financial management would require that the purchase and use of reprographic and printing equipment should be better coordinated on the inter-Institutional level.

Some of the investigations made indicate that the workshops of the Office for Official Publications and of the Court of Justice are under-used. Those of the Council and Parliament which are equipped to cope with the extreme demands of peak periods also have very uneven load schedules.

The desirable system of allocating the tasks between the workshops and staggering them as a function of time may indeed encounter some unsurmountable obstacles with regard to time-limits and distances but there is still considerable latitude for adaptation.

A coordinated study would permit an appreciation of the abnormal disparities in productivity which are revealed by the current statistics for offset printing.

There could also be a re-examination and harmonization of the invoicing bases adopted by the Commission and the Office for Official Publications for work done for third parties which at present show wide disparities.

These invoicing systems are operated on the basis of very different standards with regard to the acceptance of raw materials and the depreciation of equipment. These disparities should be eliminated.

More effective supervision of the reprographic workshops must be accompanied by stricter control of the stencilling and photocopying equipment. Some measures have been introduced along these lines in 1974 and their results should be assessed.

It is noticed, firstly, that despite precise internal orders the offset process has too often been preferred for a moderate number of copies to the less expensive stencil method and, secondly, that the use of photocopying has grown at a very rapid rate even when neither the urgency nor the small number of copies justifies the use of this expensive process.

The number of photocopying machines has increased in every office and the consumption of electrostatic paper has risen disturbingly. Supervision of the use of this equipment is virtually non-existent.

The expenditure incurred through the use of these machines is charged to three budgetary items, viz. Items 2222 (hire), 2300 (stationery and office supplies) and 3620 (special equipment for libraries - distribution of information).

This expenditure, which was already high in 1972, showed a strong rise in 1973 (from 457 903 u.a. in 1972 to 660 131 u.a. in 1973). The increase is primarily attributable to photocopying by the xerographic process. The number of machines used by the Commission's departments in Brussels rose from 18 in 1972 to 26 at the end of 1973 and the corresponding costs (including paper) moved from 186 261 u.a. to 335 039 u.a.

The Council has 6 machines in Brussels; the expenditure amounted to 59 623 u.a.

The dispersal of the machines amongst the departments, the rapidity of reproduction and the ease of handling give grounds for thinking that substantial economies could be obtained in this field by strict control of access to the equipment and use of the standard reproduction processes in specific cases.

### 33. Electronic calculation and management equipment

The high costs caused by this type of equipment are charged to Article 222 "Technical equipment and installations" and to Article 224 "Costs relating to computer centres" and even to Articles 263 and 264, although the logic behind these budgetary charges is not always apparent.

Item 2240 includes too wide a range of expenditure. Thus only 75 % of the payments effected during the financial year - ordinary appropriations for 1973 and automatic carry-overs brought forward from 1972 - relate to rentals of equipment for the Luxembourg Computer Centre and its terminals in Brussels, including the rental of telephone lines between the two cities. The remainder is divided between stationery and supplies (5.8 %), analysis, programming, processing, punching and encoding by outside agencies (6.3 %), continuation of the reconversion of the programmes by CII (13.1 %), time-sharing subscriptions (2 %) and sundry other expenditure on equipment (2.4 %). A CID reimbursement of 80 000 u.a. (4.6 %) is deducted from the expenditure.

Lack of precise specification of these appropriations in Item 2240 has encouraged the development of autonomous equipment (purchased or rented equipment, time-sharing subscriptions) whose exploitation entails recruitment of specialist personnel whom it has been impossible to supply to the Computer Centre in sufficient numbers.

The major elements of this electronic equipment are the two machines used in the Computing Centre, i.e., the CII 10.070/10.010 unit of 320 K and the IBM 360.50 and subsequently 370.145 of 393 K. 573 000 u.a. was paid for the latter unit in 1973. As regards the former unit, 227 000 u.a. for technical assistance was paid in addition to rental of 577 000 u.a.

By keeping both of these units in parallel, which was not originally planned, a computer potential is created which seems to be inadequately utilized. Until very recently it was difficult to evaluate the degree of under-utilization in the absence of a sufficiently precise record of the operating times.

The existence of the Computer Centre has not prevented the growth of autonomous units either in the Commission or in the other Institutions or bodies. Thus the following units are in use:

- Honeywell Bull, Gamma 10, capacity 4K at Directorate-General VI, Agriculture;
- console time-sharing IBM at Directorate-General II, Economic and financial affairs, paid for from the appropriations of Article 263 (see our 1971 Report, No. 73 (a), last sub-paragraph);
- console time-sharing Honeywell Bull in the same Directorate-General;
- console time-sharing Honeywell Bull at Directorate-General XVII, Energy;
- 2 small Olivetti units at Directorate-General IX, Personnel and Administration, for calculating the remuneration of local staff, initial allowances and similar work;
- MATRA 430 unit (ECDoc project) - on hire;
- LOGABAX 4200 - Directorate-General VIII, Development and Cooperation (on hire), and the A.E.C. equipment.

To this list we should add the electronic management equipment acquired by the other Institutions or agencies, i.e.:

- NCR unit - capacity 8 K - at the Council, acquired in 1969;
- Philips unit - capacity 12 K- at the Court of Justice, acquired in 1973;
- Olivetti unit at the Economic and Social Committee, acquired in 1971;
- Olivetti unit at the Publications Office, acquired in 1972.

Here again, inter-Institutional coordination could produce economies as regards the purchase, renting and exploitation of this equipment.

#### 34. The equipment of the accounting centre

The number of electronic management machines would have been increased in 1973 by a major unit if the equipment planned to operate the "Commission's single accounting centre" (1) had been declared operational within the scheduled

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(1) It was decided to set up this single centre in 1972 after examining the studies of accounting organization commissioned from a private firm between 1969 and 1971 and costing 37 900 u.a.

- 48 continued -

time-limits. But this has not been the case and the system is still being adjusted more than two years after it was ordered.

This operation has already occasioned many commitments.



A commitment for 39 360 u.a. was adopted in May 1972 under Item 2220 "Technical equipment and installations - new purchases" for an order for a NIXDORF 820/35 unit. In September the commitment was increased by 8 000 u.a. so that the original order could be replaced by an order for a NIXDORF 880/65.

In the same year a further commitment for 8 000 u.a., charged this time against Item 2240 "Cost of hire of computer and associated equipment", was taken out for the same firm so that it could be commissioned to program the work of the Directorate-General for Budgets on the data processing machine.

It has not been possible to pay anything to the manufacturer because the equipment and program were not completed within the time-limits and even now are not entirely finished. The only expenditure already paid for equipment relates to the purchase of an electrostatic cover (for 450 u.a.) and an unfolding and punching machine (5 194 u.a.) ordered on 21 December 1972 by the emergency procedure since the NIXDORF equipment was planned to come into operation at the end of December 1972.

On 27 November 1972 a contract was concluded with a private firm providing for a payment of 10 800 u.a. for assistance in implementing the procedures required for setting up the centre equipped with a NIXDORF unit.

The signing of this contract appears to have been delayed because it provides that the various forms and other documents required for the implementation were to be delivered by 8 December 1972.

On 25 September 1973 a new contract for services for 13 000 u.a. was concluded with this firm for "finding as quickly as possible the optimal solutions to the problems faced by the Commission's departments in putting the centre into operation owing to lengthy postponement by the manufacturer of the time-limits originally fixed for testing the program prepared by that manufacturer"; some reports were to be supplied by 30 September 1973, five days after the signing of the contract.

This second contract already represents a direct consequence of the delays in adapting the equipment. Those delays cause higher indirect costs by obliging the departments to keep the accounts by two different methods simultaneously.

When payment of the NIXDORF contracts is effected, fair allowance should be made for the financial outlay occasioned by late delivery.

35. The inventory and purchasing policy

A rational policy for equipping and replacements calls for exact information about the movable assets, that is to say a correct and effective inventory. The situation is unsatisfactory in this respect.

The inventory is currently kept in accordance with instructions dating from May 1969 and incorporating provisions going back to 1959 and still unamended, particularly as regards the acceptance threshold. This inventory includes a detailed nomenclature for each item; it supplies a large amount of information: identification number, date of purchase, cost price, name of supplier, location of the item, etc.

Despite these particulars, this instrument is highly ineffective. From the accounting aspect, it cannot provide a true valuation of the movable assets because the assets, which in some cases were purchased as early as 1958, are entered at their original value without any revaluation or provision for depreciation.

Nor can this inventory be used as an instrument of management. The various movements reflected in it - incoming purchases, reductions as a result of scrapping, theft or loss and, even more, the changes of location which are frequent owing to the constant moves of the departments - are recorded late and incompletely. The summary statements which reach the Computer Centre after months of delay accordingly give too incomplete a picture of the equipment to permit any assessment of the desirable degree of renewal each year or to serve as a basis for a physical inspection.

Apart from an unsuccessful attempt in 1971, no audit has been carried out for many years, a fact which helps to deprive the inventory of any real significance.

It seems necessary to:

- revise the acceptance threshold in order to eliminate the recording of low-value or short-life items, which does not, however, imply cessation of all supervision of those items which are considered as supplies;
- improve the procedures for recording incomings, outgoings and changes of location;
- carry out immediately the most urgent physical checks of the high-priced and easily removable objects, particularly office equipment.

D. ENTERTAINMENT AND REPRESENTATION EXPENDITURE

36. Budgetary management

a) For all the Institutions combined, the expenditure incurred under Chapter 24 "Entertainment and Representation Expenditure" rose from 276 300 u.a. in 1971 to 361 800 u.a. in 1972 and 527 800 u.a. in 1973, thus producing an increase of 91 % within two years.

The same rate of growth can be seen in the expenditure of Chapter 25 "Expenditure for formal and other meetings", which rose from 3 469 300 u.a. in 1971 to 4 366 200 u.a. in 1972 and 6 607 800 u.a. in 1973.

The provisions of the Financial Regulation relating to expenditure commitments are not always properly applied in this sector.

In Chapter 24 there is still a very large number of delayed commitments formulated after the event for regularization purposes and the Financial Controller gives his approval to them only with reservations. The irregularities of the Parliament were more marked since expenditure of 1 377 u.a. incurred without prior commitment and invoiced on 30 September 1973 was paid on 20 December 1973 in the absence of available budgetary appropriations and by way of entry in a transitional extra-budgetary account without any application being made for the Financial Controller's approval.

In Chapter 25 delayed commitments also occurred frequently. When the commitment is a priori, the estimate of the expense is too often far removed from the actual expense.

Supplementary commitments or unspent sums exceeding 50% of the initial allocation affect nearly one quarter of the commitments.

The unspent sums which in nearly every case result from the non-attendance of the convened experts call for no comment other than an indication of the absenteeism at some meetings:

Examples:

- Greek negotiations (23/24 May)	Only 1 expert of the 8 convened
- Turkish " (20/21 June)	2 experts of the 12 convened
- Swiss " (28/29 May)	8 " " " 35 "
- Swiss " (4/6 July)	14 " " " 35 "
- Regulations for commercial agents (21 June - Liège)	2 " " " 20 "
- Vertical integration (15 June)	4 " " " 12 "
- Biscuit trade harmonization (10 May)	4 " " " 12 "
- Industrial radiology (19/20 July)	9 " " " 30 "
- Cosmetic products (2/4 July)	8 " " " 25 "

- Aeronautics (14 September)	4	experts of the 18 convened
- Agronomic research (25/26 June)	5	" " " 20 "
- Transport in the Sahel (4 July)	6	" " " 27 "
- 86th meeting of EAGGF (26 June)	9	" " " 40 "
- Fats committee (18 July)	3	" " " 40 "
- Sugar committee (25 July)	3	" " " 40 "
- ditto (11 July)	9	" " " 40 "
- Milk committee (25 June)	10	" " " 30 "
- Medium-term economic policy committee	8	" " " 38 "

etc.

b) On the other hand supplementary commitments have to be regularly made to cover the surplus costs of meetings of the management committees and trade advisory committees for the agricultural markets. These underestimates occur even when the number of experts attending is far below the number convened.

In some cases the original commitment has to be more than doubled:

Examples:

Management Committees	- Milk (29 March)
"	" - Milk (26 April)
"	" - Milk (3 May)
"	" - Sugar (2 May)
"	" - Eggs, Poultry Meat (7 May)
"	" - Beef and Veal (13 April, 14 May)
"	" - Compensatory and certified amounts (11 and 25 May)

Trade Advisory Committees:

- Oilseeds (8 June, 6 July, 8 September)
- Milk (27 June)
- Poultry Meat (4 September)
- Wine (8 June, 8 August)
- Olive Oil (6 July)

etc.

More strictness seems advisable when estimating the expenditure in advance.

c) The budgetary management of these chapters is also characterized by the large amounts carried forward. In Chapter 24 of the Commission's Budget these totalled 20 % in 1971, 34 % in 1972 and 20 % in 1973. They are occasioned by the extent of the provisional commitments entered into at the end of the year to cover the regularization of the costs incurred in the final months and also by the delays in producing the statements and invoices and in paying the expenses.

In Chapter 25 the amounts carried forward are growing at a rapid rate: 2 % in 1971, 13 % in 1972 and 17 % in 1973, Here again, the reason can be found in the size of the provisional commitments at the end of December, the delays in forwarding statements of costs but also in the wide variety of operations charged

to Article 255 for which settlement entails long delays (The "Industry and Society" Conference in Venice in 1972, negotiations of the Association Agreements - Protocol 22, in the second half of 1973).

37. The "Industry and Society" Conference in Venice - April 1972

At its meeting on 28 January 1971 the Commission agreed in principle to organize this conference under the responsibility of Directorate-General III, Industrial, Technological and Scientific Affairs . On 15 July 1971 it adopted the subjects, methods of organization and the budget estimate which was fixed at 135 000 u.a. Despite the size of this allocation, the comments on the Budget



make no mention of this conference in Article 255 of the 1972 Budget.

Commitments were taken out under this article from November 1971 and throughout 1972. Two final commitments were still to be booked in December 1973.

Numerous commitments concerning the actual organization of the conference were only formulated a posteriori for regularization purposes (these relate in particular to the cocktail party, brochure and programme, documentation and supplies of equipment, hire of transport equipment, secretarial work, hire of conference rooms and telephone equipment, reproduction of documents, etc.).

The payments made for this conference under this article amount at the time of writing to 154 986 u.a.:

- fees for experts' reports	27 000 u.a.
- secretarial work, translation and reproduction of those reports	3 981 u.a.
- organizational expenses in Venice	21 294 u.a.
- travel and accommodation expenses for the persons invited	44 270 u.a.
- offset printing of the reports	9 660 u.a.
- costs of publishing and distributing the final volume	48 781 u.a.

Yet these sums which already exceed the original estimate do not represent the entire expenditure borne by the Commission's Budget for this conference: allowance should be made for the large volume of expenditure charged to other articles. This primarily concerns operations for which the financing has been divided between Article 255 and another budgetary item: thus more than half of the costs of printing the reports presented in Venice has been charged to Item 2719 "Other publications" for 9 805 u.a. Similarly, Item 2710 "Publications" was debited with 13 213 u.a. for the costs of printing the volume "Pour un modèle européen de développement - Venise 1972".

The other direct expenses occasioned by the conference are found under the following items:

- 2500	Cost of preparatory meetings	2 467 u.a.
- 2520	Travel and accommodation expenses of the representatives of the ECSC Consultative Committee	1 422 u.a.
- 1300	Mission expenses of the Commission members	2 754 u.a.
- 1301	Mission expenses of the Commission's staff	30 700 u.a.
- 2720	Information (film print)	646 u.a.

If these various charges are aggregated, they total 215 993 u.a. But even this does not allow for the expenditure which is more difficult to isolate, such as the remuneration of the temporary staff recruited for the occasion,

19 000 u.a., arbitrarily divided amongst Items 2550 (5 780 u.a.) and 2710 (13 220 u.a.). Finally, on 15 and 28 December 1973, two other regularization commitments had to be recorded for 2 986 u.a. to allow payment of the balance outstanding. Deliveries took place in the second half of April 1973, 7 months later than originally forecast.

The volume still had to be commercially distributed throughout the world; this was a hazardous operation since 4 700 copies of the first offset edition had already been distributed and the Commission also retained the right to distribute 800 free copies of the new volume of which 4 500 copies had been printed.

which was originally estimated at 5 000 u.a., the paper supplied to the printing works for printing the reports (approximately 3 200 u.a.) and the cost of the printing done in the Commission's own works (approximately 14 000 u.a.).

The publication expenditure calls for some comments:

After 6 400 copies of each of the 27 reports had first been printed by offset, it was decided on 23 May 1972 to reprint by offset the 2 inaugural speeches and the 27 reports, arranged into ten volumes totalling some 1 300 pages. 1 000 copies each were reprinted in French, German, English and Italian and 700 copies in Dutch.

The production of all the English, German and Dutch versions and 2 volumes of the French version were commissioned from printing works which used paper supplied by the Commission. The sum paid (19 466 u.a.) was arbitrarily divided between Items 2550 and 2719. The Italian version and the remaining 8 volumes of the French version were printed in the Commission's workshop and the cost can be estimated at approximately 14 000 u.a.

Despite the distribution of these 47 000 pamphlets amongst the professional circles concerned, as early as June 1972 the Commission decided to issue a volume comprising reports and summaries of the discussions; it asked the office for Official Publications to issue invitations to tender and to conclude the contracts as quickly as possible so that everything could be delivered during the second half of September, namely 1 500 copies of the French and English versions and 500 copies of the German, Italian and Dutch versions.

As the result of a misunderstanding, the invitations to tender were issued on the basis of 632 pages, whilst in fact the volume will contain 888 to 940 pages depending upon the language concerned. The estimate accepted was for 36 287 u.a.; the invoices amounted to 57 994 u.a. (an extra 60 %).

The timetable for the operations was very different from the original forecasts. The tenders from the printers were received in July and examined by the PCAC at the end of September. The financial commitment for the printing costs was not signed until 28 December 1972 for 36 287 u.a. and the formal orders were not prepared until 14 February 1973. Owing to the error regarding the number of pages, supplementary commitments had to be made on 22 March 1973 for

At the end of November 1972 this operation was entrusted to the Librairie Européenne which was granted firstly a 50 % commission on sales (price fixed at 10 u.a.) and, secondly, a lump-sum contribution of 4 000 u.a. to cover the canvassing, publicity and distribution costs. The Commission also assumed the cost of preparing the dust jacket (390 u.a.). The commitment for these further expenses was made on 28 December 1972.

In June 1972 the Librairie Européenne had suggested that, in return for a lump-sum payment of 20 800 u.a. it would act as the publisher and from the end of September 1972 distribute throughout the world 3 000 copies in two languages (French and English), 700 copies being reserved for the Commission.

The final arrangement tripled the cost and led to the volume appearing more than one year after the conference.

The overall results of the commercial distribution operation were still not known at the beginning of 1974; by this time 150 copies had been sold in Brussels.

#### E. COST OF STUDIES, SURVEYS AND CONSULTATIONS

38. The expenditure incurred under Chapter 26, which was almost entirely charged against the Commission's Budget, rose from 3 400 000 u.a. in 1971 to 4 593 000 u.a. in 1972 and 10 388 000 in 1973, that is to say that it tripled in two years.

As regards the Commission, the original appropriation (8 743 920 u.a.) which in itself was more than double that of the previous year (4 074 920 u.a.) was further increased during the year by 2 482 000 u.a. by means of transfers.

Yet the rate of utilization of these increasing allocations is still not satisfactory. While, overall, 92 % of these appropriations were committed at the end of this year, this is the consequence of large-scale commitments in the final months of the year and especially in December.

So the appropriations carried forward continue to reach abnormal proportions. They represented 64.4 % of the commitments in 1971 and 74.6 % in 1972. In 1973 they amounted to 76.6 %. In the latter year the full amount under Articles

265 (Studies in the field of nuclear energy) and 268 (Studies in the field of research and development) was carried forward; other amounts carried forward were 94.6% under Article 266 (Regional studies at the request and with the participation of certain Member States), 89.2 % under Article 263 (Economic and social studies provided for in Article 46 of the ECSC Treaty) and 89.2 % under Article 267 (Environmental studies).

The directorates-general still seem unable to implement at the proper time the study programmes which they have presented in support of their applications for appropriations and which have, however, sometimes been subject to reduction.

This delay in initiating studies is often combined with other delays deriving from non-compliance with the contractual time-limits for delivering reports, which occasions considerable cancellations of appropriations brought forward (183 933 u.a. in 1973) and the need to effect re-commitments against appropriations for the year in order to be able to pay the balances.

Measures should be taken to ensure that, after the formulation of the study programme, contracts are finalized more rapidly, the execution is subject to better supervision and that the reports are forwarded within the prescribed time-limits.

39. As in previous years it has been found that study contracts are sometimes concluded with former trainees or former officials of the Commission and others are renewed indefinitely for experts working in some departments.

Careful examination should be made of the justification for such contracts to avoid appropriations for studies being employed to prolong specific administrative situations or supplement budgetary resources which are considered too limited.

40. In some cases the subject of the study is so imprecisely defined that it is difficult to evaluate the results and the fees paid turn out to be a subsidy to a body rather than a payment for specific services.

This can be said of the sums allocated to the European Research Institute for Regional and Urban Management and to the Action Committee for the United States of Europe; it would have been more logical to enter these payments against the appropriations of Article 411. That these sums take the character of a financial participation is further affirmed by the payment conditions employed in such cases which have led to full payment of the sums provided for in the contract well before the delivery of the final report.

41. Finally, study contracts are still being given to outside bodies with regard to the analysis, organization or management of some services of the Communities' administration (re-organization of documentation, rationalization of publications, methods for preparing and implementing the Budget, medium-term programming of food aid to the Sahel, etc.). Conclusion of such contracts should be conditional upon a careful examination of the reasons preventing

senior officials of the Institution from carrying out these studies themselves by means of internal working parties.

42. It also seems unnecessarily expensive to call in private bureaux to collate documentation which in most cases is public and which should be obtainable through normal contacts between the Commission and the national administrations of the Member States. One instance is a documentary study of the institutions providing internal and external control of expenditure and revenue in the Community countries, while another instance is the study of the Government



press and information services and the State-controlled bodies and a study of the procedures for awarding public and semi-public contracts in the Community.

43. The rapid growth of this type of expenditure calls for various measures aimed at a more efficient management of these appropriations with regard to coordination of the programmes, assessment of the cost, supervision of the implementation and evaluation of the results.

An initial step was taken in May 1973 when it became obligatory to file a copy of each study in the "Historical archives". The department managing these archives issues an acknowledgement of receipt bearing a registration number which must be shown on the work-done slip attached to the payment order. The filed copy must also be accompanied by a record giving a summary of the study and the conclusions as well as the objectives.

This procedure provides a valuable element of control if it is strictly complied with. But at the more recent checks it was found that payments for outstanding fees were still not supported by acknowledgements of receipt and also that the "Historical archives" office frequently - especially at the end of the year - issued "conditional" certificates in cases when it had not yet been possible to file the text of the study. However, provision has been made that if the text is not filed before the end of the year, the Financial Controller will be notified.

In addition, the record accompanying the registration application, if not actually omitted, gives only very summary particulars of the purpose and justification of the study, the aims and the anticipated results. But, above all, it contains no information concerning the carrying out of the work, its duration compared with the contractual period, the quality of the conclusions and the further action they may entail.

The nature and contents of these filing records should therefore be revised along the lines already adopted, for instance, by the EDF study coordination committee in order to allow of more thorough evaluation of the results. At the same time clauses providing for penalties for exceeding time-limits or unsatisfactory execution of the work should be incorporated into the contracts.

These records should be regularly attached in support of the final payment

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so that the Audit Board can in turn evaluate the quality of the management of these appropriations.

E. INFORMATION EXPENDITURE

44. The re-organization of the services in 1973 and the departure of several senior officials who took advantage of the shortened-service arrangement (including the director-general, the two directors, four heads of division and eleven principal administrators) caused a slowing-down in the activities of the Directorate-General for Information and this slowing-down did not fail to have an unfavourable impact upon the fulfilment of Articles 272 (Expenditure on information and on participation in public events, 3 400 000 u.a.) and 273 (Dissemination of information to young people, 700 000 u.a.) of the Budget.

The 1973 Budget for the information programme was not adopted by the Commission until June 1973. At the end of the year 26.86 % of the appropriations for the two above-mentioned Articles were carried forward to 1974 as balances payable and 4.49 % of the appropriations were cancelled. At the end of 1972 the sums carried forward were 23.81 %. A proportion which remained unused in 1973 (123 726 u.a. out of a total of 726 369 u.a.) was finally cancelled.

The carrying forward of such large sums bears witness to a certain amount of delay in implementing the information operations whose effectiveness largely depends upon the rapidity with which they are carried out.

45. In its previous report (No.14) the Audit Board stressed the difficulties encountered with regard to the introduction of a system of rationalization of Budget choices (P.P.B.S.) for the management of the information appropriations. The studies for this system which were carried out under various contracts had cost over 50 000 u.a.

Virtually no progress was recorded in this respect in 1973. It should also be noted that the introduction of such an information system raises complex problems since the relationship between the means and the ends is difficult to quantify for the activities here in question.

The current methods basically consist of a detailed breakdown of the appropriations over the various operations planned although the choice of the objectives is not based upon a thorough analysis of their usefulness founded upon a quantified comparison of the cost and effectiveness of the various operations.

As the Audit Board has pointed out in its previous report, an appropriate evaluation of the results of the various information activities, although sometimes difficult, is nonetheless possible and would constitute an appreciable step forward for management. Failing such progress, the system introduced is limited to the preparation by data processing techniques of a series of lists which are little utilized and whose significance for management is out of proportion to the work and expenditure which their preparation requires.

Even as regards the utilization of accounting information prepared by data processing techniques, the situation was unsatisfactory in 1973. To remedy this in May 1974 the Directorate-General for Budgets, which arranges the data processing, concluded a contract with an expert (term: 5 months, cost: 1 620 u.a. per month) who is to prepare a set of program. These program will not permit use of the punched cards prepared in 1973 and so, for 1974, the data will be exploitable only at the end of the year.

The need to rationalize the procedures is shown by the fact that at present, apart from the data recorded in the central accounting office and the Financial Controller's office, the codified data relating to commitments and payments of information expenditure are produced by the Directorate-General of Budgets, by the P.P.B.S. accounting system of the Directorate-General of Information and by the accounting system for the commitments of that Directorate-General.

46. At the end of 1972 the Directorate-General for Information organized a public competition for designing a "European Community" emblem. For this competition, expenditure of 11,897 u.a. covering the prizes and the travel and accommodation costs of the jury members, was charged to Article 272 "Expenditure on information and on participation in public events".

A total of 2 200 people took part in the competition and submitted 6 300 designs. The jury finally decided to award ten equal prizes to a total of 7 200 u.a. which was originally provided for five prizes.

We have been informed that no further action has been decided so far as regards the emblems chosen by the jury so that the expenditure of 11 897 u.a., to which must be added the secretariat costs and the other costs of organizing the competition, has so far been unnecessary.

47. a) In 1973 an office for information upon European questions, which is established in Strasbourg, was granted a financial contribution of 12 800 u.a. charged to the appropriations of Article 273 ("Dissemination of information to young people").

However, most of the activities shown in that office's operational programme and 1973 report on its activities are not connected with information for young people but are aimed instead at executives and managers of public and private bodies, particularly in Catholic circles.

So the expenditure should not have been charged to Article 273 but to Article 272.

b) The appropriations of Article 272 included, however, the cost of fitting out the reception and information centres set up in the Berlaymont and Kirchberg buildings in Brussels and Luxembourg (10 621 and 20 000 u.a. respectively).

This expenditure is in fact for "Fitting-out of premises" which should have been charged to Article 214 of the Budget which is provided for that purpose. In the past the expenditure for fitting out a television hall and cinema in premises occupied by the Commission in Brussels has been charged to Article 214.

The Audit Board considers it necessary to point out that Article 272 aggregates the operational appropriations of a directorate-general. Expenditure which can be set against those appropriations should be more clearly specified in order to avoid the charging of operational costs which are covered by other budgetary items.

#### G. WELFARE EXPENDITURE

#### 48. The need for inter-institutional management for welfare

a) During recent years similar services (restaurants, staff stores, travel agencies, medical services) located near each other have grown up in the Community Institutions in both Brussels and Luxembourg.

At the Rond Point Schuman in Brussels, the Institutions have four restaurants at present (two in the Berlaymont, one in the Charlemagne and one in the rue Archimède) each with its own separate kitchen. They also have two medical services, two travel agencies, two staff stores; these various activities are also managed on very dissimilar bases in many cases.

Situations such as these, which to some extent can also be observed for the Institutions located on the Plateau du Kirchberg in Luxembourg, should be carefully examined by the Institutions with a view to studying the regrouping possibilities and, at least, the possibilities of combining some areas of the managements in question (purchasing, storage, equipment, etc.).

b) The Audit Board also considers it essential that for both the management and the control of these welfare activities (restaurants, crèches, clubs, etc.) complete accounting data should be available indicating the genuine revenue and costs.

The financial statements at present drawn up, which also vary in form and regularity, are far from conforming to this objective since the accounts of the

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revenue and expenditure omit a large proportion of the costs (staff, premises, equipment, heating, transport, etc.) which are directly borne by the Institutions under various chapters of their operating budgets.



The Audit Board will certainly examine these matters more closely during its forthcoming audit and hopes that in doing so it will receive information which proves useful.

c) In December 1972 the Council Secretariat concluded a contract for the supply of travel warrants for staff leaving on missions. The contract was concluded without competition with a manager who did not himself have the facilities needed to supply the tickets and thus acted in reality as an intermediary between a travel agent and the Secretariat. The latter pays the manager a monthly allowance of 230 u.a. and places an office at his disposal.

Although a limited invitation to tender was issued in November 1973 for operating the travel agency on new bases, the situation described above had not been changed at the time of writing.

The Audit Board considers it necessary to point out that the Commission of the European Communities also has at its disposal near the Council Secretariat's premises a travel office managed by a specialist agency which pays the Community a fee intended to cover the rent and operational costs. This office could be profitably commissioned to issue travel warrants and make hotel reservations for the servants of the Council Secretariat as well. This would produce a growth in turnover which should enable the Community to obtain an improvement in the financial terms of the contract.

#### H. PUBLICATIONS EXPENDITURE

##### 49. Budgetary management

a) In each Institution the appropriations allocated to publications expenditure are divided amongst Articles 270 "Official Journal", 271 "Publication" and 380 "Services of the Office for Official Publications".

In the Commission this system for budgetary charging does not apply to publications produced by Directorate-General X, Information, and sundry publications covered by the Budget for research and investment, health protection and distribution of information.

But other expenditure which should have still been charged to Article 271 is charged to Item 1172 "Other services and work sent out for translation and typing"

and above all to Article 255 "Miscellaneous expenditure on the organization of and participation in, conferences and congresses".

Stricter observance of the rules for budgetary particularization should be ensured.

b) In several of its previous reports the Audit Board has found that each year the management of this category of appropriations takes the form of an abnormal degree of carrying-forward and also of cancellation of appropriations brought forward.

The closing of the 1973 financial year shows that these methods persist. The appropriations committed and carried forward are as follows:

- for the Official Journal	end 1972	end 1973
Council	20 %	33 %
Parliament	41 %	37 %
Court of Justice	16 %	12 %
Commission	41 %	42 %
- for publications		
Council	46 %	19 %
Parliament	51 %	31 %
Court of Justice	78 %	87 %
Commission	45 %	56 %

c) In the case of the Official Journal, the percentages carried forward are occasioned less by the time-limits for transmitting the detailed accounts and transfers of funds than by the delays in the budgetary regularization of these settlements by preparations for payment. It is also due to serious delays in printing the 1972 and 1973 tables of the Official Journal so that the invoicing was brought forward to 1974.

As in 1972, the Parliament and Court of Justice do not effect payment until they receive the definitive accounts. The Council and Commission make these payments on the basis of provisional accounts but by applying a postponement which often means that payment is made on a date when the definitive accounts have already been submitted.

In 1973 the preparations for payment were arranged more rapidly than in the previous year. While at the end of 1973 the Commission had charged to the Budget only for the first three quarters of the year, Parliament had done so for 10 months and the Court and Council for 11 months.

It would be worthwhile to apply as general practice a monthly preparation for payment which would make it possible to ascertain the actual utilization of the appropriations without unnecessary delay.

d) As regards publications, the size of the amounts carried forward reflects a more complicated situation since it is caused by a whole series of delays which can be observed at all stages in the procedure; preparation of the technical specifications, issuing and analysis of the invitations to tender, conclusion of the contracts, transmission of the manuscripts, execution of the order and author's corrections, transmission and verification of invoices and, finally, the preparation for payment.

The checks carried out this year show that it is still the despatch of manuscripts and proof-correcting which produce deferment of time-limits to such an extent that new negotiations are sometimes necessary to allow for price changes.

In the case of a work concerning "The medium- and long-term evolution of the ship-building market" which was prepared between 1970 and 1973, an initial price increase of 9.3 % was granted in 1971 and a second, of 9.8 % of the balance outstanding, had to be agreed in 1972. For a publication dealing with the "Symposium on the methods for preparing economic budgets within the Community" for which the preparation lasted from 1969 to 1973, the price rises were approximately 25 % of the initial sum.

This slowness by the authors is liable to cause considerable increases in cost and also to reduce the actual value of some publications.

To avoid a more marked increase in the amounts carried forward and also a cancellation of the appropriations carried forward, advance payments or part payments of invoices were effected at the end of 1973 but other fundamental measures are needed (and are being studied by the recently created Advisory Committee on Publications) to improve the links between the authors and the authorizing officers' departments.

e) Our checks once again disclose the existence of regularization commitments for orders already given or for the recharging to the Budget of former operations and, above all, supplementary commitments intended to cover the excesses over the original estimates when the invoices are paid.

The excess of the invoiced amounts over the estimates continues to reach extreme levels in some cases:

- Report on competition policy - 1972	+ 76 %
- Report on the Venice conference - 1972	+ 60 %
- Report on the medium- and long-term evolution of the ship-building market	+ 45 %
- Italian version of the memorandum on Community policy on development aid	+ 59 %
- Draft convention on European trade mark law	+ 32 %

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- Euronorm 109/71: + 79 %; 50/71: + 89 % 113/72: + 93 %

- General statistics - Nos 1 - 5/73: + 67 %

etc.

These disparities are always caused by unsatisfactory evaluation of the basis of the orders with regard to the number of copies and pages, and by increases connected with the execution of the work and especially the extent of the author's corrections.

Here again everything should be done to increase the author's sense of financial responsibility.

The Office for Official Publications

50. The budgetary and analytical accounting system

a) In its previous reports the Audit Board had found various defects in the manner in which the Office kept its budgetary accounts and these led to delays and gaps in the relations between the Directorate-General for Personnel and Administration and the Office. These problems continued in 1973 and have not allowed those in charge of the Office accurately to monitor the utilization of their appropriations throughout the year.

In 1974 the powers of commitment and preparation to pay should be transferred to the Office which, one hopes, would permit the budgetary accounts to be kept correctly.

b) The organization and operation of the analytical accounting system nonetheless still produce more serious problems. While their principle was set out in Article 4 of the Decision of 16 January 1969, their objectives were not clearly defined and so the study of the organizational methods, which in some cases was commissioned from outside sources, has been unable to produce results.

There seems little purpose in trying to formulate a genuine analytical accounting system of the industrial type which would make it possible to isolate the actual cost of each publication. This, which should also include the "author's cost", cannot assist in making decisions as to the launching of the publication, the number of copies and the distribution system which are governed by other considerations.

The more restricted objectives so far assigned to this system of analysing expenditure related firstly to the fixing of a per-sector intervention cost for the Office and, secondly, to the preparation of workshops' estimates. In these two respects the practices employed still do not seem satisfactory.

Some expenses are broken down by a rough-and-ready method of apportionment which has varied in recent years. The expenditure relating to supervision and

the general services attached thereto was allocated in 1971 and 1972 over the "Publishing", "Sales" and medium-and long-term translation department sectors in an equal three-way split. In 1973 this allocation was changed to 60 %, 30 % and 10 %. The "Publishing" service was in turn broken down into areas of operations with three equal parts for the Official Journals, other publications and the workshops.



The charging of supervision costs to the medium-and long-term translation department - although considerably reduced in 1973 - does not seem really compatible with the Supervision Committee's decision of 8 December 1972 whereby "that department was not to be a cost centre at Office level and accordingly it was advisable not to take it into account when determining the costs of the departments".

The size of the disparities which on completion of the management appear between the budgetary forecasts and the actual expenditure in each sector of operations (sales: + 20 %; Official Journal: - 7 %; tables of the O.J.: + 97 %; publications: + 11 %; printing: - 10 %; etc.) arouse some doubts as to the value of the factors employed for the functional analysis of the expenditure.

Even more pronounced reservations must be expressed concerning the bases of calculation used to determine the Office's intervention costs.

As regards the Official Journal, the rate of 215 Bfrs fixed at the beginning of 1970 was artificially maintained in 1972. For 1973 it was abruptly raised to 346 Bfrs but eventually fixed at 260 Bfrs (i.e. - 25 %) and even 242 Bfrs when account is taken of the 1972 Official Journals produced in 1973, causing a surplus of 215 000 u.a. at the end of the year (1). On the other hand, the cost per corrected page of the other publications was fixed at 382 Bfrs while it has risen to 429 Bfrs (+ 12 %), leaving a "deficit" of 68 000 u.a.

The calculation of the hourly rates of the Office's workshops seems even more random. The rates adopted for 1973 (450 Bfrs for composition, 464 Bfrs for offset, 307 Bfrs for make-up, etc.) occasioned by the end of the year a disparity between invoiced amount and cost of more than 130 000 u.a.

In all these areas the initial estimation of costs ought to be put on a more realistic basis.

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(1) The net intervention revenue for the Official Journal which should according to the regulations be transferred to the Commission has been retained by the Office since 1970 as a reserve cash fund. An attempt should be made to regularize this situation.

51. Publications

Employment of the direct-tendering procedure which was previously criticized by the Audit Board, was less widespread. A larger number of general calls for tender were issued but the percentage of replies has continued to drop. To improve the results of these competitive calls, proposals have recently been made and some have already been implemented: enlargement and revision of the list of firms, extension of the time-limits for replies, compliance with the dates for manuscript despatch and corrections, examination of an outline contract for the major series.

52. Workshops

1973 showed a net falling-off in the activity of the workshops and a deterioration in their financial results. The number of plates dropped by 55 % and the printing from the offset machines by 31 %. In terms of the number of pages, including those of the Official Journal, the workshops provided less than 16 % of the publications. The cost of the service (excluding depreciation of the equipment) was 677 000 u.a. with an invoiced turnover of only 546 000 u.a.

To obtain a proper evaluation of these results, allowance must be made for the cessation of the printing of the Collected Acts, the geographical dispersal of the plant, as well as the removals and, finally, the unfilled vacancies in some positions.

Overall, the total days worked by the personnel amounted to less than 70 % of the total working days available and this fell even to 60 % in the offset sector. As regards the machines, no utilization coefficient has been established. It must be hoped that the regrouping of the workshops in the new Eurooffice building will permit more satisfactory utilization of the equipment.

Article 13 of the Office's operating regulations stipulates that "for every piece of work to be produced in the workshops, the Office shall prepare an estimate which must show the costs of the various potential forms of composing".

The provisions have been applied only to a very partial extent. The estimates are prepared only at the explicit request of the Institution and only for publications in the strict sense of the term (and not for miscellaneous work).

Even for the publications, estimates have been formulated only for less than two-thirds of the operations in 1973. Thus the monthly staff bulletins, the publications of the Statistical Office, etc. were not covered by estimates.

As for the publications for which estimates were prepared, large disparities are fairly frequently found between the estimated and invoiced amounts.

These disparities are caused primarily by delays in completion. The estimate is prepared on the basis of the hourly costs fixed for the year of the

order and the invoices are made out in line with the revised rates of the year of completion. Yet the transmission of manuscripts sometimes occasions lengthy postponements (example: Notes on Industrial Redevelopment, No 19).

The revision of the hourly costs is itself sometimes delayed. The 1973 rates were not decided upon by the Steering Committee until 18 May 1973. Until that date the estimates were prepared on the 1972 basis and invoicing for the work during the first five months had to be blocked. It was not recommenced until 6 July.

Other disparities between the estimates and invoices are occasioned by mistakes committed by the authors' departments with regard to the number of pages or format, by alterations made in the nature of the services supplied or by unsatisfactory estimates of the number of hours and the quantity of raw materials on the part of the Office.

53. Sales department

a) Up to the end of 1972 the sales were invoiced and recorded in the accounts by the sales department using an IBM invoicing machine and the results were processed by the Computer Centre.

In several of its reports (1) the Audit Board has criticized the delays in carrying out these operations.

From the beginning of 1973 the invoicing was entrusted to the accounts department on the basis of the statements sent to it by the sales department. The operations were carried out on an Olivetti electronic machine bought in 1972 for 18 870 u.a.

This new system has not been satisfactory. It has led to large-scale duplication of functions, errors and omissions in the data brought forward and, finally, delays in dispatching invoices. Comparison of the statements and invoices has made it possible to ascertain these defects for 1973. The necessary corrective measures must be adopted without delay. Moreover, the accounting equipment has not made it possible to produce a statistical breakdown of sales by publication and language, which the Office considered advisable.

So in 1974 it was decided to revert to the previous system and entrust the invoicing to the sales department. This transfer has entailed the hiring (with option to purchase) of two ICS invoicing machines for a total annual cost of 2 213 u.a.

Furthermore, the time required for putting these invoicing machines into operation has involved a very regrettable delay in invoicing for more than two months. This delay which affected some 4 000 invoices had been recouped by the end of May 1974.

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(1) Cf. 1969, point 222; 1970, point 201 a); 1971, point 195 d); 1972, point 16 g).

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b) The invoices unpaid at 31 December 1973 amounted to 275 476 u.a., of which nearly 10 % related to the period from 1968 to 1972. The accounts also include unidentified receipts totalling 36 821 u.a., which were posted to a suspense account, and a sum of 7 819 u.a. repayable to customers.

Examination of the balance to be collected shows that many unpaid invoices are for sums of less than 2 u.a. In such cases the invoicing, bookkeeping and, above all, the collection proceedings, cost more than the revenue in question. In 1973, 800 invoices (6.5 %) were issued for sums of less than 1 u.a.

While many invoices relate to overseas customers against whom collection proceedings would be difficult and expensive, some outstanding debts are owed by customers against whom action would seem to be easy to institute. Some cases relate to Commission officials, permanent delegations to the EEC, or foreign embassies in Brussels and Luxembourg, international agencies, universities or bookshops with which the Office has frequent contact.

More energetic action should be taken to clear these debts. More frequent reminders should be given with formal notice which could include default interest and refusal of further supplies.

When these efforts prove fruitless, legal action should be limited to the larger debts and procedures for non-value acceptance should be instituted to permit more rapid clearance of old accounts.

c) The cost of the Office's services resulting from a still imperfect functional accounting system amounted to 575 200 u.a. and the net revenue to 231 600 u.a. This revenue was obtained after paying 477 200 u.a. to various Institutions in respect of their shares and after paying 220 000 u.a. commission to the intermediaries. Pursuant to a decision of the Presidents' Committee dated 23 March 1961, the Office reassigns 50 % of the revenue from sales to the Institutions (1). There is some delay in making this allocation. The allocation for the 1972 sales was not made until 5 December 1973. 1974 will see some progress in this area.

When interpreting the results of the sales department, it must be pointed out that the Office does not have competency for fixing the sales price of the publications and this is influenced more by political factors than by financial considerations. Moreover, the volume of free distribution often impedes the development of sales. Some attempts are currently being made in this field to define more satisfactory practices.

d) As a result of a meeting of the persons in charge of the sales office, held in London in July 1973, it was decided to revise the discount rates. This harmonization of the rates which in some cases led to increased prices, especially

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(1) However, this rate is increased to 70 % for some Council publications and 75 % for the Euratom publications sold directly by the sales department.

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for subscriptions to the Official Journal, came into effect on 1 January 1974. But it should have been accompanied by a more precise contractual definition of the obligations of the sales offices, agents and bookshops, particularly with regard to the passing on of discounts and sales promotion campaigns.

Many intermediaries are very late in making out their accounts and sending them to the Office. At the beginning of 1974 the Libreria dello Stato, Rome, had not submitted its 1972 and 1973 statements. The Bundesanzeiger had not



forwarded its statements for the third quarter of 1973. A Milan agent had sent nothing since the end of 1967 and a Munich agent nothing since the end of 1968. Four agents in Brussels, Paris, The Hague and Madrid had sent no statement for 1973 by the beginning of 1974.

Formal applications should be issued to obtain quarterly statements of sales.

At the beginning of 1973 the supervision office gave oral instructions that firm invoices must be made out for the publications sent to the sales offices and agents. In keeping with these instructions, invoices were made out and booked but were not honoured. Some months later this system was discontinued. The publications were despatched without being invoiced and invoices were thereafter prepared only on the basis of the sales statements of the sales offices. The invoices issued and booked at the beginning of 1973 are therefore duplicated by those issued subsequently on the basis of the transmitted statements. So the accounts have had to be adjusted for transactions totalling some 6 000 u.a.

e) As regards the Official Journal, the subscription service is managed directly by the Office in respect of Italy, Luxembourg, Britain, Eire, Denmark and non-Member States (4 345 subscriptions in 1973) and is operated through sales offices in Germany, Belgium, France and the Netherlands (6 165 subscriptions in 1973).

Although considered desirable for many years, renewed direct handling of distribution by the Office has so far encountered difficulties caused by unsatisfactory facilities in the despatching departments. The addresses are always made out by the Commission's departments in Luxembourg and the items are wrapped or placed in covers by slow and expensive manual methods.

In 1971 the decision was taken to purchase under appropriations brought forward from 1970 a wrapping machine (Bandema) which was delivered in December 1971 at a cost of 22 483 u.a. This order, which was given without a serious study of the technical problems, constituted a high and unnecessary expense and the machine has since remained virtually unused.

It must be hoped that the capital expenditure currently envisaged for

addressing and wrapping the publications will be preceded by more thorough investigation.

The installation by successive stages of the despatching and storage service in the new Eurooffice building should also at last make it possible to keep correct inventories of the publications and provide more rational management of the stocks, these being areas in which no progress has yet been made.

I. AID, SUBSIDIES AND FINANCIAL CONTRIBUTIONS

(Title 4 of the Budget)

54. The budgetary breakdown of Title 4 "Aid, subsidies and financial contributions" which, since the new nomenclature came into force (1972), groups together the former Chapters XIV and XXV, excluding Food Aid, has no great significance. The composite unit thus constituted remains heterogeneous and includes no functional classification. The only common criterion is the use of the subsidy or financial contribution system but this is found elsewhere (especially in Article 272 "Expenditure for information and participation in public events").

Some related expenditure concerning food aid operations which it would have been better to classify under Title 9 of the Budget, is still charged as aid (Chapter 40).

The comments called for by the principal operations charged to Chapter 42 "Subsidies for the balancing of budgets" and Chapter 43 "European schools" have occasioned either the preparation of special reports concerning the Supply Agency and the European schools or references in the report on the European Development Fund as regards the subsidy to the European Cooperation Association (ECA).

In the matter of Chapter 41 "Subsidies and financial contributions", the main comment concerns the slowness in implementing appropriations. The major commitments derive from decisions adopted on 30 November and 13 December 1973 which inevitably led to abnormally high percentages of amounts carried forward.

While at the end of 1972 these amounts carried forward related only to 27 000 u.a. for scholarships, at the end of 1973 they were 299 706 u.a., i.e., 76.6% of the allocations and can be broken down as follows:

64 %	of Article 410:	Subsidies to institutions of higher education
68 %	" "	411: Subsidies to European movements
51 %	" "	412: Participation in the organization of conferences and occasional meetings
84 %	" "	413: Study grants
88 %	" "	414: European prizes
100 %	" "	415: Consumer projects.

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As regards this last Article, although the Commission decided as early as 28 June 1972 to have regular contacts with six European organizations representing consumers, it was not until 7 December 1973 that the allocation was adopted for appropriations intended to finance through subsidies the preparatory studies or current operations of those organizations.

The delay in committing the appropriations entered under Articles 410, 411 and 412 distorts the nature of the subsidies granted. Although this aid should be provided on the basis of programmes presented in advance as a means of encouraging certain European operations, in the majority of cases it constitutes no more than the acceptance of partial financial responsibility for operations already completed.

In Article 412 in particular almost all the decisions relate to participation in the costs of symposia or seminars which had already been held. One of the subsidies allocated in 1973 actually relates to a meeting in 1972 (Symposium of the Institut d'études européennes of the "Université libre", Brussels, 23 - 25 November 1972).

In Article 410 the subsidies to institutions of higher education should constitute initial aid enabling universities to introduce an educational organization orientated towards the Communities and to ensure backing for it during the early stages. Yet the subsidies to some universities are found to be renewed from year to year and sometimes for increasing amounts.

55. Article 89 of the Financial Regulation of 25 April 1973 lays down that the verification of the legality and regularity of the revenue and expenditure and control of sound financial management includes the utilization by bodies outside the Institutions of Community funds received as subsidies. It is stipulated that the granting of subsidies to bodies outside the Institutions is conditional upon acceptance by the recipients of the verification made by the Audit Board of the use of the subsidies.

It should be noted that all the recipients of subsidies allocated after 1 May 1973 stated their willingness to accept verification by the Audit Board of the use made of those amounts.

The assistance given to some bodies is sometimes sub divided into more than one subsidy charged to different budgetary items. Thus the Pan-European Union receives global aid under Article 411 (5 000 u.a.) and also special aid for its "rally" in Strasbourg on 27-29 October 1973, which is charged to Article 412 (3 000 u.a.).

Similarly, the "Europalia 1973" cultural event, which was held in Brussels

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from 28 September to 28 October 1973, received a subsidy of 4 000 u.a. under Article 412 while Directorate-General X, Information, allocated 5 300 u.a. to it under Article 272 and Directorate-General IX, Staff and Administration, allocated 5 000 u.a. under Chapter 14.

One operation charged to Chapter 42 "Subsidies for the balancing of budgets" certainly does not come within that category because it consisted of covering the operation expenditure (equipment) of a department of the Commission.

On 20 September 1972 the Commission formulated a proposal for setting up an Office for the establishment of closer links between firms in the form of a decentralized department attached to Directorate-General III, Industrial Affairs, and staffed by Commission officials. This office was to have a threefold function:

- providing general information to firms regarding the provisions laid down by law, regulation or administrative action;
- putting firms desiring cooperation or closer relationship into contact with each other;
- informing the Community Institutions of the impediments to cooperation.

An operational budget of 42 000 u.a. was then provided for.

In April 1973 the Council accepted this proposal and also authorized an appropriation transfer of 42 000 u.a. from Chapter 98 to Article 422. The 1973 expenditure amounted to 18 618 u.a., divided into the cost of renting offices from 1 April (7 041 u.a.), fitting-out of premises, purchases of furnishings and equipment and maintenance (9 086 u.a.), mission costs (1 375 u.a.) and supplies and miscellaneous expenses (1 116 u.a.). Some commitments concerning the fitting-out of the premises and the hiring of IBM equipment were taken out after the event for regularization purposes. The staff costs occasioned by operating this decentralized service are not charged under this Article.

This charging of part of the costs incurred by this department to a subsidy chapter seems somewhat incompatible with the logic of the budgetary nomenclature.





CHAPTER 4 : THE EUROPEAN SOCIAL FUND

56. 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.

Two types of action are provided for the new Social Fund:

- actions linked with specific Council Decisions (Article 4 of the Decision of 1 February 1971), taken by qualified majority vote, when the employment situation is affected by Community measures or actions or when the need arises to adapt the manpower supply more suitably to the demand;
- structural actions (Article 5 of the Decision of 1 February 1971) allowed without Council intervention when the employment situation is affected by difficulties which derive indirectly from the functioning of the common market or which impede harmonious development of the Community.

The entry into force of the new Social Fund involves, with effect from 1 May 1972, abrogation of Council Regulation No 9 of 25 August 1960 concerning the former Social Fund. However, the aid provided for by the former Fund may be maintained where the planned interventions began before 1 May 1972 and terminated by 30 June 1972 at the latest.

In view of the time-limits for presenting and examining applications for aid, the Budgets of the next two years will still include appropriations for covering the expenditure of the former Fund, in addition to appropriations for the new Fund.

For the 1973 financial year the allocations entered in the Budget and amended by two amending Budgets amounted to 282 950 000 u.a. of which 222 950 000 u.a. was for the new Fund (Chapters 50 to 52) and 60 000 000 u.a. for the old Fund (Chapter 53 and 54).

The evolution of the appropriations available for the 1973 financial year is as follows:

in u.a.

Chap. Art. Item	Heading	Initial appropriations	Changes under amending Budgets, and internal transfers	Final appropriations
50 500	Expenditure under Article 4 of the Council Decision of 1 February 1971	70 000 000	- 1 200 000	68 800 000
51 510	Expenditure under Article 5 of the Council Decision of 1 February 1971	110 000 000	- 1 600 000 + 45 000 000	153 400 000
52 520	Pilot schemes and preparatory studies	750 000	-	750 000
53 530	Expenditure provided for under Art. 125 of the EEC Treaty (former Fund)			
5301	- vocational retraining	57 000 000	+ 2 546 900	59 546 900
5302	- resettlement	3 000 000	- 2 546 900	453 100
	Totals	240 750 000	+ 42 200 000	282 950 000

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

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

For the former Fund the interventions charged to the appropriations of the 1973 Budget break down as follows:

in u.a.

Member State	Retraining	Resettlement	Totals
Belgium	1 616 219	-	1 616 219
Germany	34 471 355	30 370	34 501 725
France	7 392 768	399 315	7 792 083
Italy	15 740 820	10 402	15 751 222
Luxembourg	-	-	-
Netherlands	325 730	13 003	338 733
Totals	59 546 892	453 090	59 999 982

The decisions to grant aid from the former Fund, as adopted by the Commission on 23 November 1973 and 21 December 1973 (O.J. Nos L 52 of 23 February 1974 and L 94 of 4 April 1974), amount to 61 407 884 u.a. of which 1 407 902 u.a. was committed in advance against the 1974 appropriations. Of this total, however, only 19 574 874 u.a. had been paid at the end of the year, i.e. 32 % of the appropriations committed, and the balance in keeping with the decisions adopted by the Commission on 21 December 1973 was not paid until February 1974.

The Fund's interventions as regards both vocational retraining and resettlement concern operations of the financial years 1969 to 1972. Pursuant to the provisions of Article 12 of Council Regulation No 2396 of 8 November 1971, the operations which may be eligible under Article 125 of the Treaty must of necessity be completed by 30 June 1972 at the latest. In view of the maximum time-limit of two years and six months which the Member States are allowed for presenting their reimbursement applications to the Commission, the final applications relating to the former must be filed therefore by 31 December 1974(1). The total of the applications pending at the end of the financial year 1973 is 68 163 592 u.a. as against 52 218 133 u.a. at the end of the previous year. Of this total, 66 673 386 u.a. concerns vocational retraining, including 58 945 821 u.a. relating to the applications presented by Member States during 1973, and 7 727 565 u.a. during previous years.

In the matter of resettlement, the balance awaiting reimbursement on 31 December 1973 (1 490 206 u.a.) includes, to a total of 517 639 u.a., applications submitted during the financial year 1973 and 972 567 u.a. submitted during previous years. A large proportion of these latter applications which date back to 1968 concerns the resettlement of Italian workers in Germany. Examination and verification on the spot of these applications has been delayed owing to disparities in the applications of the original countries and those of the host countries as regards the number of workers complying with the unemployment and re-employment conditions, and also the periods for carrying out the resettlement operations.

Some applications showing similar disparities and covering the period from 1 January 1961 to 31 December 1967 were settled in 1968 by the Commission with

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(1) However, this term could be prolonged by a period equal to that during which the retrained workers would have been undergoing compulsory military service (Council Regulation No. 37/67 of 21 February 1967).

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the favourable opinion of the Fund Committee by waiving reconciliation of the disparate applications and basing settlement solely upon the special characteristics which could be checked in each of the applications (firstly, the unemployment situation in the original country and secondly, the re-employment situation in the host country).

It seems, however, that the Fund's departments are awaiting the introduction of the final resettlement applications under the former Fund before arranging complete payment of the applications still pending.

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

As we have already explained in our reports for the financial years 1971 and 1972, contrary to 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 commentaries in the Budget for the financial year 1973 authorize the Commission to enter upon commitments for 1974 and 1975 up to an amount of 120 000 000 u.a. and 64 000 000 u.a. respectively.

a) On 19 December 1972 the Council decided to open two initial areas of intervention under Article 4 of the Decision of 1 February 1971. These decisions, which came into force on 2 January 1973, granted for the financial years 1973, 1974 and 1975 a total of 33 358 718 u.a. for vocational retraining of workers leaving agriculture to carry on a non-agricultural activity, whether or not as an employed person, and also 4 823 710 u.a. for interventions in favour of workers leaving the textile industry or intending to obtain new qualifications in that industry.

During the financial year 1973 the total commitments charged to the appropriations entered under Chapter 50 "Expenditure under Article 4 of the Council Decision" were only 28 087 669 u.a., i.e. 41 % of the appropriations available for the year, including 24 502 655 u.a. for agriculture and 3 585 014 u.a. for the textile industry. These commitments relate to 15 applications for aid submitted by 13 public and private bodies.

However, on 31 December 1973 no payment had been recorded as a charge against those commitments.

Commitments have also been entered upon as a charge against the financial years 1974 and 1975 for 7 540 205 u.a. and 2 554 554 u.a. respectively.

The aforementioned commitments break down as follows:

in u.a.

Country	Commitments 1973	Commitments 1974	Commitments 1975	Total Commitments
Belgium	720 000	-	-	720 000
Germany	9 562 842	-	-	9 562 842
France	14 362 087	6 885 208	1 970 855	23 218 150
Ireland	706 301	583 404	583 699	1 873 404
Italy	39 119	71 593	-	110 712
Netherlands	807 320	-	-	807 320
United Kingdom	1 890 000	-	-	1 890 000
Totals	28 087 669	7 540 205	2 554 554	38 182 428

b) In December 1973 the Commission adopted various decisions under Article 5 of the Council Decision of 1 February 1971. These decisions relate to 99 applications for aid, totalling 178 524 289 u.a. of which 139 407 460 u.a. was charged against appropriations of the financial year 1973, including 31 332 665 u.a. for physically handicapped persons.

Taking into account the commitments already entered upon by the Commission in December 1972 against the 1973 appropriations for 14 293 780 u.a. and cancellations of commitments in December 1973 for 301 793 u.a., the total commitments charged to appropriations entered in Chapter 51 "Expenditure under Article 5 of the Council Decision" in the 1973 Budget amount to 153 399 447 u.a. of which only 1 176 227 u.a., representing scarcely 0.7 % of the appropriations committed, had been paid as advances at the end of the financial year.

At the end of the financial year 1972, the Commission had, in keeping with Article 6(a) of the Financial Regulation, brought forward to the financial year 1973 claims of 30 437 971 u.a. representing the commitments entered upon in 1972 and charged to Chapter 51. A change in the programmes of three Italian projects had, however, led to partial cancellation of those appropriations brought forward, making them 28 820 250 u.a. of which 24 221 914 u.a. was advanced in the form of part-payments during the year and the unused balance of 4 598 336 u.a. was cancelled on 31 December 1973.

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Also during the financial year 1973, part-payments totalling 4 562 000 u.a. were paid as a charge against appropriations of 1972 which, amounting to 4 562 029 u.a., were brought forward to 1973 by a Council Decision.

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

in u.a.

Country	1972	1973	1974	1975	Totals
Belgium	1 740 967	6 476 551	223 400	-	8 440 918
Germany	10 116 530	10 381 552	-	-	20 498 082
Denmark	-	5 054 447	69 733	-	5 124 180
France	9 036 279	21 760 131	1 226 403	-	32 022 813
Ireland	-	9 097 953	109 075	31 152	9 238 180
Italy	5 981 540	43 681 187	55 567 994	6 616 740	111 847 461
Luxembourg	23 000	41 900	-	-	64 000
Netherlands	1 921 934	5 961 906	235 221	46 685	8 165 746
United Kingdom	-	55 505 820	-	-	55 505 820
Totals	28 820 250	157 961 447	57 431 826	6 694 577	250 908 100

c) During 1973 the Commission also entered upon commitments totalling 749 667 u.a. and charged to the appropriations provided for in Chapter 52 "Pilot schemes and preparatory studies".

Ten new study contracts and five pilot schemes were contracted for, to that total, with public and private bodies. These contracts relate in particular to new teaching methods for migrant workers and their instructors, vocational retraining programmes for workers leaving agriculture, training of technical advisers with a view to assisting the restructuring of the distribution network in the food industries and also the social development of the Communities in rural areas.

The payments made as a charge against the appropriations for the year amounted to 221 675 u.a. as part-payments since none of the schemes and studies decided upon in 1973 had been completed by the end of the year.

(1) This total includes "approvals" agreed against appropriations of the financial year 1973 to a total of 153 399 447 u.a. and "approvals" against appropriations of the financial year 1972 to a total of 4 562 000 u.a.



During the previous year two study contracts dealing mainly with retraining and occupational reintegration of physically handicapped persons had been concluded for a total of 192 683 u.a. No payment had been made on this commitment at 31 December 1972 and the full amount had been brought forward to the financial year 1973. During that year ten contracts led to the submission of reports, one study contract was abandoned while another study contract was amended by supplementary schedule. The total payments relating to the appropriations brought forward amount to 179 683 u.a.

59. Comments concerning the control of the expenditure of the Social Fund

a) Examination of the table given as an annex to the report and concerning the evolution of the appropriations under Title 5 indicates a comparatively low utilization rate (40.8 %) of the appropriations available to cover the expenditure under Article 4 of the Council Decision of 1 February 1971 (Chapter 50, Article 500).

The Commission's budgetary forecasts are based upon the opening of five areas of intervention under Article 4. In reality only two of these have so far been covered by a Council Decision (agriculture and the textile industry) and were, moreover, made operational only at the beginning of the year. Two other areas (aids to migrant workers and physically handicapped persons) have been covered by proposals by the Commission only in November 1973 and the proposal relating to the final area (shipyards) was not forwarded to the Council until February 1974.

Irrespective of the reasons given to justify these delays, the Audit Board considers that they give rise to serious inconveniences owing to the immobilization of a substantial proportion of the appropriations.

b) As regards the operations of the new Fund, the Commission's departments had not carried out the checks prior to the payment of the balance of the aid; the advances paid at the end of the financial year 1973 did not exceed 85 % of each of the amounts of aid granted and none of the actions undertaken under Article 4 or Article 5 had been completed at 31 December 1973.

The measures for the release of items, taken when the Communities were enlarged, which coincided with the establishment of new procedures deriving

from the reform of the Social Fund and the almost general reorganization of Directorate-General V, Social Affairs, have certainly disrupted the internal organization of the Fund's departments whose activities condition the possibilities of examining applications by the Fund Committee and approval by the Commission.

This situation undoubtedly explains the absence so far of the general rules of application provided for in Article 5 (4) of Council Regulation No 858/72 of 24 April 1972 relating to the control which the Commission would be able to apply as part of the administration of the Fund. The Audit Board considers that the general rules of application should be adopted without delay.

c) The Audit Board's checks have therefore been restricted to examining some files of aid applications and part-payments made against submission of a detailed statement of expenditure, since the supporting documents of expenditure do not have to be presented until the termination of the operations. Experience shows that the documents received do not permit effective checks and that checks on the spot are necessary, as in the case of the former Fund.

d) During the financial year 1973 the Commission's departments carried out 12 on-the-spot checks of applications relating to the former Fund and the Audit Board was once more enabled to attend one of these on-the-spot checks in October 1973, thus resuming a practice which had been suspended since the financial year 1971 for the reasons explained in the Audit Board's 1971 report.

This check on the spot carried out in France, related to five applications for aid submitted by two public bodies in connection with retraining and resettlement operations for a total of 2 556 123 u.a. It made it possible to correct on the spot an error in calculating the settlement allowances totalling 8 618 u.a. (47 867 F.frs) and confirmed a finding already noted in our report for the financial year 1965, namely the fact that lump-sum averages and scales are employed almost exclusively in the applications submitted by this Member State.

While it was possible to explain the mechanism of these averages, their use, which is based upon the interpretation of rules accepted on the national level, does not accord with the application conditions provided for in the Community provisions which require substantiation of each expenditure component. This practice, which has in fact been allowed for many years, no doubt explains the limitations of the investigations concerning the substantiation from the accounts of the expenditure submitted as carried out by the Fund's departments and which relate in particular to the acceptability of the applications and the material checks of the criteria for accepting individual files.

As already stated in the report on the financial year 1972, the Audit Board still considers that it should be enabled to make autonomous checks on the spot.

On 16 May 1973 the Audit Board also informed the Council of its decision to implement that right which is granted it under Article 206 of the Treaty. Since this letter produced no response as regards the procedure to be established for that purpose, the Audit Board has not yet carried out this type of verification.

CHAPTER 5 : THE EUROPEAN AGRICULTURAL GUIDANCE  
AND GUARANTEE FUND

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1. GUARANTEE SECTION

60. Article 206 of the Treaty establishing the European Economic Community lays down that the verification which the Audit Board must carry out, if necessary on the spot, is intended to ascertain that all the revenue has been received and all expenditure incurred in a lawful and regular manner and that the financial management is sound. The expenditure of the Guarantee Section of the EAGGF involves the Community's finances and the Audit Board accordingly considers that, to carry out its mandate, it should verify the Guarantee Section's operations on the spot in the Member States. As stated in Paragraph 2 of the 1972 report, this point of view has been placed before the Council in a letter of March 1973: another letter to the same effect was sent to the Council in March 1974. No reply has been received and, with one exception (see Point 62 below), none of the necessary facilities has been granted to the Audit Board to allow it to carry out verifications in the Member States.

Article 87 of the Financial Regulation lays down that the Audit Board may attend the verification operations carried out by the Commission pursuant to Regulation No 729/70 of 21 April 1970 (O.J. L 94 of 28 April 1970). As pointed out in Paragraph 9 of this report, there is a great difference between merely attending the Commission's verifications and an autonomous verification effected by the Audit Board in keeping with its own criteria; the former can in no way take the place of the latter.

The information placed at the disposal of the Audit Board by the Commission is not such as to form the basis of any assessment of the manner in which the operations of the EAGGF Guarantee Section are performed.

So the Audit Board is forced to the conclusion that it is unable and has always been unable to ensure that the financial management of the EAGGF Guarantee Section has been sound.

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

Regulation No. 729/70 lays down that the Commission shall have access to the books and all other documents kept in the Member States and relating to the expenditure financed by the EAGGF. Several visits to collect information concerning the Guarantee Section were made to the Member States by the Commission in 1973 but none of them was intended to verify the expenditure.

The Commission has drawn up a programme of visits to the Member States in 1974 as part of the operations for closing the accounts of the EAGGF Guarantee Section at the end of 1972. The Audit Board accompanied the Commission on visits paid to four countries and will take note of all the reports on the Commission's visits.

The Commission has drawn the Audit Board's attention to the fact that, while the verifications on the spot are manifestly inadequate, its departments nonetheless every day carry out verifications in the wider sense of the term. These constitute first of all a preventive control which is either multilateral in the form of aide-mémoires or other interpretative notes which the EAGGF discusses, or bilateral in the form of observations on cases of interpretation. They then relate to verifications from documents of the monthly statements of payments.

The Audit Board agrees with the Commission's opinion concerning the manifestly inadequate purview of the on-the-spot verifications. The Audit Board considers it very doubtful whether with the Commission's staff allocated for that purpose and the time devoted to it, it is possible under present conditions to carry out an effective verification on the spot of the operations whose volume is considerable during the periods under examination. The Audit Board will review the situation in detail when all the verifications are completed.

62. Verifications by the Audit Board of the payments effected in Germany as export refunds

In May and June 1974 at the invitation of the German Government the Audit Board verified the payments effected in Germany as export refunds. It was agreed with the German Government that the inspection would be carried out as an experiment without pre-judging the procedure to be introduced in the future.

The Audit Board made a random examination of the payments effected in 1973 in four sectors as export refunds. The experiment was extremely rewarding and the problems which occurred confirm the Audit Board's conviction that the auditing of the operations carried out by the Member States in relation to the funds of the EAGGF Guarantee Section can be effective only if it is exercised by an international audit authority which alone would have the extensive knowledge of the national and Community procedures needed to verify the uniform interpretation and application of the Community regulations in the nine Member States.

The Audit Board is grateful to the German Government for inviting it to exercise its auditing on the spot in the Federal Republic and to the German administrative authorities for providing continuous cooperation.

63. Persistent delay in closing the accounts for periods prior to January 1971

There has been scarcely any change in the situation described in our 1972 report. The accounts of four farming years, 1962-1963 to 1965-1966, have been closed. Part-payments for subsequent years up to 1970 have been borne by the Fund and are awaiting regularization.

Since the Commission was unable to adopt in good time the necessary provisions to ensure that the Member States submit their refund applications for the accounting periods 1967-1968 to 1970 within the originally stipulated time-limits, Council Regulation No 2030/73 of 24 July 1973 (O.J. L 207 of 28 July 1973) laid down that the aid decisions will be taken by the Commission before 31 December 1974. Commission Regulation No 625/74 of 20 March 1974 (O.J. L 76 of 21 March 1974) establishes 1 July 1974 as the final date for submitting refund applications for those periods.

The Commission has informed the Audit Board that it intends to arrange verification missions to the Member States between the end of September and December 1974 to cover the periods prior to 1 January 1971.

The Audit Board will keep a close watch upon the methods applied and the progress in the operations for closing those accounts.

64. Periods subsequent to 1 January 1971

a) General financial comments

Regulation No 729/70 concerning the financing of the common agricultural policy replaced the concept of eligibility of expenditure under the Fund with the concept of direct financing by the Community and introduces a new system whereby the funds are no longer advanced by the Member States but by the Community. The advances are granted monthly by the Commission to the Member States after consultation with the Fund Committee and receipt of the expenditure statements and estimates of financial requirements prepared by the services and agencies responsible in each Member State for arranging the payment operations. Each Member State must itself ensure satisfactory management of the financial resources placed at its disposal by distributing the sums received from the Commission amongst the different paying services and in keeping with their requirements. Article 107 of the Financial Regulation of 25 April 1973



applicable to the Communities' General Budget stipulates that these advances are considered as global forward commitments. After the statements transmitted by the Member States have been examined and within a period of two months, the commitment is effected by chapter, article and item and also, in principle, the payment charging takes place. Thus the payments effected by the paying agencies are considered as payments to be charged to the European Communities' Budget. Regulation No 1723/72 of 26 July 1972 (O.J. L 186 of 16 August 1972) provides for annual auditing of the accounts on the basis of the supporting documents whereby the acknowledgement of the payments becomes provisional. In addition, Regulation 2697/70 of 29 December 1970 (O.J. L 285 of 31 December 1970) lays down the procedure for placing financial resources

at the disposal of the Member States within the context of the Guarantee Section. This regulation provides for the monthly transmission by each paying agency of a statement of expenditure before the 20th of each month; this statement is accompanied by an estimate of the payments for each of the following three months. The necessary financial resources are placed at the disposal of the Member States within a maximum of one month from the receipt of these documents.

Article 112 of the Financial Regulation lays down that, as an exception, the payments effected up to 31 January 1973 by the paying agencies and services are included in the accounts of the financial year 1972. This measure was intended to prevent the new member countries from having to take a share in expenditure originating from operations prior to the date on which the Communities were enlarged. As a result, the financial year 1973 consists of only 11 months (February to December 1973). In practice, this reduction to 11 months entailed adjustments by the EAGGF departments since some Member States did not always distinguish between the calendar year and the conventional term of the financial year 1973.

b) Concept of the payment date

The payment concept as interpreted by the "Azienda di Stato per gli Interventi nel Mercato Agricolo" (A.I.M.A.), which is the major intervention and payment agency in Italy, gave rise to a conflict with the Commission. In managing the aids, the A.I.M.A. employs other bodies to which it grants advances which it considered as payment operations. This resulted in excessive financial resources being made available by the Community. The EAGGF departments rightly considered that payment was effected only when the funds were paid to the beneficiaries. However, rectifications were made only after a lengthy delay. The Financial Controller has accordingly proposed to the authorizing officer that, as provided for in Article 108, 2nd paragraph of the Financial Regulation, the expenditure for the financial year 1973 should no longer be charged as payment and thus it will have to be covered by carrying forward appropriations.

The Audit Board considers that the Commission should clearly define the elements constituting the payment date and ensure that all the paying services and agencies of the Member States strictly conform to that definition when notifying the Commission of their total expenditure.

c) Monetary compensatory amounts

A problem has also arisen with regard to certain short-term economic measures to be taken in the agricultural sector as a result of the temporary widening in the currency fluctuation margins of some Member States. Regulation No 974/71 of 12 May 1971 (OJ L 106 of 12 May 1971) lays down that for Member States with a depreciated currency in their trade with non-Member States the monetary compensatory amounts granted for imports shall be deducted from the import levies and that the monetary compensatory amounts received for export shall be deducted from the export refunds. In the latter case, problems seem to exist in some

Member States where different agencies are responsible for collecting the compensatory amounts and granting the export refunds. This occurs, in France and Italy, for example, when the deduction is not applied and the collection of the monetary compensatory amount is covered by a separate declaration after the refund has been granted. However, this procedure involves some refunding and collection of sums higher than the actual figure. Although the Commission has filed a draft proposal for a regulation to solve this problem, correctives were applied to the expenditure declared on 31 December 1973 regarding monetary compensatory amounts at the time of its latest commitment and charging proposal concerning expenditure from 1 October to 31 December 1973.

d) Financial year 1971

The situation described in Paragraph 23 of the 1972 report has remained unchanged. Between April and July 1974 the Commission carried out verification missions in the Member States to prepare for the auditing of the 1971 accounts.

The Commission has informed the Audit Board that its final decision on the accounts can be expected at the end of the financial year 1974 or the beginning of 1975.

The Audit Board will closely watch the entire procedure for closing the accounts.

e) Financial year 1972

Article 1(2) of Regulation No. 1723/72 concerning the auditing of the accounts of the EAGGF Guarantee Section, lays down that the annual summary statements of the expenditure of all the services and agencies must reach the Commission by 31 March of the year following the one to which they relate. For 1972 this transmission date was postponed to 1 October 1973 at the request of the Member States which would have found it impossible to comply with the deadline of 31 March 1973. The final documents were received at the beginning of January 1974. However, mention must again be made of the almost complete lack of internal management and control documents since the Member States apply a rather restrictive interpretation to Article 1 of Regulation No. 1723/72.

It was not until the beginning of 1974, after examination of the documents transmitted pursuant to Regulation No. 1723/72 for the financial year 1973 which

contained more recent and more precise data concerning the carrying forward of the quantities stocked, that action was taken for payment charging the net losses of the intervention agencies ("2nd Category" expenditure) declared for 1972. According to the EAGGF departments, the data concerning this intervention expenditure, which were communicated at the end of February 1973, had proved insufficient for payment charging purposes.

Thus while the expenditure of the Member States for 1973 provisionally amounted to 2 508 524 948 u.a., only 2 318 685 649 u.a. of this had been charged to the Budget and the difference, i.e. 189 839 299 u.a., represents the declared "2nd Category" expenditure which is still to be charged.

Taking into account the amounts already charged at the beginning of 1973 (Luxembourg and Belgium), the situation when compared with the declared expenditure and without prejudice to any modification which may still occur when the accounts are audited, is as follows:

Net losses of the intervention agencies - 1972

in u.a.

	Declared amounts	Payments charged
Belgium	8 971 721	8 897 576
Germany	95 042 137	95 961 226
France	45 033 718	44 541 467
Italy	3 766 801	5 439 418
Luxembourg	-	-
Netherlands	37 024 922	40 392 921
Total	189 839 299	195 232 608

The amounts charged are therefore 5 393 309 u.a. more than the declared amounts.

Moreover, in December 1973 a payment of 624 511 u.a. was charged to the appropriations brought forward from 1972 for Item 6012 "Aid for durum wheat". This concerned Italy's expenditure for January 1973 for which the payment charging had previously been cancelled for the reasons given in Paragraph 64(b) above. Thus the total payments against appropriations brought forward from 1972 amount to 195 857 119 u.a.

The preparation to pay the charging of the net losses against appropriations brought forward from 1972 was effected on 19 December 1973 and approved by the Financial Controller on 14 January 1974; of necessity, the entry was made in the books at a later date. The accounting centre has, however, adopted the procedure of dating as for 31 December all the operations entered after that

date and relating to the previous financial year without indicating the actual date of the entry.

It would be desirable if in future the accounting centre recorded the exact actual date of the entry.

The Commission's verification operations in the Member States for 1972 were carried out concurrently with those for 1971 as referred to in (d) above. The Commission expects the accounts to be closed in the first quarter of 1975. The verification and closing operations will be closely examined by the Audit Board.

f) Financial year 1973

The appropriations entered under Titles 6 and 7 were originally 2 952 210 000 u.a.; supplementary Budgets (854 336 000 u.a.) and appropriation transfers (26 649 415 u.a.) increased them to 3 833 195 415 u.a. of which 170 000 000 u.a. relates to the auditing of periods prior to 1 January 1971. The total appropriations relating to the financial year 1973 are accordingly 3 663 195 415 u.a.

On 21 March 1974 the Council approved the latest transfers between chapters while the appropriations totalling 3 663 195 415 u.a. had been almost entirely committed and paid as advances to the Member States. The shortage of appropriations also meant that in January 1974 supplementary advances decided upon in December 1973 had to be corrected; for the same reason, the declared expenditure for October, November and December 1973 was charged to the Budget in commitments and payments only on an overall basis in March 1974.

The supporting documents, which the Audit Board received with over-long delays or which it had to request, enable it to show the situation as follows:

Total expenditure committed for 1973 .....	3 659 609 868 u.a.
which includes:	
Belgium	193 116 262 u.a.
Denmark	292 386 253 u.a.
Germany	675 938 863 u.a.
France	1 094 709 708 u.a.
Ireland	88 916 232 u.a.
Italy	624 015 975 u.a.
Luxembourg	5 416 622 u.a.
Netherlands	530 305 738 u.a.
United Kingdom	151 804 215 u.a.

Payments charged for 1973 ..... 2 978 340 165 u.a.

The difference, i.e. .... 681 269 703 u.a.

is accounted for by the appropriations to be carried forward, which include the



following:

for - the A.I.M.A.	536 602 997 u.a.
- Intendenza di Finanza	88 592 660 u.a.
- withholding of the Financial Controller's approval for some 2nd Category expenditure	56 074 046 u.a.

The net losses of the intervention agencies  
(2nd category expenditure) declared for 1973  
and charged as payment amount to..... 661 310 326 u.a.

Therefore, excluding the expenditure of the A.I.M.A. and the Intendenza di Finanza di Roma, the payments charged for the 1st category expenditure amount to..... 2 317 029 839 u.a.

The situation expressed by these figures requires some explanation:

- The "1st category" expenditure has been charged as payment except for that declared by the A.I.M.A. and the Intendenza di Finanza di Roma (export refunds) for the reasons explained above.
- The "2nd category" expenditure comprises declared and corrected amounts which have been charged.
- The expenditure relating to the net 1973 losses of the intervention agencies has been committed on 20 March 1974 for a sum of 717 384 373 u.a. on the basis of the accounts by product and sector transmitted by the Member States by 20 February 1974 and taking into account the credit balances on some accounts at 31 December 1973 (Balances for which deduction is provided for by Regulation No 330/74 of 4 February 1974 - O.J. L 37 of 9 February 1974).

While the Financial Controller accepted this commitment, he did, however, refuse approval for some expenditure at the payment charging stage. He justified this refusal by stating that in three cases he was unable to decide upon the accuracy of the amounts carried forward from one year to another. He also stated that the fact that the accounts are subsequently audited does not justify a lack of precision at the charging stage. For this reason, the Financial Controller reduced the payment charging by 56 074 046 u.a. compared with the commitment. This amount is caused by a withdrawal of approval for two debit balances (53 976 741 u.a. and 2 546 254 u.a.) concerning a holding of public butter stocks and a holding of tobacco stocks, and for one credit balance of 447 949 u.a. for a holding of public sugar stocks.

Approval was not given until 29 May 1974; entry in the accounts under the financial year 1973 contravenes the provisions of Article 109 of the Financial Regulation. An analogous case occurred with regard to the 1st category expenditure of October, November and December 1973; this was covered by a single payment charging order since the Financial Controller's approval was not given until 5 April 1974.

Article 86 of the Financial Regulation lays down that each Institution shall, each quarter and by the end of the month following the end of the quarter, forward to the Audit Board the documents supporting the entries. The first documents concerning the commitment and payment of the expenditure of the EAGGF Guarantee Section for the financial year 1973 reached the Audit Board on 5 November 1973 and related to February, March and April. Those concerning the period from May to August were forwarded on 11 March 1974 and it was not until 6 May 1974 that, after a request, the Audit Board received the regularization documents for payment charging for the period from September to December 1973, documents consisting solely of the payment orders for 1st category expenditure. Eventually, on 18 June 1974, the Audit Board managed to obtain the payment charging order and the supporting documents for the net losses of the intervention agencies declared for 1973.

g) Advances of funds granted in 1973 for financing operations of EAGGF  
Guarantee Section

During 1973 advances of funds totalling 3 663 189 899 u.a. were granted to Member States to cover the expenditure of their paying services and agencies. The annexed table gives a detailed indication of the financial resources provided to the Member States: it can be summarized as follows:

- monthly advances .....	3 406 664 000 u.a.
- special advances (in application of Article 5 of Regulation No 2697/70) .....	124 050 000 u.a.
- expenditure for storage costs in the sugar sector covered by compensation in Italy .....	1 008 942 u.a.
- cancellation of part of the expenditure declared by Italy in 1972 .....	62 022 600 u.a.
- cancellation of part of the expenditure declared by Italy in January 1973 .....	26 314 938 u.a.
- amount available after payment charging of the 2nd category intervention expenditure for 1972, being 195 232 608 u.a., while the appropriations brought forward were 238 362 027 u.a. ....	<u>43 129 419 u.a.</u>
Total	3 663 189 899 u.a.

Eleven monthly advances were to be granted during the financial year 1973. In fact, twelve decisions were adopted, since the advance of funds to cover the September expenditure was the subject of two separate decisions owing to a lack of available appropriations.

Seven decisions for advances were adopted after the date provided for in Article 3 of Regulation No 2697/70. This situation is no doubt largely attributable to the fact that the monthly declarations do not reach the Commission by the stipulated time-limits.

For the first time, Article 5 of Regulation No 2697/70 was applied; this permits the granting of special advances when the financial resources placed at the disposal of a Member State are likely to be exhausted before the date planned for the new payment.

The special advance decided upon on 17 December 1973 was modified by the decision of 11 January 1974 since the appropriations available for 1973

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proved to be almost 850 000 u.a. less than the amount provided for in the decision to make a special part-payment.

65. Sale of public butter stocks to the USSR

In April 1973 a trading company concluded a contract for the sale of 200,000 tonnes of butter to the USSR. The butter was supplied to it by Community intervention agencies at a price of 300 u.a. per tonne, to which the Commission had agreed. The company received 347.85 u.a. per tonne FOB from the USSR, giving a gross profit margin of 47.85 u.a. per tonne, that is 15.9 % of the purchase price. The intervention price for butter was 1 800 u.a. per tonne up to 15 September 1972, 1 860 u.a. from 16 September 1972 to 13 May 1973 and 1 760 u.a. from 14 May 1973. On the basis of the lowest intervention price, the cost to the Commission for this operation can be assessed as 292 million u.a., to which should be added the entry and storage costs. Since the refund granted at that time was 1 200 u.a. per tonne, the Commission assesses the additional expenditure paid for this operation at 52 million u.a.

The Audit Board found it difficult to judge from the documents available to it whether, taking into account the conditions governing the world butter market at that time, the 300 u.a. per tonne sale price of the butter stocks was the best which the Commission could obtain and whether, during the negotiations on the sale price of the stocks, the Commission was aware of or tried to learn the final price for the sale to the USSR and the purchaser's gross and net profit margins. It was also necessary to know whether, with a view to obtaining the best possible price, the Commission had properly ensured that the firm's profit margin was fair.

The Audit Board submitted these queries to the Commission.

In reply, the Commission stated that, having been informed of the possibility of selling a large quantity of butter to the USSR, it had obtained information about the quantity which could be sold, the delivery dates and the price level from a trading company which had been in contact with the Soviet authorities. In the case of such commercial transactions the analysis carried out by the Commission does not normally include an assessment of the operators' margins, since the data which can be collected for that purpose are commonly subject to reservations and do not form a decisive criterion for ascertaining whether the decision envisaged accords with the Community's interests. In the case in question, the 15.9 % margin was intended to cover the high costs caused by the exceptional nature of the operation.

As regards the ascertainment of the sale price of the butter stocks, the Commission says it would have encountered serious problems owing to its butter surplus; the request for an exceptional quantity to be accepted within a very short time and for consumption in the USSR offered an outlet which would not disrupt the world butter market. The Commission adds that the world market price, which was 650 u.a. at the time of the transaction, applied only to small quantities, that the storage cost payable by the Community was a minimum of 15 u.a. per tonne/month and that, without this sale, EAGGF would have had stocks of more than 300 000 tonnes at the beginning of the new season. Finally, the Commission states that it took its decision only after becoming convinced that the terms of this sale could not be improved.

The Commission states that in trading operations, after studying the market it can only fix the refunds applicable to exports and determine the disposal price of the products held by the intervention agencies.

The Audit Board considers that the burden imposed by such commercial operations on the Community Budget should be reduced to a minimum and that, to that end, the Commission should fix the maximum price obtainable on the market, taking all the circumstances into account. In this respect the information available does not permit an assessment of how far the price of 300 u.a. per tonne does in fact represent the maximum commercial price, taking the special requirements of the USSR into account.

The Commission should also ensure that the margin obtained by the trader is fair and fully justified in the case of transactions connected with Community stocks. The Audit Board considers in this respect that the documents it has received do not provide definitive evidence of the various factors justifying this margin.

Finally, it finds that, at the time of its conclusion, this operation had no budgetary cover. The Commission's decision fixing the price for sales by the intervention agencies at 300 u.a. per tonne, was in fact adopted on 6 April 1973, while it was not until 18 July 1973 that the Commission forwarded to the Council the preliminary draft of supplementary and amending Budget No 4 which increased the appropriations of Item 6214 of the Budget "Butter storage and measures for reducing the butterfat surpluses" from 200 000 000 u.a. to 683 836 000 u.a. This supplementary and amending Budget was finally adopted on 21 September 1973.

The Audit Board is therefore not in a position to determine whether the requirements of sound financial management were fulfilled in this exceptional transaction.

66. Application of Regulation No 283/72 concerning irregularities and measures taken by the Commission to discover and prevent fraud

a) Article 2 of Regulation No 283/72 stipulates that the Member States shall communicate the legislation and administrative provisions and also a list of the services responsible for preventing and dealing with irregularities. At the beginning of 1974 and with the exception of one new Member State, the EAGGF



departments had more or less all the data required for initial exploitation. These various data are being examined by the Fund Committee, the Commission's Legal Service, the departments of the Administration of the Customs Union and by Financial Control. It would be expedient to obtain harmonization of some administrative measures such as suspension of payment and cancellation of debts, matters to which the Commission has already given some attention.

b) Article 7(3) of Regulation No 283/72 of 7 February 1972 (O.J. L 36 of 10 February 1972) concerning irregularities lays down that the Commission shall organize at Community level information meetings for the appropriate representatives of the Member States in order to examine the information obtained within the context of that Regulation, particularly as regards irregularities, preventive measures and legal proceedings. The first of such meetings was held in Brussels on 24 April 1974, when several working documents concerning the application of the regulations and the data submitted were analysed. A useful supplement to these documents was provided by the information already in the possession of the EAGGF departments. The Audit Board was represented at that meeting.

c) As part of the increased action to prevent fraud affecting the EAGGF, the Commission set up a Special Committee of Enquiry in November 1973. This group consists of senior officials of the various Member States and its mandate is to suggest to the Commission effective measures for eliminating as far as possible future possibilities of irregularities and fraud and the consequent expenditure. Although the Audit Board was not called upon to assist in the action programme decided upon by this Special Committee, the relevant departments of the Commission forwarded to it, at its request, the minutes of the first five meetings.

d) Moreover, not all the data indicating cases of irregularity, the practices employed, the amount involved and the progress made towards recovering it have yet been transmitted. Only recently has Belgium fulfilled its obligations deriving from the application of Articles 3 and 5; Italy has given notice of only one case of refund irregularity in the pigmeat sector for a sum of 13 742 u.a.

e) By 26 March 1974 90 cases of irregularities found between 1972 and 1973 inclusive had been notified by the Member States with regard to the Guarantee Section; by the same date three Member States had provided no information concerning the last quarter of 1973. 37 of the 90 cases occurred in the cereal sector and 25 in the dairy products sector. 56 concern intervention operations and 34 relate to refunds. The cases connected with intervention concern only cereals (36) and dairy products (20); 34 of the cases in the cereal sector occurred in Germany and relate to the payment of end-of-season compensation and

one denaturing premium; 14 of the cases in the dairy product sector concern aids for skim milk and skim milk powder for cattle-feed where the fraudulent action consisted mainly of false declarations of quantities.

The approximate value of the irregularities discovered is 617 690 u.a. for intervention and 10 888 583 u.a. for the refunds. The value involved in seven cases (five concerning intervention and two concerning refunds) has still to be ascertained.

The information submitted by the Member States shows that for 1971 four cases are still pending and that 495 915 u.a. have still to be recovered. For 1972, eight cases are still pending with a total of 1 432 550 u.a. to be recovered, while for 1973 the cases still to be settled number 25, eighteen of which are in Germany, totalling 354 186 u.a.

f) As regards the fraudulent methods employed, although these have different origins, in the refund area they consist mainly of false declaration of destination, quantity or tariff heading. With regard to interventions, the methods are more varied and differ from sector to sector: however, the most common method seems to be the making of false declarations of quantities.

g) In the light of the files received from the departments responsible and the work of the meeting referred to in (b) above, the following points should be mentioned:

- The quarterly submission of information made pursuant to Article 3 of Regulation No 283/72 is often incomplete. It does not seem sufficient to reply that some irregularities have been discovered by book-keeping checks. Some points which had remained obscure in the communications had to be clarified at the meeting on 24 April 1974.
- The complexity and numerous adaptations of the agricultural regulations are not likely to facilitate the duties of the officials responsible for the verifications on both the national and the Community level. Some marginal cases sometimes arise in which it is impossible to know whether they constitute fraud in the strict sense of the term, a mistaken interpretation of the regulations without a fraudulent intention or, again, an acceptable application of those regulations.
- The correct interpretation of some articles of Regulation No 283/72 is still being discussed. Thus Article 3 states that the Member States shall inform the Commission of irregularities concerning which an initial administrative or judicial report has been prepared. Some difficulties have occurred in this respect in at least one Member State.
- Should attempted frauds, that is to say irregular operations discovered before any entitlement is established, be declared? The views on this subject

differ and while Regulation No 283/72 does not make it compulsory to notify such cases, it would nonetheless be desirable for the Member States to give a broad interpretation to Article 4 of that Regulation.

- As the Commission has stressed, it is proving increasingly necessary during controls to compare the accounting records for materials and the financial accounting records of those receiving payments. A large number of frauds have in fact been discovered by comparing these two sets of books.

h) The Audit Board will keep careful watch on the various actions which will be taken to discover and prevent fraud. Simplification of the terms of the regulations and a clearer, stricter and more concise expression of the provisions would be extremely helpful. Inspection visits on the spot including those for verifying the control formalities introduced at the frontiers, should be more frequently carried out by the Commission. The Audit Board should be enabled to carry out its own programmes for on-the-spot inspections in the Member States and should be granted access in the Member States to all information concerning fraudulent practices.

## II. GUIDANCE SECTION

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

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

The aid financed by the Guidance Section concerns:

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

68. The table on the following page shows the management of the appropriations allocated for financing these three types of intervention during the financial year 1973.

### A. Financing of Investment Projects

#### 69. Commitments

Since 1970 no commitments relating to investment projects have been entered against the appropriations of the same year. Thus the budgetary endowment of 150 000 000 u.a. for financing 1972 projects occasioned no commitments during the financial year 1972.

By way of various regulatory measures (Financial Regulation of 6 December 1972 and Decision of 4/5 June 1973) and in order to keep the financial responsibility for the endowment amongst only the six Member States concerned, the Council authorized transfer of that sum from Article 870 to Item 8001 with retroactive effect at 31 December 1972 and simultaneously brought it forward from 1972 to 1973.

This year the EAGGF Guidance Section's aid has been granted to 429 investment projects covered by two tranches of the year 1972 (O.J. No C 55 of 12 July 1973 and C 104 of 29 November 1973) and amounting to 149 998 266 u.a. (see footnote on following page).

This aid is divided as follows amongst the Member States: Belgium:  
12 033 812 u.a., Germany: 42 100 812 u.a., France: 33 254 416 u.a., Italy:  
50 498 478 u.a., Luxembourg: 943 111 u.a. and The Netherlands: 11 167 636 u.a.



Utilization of the Guidance Section's appropriations in 1973

in u.a.

	Year's appropriations	Appropriations brought forward		Total appropriations available	Commitments during the year	Payments
		automatically	by Council decision			
Investment projects	170 000 000	533 434 748	162 173 784	865 608 532	149 998 266	106 170 898
Special schemes	31 000 000	-	20 405 281	51 405 281	17 015 416 <sup>(1)</sup>	17 317 062
Joint measures	3 000 000	-	-	3 000 000	2 062 466	246 000
Appropriations reserved (3)	146 000 000	-	-	146 000 000	- <sup>(2)</sup>	-
<b>Totals</b>	<b>350 000 000</b>	<b>533 434 748</b>	<b>182 579 065</b>	<b>1 066 013 813</b>	<b>169 076 148</b>	<b>123 733 960</b>

(1) This amount is equivalent to the total of the decisions published in O.J. Nos C 55 of 12 July 1973 and C 104 of 29 November 1973. It differs from the conversion into u.a. of the commitments booked in Bfrs by the Commission for 7 499 913 373 Bfrs, i.e. 149 998 247 u.a. This difference of 19 u.a. results from the fact that the EAGGF departments employed a rounded-off conversion rate different from the parity declared to the International Monetary Fund. The Audit Board considers that such rounding-off should be avoided and the amounts entered should correspond to those stated in the decision.

(2) This amount corresponds to the total of the decisions to grant aid published in O.J. Nos C 6 of 22 January 1974 (1 816 466 u.a.) and L 62 of 4 March 1974 (246 000 u.a.). For the reasons given in Note (1) above, it differs from the total commitments shown in Chapter 82 of the management account, i.e. 2 062 464 u.a.

(3) The appropriations reserved for the year concern:

- 46 000 000 u.a. caused by the distribution of the appropriations available under the head of the financial year 1973;
- 25 000 000 u.a. deriving from the unused endowment of Chapter 81 for which the delayed implementation of the directives in the Member States prevented utilization of the appropriations provided;
- 75 000 000 u.a. deriving from Chapter 85. These appropriations are reserved solely for financing development operations in the priority agricultural regions for which no directive was taken in 1972 and 1973.

70. Aid payments

During the financial year 1973 a total of 106 170 898 u.a. was paid for financing investment projects. 102 735 836 u.a. of these payments relate to appropriations brought forward from years prior to the financial year 1972.

The table on the following page shows the situation at 31 December 1973 regarding the endowments for investment projects. It indicates a slight recovery in the still slow pace of payments, since the total payments represent 29.8 % of the accumulated commitments at 31 December 1973 as against 21.2 % at the end of 1972 and 17.5 % at the end of 1971.

As the table on page 99 indicates, this situation differs widely from State to State. It shows the extremely serious delay in executing investment projects in Italy where the payment level is only 11.4 % of the commitment accumulated at 31 December 1973 while it exceeds 30 % for the other Member States.

At 31 December 1973 only the 1964 tranche had been closed, since all the aid covered by that tranche had been paid or cancelled, while 132 projects of the 1965, 1966, 1967 and 1968 tranches (1st tranche) were still covered by a Council decision to carry forward.

B. Financing Special Joint Schemes

71. From 1966 a comparatively large proportion of the appropriations reserved for the EAGGF Guidance Section was allocated to finance joint schemes decided upon by the Council and benefiting from a special procedure adapted to the specific objectives of each of the actions undertaken:

These actions can be divided into five groups:

- repairing damage caused by certain agricultural disasters in Italy;
- financing statistical enquiries in the six Member States;
- financial compensation measures for Italy and the Grand-Duchy of Luxembourg;
- aids to groups of fruit and vegetable producers to facilitate their operations;
- measures for re-establishing the balance of markets.

Aid granted to investment projects by the Guidance Section

Budgets	Endowments (1)	No. of projects	Commitments		Payments		Cancellations	
			u.a.	%	u.a.	%	u.a.	%
1965	BR 9 057 000	57	9 056 922	100	7 594 839	83.9	1 462 083	16.1
	N 16 617 000	-	-	-	-	-	-	-
1966	BR 17 134 440	97	17 134 258	100	12 565 098	79.3	3 387 632	19.8
	N 58 561 000	-	-	-	-	-	-	-
1967	BR 41 587 676	254	41 586 875	100	27 852 281	67.-	8 450 473	20.3
	N 30 040 000	-	-	-	-	-	-	-
1968	BR 26 040 000	152	26 039 369	100	17 004 742	65.3	1 836 468	7.-
	N 99 260 000	161	34 114 667	34	20 304 247	59.5	3 293 488	9.7
1969	BR 59 945 964	277	60 782 708	100	27 414 521	45.1	3 420 049	5.6
	N 160 000 000	34	8 472 837	5	4 136 739	48.8	98 183	1.1
1970	BR 153 189 680	629	151 527 163	99	60 432 358	39.9	1 648 084	1.1
	N 160 000 000	-	-	-	-	-	-	-
1971	BR 160 000 000	548	159 999 497	100	44 116 425	27.6	632 747	0.4
	N 200 000 000	-	-	-	-	-	-	-
1972	BR 200 000 000	723	199 943 146	100	31 510 246	15.6	83 895	-
	N 150 000 000	-	-	-	-	-	-	-
1973	BR 150 000 000	429	149 998 266	100	3 435 062	2.3	30 373	-
	N 170 000 000	-	- (2)	-	-	-	-	-
		3 361	858 655 708 (2)		256 366 558	29.8	24 343 475	2.8

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

(2) See Note (1), Table p.96.

Distribution by country of the projects financed by the Guidance Section

Country	Aid 1964-1973 u.a.	% of total	No. of projects	Payments 1964-1973 u.a.	% of aid	Cancellations u.a.	% of aid	Projects	
								terminated	cancelled
Germany	242 225 139	28.2	791	108 799 120	44.9	4 674 840	1.9	287	6
Belgium	61 984 489	7.2	382	21 534 083	34.7	727 573	1.1	106	4
France	190 622 445 (1)	22.2	626	58 570 725	30.7	4 429 309	2.3	144	14
Italy	290 500 247	33.8	1 282	33 245 010	11.4	14 202 300	4.9	228	96
Luxembourg	5 188 961	0.6	26	2 449 168	47.2	42 969	0.8	9	-
Netherlands	68 134 427	8.-	254	31 768 451	46.6	266 484	0.4	122	4
<b>Totals</b>	858 655 708 (1)	100	3 361	256 366 557	29.8	24 343 475	2.8	896	124

(1) See Note (1), table p.96.

The evolution of this sector of intervention aggregated at 31 December 1973 may be shown as follows:

in u.a.

	Initial appropriations (1)	Commitments	Payments
1966	13 000 000 )	55 000 000	52 871 208
1967	54 000 000 )		
1968	29 400 000	36 000 000	35 307 748
1969	40 200 000	41 900 739 (2)	41 900 739
1970	47 700 000	42 311 223	42 310 395
1971	44 000 000	39 238 138	39 238 138
1972	30 000 000	22 287 959	22 287 959
1973	31 000 000	4 551 535	4 551 535
<b>Totals</b>	<b>314 600 000</b>	<b>241 289 594</b>	<b>238 467 720</b>

The commitments entered into during the financial year 1973 as a charge upon the appropriations for financing special schemes amounted to 17 015 416 u.a. of which 12 462 881 u.a. was a charge upon appropriations brought forward from 1972. These commitments and the subsequent payments relate to:

- aid paid by the Member States from 1967 to 1971 to organizations of fruit and vegetable producers (2 430 294 u.a. including 615 798 u.a. in favour of Germany, 310 442 u.a. in favour of France and 1 504 054 u.a. in favour of Italy).
- premiums for uprooting apple, pear and peach trees paid by the Member States in 1971 and 1972 (10 329 313 u.a. including 1 831 677 u.a. in favour of Germany, 1 686 600 u.a. in favour of Belgium, 4 757 046 u.a. in favour of France, 24 477 u.a. in favour of Luxembourg and 2 029 513 u.a. (3) in favour of the Netherlands).
- premiums for slaughtering cattle and non-marketing of milk and derived products paid in 1971 and 1972 by the Member States (4 255 809 u.a. including 3 985 760 u.a. in favour of Germany, 9 562 u.a. in favour of Luxembourg and 260 487 u.a. in favour of the Netherlands).

(1) Up to 1971 the endowment reserved for the Guidance Section was shown as a global sum in Chapter 80 of the Budget. The amounts given in this table correspond to the breakdown of this global endowment whose value is not mandatory.

- (2) The excess was charged to the reserve included in the endowment of the financial year 1970.
- (3) The reimbursement to The Netherlands under the head of premiums paid in 1971 was reduced by 40 221 u.a. as regularization of the amount already provisionally paid in 1972 for the premiums paid by that Member State in 1970.

During the financial year 1973 301 646 u.a. was also paid as a charge upon the remaining balance of the appropriations originally committed in 1967 for repairing the damage caused in Italy by the floods in the autumn of 1966, and this was carried forward to a total of 304 453 u.a. by a special Council Decision. This payment completes an action endowing appropriations amounting to 10 000 000 u.a. and incorporating 29 projects of which only 23 were implemented for a total of 7 871 206 u.a. while 6 projects were abandoned. The total appropriations cancelled by reason of complete abandonment or by reduction of the original projects accordingly amounts to 2 128 794 u.a., i.e. 21 % of the initial endowment.

The comparatively small amount of the commitments against the appropriations of the year (4 551 535 u.a. against an endowment of 31 000 000 u.a., i.e. 14.6 %) is due, as regards the aid to fruit and vegetable producers, to the delay of some Member States in presenting their applications for aid which therefore prevented the Commission from taking granting decisions before the end of the financial year.

Various applications concerning the uprooting of apple, pear and peach trees and the slaughter of cattle and non-marketing of milk required additional information and could not therefore be accepted by the Fund in 1973.

According to the Fund's departments, the delay in implementing Regulation No. 2511/69 concerning improvement of the citrus fruits sector and especially the late filing and approval of the plans for converting that sector in Italy and France made it impossible to envisage Community intervention before the financial year 1975.

As regards aid to groupings of peach producers, no Member State presented any application for aid in 1973.

A detailed statement of the financing of special joint schemes aggregated at 31 December 1973 is given as an annex to this report.

#### C. Financing of Joint Measures

72. The Council's adoption of Regulation No. 729/70 abolished the concept of "special measures", replacing it by "joint measures" decided upon by the Council in the form of directives or regulations. As in the case of the "special measures", the procedure for EAGGF's intervention varies in keeping with the objectives of



each of the "joint measures" but they differ, however, by the fact that it is the Member States which implement the measures and grant the aid by virtue of national provisions laid down by law, regulation or administrative action after approval by the Community authorities.

As a rule, the Community's financial share is 25 % of the eligible expenditure except in the case of the measures provided for under EEC Directive 72/160 (Encouragement to the cessation of agricultural activities) when it can be as high as 65 % in the under-developed regions.

At the end of the financial year 1973 six joint measures had been covered by Council decisions. They concerned modernization of farms (Directive 72/159), cessation of agricultural activities and allocation of farmland for the purpose of structural improvement (Directive 72/160), socio-economic information to and occupational qualifications of farmers (Directive 72/161), statistical enquiries regarding the potential for planting fruit-trees (Directive 71/286), redevelopment aids in the cod-fishing sector (Regulation No. 2722/72) and aids to groups of hop-producers (Regulation No. 1696/74).

The slowness of the national legislative procedures for implementing the Community directives and regulations and the time required for the prior approval of the national provisions by the Community authorities have considerably delayed the utilization of the resources earmarked for financing joint measures. Of the above six measures, only two have been covered by appropriation commitments under the head of the financial year 1973:

- 246 000 u.a. for financing the first reimbursement tranche of the statistical enquiries on fruit-trees presented by Belgium (15 000 u.a.), France (196 000 u.a.) and The Netherlands (35 000 u.a.).
- 1 816 466 u.a. for financing three projects for building fishing-boats as part of the aid for redeveloping the cod-fishing sector.

At the end of the financial year 1973, the payments entered under the head of joint measures were only 246 000 u.a., being the amount of the appropriations committed for the statistical enquiries on fruit-trees.

73. In December 1973, 58 891 358 u.a. was called up as contributions for financing the Guidance Section for the accounting periods prior to 1 January 1971. The total net contributions called up at the end of the year under the head of the Guidance Section were therefore 525 241 694 u.a. for a total of 1 102 007 768 u.a. of aggregated commitments from 1964 to 1973 and a total of 495 080 277 u.a. payments.

These contributions are made up as follows:

1964	9 574 362	u.a.
	1 268 980	(1)
1965	16 896 494	u.a.
	3 177 127	(1)
1966	54 307 199	u.a.
	1 240 260	(1)
1967	80 039 369	u.a.
	2 074 007	(1)
1968	123 449 426	u.a.
	1 028 360	(1)
1969	200 211 787	u.a.
	354 919	(1)
1970	50 037 126	u.a.
	130 416	(1)
	<hr/>	
	525 241 694	u.a.

(1) Amounts refunded to the Member States for cancellation of aid.

D. Comments concerning the auditing of the investment projects

74. The Audit Board continued to have the same facilities for receiving information as during the previous years. It was informed of the requests for additional information sent to the Member States by the EAGGF departments and received the reports of 13 verifications carried out on the spot by those departments in 1973. The Audit Board also verified 45 files on investment projects closed and for the first time was able to be associated in four on-the-spot verifications of investment projects.

These on-the-spot audits, which are still the exception, were made before the settlement of the final tranche of the aid and relate mainly to:

- the conformity between the completions and the forecasts;
- the date on which work began;
- substantiation of the payments.

75. The conformity between the completions and the forecasts, as regards both the technical and economic aspects, is still the most difficult point to verify, even in the case of on-the-spot visits.

With regard to the technical completions, numerous factors can necessitate sometimes major modifications of the work originally planned. It is nonetheless true that assessment of the justification for such changes and their impact upon the estimate, which the Commission accepts as being purely a question of valuation, is still a very delicate matter.

During the auditing of the documentation it was found that out of 45 files examined, 24 of them had undergone varying degrees of alteration in the course of implementation, which in one case even caused a 41 % increase in the costs (N 26/28 - Erection and equipping of a factory for separating starch components at Ter Apelkanaal).

Even when justified, such changes are liable to produce very considerable distortions of the profitability calculations on the basis of which the Commission took its decisions to grant aid.

In the light of the verifications carried out, it also appears that the economic profitability of the projects, which is evaluated in isolation during the examination prior to the granting of the aid, is not necessarily attained,

generally for external reasons beyond the control of the recipients, but also owing to the inability to act in a national context into which the projects should be integrated.

This situation was found in particular during a verification on the spot in a modern dairy. While the object of the investment was to concentrate the milk production of one region, this objective was not attained since the pre-existing collection and treatment structure remained unchanged for reasons connected with the local policy.

In the absence of Community programmes, the planned economic profitability is liable not to be achieved since all the contingent conditions are not guaranteed by the Member States.

So it would be expedient if the aspect of economic viability were extended to the regional context at the various stages of the Community work and in particular when the options are chosen by the Standing Committee on Agricultural Structures.

Verifications carried out shortly after the closing of the investment operations do not permit an assessment of the permanence of the envisaged economic effects since the latter are often achieved only after several years.

The Commission should therefore be able to observe and analyse the practical results when the economic effects become tangible and assessable.

76. The date of actual commencement of the work is also a difficult point to establish in the absence of goodwill from the recipient and strict control on the part of the responsible national authorities. Although it is a somewhat unspecific factor, this date conditions the acceptance of the actions planned as part of the project.

In the absence of precise data, the EAGGF departments endeavour to establish that date from the invoices submitted. The unreliability of this practice and, even more, of the verifications carried out only from documentation has, however, been demonstrated during one of the on-the-spot verifications. On that occasion it was found that some invoices concerning foundation work carried out before the aid application was filed had not been included among the documents submitted to EAGGF (F 4/71 - Modernization and extension of a cooperative dairy at Dissay).

77. When the payment procedure is established, the Member States forward to the Commission a descriptive list of the documents supporting the payments for the completed work and in support of that document provide a certificate of completion of the work issued by the national services appointed for that purpose.

Accordingly, the control of the actual justification of the expenditure to be taken over by EAGGF consists almost entirely of a comparison between the

invoices and proofs of payment, on the one hand, and this descriptive list on the other, and on occasion involves a comparison with the precise nature of the actual services rendered. However, since this procedure is applied only by random sampling and during visits to the site, in practice the certificate of completion of the work issued by the national authorities constitutes the essential factor in such comparison. Apart from 13 verification operations on the spot the EAGGF departments required that invoices and proofs of payment be submitted only in 19 out of a total 318 projects closed during the financial year 1973.

78. Implementation of the Community regulations governing the Guidance Section and also the various findings deriving from the auditing of the investment projects confirm the importance of the intervention by the national authorities, usually decentralized, in choosing, developing and carrying out the projects even though the financial consequences resulting from the common agricultural policy are borne by the Community (Regulation No 729/70).

Compulsory participation by the Member State (1) in projects which are first of all subject to its approval and its legislation often leads to a less strict handling of the files from the Community angle according to the degree of strictness with which the Community provisions are interpreted by the national authorities.

These comments relate, of course, to the choice of the projects submitted whose regional distribution is essentially beyond the control of the Commission, and also to the actual structure of the files submitted for its evaluation: these files, which are compiled in keeping with the Community rules, do not always reflect the totality of the measures completed (F 4/71 - Modernization and extension of a cooperative dairy at Dissay).

They also relate to the certificates of conformity of the work which, as we have seen above, are in most cases the essential factor employed for comparison by the EAGGF departments.

79. During the financial year 1973, EAGGF paid aid of 1 368 336 u.a., ratified by the Commission in 1971, to an international oil company which has set up a company whose object is to produce proteins deriving from micro-organisms developing on petroleum products and intended for use as an animal feeding-stuff as a substitute for the American soya bean (Project F 122/70 - Construction of an industrial unit for producing proteins for use as an animal feeding-stuff at Lavera (France); recipient: Société française BP - Société de développement des protéines).

It must be said that the production of proteins from petroleum by the recipient of this aid does not constitute an agricultural industrial activity

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(1) This participation by the Member State can be restricted to aid towards the payment of interest which is often very small (Project 2/70 - Construction of a cold-store in Forest, where the aid towards the payment of interest, initially fixed at 0.22 %, has been increased to 2.21 % as a result of the withholding of approval by the Financial Controller of the Commission).



but an activity specific to the petro-chemical industry.

The financing of such a project shows that the texts governing the conditions for granting aid allow of interpretations which can lead to the financing of an activity in an industrial sector which has, moreover, particularly large financial resources.

80. The few comments made above seem to show that the control by the EAGGF departments on the basis of the regulatory provisions in force does not give complete reassurance concerning the essential considerations linked with the implementation of the projects, i.e. improvements of the production and marketing conditions, the economic profitability and the permanence of the projects. The recipients are under no obligation to justify these considerations and control thereof is not provided for in the Community regulations.

So the EAGGF departments have neither the systematic information enabling them to assess the effective satisfaction of those considerations nor the means to acquire it. This deficiency induces the EAGGF departments to consider their involvement completed as soon as the final tranche of aid is paid, since the decision to grant that aid creates a mandatory entitlement to payment upon the Fund provided that the recipients furnish proof that the investment has indeed been effected in keeping with the conditions imposed by the Community decision.

E. Comments concerning the auditing of joint measures  
and special schemes

81. The four categories of substantiation provided for by the basic regulations and the implementing procedures governing the grant of aid deriving from special schemes have been described in the previous report of the Audit Board (Paragraph 33). The similarities between these special schemes and the joint measures make it possible to group under the same headings the types of substantiation required for those headings.

a) Pure and simple communication of the results of enquiries

The Audit Board has questioned the Statistical Office of the Communities upon the evaluation and distribution of the results of the basic enquiry into the structure of farms carried out in 1966/67 at a cost of 7 307 748 u.a. The replies received from the Office show that from the basic data of the enquiry, transcribed on to tapes, it has been possible to carry out a series of studies and analyses and supply them to the Directorate-General for Agriculture. A comparatively small proportion of these data (10 %) was also intended for use in publishing 13 volumes of "Summary results".

The difficulties encountered by the Office, caused in particular by

reorganization problems consequent upon the merging of the Executives, have to a small extent impeded the updating of the data which did not start to appear until February 1971.

The analysis, programming and evaluation by data-processing of the results of this enquiry have been commissioned from an information-processing firm under 19 contracts at a total cost of 363 936 u.a.

b) Preparation of minutes or reports accompanied by supporting documents

45 000 000 u.a. had been paid under the head of the 1965/66 period for the improvement of the production and marketing structures for olives and olive oil and for fruit and vegetables in Italy. A definitive report on the measures undertaken by Italy has been communicated by the Commission. Examination of that report shows a total expenditure of 45 432 744 u.a. broken down as follows:

- olive and olive oil sector	23 696 121 u.a.
- fruit and vegetable sector	21 736 623 u.a.

The reports relating to the periods 1966/67, 1967/68, 1968/69 and the first half of 1969, for which transmission was planned before 31 December 1973, were communicated to the Commission in April 1974 but it has not yet been possible to submit them to examination by the Audit Board.

As regards the aid granted to Italy in December 1969 for the improvement of production and marketing structures in the unmanufactured tobacco sector, totalling 15 000 000 u.a., a second interim report covering the expenditure paid out up to 30 June 1973 was communicated by the EAGGF departments concurrently with a descriptive list of the expenditure which totalled 40 161 194 u.a. at 30 June 1973. On the basis of this amount the Italian State has granted aid of 18 310 326 u.a. Taking into account the progress of the work, the Italian State has again applied for the postponement of the presentation of a definitive report and supporting documents to 30 June 1975.

Because the documents transmitted do not permit a precise comparison between the work done and the measures provided for in the Commission's recommendation, the EAGGF departments made an on-the-spot visit, from which it was possible to ascertain that the investment projects have been or are being implemented within the context of the programme drawn up by the Italian Government and in accordance with the particulars covered by the Commission's recommendation of 2 May 1968 concerning that programme. A copy of the report on this verification operation has been submitted to the Audit Board.

The EAGGF departments have also transmitted to the Audit Board the report of the Luxembourg Government concerning the implementation of actions intended to complete the integration of agriculture in Luxembourg. In keeping with Council Regulation No 541/70 of 20 March 1970, 7 500 000 u.a. had been paid

to the Grand Duchy of Luxembourg. A minute on the measures taken with a view to the integration of its agriculture, accompanied by supporting documents on the expenditure laid out, was to be presented by the Grand Duchy of Luxembourg by 15 January 1973. This document was in fact transmitted to the Commission in two parts, the first on 27 March 1973 and the second on 10 June 1974. For material reasons, the supporting documents for the various measures which are the subject of statements annexed to or incorporated in the report, could not be attached but were kept at the disposal of the Commission's departments.

The report describes the measures carried out as part of the national arrangements for 1965 and totalling 7 500 366 u.a. This amount covers 3 456 404 u.a. as capital grants for the erection and conversion of farm buildings; 2 493 517 u.a. as aid towards the payment of interest on loans contracted for modernizing farms; 199 151 u.a. as aids for small-scale collective projects and 1 351 293 u.a. as aid for large-scale projects undertaken by farm collectives.

c) Presentation of the material on which the calculation of the aid is based.

In March 1974 the Audit Board was able to take part in a verification operation which involved sample examination of the expenditure presented by France for reimbursement by EAGGF as aid to organizations of fruit and vegetable producers which was paid particularly during 1967, 1968, 1969 and 1970 even though on 21 December 1973 the Commission had already taken the three decisions to grant aid covering that aid and totalling 310 442 u.a.

To avoid cancelling the corresponding appropriations brought forward, the EAGGF departments arranged payment of that aid on 27 December 1973 without any prior verification of the supporting documents. These departments consider in fact that since special measures spread over several years are involved any regularization operation could still be applied to the final tranches of that action which are still unpaid.

The Audit Board considers, however, that it would be difficult to arrange any such regularization after notification of the decisions to the Member States and after payment of the aid.

This verification made at the level of the paying agency has revealed rather marked disparities with regard to the intervention criteria based solely upon the national regulations which differ from the Community provisions.

The aid-granting criteria provided for in the two sets of regulations differ from each other and, in addition, the Member State calculated the aid on a Lump-sum basis while EEC Regulation 1035/72 requires a precise accounting basis established from a triennial average of the production and prices of fruit and vegetables.

The agency nonetheless obtained reimbursement of 50 % of the aids granted, putting forward the argument that, overall, the general contexts of the two sets of regulations coincide.

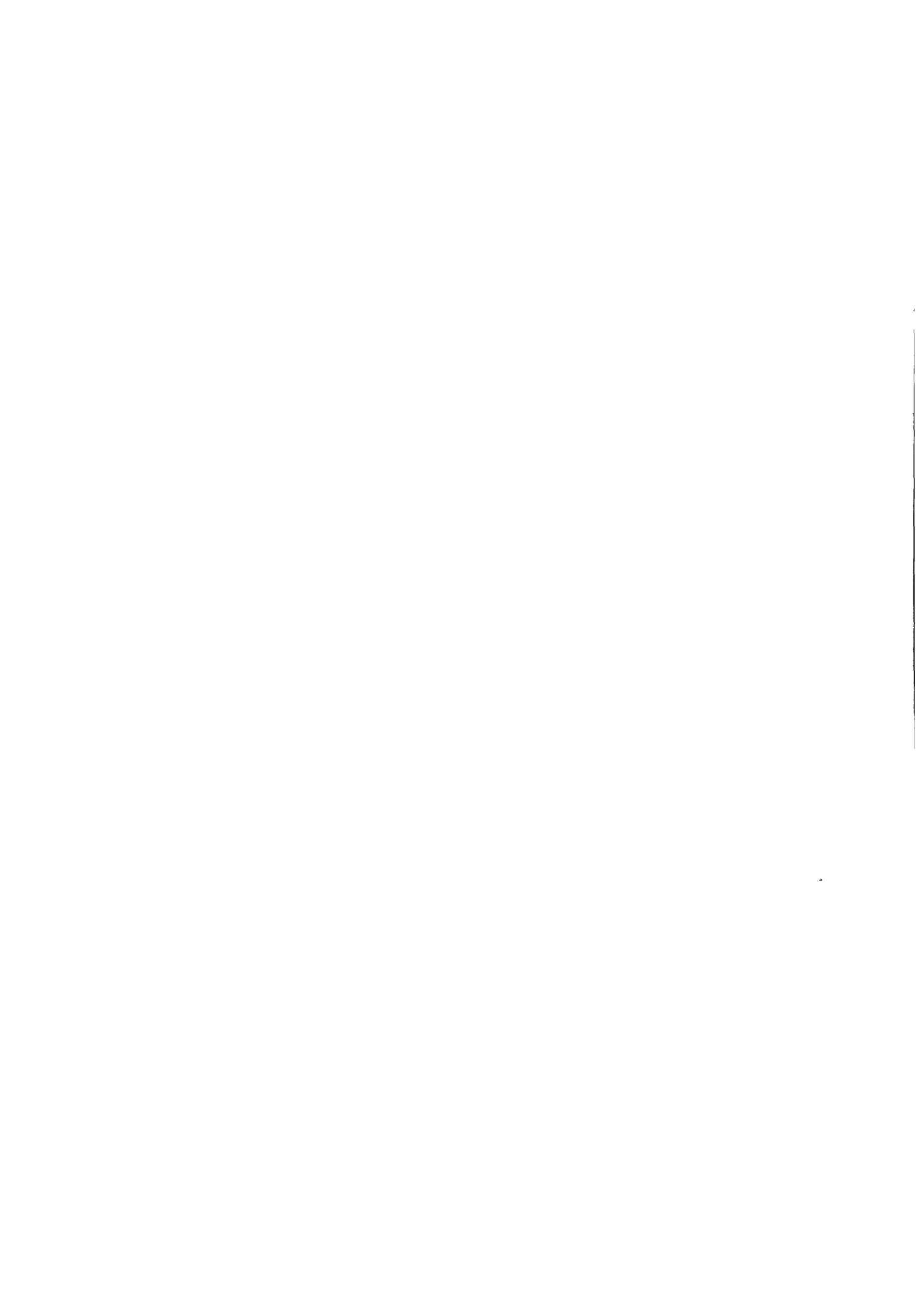
Consequently, the Member State is granting aids whose nature differs from those provided for by the Community regulations.

In 1973 the EAGGF departments also made two on-the-spot sampling verifications concerning the premiums for uprooting apple, pear and peach trees and the premiums for the slaughter of cattle and non-marketing of milk and dairy products. These departments also forwarded to us the supporting documents presented by the Member States which in 1973 benefited from the reimbursement of 50 % of these premiums.

d) Submission of documentation similar to that submitted for the investment projects

As explained above, the aid granted to Italy for the repair of the damage caused by the floods in the autumn of 1966 was definitively closed during the first quarter of 1973 with total payments of 7 871 206 u.a.





CHAPTER 6 : FOOD AID

I. Aid Operations

The European Communities grant various forms of food aid to the developing nations.

82. Under two international conventions and for two successive triennial periods commencing on 1 July 1967, the Member States of the Communities undertook to supply 1 035 000 tonnes of cereals a year in the form of either Community measures or national action. With the entry of the new Member States the Community's commitments were increased to 1 161 000 tonnes of cereals for the 1972/1973 season and 1 287 000 tonnes for the 1973/1974 season.
83. From 1969 the Community's food aid has been extended to cover other products. Thus, agreements have been concluded between the Community and some international organizations (World Food Programme, International Committee of the Red Cross) and several beneficiary countries for the supply of powdered skim milk (210 000 tonnes), butteroil (58 230 tonnes), sugar (6 150 tonnes) and egg products (500 tonnes). These aids are distributed solely through Community measures.
84. Exceptional aid is still sometimes granted to populations suffering from natural disasters. In 1972 the European Communities formulated with the U.N.R. W.A. a three-year programme which provided for the supply of foodstuffs and the payment of cash contributions for financing an auxiliary food programme.
85. In 1973 the appropriations under Title 9 which were available for financing food aid actions amounted to 143 957 985 u.a., 61 134 985 u.a. being entered in the 1973 Budget and 82 823 000 u.a. carried forward from the previous year.

To obtain the cost of the food aid, account must also be taken of the sums borne by EAGGF under the common agricultural policy (export refunds, value of the goods).

The interventions in favour of the victims of natural disasters and also the transport costs of some aids are similarly charged to the aid and subsidy chapter (Title 4 of the Budget) while the exceptional aid

is granted under the EDF. It would be expedient to arrange more satisfactory grouping of these appropriations which should occasion re-examination of the breakdown made between Titles 4 and 9 of the Budget.

86. The payments charged to the Budget amount to 104 818 090 u.a. (See details in the table annexed to this report). They relate to:

- supplies of cereals and rice under the 1967 and 1971 conventions, at 77 558 140 u.a.;
- deliveries of powdered skim milk and butteroil, 23 323 633 u.a.;
- supplies of sugar, 2 450 483 u.a.;
- deliveries of egg products, 1 485 832 u.a.

The Commission has also paid to various intervention agencies advances to cover expenditure incurred under the second convention for food aid in the form of cereals. At the end of the financial year, the total amount of these advances entered outside the Budget was 16 848 171 u.a.

## II. Comments

87. The comments which the Audit Board made in its previous reports regarding the delays in implementing the aid remain valid for 1973.

The agreements concluded during the financial year under the head of the 1972/1973 season were generally signed one year after the presentation of the application by the countries concerned (175 000 tonnes of wheat other than durum to Bangladesh: application dated 6 October 1972, Council Decision of 15 October 1973, agreement signed on 15 November 1973).

Some much longer delays occur in certain cases and ten agreements were signed under the head of the 1971/72 season towards the end of 1973 and the beginning of 1974 for aid applied for in 1971 and even 1970 (25 000 tonnes of wheat other than durum to Morocco and Tunisia; applications dated 8 July and 27 October 1971, Council Decisions of 15 October 1973, agreements signed on 5 November 1973). One item of aid to Sudan of 9 000 tonnes of wheat other than durum, applied for on 4 June 1970, was covered by a Council Decision under the head of the 1970/71 season on 16 July 1973 (agreement signed on 19 October 1973).

Nor are long delays in concluding agreements avoided in the case of emergency aid. While an item of emergency aid applied for by Ethiopia on 10 September 1973 was covered by a Council Decision on 10 December 1973 (agreement signed on 20 December 1973), emergency aid applied for by Senegal, Mali and

Pakistan on 13 November 1972, 23 November 1972 and 17 August 1973 were, however, not decided upon until eleven, seven and five months later respectively with the agreements being signed between October 1973 and January 1974.

88. The administrative and financial management of the aid is, moreover, still divided amongst dispersed departments, which does not facilitate its implementation.

Apart from that deriving from agreements with the World Food Programme, the aid is managed by Directorate-General VIII, Development and Cooperation, whose competence is, however, restricted to the initial and final phases of the action (preparation and conclusion of the agreements, control of utilization of the aid) while the intermediary functions are the responsibility of Directorate-General VI, Agriculture, within which they are split up between several divisions according to the foodstuff in question (cereals, dairy products) or the intervention stages (implementation of the agreements, invitation to tender and transportation, financial management of the conventions: refunds, price of the foodstuffs, mobilization and despatch costs, etc.).

It may therefore happen that the departments responsible for checking the food aid expenditure incurred by the Member States' intervention agencies are not informed of the reports relating to the utilization of the aids in the beneficiary countries or are informed only after some delay.

Food aid in the form of cereals - Execution of the  
1969/1970 season

89. Under the 1969/1970 programme, the national intervention agencies mobilized 336 900 tonnes of cereals for Community relief measures (see details in the table annexed to this report).

Lengthy delays occurred in executing this aid programme. The appropriations for financing that year's programme, which were initially provided for in the 1971 Budget, had to be re-entered in the 1973 Budget (1). The decisions concerning the aid agreements were taken between November 1969 and July 1971. During 1973 the Member States transmitted a statement of the expenditure borne for each Community action. After consulting the EAGGF Committee, the Commission eventually decided on 21 December 1973 to grant Community aid for the 1969/1970 food aid programme.

90. The total expenditure relating to these operations amounts to 37 638 088,89 u.a. of which 15 490 047,04 u.a. is chargeable to the EAGGF Guarantee Section and 22 148 041,85 u.a. to Title 9 "Food Aid" of the Budget. (A recapitulatory table is annexed to this report).

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(1) Although in 1971 the Budget entry was 20 million u.a., the endowment initially provided for in the 1973 Budget was 21 million u.a.

As part of the closing of the accounts for 1969/1970, the Commission departments carried out verification operations in some intervention agencies, at which the Audit Board was present (2).

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(2) Inspection visits were made to the German, Belgian, French and Italian agencies.

Invitations to tender

91. As regards the invitations to tender, further attention should be given to the provisions to be inserted in the mobilization regulations to ensure uniformity in their interpretation by the notices of invitation to tender.

It is in fact difficult to ascertain the reasons for the sometimes very large disparities found either in an invitation to tender or between successive invitations. Similarly, it proves to be entirely impossible to assess the value of a tender when only one tenderer comes forward.

92. The intervention agencies responsible for the mobilization operations should transmit to the Commission a list of the tendering firms, indicating the tenders made by each of them and also the name and style of the successful tenderer. The majority of these communications are incomplete.

In two countries the successful companies occupy special positions. In Italy, as regards the mobilization of 84 000 tonnes of wheat (four awards), the successful tenderer was found to be the only tenderer. In Belgium one and the same company was awarded the four contracts available and in two cases it was the only tenderer (1).

93. The fact that the storage sites are scattered entails a clear increase in the delivery costs as regards the mobilization of some forms of aid.

Thus the Italian intervention agency mobilized 110 510 tonnes of cereals taken from 428 different stores. For the mobilization of 14 000 tonnes of wheat for the Yemen, the notice of the award provided for 102 different stores of which 8 contained less than 10 tonnes of goods.

It is regrettable that the Commission has not taken this situation into account when preparing the awards.

94. In addition to the expenditure fixed by the awards, the Commission reimbursed 273 874 u.a. as a total of costs for which no provision was made. These reimbursements relate to the weighing, control and insurance costs not included in the tender, costs of removal from store, demurrage and costs for

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(1) In order to be able as far as possible to check the data of the tenders received despite this situation, the Belgian intervention agency requires the successful tenderer to inform it of the component elements of the prices offered.



delays, tariff increases, etc. The delay and demurrage costs (14 719 u.a.) can be charged to the beneficiaries. Under the terms of the agreements, the latter should in the last resort bear the additional costs.

We would point out that for 1968/1969 the delay and demurrage costs chargeable to the beneficiary countries amounted to 10 964 u.a. The steps taken to recover them have produced no results.

In the balance sheet prepared by the Institution at the end of the year, these recoverable amounts should be entered under the sundry debtors.

95. The reform essential for improving this state of affairs would consist in requiring, by regulation, that the successful tenderer should provide a certain amount of detail for each major item of the total price which has so far been considered sufficient. Uniformity between the requirements should be reinforced by adopting the same attitude with regard to certain principles, such as the principle that the Communities should bear the costs of control or that mobilization of cereals should not be allowed except for quantities in excess of a minimum tonnage for each store.

This explicitness and homogeneity which would allow analysis of the costs should in the light of experience lead to more judicious and economic use of the funds and thus obtain the best return from the volume of Community aid.

Moreover, whenever out of concern for fairness it has been necessary to mitigate the lack of any particular clause (price revision) and the ambiguity of certain other clauses (nature of the additional costs), the measures taken a posteriori are still unreliable.

96. Execution of the agreements and use of the counterpart funds

The European Communities concluded food aid agreements with 12 countries and agencies under the 1969/1970 programme.

A division of liability was formulated in the actual text of the agreements ratified by the Council, precluding any direct intervention under the control of the Community in relation to operations subsequent to the fob or cif delivery of the cereals.

However, the beneficiaries were obliged to send regular information reports to the Community.

Yet none of the documents received at very irregular intervals permits an evaluation of the successful use of the entire aid nor of a judicious employment of the counterpart funds.

97. During the examination of the fulfilment of the agreements concluded under

the head of the 1969/1970 season, four essential stages were considered:

a) the arrival of the goods:

Irrespective of the stage at which its liability ceases (fob or cif), the Community cannot be certain of the tonnage effectively supplied solely on the basis of the information received from the beneficiary: it includes no explanation regarding the quantity shipped and the quantity unloaded (1). In the majority

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(1) A comparison of the quantities provided for in the agreements, the quantities shipped and the quantities received by the beneficiaries is annexed to this report.

of cases the differences are admittedly very close to the tolerances (5 %) but even in the other cases, no explanatory information has been obtained.

In the case of cif deliveries in particular, consignment - which should be the subject of deliberate choice if at all possible - should take place via certain large ports; this should make it possible, even in the Third World, to use agencies of well-established and reputable supervision companies.

Similarly, it would be advisable to study the most suitable means of filling the gaps in the system at present obtaining at the other destinations by making use of the available resources of the Community or of international commerce (involvement of the resident controllers of the EDF in the AASM ports, captain's certified report with discharge of the qualified representative of the beneficiary country).

b) marketing:

Straightforward fulfilment of the agreements should state the component parts (quantity, price, cost) of the proceeds of marketing of which only the overall amount is available.

If this detailed information were available, it would make it possible not only to ensure the accuracy of the financial assets thus constituted, but also to cross-check with the previous item.

c) maintaining the special account:

Here again, while the Commission has generally been kept informed of this special account, only rarely have the various charges upon it been notified each year, as they should be.

d) development projects:

Although the information on this aspect should be easiest to obtain, it is found that only three countries have transmitted information on the development projects financed under these agreements: Mali implemented a specific project with the funds obtained during two successive seasons, Lebanon and Tunisia used the counterpart funds to finance a general development programme for which the specific allocations are not stated.

98. Financing the 1971 convention

For the Community financing of the food aid operations carried out in fulfilment of the 1971 convention, the Member States should transmit periodical statements of funds, estimates of future financial requirements and also the accounts of the agencies authorized to pay the food aid expenditure.

On the basis of these documents and after consultation with the EAGGF Committee, the Commission decides upon the payment of advances to cover this expenditure and, before the end of the following year, audits the accounts of those agencies.

In 1973 the expenditure charged to the Budget amounted to 55 308 187 u.a. of which 20 392 531 u.a. relates to 1971/1972 and 34 915 656 u.a. relates to the 1972/1973 programme.

99. Aid in the form of dairy products

On 6 March 1970 the Council decided to conclude an agreement with the World Food Programme (WFP) for the supply of powdered skim milk to developing countries.

Under this agreement (which is added to those concluded with the International Committee of the Red Cross for which 2 145 267 u.a. was paid in 1973), the Community delivers fob to the ports of lading and grants the WFP a lump-sum contribution (55 u.a. per tonne) to cover the cost of transporting, insuring and distributing the aid.

The expenditure reimbursed to the national intervention agencies amounts to 21 178 366 u.a. of which 19 480 415 u.a. relates to the value of the goods and their fob delivery and 1 697 951 u.a. corresponds to the lump-sum contributions paid to the WFP.

The lump-sum payments by the Member States were not uniformly effected. The French and Dutch intervention agencies paid the lump-sum contributions to the WFP on the basis of the parities declared to the International Monetary Fund (1 u.a. = 5.55419 F.frs or 3.62 Fl.).

The Belgian agency, however, paid the lump-sum by taking the value of the unit of account to be equal to the US dollar.

The Commission has reimbursed to the Member State only the amount which the latter has effectively paid.



CHAPTER 7 : THE RESEARCH AND INVESTMENT APPROPRIATIONS

100. Since the expiry of the second five-year research programme at the end of 1967, Euratom's research activities have been carried on mainly within the context of interim programmes, each limited to one year. At its meetings on 5 February, 14 May and 18 June 1973 the Council at last adopted a new multi-annual research and educational programme (4 years from 1 January 1973) in addition to the few programmes which had already been adopted during previous years (thermonuclear fusion, biology and health protection, European data-processing network, Dragon project).

The new programme, part of which is not financed by all Member States (supplementary programmes), consists of:

- a series of nuclear and non-nuclear "direct actions" (i.e. carried out at the establishments of the Joint Research Centre);
- a number of "indirect actions" (i.e. carried out mainly through research contracts), including several non-nuclear actions.

The non-nuclear programmes (protection of the environment, reference standards and substances, new technologies, detection of the earth's resources by remote control) are based on the EEC Treaty (Article 235).

At the meeting on 14 May 1973 the Council also decided upon the organization of the previous programmes concerning biology/health protection and thermonuclear fusion so that they take account of the accession to the Communities of the new Member States.

101. The appropriations for research and investment activities are entered as a global total in Chapter 33 of Section III (Commission) of the General Budget and are covered by a detailed description in Annex I to Section III.

Owing to special circumstances, when the 1973 General Budget was adopted on 6 December 1972, some appropriations (for payment) totalling 35 978 001 u.a. were provided for in Chapter 33, viz. 25 978 001 u.a. for financing the programmes adopted earlier and 10 000 000 u.a. (entered as a global sum in Title 9 of Annex I) to cover the unavoidable maintenance and operational expenditure at the beginning of the year.



While awaiting a decision on the Commission's proposed programmes, payment appropriations of 49 535 694 u.a. (compared with commitment appropriations of 59 195 994 u.a.) were also provided for in Chapter 98 (Provisional appropriations not allocated). A major part of these appropriations was switched to Chapter 33 by two transfers decided upon by the Council during the year (12 722 000 u.a. and 11 361 000 u.a.) and by the adoption of amending Budget No. 3 on 21 September

1973 (O.J. L 366 of 31 December 1973). That amending Budget, which thus represented the real statement of 1973 revenue and expenditure for research and investment activities with, in Annex I, a breakdown of the appropriations and objectives, provides for commitment appropriations of 73 260 524 u.a., including 55 500 577 u.a. for the joint programme and 8 293 673 u.a. for the supplementary programmes (Titles 2 to 5); the balance of 9 466 274 u.a. consists mainly of repayments of loans, expenditure for the staff awaiting assignment or application of the redundancy scheme and possible adjustment of remuneration (Titles 1, 7, 8 and 9).

102. The management of the appropriations and the organization of the research work and services have suffered from the delays in adopting the decisions referred to above. Some work for which provision was not made in previous programmes was begun after considerable delays; on the other hand it was necessary during the year to ratify some research which was not included in the new programme adopted with retroactive effect to 1 January 1973.

As in the previous year, the Audit Board had to prepare the following comments without having had at its disposal either the management account for the year nor even the expenditure for the Ispra and Geel establishments in December 1973.

A. Comments concerning the organization of the JRC

103. The Commission's decision of 13 January 1971 concerning the restructuring of the Joint Research Centre gave the latter more autonomy in its management and entrusted the Director-General of the Centre with the task of "establishing the internal organization of the JRC with particular regard to the requirements of an operational Budget".

An operational Budget system was introduced from the financial year 1972 by adopting special arrangements for the research and investment appropriations within the context of the Financial Regulation. Apart from some initiatives with a limited scope (in Ispra, the grouping of the services into "scientific divisions" in 1972, progressive automation of the budgetary and accounting procedures which is now in train), the re-organization of the Centre, its working methods and its services has shown scarcely any progress during the last few years.

The prolonged lack of a decision on a multi-annual programme, the general uncertainty regarding the Centre's future and the highly critical internal climate obtaining until the adoption of that programme had admittedly created very serious obstacles for the formulation of new structures. The proposals subsequently presented by the Director-General have not been approved by the Commission and so have not been acted upon.

The Centre, which for several years has in practice been in no position to recruit outside staff, has accordingly been able to cope only in a very imperfect way with the new situation created by the restructuring decision which entails, in particular, the transfer to Ispra of a number of functions which had previously been discharged by the headquarters departments (staff management, book-keeping, preparation of budgets, etc.).

104. The staff disengagement measures introduced by Council Regulation No. 1543/73 of 4 June 1973 (O.J. L 155) have also caused considerable disruption from the organizational aspect. These measures have been applied to at least a hundred officials of Categories A, B and C. Most of them terminated their functions at the end of the financial year 1973 while the others remain in office until 30 June 1974 at the latest.

Very few of the servants who left in December 1973 had been replaced by the end of the first half of 1974. Thus the post at Ispra of Director of the general, technical and administrative services remained unfilled from January to July 1974, and the duties were carried out in the interim by an official who also left the Institution on 30 June 1974. Within the Directorate the post of head of the "Finance, budget and supplies" Division remained vacant for the first three months of 1974.

The new Director-General of the Joint Centre who was appointed on 24 July 1974, had not taken up his post at the time of writing.

105. Apart from the Director-General, the organs of the Joint Research Centre consist of the General Advisory Committee and the Scientific Committee (Article 2 of the Commission Decision of 13 January 1971).

The General Advisory Committee (GAC) assists the Director-General in preparing the research programmes. It must also be "regularly kept informed of the management of the JRC, particularly as regards the main purchasing and other contracts concluded, the action taken concerning staff management, the formulation of the Centre's detailed programme and the amendments made to the programme previously formulated".

Thus the GAC is also required to play a part in controlling the management of the Centre; in reality, that part has apparently been limited

in the past. It is significant in this respect that the GAC met only once in 1973 while it held four meetings in 1972 when the new research programme was being prepared.

As for the Scientific Committee, which consists of the main persons responsible for the scientific services and objectives (2/3) and the staff representatives elected by the scientific and technical personnel (1/3), it is in complete disagreement with the Director-General as a result of the programme proposals submitted to the Council in 1972 (proposals which include, in particular, a large reduction in the JRC staff) and the Committee has virtually ceased to function since the beginning of 1973.

106. The Commission's decision of 13 January 1971 stipulates that the Director-General shall provide the Commission with a quarterly report on his financial management (Article 9(3)). So far, this provision has not been fulfilled.
107. In conclusion, the serious deficiencies shown by the present organization of the Research Centre must be stressed. In the absence of any rational structuring of the services and a precise organization chart, the liabilities in many of the sectors are badly or inadequately fulfilled. This is a situation requiring rectification as quickly as possible, which constitutes an essential responsibility for the Commission. The lack of decision on the part of the Commission was particularly felt in 1973 after the JRC had had to be re-organized within the context of its autonomy.

B. Comments concerning the Operational Budget

108. The Operational Budget is characterized by the fact that the research objectives entail two series of appropriations:
- appropriations specific to each objective, covered by "primary charging";
  - appropriations relating to the utilization of the available resources for implementation, covered by "secondary charging".
109. The expenditure relating to these implementation resources is entered in appropriation accounts (personnel, infrastructure, scientific and technical support, major installations). Services rendered in this way are "invoiced" to the research objectives. For this "invoicing" a lump-sum scale should be formulated for each unit of the services rendered by the various implementation resources.

The calculation of these scales calls for:

- grouping in line with homogeneous services, which can be quantified;
- estimates of the expenditure required for each implementation resource;
- estimates of the maximum available quantity of each service.

The number of services actually rendered for each research objective must then be taken into account. By multiplying those quantities by the above-mentioned scale charges we obtain the amounts to be credited to the allocation accounts and debited to the objective accounts.

After this procedure, the accounts of the various research objectives show the total expenditure for each objective while the allocation accounts normally indicate the balances which should be analysed to achieve the aims of the Operational Budget. This analysis of the balances should ascertain:

- the difference between the actual expenditure for each implementation resource and the expenditure provided for in the Budget;
- the difference between the expenditure provided for when related to the quantity of the invoiced services and to the quantity of the available services (over- or under-utilization of the implementation resources).

Without this analysis, operational accounting ceases to be a management aid and becomes simply a method - and an imperfect one at that - for recording the costs of each objective.

110. The expenditure grouped in the appropriation accounts and subsequently charged to the programme's objectives by the secondary charging procedure represents some 90 % of all the expenditure of the Research Centre; the part played by these chargings in determining the cost of each objective is therefore vital.

In 1972 the secondary chargings were made for the entire year after the closing of the financial year, largely on the basis of the keys which have been used to formulate the Budget. They were not backed by the supporting documents needed for a control of the effective utilization of the services and for determining the expenditure for each research objective and, moreover, they had been refused approval by the Financial Controller.

When compared with this situation, which was primarily caused by inadequate preparation of the new system and especially of the complex question of the internal invoicing, considerable progress has been found. Rules set down in "technical instructions" provide for monthly invoicing of the services in the appropriation accounts and for charging them against the objectives and other appropriation accounts in keeping with the procedures prepared with the agreement of the Financial Controller.

- The invoicing of the staff costs (appropriation accounts 1.10.1: JRC and 1.10.2: Headquarters and indirect actions) is based on lists of names of persons assigned and the average man/month costs. These costs are calculated separately for the following six groups of staff: A1 - A4, A5 - A8, Category B, categories C and D, established staff, local staff (in account 1.10.2, however, a single cost is employed for Category A).



- The general infrastructure expenditure (appropriation account 1.20) is divided not in keeping with the number of staff provided for, as in 1972, but in line with the volume of pay of the staff actually used by the scientific and technical support (1.30), the major installations, including the Essor reactor (1.40 - 1.49), the scientific division (1.50) and, for Ispra, the Directorate-General (Chapter 2.90). Therefore the divisions of the infrastructure expenditure are still too approximate even if the criteria for calculating the lump-sums have been improved.

- In 1972, the expenditure relating to the scientific and technical support (appropriation account 1.30) was invoiced merely in line with the key of the budgetary estimates. The new rules provide for monthly invoicing of the services really supplied to the users during the month in question. The amount of the

services is based on a "work unit" cost varying from one sub-account to another in account 1.30 and on the number of work units completed.

The work unit rate, calculated on the basis of the appropriations provided for, is considered to be fixed for the entire financial year unless the actual work reveals major variations.

At the end of the year the balance of the appropriation account is cancelled by invoices to the users pro rata to the total of the previous chargings.

- The problem of invoicing the services rendered by the major installations (account 1.40 - 1.49) to either the objectives or third-party users - a problem which involves mainly the Computer Centre (account 1.40) - has not yet been solved since the establishment of the scales to be applied is still pending. As for the other accounts relating to the major installations, after deducting any revenue from third parties, the expenditure has generally been charged to the Budget chapters provided for that purpose in the first part of the Budget.

- Appropriation account 1.50 "Scientific divisions - JRC" groups the cost of the scientific staff in the strict sense of the term (1st line staff), of the internal administrative support for the divisions and also the cost of the share of the general infrastructure expenditure equivalent to the volume of pay of the account. This expenditure is invoiced in turn to each research objective on the basis of the working times shown in the activity records (a programming of the different studies and research being carried out) and of the work unit cost calculated for each establishment.

111. The rules summarized above have been applied more or less systematically since the beginning of the financial year 1974.

The 1973 secondary chargings have also been made more or less in accordance with the same principles, except as regards the intervals between them. They call for the following comments in particular:

- The invoicing was carried out on a global basis in October 1973 for all the expenditure of Ispra and the BCMN for the first nine months and monthly thereafter; the Institute for Transuranic Elements at Karlsruhe and the Petten establishment applied a single charge covering the entire financial year.

The expenditure of the "Headquarters/indirect actions" section has been charged on a global basis for the period from January to August and monthly thereafter.

- These global charges have not in every case been based on verifiable documents; the invoicing for the services rendered in the initial period has, in particular, often been done on a lump-sum basis corresponding approximately to the estimates.

- The calculation of the work unit costs of the scientific and technical support and the major installations has been based not upon the estimates as at present but mainly upon the actual staff and infrastructure costs. In Ispra during the period when the invoicing was done monthly, this method accordingly produced work units showing sometimes large inter-month variations.

- A number of services rendered by one appropriation account to another, by one establishment to another and by the JRC to headquarters/indirect actions remained uninvoiced so as not to prejudice the invoicing operations already completed.

- With regard to Chapter 2.90 "Direction and coordination", the staff costs for the period from January to September have in error been determined in keeping with the single rate of Group A1 - A4. This error has occasioned the charging to that chapter of expenditure which is greatly above (more than 300 000 u.a.) what it would have been if the calculations had been made in keeping with the differentiated rates provided for; moreover it also has had repercussions upon the other secondary chargings.

- Apart from the documentation submitted by the headquarters, which was satisfactory, the documents presented in support of the secondary chargings (staff lists, transfers, summaries of the number of services rendered, calculation of hourly costs, etc.) have not in every case been sufficiently precise and coherent. Several of them, especially with regard to Karlsruhe, have been amended without explanation. The Petten establishment has supplied no information about the number of invoiced work units.

112. Any evaluation of all the new structures and budgetary methods seems premature since they have not yet really passed the test of time. With this reservation and in addition to the remarks concerning the 1973 secondary chargings, some more general comments can be formulated at this stage.

a) Contrary to the practice so far applied, the estimate of expenditure for each objective should be made on the basis of the necessary number of work units, valued at their scale rate.

b) The need to balance the **appropriation accounts forms a considerable obstacle** to their proper functioning, a fact to which attention has already been drawn

in the previous report and which has, moreover, been stressed by the Commission in its reply to that report. This need is not derived from a provision of the Financial Regulation but from the lack of appropriations provided for in the Budget to cover any balances of the **appropriation accounts**. Yet it would undoubtedly be more normal to show the actual results, whether surplus or deficit, of the **appropriation accounts, at least as regards the scientific and technical support operations and the major installations**, and thus, by **analysing the balances**, to facilitate a better appreciation of the effective extent of utilization of those operational resources. At present, the research objectives are charged with the entire cost of the Services and installations even if they are only partially employed.

At the very least, the balances should be clearly established at the end of the year before being cleared. In 1973 the Ispra charges for December were generally confused with the regularization operations. Among the anomalies resulting from this procedure, mention should be made of the invoicing of the CETIS services in December 1973 (in payments) at a negative rate since previous charging had shown a surplus of the resources over those used in the account. Moreover, in 1973 CETIS did not invoice the services rendered for the account of third parties during the second half-year.

c) The internal invoicing operations as a whole form a rather cumbersome system with a higher degree of technicality, requiring a considerable amount of work. Budgetary management is made particularly complicated if the estimates are too vague and if it therefore proves necessary to make hundreds of appropriation transfers, as still happened in 1973. This system (and its cost) cannot be justified solely on the grounds of a search for budgetary and accounting regularity; it makes sense only if it is used (and usable) as an instrument for management, to improve the programme of studies and also the functioning and structure of the services (especially the technical services).

On this level too, the lack of a balance on the appropriation accounts considerably distorts the value of the initial data.

d) Although the expenditure relating to the JRC staff (Account 1.10) is charged to the "scientific divisions" account (as to the other appropriation accounts) on the basis of the average costs differentiated in keeping with the categories and grades, the invoicing of that expenditure to the objectives by account 1.50 no longer distinguishes between those different groups; it is based on a single average man/research cost and consequently makes no allowance for the difference between the objectives from the point of view of the composition of the staff seconded to them. The value of the initial classifications is thus considerably reduced.

e) Under present circumstances the "technical instructions" constitute comparatively provisional directives to the authorizing officers and therefore remain subject to any modifications and adjustments which may prove expedient in the light of experience. This situation should not, however, be continued too long and within a reasonable period a definitive and more complete codification of the new

charging rules should be made; these should then be embodied in an internal regulation for the management of the JRC appropriations; no such regulation has existed for many years. The formulation of precise rules as to rates to be charged, particularly in respect of services rendered to third parties, should no longer be postponed.

f) Some staff costs (overtime, allowances for heavy and dirty work, continuous service and penalty payments, remuneration for special advisers) are still charged as primary expenditure of the objectives and other appropriation accounts concerned and so are not included in the "expenditure relating to staff" allocation account (1.10).

On the other hand, the proceeds of the tax levied on this remuneration and these allowances are included among the resources of account 1.10 and are therefore deducted from the main body of staff costs relating to all the research objectives. This charging procedure, which has already been mentioned in the 1972 report (No 49 a) is obviously illogical and should be discontinued.

g) As a result, the expenditure entered in the management account does not give a true picture of the economic costs of the different research objectives.

h) Despite some improvements expected from the introduction of the new data-processing equipment, the Audit Board considers that the inadequacies detected in matters of principle regarding the management of a genuine Operational Budget deserve priority when the adjustments are made.

C. Further comments concerning research and  
investment expenditure

113. Contract work for outside bodies

The serious overstaffing and under-used equipment in the Centre has led, for some years, to an examination - without much success, however - of the possibilities of employing the available potential for carrying out work on behalf of third parties and in return for remuneration.

To achieve this objective, it is not essential from the financial point of view to charge to the contract the entire cost of all the available resources employed. On the contrary, it must be recognized that the economic value of plentiful resources is very small; this could justify regarding a contract as profitable as soon as the revenue exceeded the marginal costs without covering all the fixed costs. This is perhaps also an effective way of remedying the under-utilization situation which in the long run has a destructive influence on any organization.

The objectives of the new four-year programme include an endowment for promoting the provision of resources or techniques to outside bodies against payment (Chapter 2.40 of the 1973 Budget).

Normally, contracts for services to outside bodies provide that the "customer" takes over the entire cost of the staff and equipment for the services.



The 22 contracts in hand at Ispra at 31 March 1974 total 290 000 u.a.

For some time the JRC has been concluding a number of contracts, usually called "collaboration contracts", which provide for a sharing between the customer and the Commission of the costs occasioned by the research work specified

in the contracts; this research must have some value for the implementation of the Community research programme - which is the justification for the discount allowed on the cost of the service rendered. By far the largest contract of this type was concluded in December 1973 with the Federal Republic of Germany (Bundesministerium für Forschung und Technologie) for a term of four years for the execution at Ispra of a research project, known as "Blowdown", concerning the safety of reactors. Approximately 2.7 million u.a. of the cost of this project (staff, construction of experimental installations, calculation costs, etc.) is payable by the contracting party. The other 38 collaboration contracts in hand at the Ispra establishment on 31 May 1974 - according to a list communicated by the JRC - provide that the total share in the work payable by the contracting parties is approximately 550 000 u.a.

The conditions under which such contracts can be concluded should be more precisely defined; for each contract the value of the collaboration and the extent of the participation should be ascertained in keeping with objective and verifiable criteria.

The management of the contracts for the provision of services for outside bodies against payment in Ispra should be improved. The revenue and expenditure of the collaboration contracts must be set out in the accounts, clearly showing the expenses borne by each of the contracting parties. The current presentation of the accounting operations and supporting documents is not sufficiently clear and makes their monitoring difficult.

#### 114. Management of purchases and procurement

Complete decentralization of the purchases of the Ispra establishment, which was begun in 1970, has been progressively introduced; under this system each service orders its own supplies. The "procurement" service, which acted as the centre for orders in the past, has been wound up.

This situation and its drawbacks were mentioned in the 1971 report (Fara. 92 c) and it was stated that they could be justified only by improved output from the services' activities.

The results anticipated from this new change in purchasing procedure have not been achieved - this is accepted even by those in charge of the establishment. The present decentralization is excessive and incompatible with rational

management of the appropriation. It has caused a large degree of fragmentation of the orders - which is sometimes deliberately increased in order to evade the rule requiring invitations for more than one tender - and produces further diversification of the equipment and a spectacular multiplication of the administrative documents and accounting operations. Any grouping of similar purchases with a view to obtaining better price conditions is made virtually impossible.

At Ispra a large number of small "urgent" purchases were made without a prior tender by means of an imprest account. In such cases, frequent unjustified fragmentation is also found which is obviously intended to secure formal compliance with the limit imposed for such purchases: 50 u.a., which was increased to 130 u.a. in November 1973. Urgent or direct purchases reached a total of approximately 58 000 u.a. in 1973.

An analogous decentralized system is found in the management of the stores and the present examination of measures likely to improve this situation should be continued.

115. Supporting documents not communicated

Under Article 5 of the Euratom Treaty the Commission has placed the Essor complex, its installations and the staff seconded to it at the disposal of the Italian Government for a period from 1 March 1973 to 31 December 1976.

Since the contract with the Italian Government was signed later than planned (during the 2nd half of 1973), some of its provisions and especially the timetable for the Italian Government's payment of the sums due for the financial year 1973, have not been observed. The 1973 expenditure was not reimbursed until 1974; the appropriation accounts concerned (1.43 "Essor/Adeco reactor" and 1.90 "Services performed on behalf of outside bodies") have been balanced by entering the sums still payable in an extra-budgetary account.

Under the contract the expenditure relating to the staff and the use of the infrastructure is paid by the Commission. The other expenditure is also paid by the Commission but requires a proposal by the Management Committee responsible for ensuring the fulfilment of the contract; the expenditure paid between March and October 1973 (that is during the period prior to the signing of the contract by the two contracting parties) has been charged outside the Budget. It was re-charged as a global sum to account 1.43 during the final months of the year but the supporting documents were not attached to the instructions.

116. Fiscal reimbursements

Under Article 22 of the Financial Regulation, the reimbursements by the Member States of taxes and duties included in the prices paid by the Communities

can be re-employed to cover the expenditure of the year during which they were collected or the expenditure of the year following their collection. The appropriations for that year are thus increased by the reimbursements obtained.

The reimbursements collected in 1973 (which relate almost exclusively to operations carried out as part of the research activities) amount to 1 681 229 u.a., of which 198 388 u.a. derives from the German authorities and 194 538 u.a. from the Dutch authorities. The larger part, 1 288 303 u.a. is made up of reimbursements by the French Government as a result of the agreement concluded with France with regard to the application of the provisions of Article 3 of the protocol on the Privileges and Immunities of the European Communities for

research activities carried on in that country since 1968. (The reimbursements relating to the period prior to 1968, which are for a higher amount, will not be collected until 1974).

Most of the fiscal reimbursements have been used to reduce the 1973 expenditure. 803 610 u.a. of the sums paid by the French authorities was employed for this purpose (including approximately 304 000 u.a. against the expenditure of Title 6: "Completion of projects authorized under previous programmes"); 447 562 u.a. will be re-charged in 1974. A small part (37 131 u.a.) has been entered as budgetary revenue, without occasioning re-employment, under Article 990 of the Budget: "Repayment of duties and charges on research operations by the French and Italian Governments".

When the financial year was closed, the Italian Government had made no payment concerning the taxes and duties still repayable to the Communities under the Protocol on Privileges and Immunities.

Under Article 82 of the new Financial Regulation, the table of revenue of the revenue and expenditure account is to be accompanied by a statement showing the balances and gross amounts of the re-employment and deduction operations provided for in Article 33 of that regulation. No such statement is to be found accompanying the 1973 management account.

117. Management of the research and association contracts

a) During the year only slow progress was made in liquidating the capital goods acquired by the associations of which the Commission had been a member under the former five-year research programmes. At the time of writing, five agreements (based on the Commission's assignment of its rights to its share in the investments in return for information which is to be communicated by the former partners) had been signed and a sixth was awaiting conclusion. A factor still to be negotiated was the liquidation of the Italian associations which seem to be having difficulty in adopting a decision concerning proposals made by the Commission more than two years ago.

b) Since the 1973/1976 research programmes no longer provide for actions in the field of rapid reactors and high-temperature gas reactors, the Commission has proposed to the former associate agencies that pursuant to Article 6 (c) of the Euratom Treaty and in return for reimbursement of their emoluments, it

should place at the disposal of those agencies the Community's staff who were still seconded to them. Five of the former partners have accepted this proposal. Although they were not signed until 1974, the conventions governing this agreement (which relates to a total of 28 staff members) take effect from 1 July 1973.

In addition, pursuant once more to Article 6 (c) of the Treaty, the Commission has placed at the disposal of the Nuclear Energy Study Centre 33 officials who have been seconded for the exploitation of the BR 2 reactor with effect from 1 March 1973; the consideration provided by the Belgian State in return for this action consists of the reimbursement of the remuneration and mission costs of the staff in question.

The expenditure for the exploitation of the BR 2 reactor during the period prior to the entry into force of the convention (January and February 1973) is shown in Title I of the first part of the statement of research expenditure; the remuneration paid during the first half of the year to the 28 staff members supplied to other national agencies is entered in Chapter 8.90 "Staff awaiting assignment to a post or application of redundancy measures".

The expenditure to be reimbursed by the governments concerned has been entered in the appropriation accounts provided for that purpose (BR 2: 1.48; Advanced Reactors: 1.49) and grouped under Account 1.90: Services performed on behalf of outside bodies (aproximately 737.000 u.a.). No reimbursement was made before the end of the year and so the Institution balanced Account 1.90 by debiting an extra-budgetary account.

c) During the financial year 1973 the Commission's departments carried out 14 administrative and accounting control operations in the agencies with which it has signed research or association contracts (as against 20 control operations in 1972). The Audit Board receives communication of the reports prepared as a result of those verification operations. It has made approaches with a view to being allowed to participate in the verifications but so far it has not been possible to put such participation into effect.

#### D. Problems concerning participation in the COST agreements

118. Within the context of cooperation in the field of scientific and technical research, the European countries, most of which are members of the Communities, have signed a series of agreements, known as the COST agreements, in the fields of data-processing, telecommunications, metallurgy, pollution and meteorological forecasting. The European Atomic Energy Community has signed one of these agreements, COST Agreement No 11, for setting up a European data processing network.

Each of the different COST actions is directed by a management committee. In principle, each signatory assumes responsibility for financing work done at its initiative. The agreement relating to Action No 11 also provides, however, for work covered by joint financing.

119. The Communities are involved in the cost of the COST actions in three ways:



- a) For all the actions: they provide the secretariat for the various management committees. No provision is made for invoicing the relevant costs to the signatories to the agreements. Moreover, the costs are not known since they are included in the general administrative expenditure provided for in the Commission's Budget;

- b) For Action No 11: Euratom assumes responsibility for one of the nodal centres of the European data processing network. Some appropriations have been provided for that purpose among the research allocations (in the 1973 Budget: Chapter 2.30 of Annex I to Section III); they are managed and subject to controls in the same way as appropriations for other research objectives;
- c) Also for Action No 11: by virtue of a mandate incorporated in the agreement, on behalf of all the partners, (i.e. in addition to the Community, the French, Italian, Yugoslav, Norwegian, Portuguese, Swiss, Swedish and British Governments), the Commission manages all the activities covered by joint financing and requiring the conclusion of purchasing contracts. The Community is itself involved in this financing since it pays a contribution equivalent to one-ninth of the expenditure provided for (1 400 000 u.a.).

120. The Commission's management of the jointly-financed work is carried out according to procedures approved by the Agreement Committee and it gives rise to extra-budgetary accounting. Provision is made for the establishment of an annual revenue and expenditure account to be submitted to the Management Committee which is called upon to give discharge therefor.

The operational procedure also enables the Management Committee to appoint one person or authority responsible for examining the revenue and expenditure account and reporting thereon. Since, as far as it is aware, no such appointment has been made, in January 1974 the Audit Board approached the authorizing officer responsible for the joint revenue and expenditure of the Agreement to inform him that, in its opinion, there should be no further delay in organizing external control of this management. On the same occasion, it proposed an examination of whether it would be suitable to entrust such control to the external auditing body of the Communities since the management is provided by the Community departments and the Community makes a financial contribution which is chargeable to its own Budget. So far, this approach has produced no results.

121. The Community contribution to the jointly-financed activities is not clearly shown in any of the 1972, 1973 and 1974 Budgets and, at the time of writing, it has still not been paid although the financing of the nodal centre became effective in 1972.

Payment of this contribution was withheld pending Italy's ratification of the agreement relating to Action No. 11; by virtue of Article 102 of the Euratom Treaty, that agreement cannot come into force until it has become applicable in all the Member States participating therein.

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This Report has been drawn up in the French language and was agreed to in Brussels on 1 October 1974 by the Audit Board

MR. G. FREDDI, President

MR. M. BERNARD

MR. R. BURGERT

MR. J. FRENCH

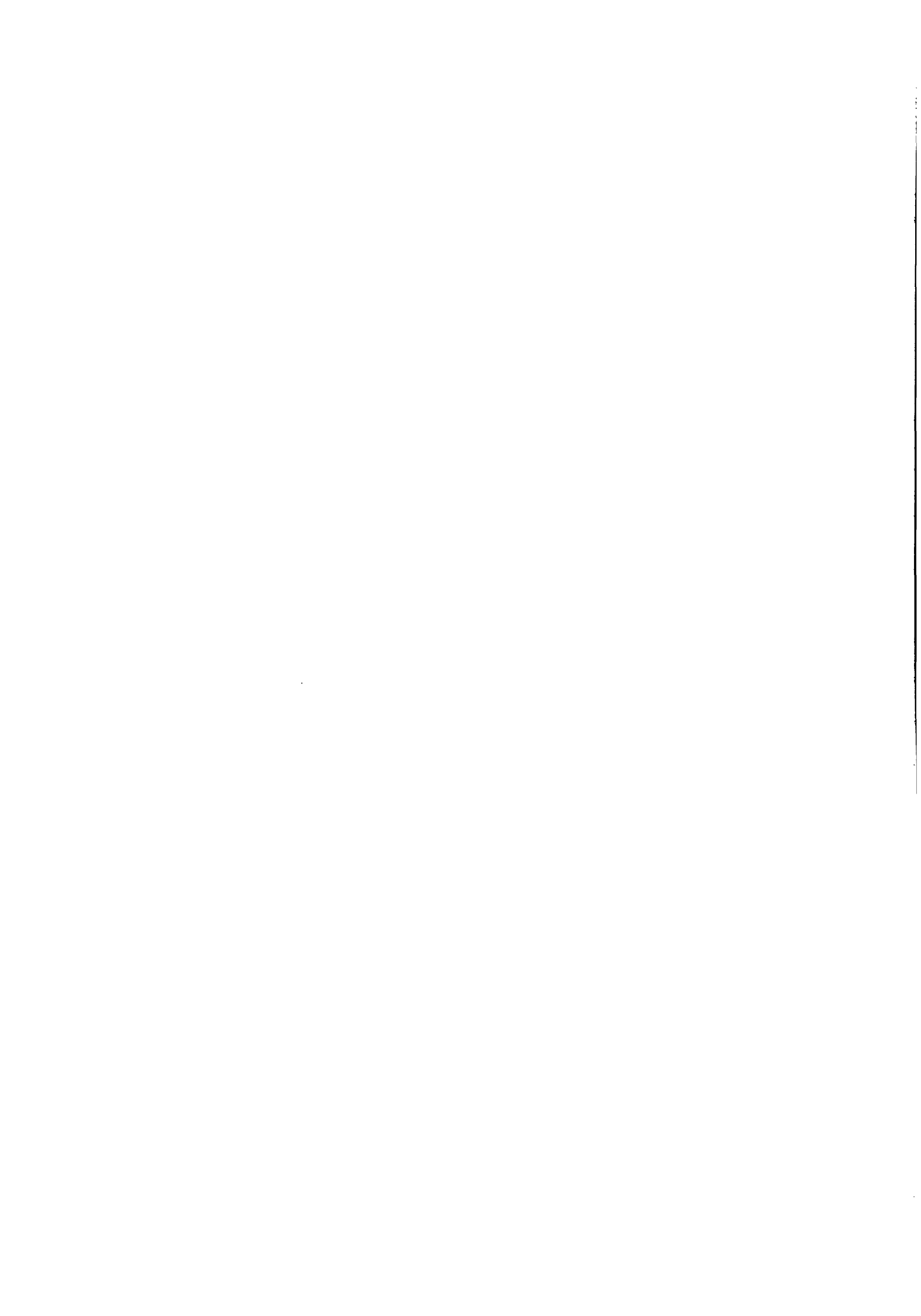
MR. F. GAUDY

MR. H. HARTIG

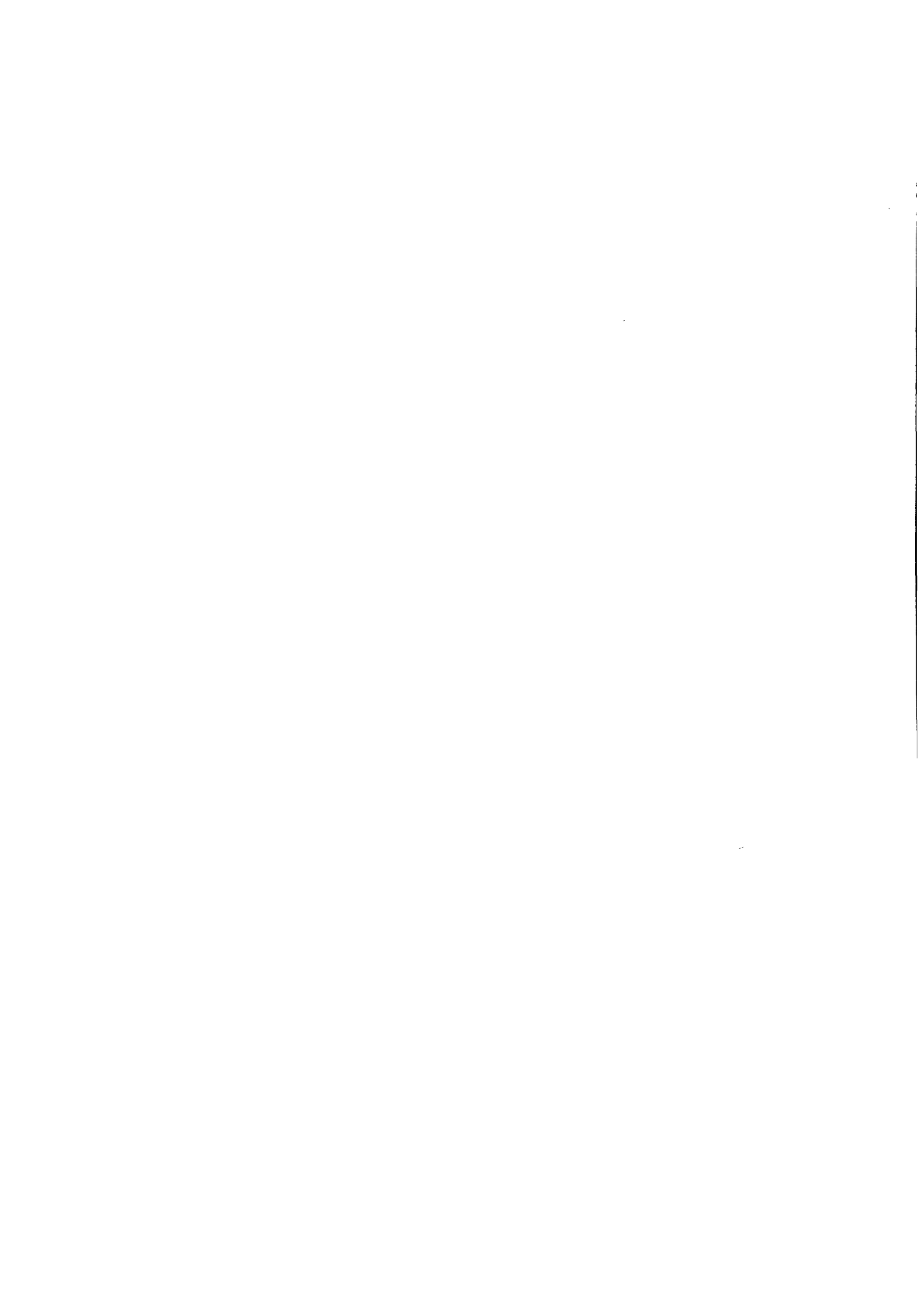
MR. A.K. JOHANSEN

MR. Ed. MCLITCR

MR. W. MULCAHY



ANNEXES



A N N E X E S

- Table 1 : Estimated revenue for the 1973 financial year, revenue confirmed and paid in at 31 December 1973
- Table 2 : Utilization of the appropriations of the Social Fund (1973 financial year)
- Table 3 : Utilization of the appropriations of the former Social Fund for vocational retraining and resettlement operations
- Table 4 : Aid granted under the former Social Fund and applications pending at the end of the last five financial years
- Table 5 : Financial resources made available to the Member States for the payment of the expenditure of the Guarantee Section for the 1973 financial year
- Table 6 : EAGGF - Expenditure paid out during the financial years 1965 to 1973
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- Table 10 : Food Aid: 1973 financial year: appropriations authorized and payments made
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Estimated revenue for the 1973 financial year, revenue confirmed and paid in at 31 December 1973

(in u.a.)

	Estimated revenue	Revenue confirmed at 31 December 1973	Revenue paid in at 31 December 1973
Own resources (Decision of 21 April 1970)			
- Levies, premiums, additional amounts (Art. 2(a))	522 120 000	388 562 483.32	349 922 288.74
- Contributions and other duties in the sugar sector (Art. 2(a))	91 000 000	95 290 457.52	81 066 023.94
- Customs duties (Art. 2(b))	1 516 955 000	1 563 277 070.28	1 266 421 053.68
Other own resources (Art. 127) e.s. of the Act concerning the Conditions of Accession - Denmark, Ireland, United Kingdom	474 603 413	453 858 095.64	390 477 838.88
Proceeds of the ECSC levy allocated to administrative expenditure	18 000 000	18 000 000.-	18 000 000.-
Financial contributions of the Member States:			
- Relating to the research programmes	11 116 553	10 355 566.41	6 390 899 26
- For EAGGF Guarantee Section - 1967/68 period	170 000 000	170 000 000.-	-
- Provided for in Article 3, (2) and (3) of the Decision of 21 April 1970	2 279 425 265	2 070 422 950.27	2 148 924 153.70
- Provided for in Articles 129 and 130 of the Act concerning the Conditions of Accession - Denmark, Ireland, United Kingdom	24 951 900	12 622 307.59	101 098 560.98
- For the financing of administrative expenditure relating to appropriations from earlier financial years cancelled and re-entered	350 000	213 702.90	350 000.-
Own receipts			
- Commission's own receipts	15 842 400	19 041 765.-	18 563 343.80
- idem - research and investment	1 320 000	1 654 616.67	1 649 717.63
- Interest on Euratom loans and payment for studies	4 001 000	3 519 498.15	3 519 498.15
- Own receipts of the other Institutions	4 808 340	4 533 873.11	4 533 873.11
<b>Total</b>	<b>5 134 493 871</b>	<b>4 811 352 386.86</b> (1)	<b>4 390 917 251.87</b> (2)

(1) The 1973 revenue and expenditure account prepared by the Commission (Pages 5 to 13) also includes 761 838,08 u.a. as confirmed items which must be cancelled (see page 7 of the revenue and expenditure Account, Chapter 51).

(2) The 1973 revenue and expenditure account prepared by the Commission (column "revenue paid in at 31 December 1973") also includes 197 331 330,59 u.a. as recoveries on claims brought forward from 1972.

Utilization of the appropriations of Title 5 - 1973 Budget - EUROPEAN SOCIAL FUND

during the 1973 financial year

in u.a.

Chap. Art. Item	Heading	Initial appropriations	Amendments under amending budgets or inter-item transfers	Appropriations available	Commitments at 31 December 1973	Payments at 31 December 1973	Appropriations to be carried forward	Appropriations for cancellation
50 500	Expenditure under Art. 4 of the Council Decision of 1.2.1971	70 000 000	- 1 200 000	68 800 000	28 087 668	-	40 712 332 (1) 28 087 668 (2)	-
51 510	Expenditure under Art. 5 of the Council Decision of 1.2.1971	110 000 000	- 1 600 000 +45 000 000	153 400 000	153 399 447	1 176 227	152 223 220 (2)	553
52 520	Pilot schemes and preparatory studies	750 000	-	750 000	749 667	221 675	527 992 (2)	333
53 530	Expenditure provided for under Art. 125 (1)(a) of the Treaty (former Fund)							
5301	- Vocational retraining	57 000 000	+ 2 546 900	59 546 900	59 546 892	19 504 565	40 042 327 (2)	8
5302	- Resettlement	3 000 000	- 2 546 900	453 100	453 090	70 309	382 781 (2)	10
54 540	Expenditure provided for in Art. 125 (1) (b) of the Treaty (former Fund)							
5401	- Conversion	-	-	-	-	-	-	-
		240 750 000	+ 42 200 000	282 950 000	242 236 764	20 972 776	261 976 320	904

(1) By a Council Decision of 24 September 1974 this amount available under Art. 500 has been carried forward to the 1974 financial year and transferred to Art. 510. However, there is reason to wonder whether such a delayed carrying-forward will permit utilization of this balance before the end of the 1974 financial year.

(2) Carried forward under Art. 6(1)(c) of the Financial Regulation.

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	28.9	9 115	-	9 115	801	8.7
1963	11 640	16 195	27 835	7 247	26.-	5 950	3 300	9 250	315	3.4
1964	14 562	11 635	26 197	4 260	16.2	8 636	5 950	14 586	380	2.6
1965	16 347	14 562	30 909	5 845	18.9	3 328	8 636	11 964	1 355	11.3
1966	18 137	2 863	21 000	8 560	40.7	3 345	1 655	5 000	137	2.7
1967	18 291	12 441	30 732	13 849	45.-	1 526	3 345	4 871	115	2.3
1968	23 230	16 537	39 767	22 712	57.1	1 321	1 872	3 193	3 193	100.-
1969	32 176	16 806	48 982	35 073	71.6	1 269	250	1 519	1 519	100.-
1970	60 000	-	60 000	36 391	60.6	4 000	-	4 000	651	16.3
1971	56 302	-	56 302	56 302	100.-	171	-	171	170	99.4
1972	53 922	-	53 922	53 922	100.-	1 078	-	1 078	884	82.-
1973	59 547	-	59 547	59 547	100.-	453	-	453	453	100.-
Totals	383 865	-	-	315 198	82.1	40 192	-	-	9 973	24.8

Aid granted under the Social Fund (former Fund) and applications  
pending at the end of the last five financial years

in u.a.

	1960-1968	1969	1970	1971	1972	1973
<u>Vocational retraining</u>						
- Applications pending at the end of the previous financial year	-	37 035 086	35 410 488	44 334 635	43 293 449 (1)	50 887 425
- Applications submitted during the financial year	113 886 328	33 692 565	45 509 780	55 194 977 (1)	61 611 875 (1)	76 720 777
- Applications examined by the ESF Committee during the financial year	76 851 242	35 317 163	36 585 633	56 236 163 (1)	54 017 899 (1)	60 934 816
- Aid granted	73 962 509	35 072 880	36 390 910	56 302 342	53 922 032	60 954 794 (2)
- Balance of the applications pending	37 035 086	35 410 488	44 334 635	43 293 449 (1)	50 887 425	66 673 386
<u>Resettlement</u>						
- Applications pending at the end of the previous financial year	-	2 161 657	958 112	1 022 114	1 370 541 (1)	1 330 708
- Applications submitted during the financial year	9 062 439	375 729	862 274	634 544 (1)	843 792 (1)	613 527
- Applications examined by the ESF Committee during the financial year	6 900 782	1 579 274	798 272	286 117 (1)	883 625 (1)	454 029
- Aid granted	6 296 387	1 518 971	650 791	170 428	883 625	453 090
- Balance of the applications pending	2 161 657	958 112	1 022 114	1 370 541 (1)	1 330 708	1 490 206

(1) These amounts differ from those shown in our reports for the 1971 and 1972 financial year. 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 parities which occurred in 1969.

(2) including 1 407 902 u.a. against 1974 appropriations.

Financial resources made available to the Member States for the payment of the expenditure of the  
Guarantee Section of EAGGF for the 1973 financial year

(in u.a.)

Date of the decision	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Total
<u>Ordinary advances</u>										
19 January 1973	2 800 000	17 000 000	41 000 000	87 000 000	7 800 000	100 000 000	184 000	27 000 000	7 500 000	290 284 000
27 February 1973	15 000 000	16 500 000	56 000 000	94 000 000	6 300 000	32 000 000	130 000	38 500 000	9 300 000	267 730 000
19 March 1973	13 000 000	14 000 000	47 000 000	85 000 000	5 700 000	100 000 000	140 000	54 000 000	10 500 000	329 340 000
13 April 1973	15 500 000	33 000 000	88 000 000	140 000 000	4 800 000	80 000 000	250 000	49 000 000	-	410 550 000
18 May 1973	20 000 000	45 000 000	70 000 000	110 000 000	900 000	65 000 000	4 000 000	93 000 000	-	407 900 000
21 June 1973	19 000 000	26 000 000	55 000 000	140 000 000	6 900 000	53 000 000	100 000	49 000 000	19 500 000	368 500 000
24 July 1973	18 000 000	43 500 000	65 000 000	71 000 000	8 700 000	34 000 000	-	56 000 000	15 000 000	311 200 000
24 August 1973 (I)	17 000 000	34 100 000	58 600 000	76 300 000	10 500 000	-	-	27 700 000	22 800 000	247 000 000
26 September 1973 (II)	1 900 000	2 500 000	2 400 000	5 800 000	960 000	31 700 000	-	2 000 000	1 650 000	48 910 000
26 September 1973	11 500 000	20 000 000	69 000 000	83 000 000	8 100 000	48 500 000	220 000	54 000 000	21 000 000	315 320 000
23 October 1973	18 000 000	28 000 000	60 000 000	80 000 000	3 700 000	-	300 000	48 000 000	25 200 000	263 200 000
29 November 1973	13 450 000	13 500 000	40 000 000	35 850 000	9 000 000	-	130 000	22 800 000	12 000 000	146 730 000
<u>Additional and other advances (1)</u>										
24 April 1973	15 700 000	-	-	-	-	-	-	-	-	15 700 000
2 May 1973	-	-	-	-	-	1 008 942	-	-	-	1 008 942
13 June 1973	-	-	-	47 000 000	-	-	-	-	-	47 000 000
2 July 1973	-	-	-	-	12 000 000	-	-	-	-	12 000 000
13 July 1973	-	-	-	-	-	62 022 601	-	-	-	62 022 601
18 October 1973	-	-	-	29 700 000	-	-	-	-	-	29 700 000
13 November 1973	-	-	-	-	-	26 314 938	-	-	-	26 314 938
17 December 1973	-	2 395 000	1 900 000	6 400 000	1 455 000	-	-	-	7 500 000	19 650 000
19 December 1973	12 735 210	-	10 982 175	12 438 045	-	2 067 996	(-48 005)	4 953 998	-	43 129 419
Total	193 585 210	295 495 000	664 882 175	1 103 488 045	86 815 000	635 614 477	5 405 995	525 953 998	151 950 000	3 663 189 000

(1) By "other advances" are meant the amounts available to a Member State after correction of certain errors and the 1972 carrying-forward.

EAGGF - Expenditure paid out during the financial years 1965 (1st year) to 1973

(in '000 u.a.)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	Total
<b>Guarantee Section</b>										
- Farming year: 1962/63	28 723.1									28 723.1
1963/64		50 689.5								50 689.5
1964/65			97 755.-	62 109.-						159 864.-
1965/66			180 089.2		58 546.2					238 635.4
1966/67				277 785.-				117 755.4		395 540.4
1967/68				267 503.7	508 211.-	159 443.2				935 157.9
1968/69					1 169 645.1	302 114.3	6 605.8			1 478 365.2
- 2nd half of 1969						1 224 150.3				1 224 150.3
- financial years: 1970						532 396.8	1 122 806.9			1 655 203.7
1971 (1)							90 000.-	1 541 288.3		1 631 288.3
1972								2 289 723.6		2 485 580.7
1973									195 857.1	2 978 340.2
									2 978 340.2	2 978 340.2
Total	28 723.1	50 689.5	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	13 261 538.7
<b>Guidance Section</b>										
- Farming year: 1962/63		1 053.7	1 485.3	1 052.9	877.4	1 673.9	474.3			6 617.5
1963/64		739.-	1 849.8	2 181.-	1 598.-	1 712.5	2 537.-	977.4		11 594.7
1964/65			486.4	12 874.7	7 599.8	6 210.7	2 210.3	1 369.7	578.-	31 329.6
1965/66			45 000.-	1 480.1	9 239.9	8 740.8	3 675.3	7 692.8	3 963.6	79 792.5
1966/67				20 000.-	4 381.5	2 012.7	7 657.4	6 644.4	8 698.2	49 394.2
1967/68					888.-	45 586.9	12 452.2	9 460.4	8 632.-	77 019.5
1968/69						4 462.2	749.9	20 097.-	24 283.5	49 592.6
- 2nd half of 1969										
- financial years: 1970						9 012.2		21 577.7	25 851.3	56 441.2
1971							75 329.7	6 241.1	46 929.8	128 500.6
1972									4 797.5	4 797.5
1973										
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	495 079.9
<b>Special Sections</b>										
				208 250.-	140 250.-	69 250.-	-	-	-	417 750.-
Grand total	28 723.1	52 482.2	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	14 174 368.6

(1) 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 u.a. was entered in the Budget accounts in 1972.

Commitments and payments relating to projects receiving aid from the EAGGF Guidance Section

(in '000 u.a.)

Budget	Belgium	Germany	France	Italy	Luxembourg	Netherlands	Total
<u>1965</u> 1964 projects - commitments	704	2 558	1 951	3 069	-	775	9 057
- payments	701	2 477	1 240	2 402	-	775	7 595
%	99 %	97 %	64 %	78 %	-	100 %	84 %
<u>1966</u> 1965 projects - commitments	755	4 969	3 692	5 866	275	1 577	17 134
- payments	755	4 426	2 405	3 128	275	1 577	12 566
%	100 %	89 %	65 %	53 %	100 %	100 %	73 %
<u>1967</u> 1966 projects - commitments	3 280	11 600	8 924	13 771	899	3 113	41 587
- payments	2 928	9 571	6 243	5 500	856	2 753	27 851
%	89 %	82 %	70 %	40 %	95 %	88 %	67 %
<u>1968</u> 1967 projects - commitments	2 041	7 240	5 745	8 835	151	2 027	26 039
- payments	1 475	5 334	2 991	5 298	26	1 882	17 006
%	72 %	74 %	52 %	60 %	17 %	93 %	65 %
Projects: 1st - commitments	2 487	8 002	7 693	12 906	14	3 013	34 115
tranche 1968 - payments	1 955	7 132	4 279	4 556	14	2 358	20 304
%	79 %	89 %	56 %	35 %	100%	78 %	60 %
<u>1969</u> Projects: tranches - commitments	4 668	18 568	13 184	19 083	800	4 480	60 783
1a and 2 1968 - payments	1 906	11 162	4 768	4 942	800	3 836	27 414
%	41 %	60 %	36 %	26 %	100 %	86 %	45 %
Projects: 1st - commitments	612	2 469	2 258	2 419	-	715	8 473
tranche 1969 - payments	410	1 462	1 120	648	-	497	4 137
%	67 %	59 %	49 %	27 %	-	69 %	49 %
<u>1970</u> Projects: 2nd, 3rd - commitments	11 214	42 632	33 403	51 885	94	12 299	151 527
and 4th tranche 1969 - payments	5 566	26 313	13 909	5 971	94	8 578	60 431
%	50 %	62 %	42 %	12 %	100 %	70 %	33 %
<u>1971</u> Projects: 1st, 2nd - commitments	11 665	44 964	35 444	54 266	375	13 285	159 999
and 3rd tranche 1970 - payments	2 517	23 654	12 159	347	272	5 168	44 117
%	22 %	53 %	34 %	0,6 %	72 %	39 %	28 %
<u>1972</u> Projects: 1st, 2nd - commitments	12 525	57 122	45 074	67 901	1 638	15 683	199 943
and 3rd tranche 1971 - payments	3 170	15 975	7 456	453	112	4 344	31 510
%	25 %	28 %	16 %	0,6 %	7 %	28 %	16 %
<u>1973</u> Projects: 1st and - commitments	12 034	42 101	33 254	50 499	943	11 167	149 998
2nd tranche 1972 - payments	141	1 293	2 001	-	-	-	3 435
%	1 %	3 %	6 %	-	-	-	2 %
<b>Totals</b> - commitments	61 985	242 225	190 622	290 500	5 189	68 134	858 655
- payments	21 534	108 799	58 571	33 245	2 449	31 768	256 366
%	35 %	45 %	30 %	11 %	47 %	47 %	30 %

Table 8

Breakdown by countries of the projects which received aid from the  
Guidance Section of the EAGGF between 1964 and 1973

Budgets			Germany	Belgium	France	Italy	Luxem- bourg	Nether- lands	Total
1965	Projects 1964	financed	9	7	10	27	-	4	57
		completed	9	7	7	22	-	4	49
		cancelled	-	-	3	5	-	-	8
1966	Projects 1965	financed	21	6	21	40	1	8	97
		completed	20	6	15	22	1	8	72
		cancelled	1	-	4	14	-	-	19
1967	Projects 1966	financed	59	20	33	119	3	20	254
		completed	52	17	20	57	3	17	166
		cancelled	3	1	2	39	-	2	47
1968	Projects 1967	financed	31	9	34	59	2	17	152
		completed	23	5	18	33	1	14	94
		cancelled	-	-	2	9	-	-	11
	Projects 1st tranche 1968	financed	36	16	22	66	1	20	161
		completed	32	13	13	26	1	16	101
		cancelled	-	-	3	11	-	1	15
1969	Projects tranches 1a and 2 1968	financed	59	29	43	122	1	23	277
		completed	22	10	14	45	1	17	109
		cancelled	-	1	-	16	-	-	17
	Projects 1st tranche 1969	financed	5	5	7	13	-	4	34
		completed	-	3	1	3	-	2	9
		cancelled	-	-	-	1	-	-	1
1970	Projects 2nd, 3rd, 4th tranche 1969	financed	147	64	125	236	3	54	629
		completed	60	15	27	20	3	29	154
		cancelled	1	1	-	-	-	-	2
1971	Projects 1970	financed	148	71	114	173	2	40	548
		completed	49	14	21	-	1	7	92
		cancelled	1	1	-	1	-	1	4
1972	Projects 1971	financed	161	96	143	282	7	34	723
		completed	20	16	7	-	-	8	51
		cancelled	-	-	-	-	-	-	-
1973	Projects 1972	financed	115	59	74	145	6	30	429
		completed	-	-	1	-	-	-	1
		cancelled	-	-	-	-	-	-	-
Total	Projects	financed	791	382	626	1.282	26	254	3.361
		completed	287	106	144	228	11	122	898
		cancelled	6	4	14	96	-	4	124



## List of the special joint schemes financed by the Guidance Section of the EAGGF

(Aggregated position at 31 December 1973)

(in u.a.)

Measures	Commitments	Payments	Germany	Belgium	France	Italy	Luxembourg	Netherlands	Cancel- lations
<b>(a) Relief and works after certain agricultural disasters</b>									
- Repair of the damage caused by the floods of the autumn of 1966	10 000 000	7 871 206	-	-	-	7 871 206	-	-	2 128 794
- Repair of the damage caused by African swine fever in 1967									
- repair of the damage	3 043 253	3 043 253	-	-	-	3 043 253	-	-	-
- programme of research	108 798	107 970	-	-	-	107 970	-	-	828
<b>(b) Financing of statistical enquiries</b>									
- Enquiry into the structure of farms	8 000 000	7 307 748	1 622 628	256 602	2 012 694	3 135 030	11 898	268 896	692 252
- Enquiry into the pig population:									
- 1968	1 200 000	1 200 000	312 720	37 290	337 950	468 000	6 750	37 290	-
- 1969	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	-
<b>(c) Financial compensation measures</b>									
- Reimbursement of the expenses incurred to promote the production and marketing of olives and olive oil (1964-65)	8 000 000	8 000 000	-	-	-	8 000 000	-	-	-
- Improvement of the production and marketing structures for olives and olive oil and for fruit and vegetables	45 000 000	45 000 000	-	-	-	45 000 000	-	-	-
- Improvement of the production and marketing structures in the unmanufactured tobacco sector	15 000 000	15 000 000	-	-	-	15 000 000	-	-	-
- Measures to adapt agriculture in the Grand Duchy of Luxembourg	7 500 000	7 500 000	-	-	-	-	7 500 000	-	-
- Provisions supplementary to the common organization of the fruit and vegetable markets:									
- farming year 1966/1967	20 000 000	20 000 000	-	-	-	20 000 000	-	-	-
- farming year 1967/1968	22 969 486	22 969 486	-	-	-	22 969 486	-	-	-
- farming year 1968/1969	31 948 124	31 948 124	-	-	-	31 948 124	-	-	-
= second half-year 1969	12 381 929	12 381 929	-	-	-	12 381 929	-	-	-
<b>(d) Aids to groups of producers of fruit and vegetables to facilitate their operations</b>									
- Years 1967 and 1968	1 304 520	1 304 520	1 242 301	-	62 219	-	-	-	-
- Year 1969	673 679	673 679	546 326	-	127 353	-	-	-	-
- Year 1970	882 316	882 316	761 446	-	120 870	-	-	-	-
- Year 1971	1 749 309	1 749 309	245 255	-	-	1 504 054	-	-	-
<b>(e) Measures aimed at re-establishing the balance of markets</b>									
- Premiums for the slaughter of cattle and the non-marketing of milk and milk-products									
- reimbursement of the premiums 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 premiums paid in 1971	3 481 403	3 481 403	2 861 558	336 846	-	-	22 512	260 487	-
- reimbursement of the premiums paid in 1972	1 133 764	1 133 764	1 124 202	-	-	-	9 562	-	-
- Premiums for the uprooting of apple, pear and peach trees									
- reimbursement of the premiums paid in 1970	3 071 477	3 071 477	336 543	1 206 266	371 855	-	-	1 156 813	-
- reimbursement of the premiums paid in 1971	11 745 081	11 745 081	4 806 544	855 439	4 757 046	-	26 995	1 299 057	-
- reimbursement of the premiums paid in 1972	3 417 771	3 417 771	1 831 677	831 161	-	-	24 477	730 456	-
<b>Totals</b>	<b>241 289 594</b>	<b>238 467 720</b>	<b>32 077 484</b>	<b>5 664 114</b>	<b>15 682 464</b>	<b>172 365 052</b>	<b>7 697 677</b>	<b>4 980 929</b>	<b>2 821 874</b>

FOOD AID

1973 financial year - Title 9: appropriations authorized and payments made

in '000 u.a.

	Total of appropriations authorized	Payments made to the intervention agencies					Total payments made
		Belgium	Germany	France	Italy	Netherlands	
<u>900 1st convention</u>							
9001 1968/1969 season	-	-	-	-	-	-	-
9002 1969/1970 season	22 400.-	1 016,3	6 661,1	5 862,8	7 559,8	1 048,-	22 148,-
9003 1970/1971 season	25 000.-	-	-	-	-	-	101,9 (1)
<u>901 2nd convention</u>							
9010 1971/1972 season	27 200.-	841,7	7 934,9	9 420,1	1 740,6	455,2	20 392,5
9011 1972/1973 season	38 700.-	-	20 156,2	12 796,9	-	1 962,6	34 915,7
902 <u>Supply of egg products to WFP</u>	2 000.-	-	158,1	66,6	-	1 261,1	1 485,8
903 <u>Supply of milk products to WFP and ICRC</u>	24 880,6	21 188,1	-	541,-	-	1 594,6	23 323,7
904 <u>Other food aid</u>	3 777,3	-	770,5	-	-	1 680,-	2 450,5
	143 957,9	23 046,1	35 680,8	28 687,4	9 300,4	8 001,5	104 818,1

Table 10

(1) Payment made to ICRC.

Breakdown of expenditure reimbursed to the intervention agencies for the 1969/1970 season

in u.a.

	Expenditure charged to Title 9				Refunds	Grand total
	Value of cereals (less refunds)	Amounts awarded (less refunds)	Other costs	Total		
Belgium	-	1 015 280,40	1 049,54	1 016 329,94	854 982,18	1 871 312,12
Germany	5 514 127,99	1 073 899,17	73 033,16	6 661 060,32	5 368 155,06	12 029 215,38
France	2 511 922,36	3 339 903,56	10 988,28	5 862 814,20	3 029 911,29	8 892 725,49
Italy	5 381 634,42	1 993 063,34	185 140,20	7 559 837,96	5 576 746,56	13 136 584,52
Netherlands	262 204,86	782 158,71	3 635,86	1 047 999,43	660 251,95	1 708 251,38
	13 669 889,63	8 204 305,18	273 847,04	22 148 041,85	15 490 047,04	37 638 088,89

Table 11

FOOD AID - 1969/1970 season

Quantities of cereals allocated

	Scheduled quantities (in tonnes)	Mobilization country (tonnes)					Quantities shipped (in kg)	Quantities received (in kg)
		Belgium	Germany	France	Italy	Netherlands		
Indonesia	60 000 t wheat in form of 39 735 t flour	7 000	14 000	16 000	18 000	5 000	39 686 739	39 876 053
Lebanon	15 000 t wheat	-	-	-	15 000	-	14 716 065	14 695 450
Mali	30 000 t, viz. 25 000 t maize and 5 000 t wheat in form of 3 311 t flour	-	-	25 000 5 000	-	-	24 498 034	24 513 000
Niger	15 000 t, viz. 10 000 t wheat and 5 000 t wheat in form of 3 311 t flour	-	10 000 5 000	-	-	-	9 998 665	10 029 000(1)
Pakistan	80 000 t wheat	-	50 000	-	30 000	-	78 226 098	77 625 339
Somalia	8 000 t maize	-	-	8 000	-	-	7 916 800	7 993 650
Sudan	10 000 t wheat	-	-	-	-	10 000	10 022 579	(4)
Sri Lanka	14 000 t wheat in form of 9 272 t flour	7 000	-	-	7 000	-	9 272 013	9 379 514
Tunisia	35 000 t wheat	-	-	35 000	-	-	34 811 204	35 030 240
Turkey	51 400 t wheat (2)	-	26 400(2)	-	25 000	-	49 986 600	49 770 830
Yemen	14 000 t wheat	-	-	-	14 000	-	14 000 000	(4)
ICRC	4 500 t wheat in form of 2 976,5 t flour	2 576	-	414	1 510	-	- (3)	- (3)

(1) This information received at the beginning of 1974 considerably changes the information previously transmitted.

(2) 1 400 tonnes relate to emergency aid granted under the 1970/71 programme.

(3) This aid was granted under two agreements concluded for successive seasons and no distinction between them is possible.

(4) This information is not available.

Summary of the expenditure paid out during the financial years 1958 to 1973

(in '000 u.a.)

	1958-1963 (aggregate)	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	Total
Parliament	22 242.1	5 426.1	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	119 851.7
Council	20 779.8	5 526.3	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	141 992.6
Court of Justice	5 121.5	1 240.2	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	27 028.2
Commission												
1. Operating expenditure (1)												
- EEC	103 538.2	30 765.9	34 542.-	40 598.3	43 659.1	)						
- EAGC	30 110.1	7 745.4	8 557.2	9 395.8	10 256.6	) 75 491.9	86 925.4	94 888.2	189 662.2	312 802.5	424 092.5	1 622 440.3
- ECSC	60 963.-	12 848.-	14 268.-	15 353.5	15 976.5	)						
2. Social Fund	19 857.8	4 639.5	7 200.6	8 697.-	13 964.3	25 904.4	36 591.9	37 041.7	56 472.8	54 805.7	49 936.4	315 112.1
3. EAGGF (Guidance and Guarantee Section)												
- farming years:			28 723.1	1 053.7	1 485.3	1 052.9	877.4	1 673.9	474.3			35 340.6
1962/63				51 428.5	1 849.8	2 181.-	1 598.-	1 712.5	2 537.-	977.4		62 284.2
1963/64					98 241.4	74 983.7	7 599.8	6 210.7	2 210.3	1 369.7	578.-	191 193.6
1964/65					225 089.2	1 480.1	67 786.1	8 740.8	3 675.3	7 692.8	3 963.6	318 427.9
1965/66						297 785.-	4 381.5	2 012.7	7 657.4	124 399.8	8 698.2	444 934.6
1966/67						267 503.7	509 099.-	205 030.1	12 452.2	9 460.4	8 632.-	1 012 177.4
1967/68							1 169 645.1	306 576.5	7 355.7	20 097.-	24 283.5	1 527 957.8
1968/69								1 224 150.3				1 224 150.3
- 2nd half-year 1969								541 409.-	1 122 806.9	21 577.7	25 851.3	1 711 644.9
- financial years:									165 329.7	1 547 529.4	46 929.8	1 759 788.9
1970										2 289 723.6	200 654.6	2 490 378.2
1971											2 978 340.2	2 978 340.2
1972						208 250.-	140 250.-	69 250.-				417 750.-
1973										18 842.7	104 818.1	123 660.8
4. Food aid												
5. Development Fund												
- 1st Fund	137 740.8	83 397.7	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	556 188.4
- 2nd Fund			21 878.5	31 625.8	42 850.1	67 885.4	89 347.7	129 537.-	120 479.9	78 600.4	49 462.-	631 666.8
- 3rd Fund									22 603.2	42 713.4	98 472.9	163 789.5
6. Oilseeds fund									13 999.4			13 999.4
7. Research and investment	182 807.8	98 396.1	98 537.1	127 959.6	117 943.9	71 217.1	65 050.4	64 942.9	68 585.3	69 976.9	72 412.9	1 037 830.-
Total	583 161.1	249 985.2	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	4 162 564.6	18 927 928.4
Number of staff employed at end of period (officials, temporary staff and establishment staff)	6 439	7 148	7 753	8 292	8 823	8 684	8 643	8 625	8 824	9 693	11 008	

(1) Since 1971 the operational expenditure has included the flat-rate repayment to the Member States of the cost of collecting own resources. This amounted to 85 879 000 u.a. in 1971, 170 773 000 u.a. in 1972 and 236 535 000 u.a. in 1973.

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 1973

VOLUME I

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 GENERAL INTRODUCTION
 

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GENERAL INTRODUCTION

The Commission considers it necessary to set out some comments of a general nature by way of preface to the observations which are called for by several points in the Audit Board's report for 1973.

It is caused to do so by the new directions which recent political and institutional developments have been taking and by the thoughts prompted by its experience.

A. The new legal framework

1) Evolution of the Budget of the Communities

The Treaty provides that "the Commission shall implement the Budget in conformity with the provisions of the regulation made in implementation of Article 209, on its own responsibility and within the limit of the appropriations" (Article 205). "The report of the Audit Board shall be examined successively by the Council, which shall act by a qualified majority, and by Parliament. Discharge shall not be given to the Commission until the Council and Parliament have acted" (Article 206).

The discharge which the Commission must receive in respect of the implementation of the Budget is henceforward situated in a very different context from that obtaining originally and relates to elements of a nature and size quite different from those of the first financial years following 1958.

The Budget of the Communities has profoundly evolved since the beginning. Instead of being financed exclusively by the contributions of the Member States, it is on the way to being balanced by the Communities' own resources. The expenditure is no longer limited to the operational needs of the European institutions; its greater part consists of the intervention expenditure which, in the social, agricultural, regional, research and technology, and co-operation and development sectors, is the instrument of a Community policy of concrete development of the construction of Europe. Parallel to this evolution, the Community has effected its enlargement by making the transition from six to nine Member States. Community policies have developed,



leading, for example, to the creation of the new Social Fund and the European Regional Development Fund.

Together, these profound changes must necessarily bring about, at the end of an altered budgetary procedure, the transformation of the rules for the discharge operations.

## 2) Political scope of the discharge operations

At the level of the budgetary authority, the implementation of the text of Article 206 of the Treaty (quoted above, point 1) decided upon by Parliament contains one basic element: the intervention of the European Parliament in the last resort, after the Council has acted, on the discharge to be given to the Commission. Parliamentary control will thus be exercised in future both over the phase of authorization of expenditure and revenue (within the framework of the new procedure for the adoption of the Budget corresponding to the increase in the budgetary powers of Parliament) and over the phase of supervision of the utilization of Community funds (by the final discharge decision). The sub-committee responsible for supervision of the implementation of the Budget of the Communities has been created to give this democratic control full efficacy.

Already this evolution is conferring a political dimension on the discharge decision, with all the elements which the latter contains both before it in the line of flow (report of the Audit Board, critical examination of the financial management, discussion of the Council's attitudes, resolution on final discharge) and after it (answers given to the observations accompanying the discharge decision, report on the instructions given to the departments).

## 3) Strengthening of the dialogue with the discharge authority

The combining of this enlarged and more thorough parliamentary control with the control already exercised by the Council makes the verbal and written exchanges which take place between the discharge authority (Parliament and Council) and the administrative authority (the Commission) of prime importance.

In this context the management account, the financial statement and the report of the Audit Board are the starting points of the dialogue. The discharge authority draws from these documents the matters which in its view merit examination and explanation. A whole series of questions are thus debated in the context of the rendering of the accounts.

This situation calls for the reconsideration of the practice hitherto followed by the Commission. All its efforts have been directed towards the preparation of very detailed, often circumstantial replies to the observations contained in the report of the Audit Board. The other Institutions (Parliament and the Council), on the other hand, have chosen not to "make use of their right of reply provide by Article 90 of the Financial Regulation" and to formulate their observations in the course of the discharge procedure. Subject to the discussions which it will have on this subject with Parliament and the Council, the Commission intends to confine its replies to the main points and to express them more concisely. On the other hand, it will give all the appropriate amplification of the explanations and statements which the budgetary authority desires in order to assess the implementation of the Budget of the Communities by the Commission.

#### 4) Nature and forms of audit

The Commission considers that the basic element of the discharge procedure, the report of the Audit Board, calls for the following comments:

- In the past the Audit Board has mentioned the obstacles hindering its audit work. It notes, in the report for 1973, that the new Financial Regulation of 25 April 1973, has removed "most of the difficulties".

It is no doubt right to add that, as far as the Commission is concerned, the desire to strengthen the external audit exercised by the Audit Board has been translated into two instructions addressed, over the signature of Mr CHEYSSON, to all the directors-general and heads of departments (notes of 15 June 1973 and 2 July 1974). The principal object of these instructions was, in the context of the new provisions of the Financial Regulation of

25 April 1973, to make it easier for the Audit Board to carry out its duties and to give the Commission the means of having an exact knowledge of the problems arising in the departments in the matter of control.

The instruction of 15 June 1973 deals with all aspects of control:

1. Principles and practical rules which should govern the relations between the Commission's departments and the Audit Board,
2. Forms of contact,
3. Documents and agencies to which the Audit Board has access.

It sets out in detail all the rules which should be observed by the departments in order to ensure and facilitate the audit of all the budgetary operations.

This instruction appears already to have contributed towards the desired improvement, since the Audit Board itself mentions, in the introduction to its 1973 report (page 2), that it "has been able to develop relations of trustful co-operation and mutual understanding with the majority of the responsible authorities and departments".

- The Audit Board continues to claim the right to carry out "autonomous verifications in the Member States". Article 206 of the Treaty, which the Audit Board invokes in support of this claim, contains no explicit provision. The regulations in force, particularly the regulation concerning appointed agents, does not appear to favour the interpretation desired by the Audit Board. The fact remains that the right to be present at all the verification operations carried out by the Commission would give the Audit Board great possibilities of extending its activities in the Member States. The Commission, for its part, has indicated its preference for the extension of the Community audit. It will suffice to refer to the proposals which it has put forward with regard to the powers and duties of the future European Audit Office.

The capital importance of the co-ordination of the national and Community audits has been stressed by the Audit Board (point 3 of its report): the Commission expresses satisfaction at this because it considers that in the present state of development of the Communities the

inadequacies of the Community audit can only be mitigated by strengthening the co-ordination with the national audits.

- One of the forms of audit used by the Audit Board consists in having officials of its administration (of categories A and B), who work in the management departments, carry out verifications in certain specified sectors of the Budget. It 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 between the members of the college.

Under these conditions the audit operations are effected solely at the level of implementation. Drafts of parts of the report 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.

The Commission itself is not consulted at the stage of the preparatory work. No dialogue has been established at the institutional level. The elements of the report are chosen and finalized without the political directions and choices having been set out, yet a Budget, even in its implementation phase, is always the reflection of a policy with all its exigencies, contingencies and inflexions.

Even at the level of the senior officials, no discussion, no cross-examination is the rule.

Such confrontations would be likely to provide the political illumination necessary for the assessment of the sound financial management demanded by the Treaty (Article 206) and would help to place the report in its overall Community context. At the same time they would make possible a more direct and more immediate perception and comprehension of the preoccupations of the Audit Board on the part of the Commission and its senior officials, which would naturally be reflected in instructions necessary for the improvement of the administration of the appropriations by the departments.

5) Financial Regulation of 25 April 1973

The major part of the operations relating to the financial year 1973 were implemented under the provisions of the Financial Regulation which came into force on 1 May 1973.

The Audit Board makes certain comments on the application of this new Financial Regulation (page 8 and following). Before replying in detail to these comments, this seems an opportune moment to emphasize that there exists a body of rules which supplements the Financial Regulation.

a) Rules for the implementation of certain provisions of the Financial Regulation

The Commission has been concerned to draw up the "rules of implementation" provided for by Article 118 of the Financial Regulation of 25 April 1973. The document that has been drawn up is set out in 17 chapters and 88 articles. It is a novation. Although there was an identical provision in the previous Financial Regulation, the necessary "rules of implementation" were never drawn up. Moreover, the Audit Board had called attention to and deplored this lacuna throughout its successive reports.

Preparation of the "rules of implementation" was started as soon as the new Financial Regulation came into force. Extensive consultations with all the Commission's departments involved and with the administrative heads of the other Institutions preceded the drawing up of the draft adopted by the Commission and submitted, as required by Article 118 of the Financial Regulation, for the advice and opinion of the other Institutions on 4 June 1974. These Institutions gave their opinions as follows:

- the Economic and Social Committee, 27 June 1974 (agreement);
- the Court of Justice, 11 July 1974 (agreement);
- the European Parliament, 14 November 1974 (agreement, with proposal for certain modifications);
- the Council, which commenced its study of the text on 26 June 1974, had not reached the end of its consultation procedure by March 1975.

The Commission, without waiting for the completion of the latter consultation, has decided to make the "rules of implementation" of the Financial Regulation provisionally applicable by its departments with effect from 1 January 1975.

b) Observations on the application of the Financial Regulation of 25 April 1973

- Time schedule

Compliance with the date of 1 June, the final date for the preparation of the management account of the Communities, meets with certain difficulties, by reason, in particular, of the fact that the EAGGF operations are not closed until 31 March and because of budgetary decisions which disrupt the management of the appropriations (such as those described in connexion with the research appropriations, pages 119 and 120, points 101 and 102 of the 1973 report).

The Audit Board, for its part, was not able to complete its report until 1 October 1974 (although the Financial Regulation specifies 15 July as the date). The Commission did not receive it until 4 November 1974, whereas the Financial Regulation states that by 31 October "the report, to which shall be annexed the replies to the observations, shall be submitted by the Commission to Parliament and the Council" (Article 21). It is therefore certain that the time schedule laid down in the new Financial Regulation is not realistic.

The Commission is examining the suggestion, made in January 1975 by the sub-committee of the European Parliament responsible for supervision of the implementation of the Budget, proposing a change in the time-limits laid down in the Financial Regulation where experience has shown that they are not adapted to the constraints attending the implementation of the Budget.

- Additional periods

The existence of "additional periods" is cited by the Audit Board as an obstacle to compliance with the time-limits fixed by the Financial Regulation for the preparation of the management account.

In making this assertion the Audit Board is certainly correct. However, the necessity for additional periods is incontestable. Besides the cases mentioned by the Audit Board (in respect of the accounting for the "own resources" and expenditure of the Guarantee Section of the EAGGF), one may recall by way of example that recourse to additional periods for the implementation of the Chapter 1 expenditure has been indispensable in order to make it possible to charge against the appropriations of the year in question the expenditure resulting from decisions on emoluments taken by the Council in the last days of the year.

It seems that the solution to these difficulties should be sought, as indicated above, in a change in the time schedule laid down by the Financial Regulation of 25 April 1973.

- Supporting documents

The Audit Board states that "there were some very serious delays in submitting the supporting documents in some cases". The Commission, for its part, considers that this assertion (point 2 b, page 9 of the report) is not completely in accord with the preliminary statement made in the introduction (page 3) that:

"The Audit Board has obtained without difficulty and within a satisfactory period of time the information, explanations, communications and supporting evidence which it has felt it should request in the accomplishment of its tasks."

It should be noted that the supporting documents are retained by the authorizing officers to enable them to substantiate the payment orders. It would be inopportune if they were to hand them over to the Audit Board during the financial year because this would necessarily have very serious effects on the sound management of the appropriations. As for the solution of having all the supporting documents photocopied, this would be very difficult to put into practice and extremely costly.

Moreover, the Commission wishes to point out that the supporting documents can be examined on the spot because the authorizing officers keep them permanently available for the Audit Board.

- Refusals of approval by the Financial Controller and decisions by the Commission to ignore refusals of approval

The Audit Board has asked both to be informed of decisions to ignore refusals of approval and for "information on the actual decisions to refuse approval" (point 4, page 12 of the report). Incontestably, these requests refer to very different situations.

As to the decisions to ignore, the Financial Regulation leaves no doubt: by virtue of Articles 43 and 52, "the superior authority of each Institution shall regularly inform the Audit Board of each of its decisions". The Commission has scrupulously ensured that this provision is respected and informed the Audit Board of all decisions of this kind (9 in all) which occurred during the financial year 1973 after the coming into force, on 1 May 1973, of the new Financial Regulation.

As to the refusals of approval which are not (or have not yet been) followed by a decision to ignore, on the other hand, the Financial Regulation does not impose a similar obligation on the Institutions. It is therefore purely a question of expediency. In this respect the Commission considers that it should not accede to the request of the Audit Board. For, in the case where the refusal of approval has caused the authorizing officer to withdraw or modify his proposal definitively, the communication of this refusal exposes the authorizing officer retroactively to an enquiry as to his intentions. In the alternative case, where the authorizing officer has not yet finalized his position, a criticism on the basis of the mere refusal of approval could, moreover, be construed as unwarranted interference in the current management of the Institution. But the Commission is convinced that, within the limit of the provisions of Article 18 of the Financial Regulation, it is - and must remain - solely responsible for the implementation of the Budget: the action of the Audit Board can only be an a posteriori audit, that is, an audit which takes place after commitment or payment.



6) New guidelines and rules made by the Commission

As soon as it took office, the new Commission gave the Communities' Budget a central place in its preoccupations. It immediately issued a series of practical rules intended to improve budgetary management and to strengthen and enlarge the system of financial control.

a) Decisions on budgetary control and management

As of 15 June 1973 the Commission issued the first of its two instructions, described above (point 4), intended to strengthen the external control exercised by the Audit Board.

On 18 July 1973 it decided to create a high-level permanent working party to examine the whole body of problems related to the internal budgetary procedure.

On 3 October 1973 the directives and guidelines on internal control were adopted.

On 28 November 1973, proceeding from the basis of the guidelines worked out within the working party created on 18 July 1973, the Commission issued a series of new guidelines on the preparation and implementation of the Budget. The importance of this corpus of decisions deserves emphasis. They should in time help to improve the management of the Community appropriations, not only as regards their utilization, but also as regards the forecasting and assessment of the resources and expenditure.

A communication dated 3 December 1973, entitled "Strengthening and improvement of budgetary control and procedures", was sent to Parliament and the Council (and also to the Audit Board) summarizing the various rules adopted. In it the Commission first recalls that, parallel to the measures of an internal nature relating to the current management of its appropriations, it has proposed the strengthening of the powers of Parliament in budgetary matters and demanded a transformation of the system of external control. It states that it has recommended the creation of a European audit office which would be totally independent and invested with the widest powers and means of investigation.

The Commission then summarizes its principal decisions

- with regard to internal control:

- creation of posts of controllers temporarily attached to the different operational directorates-general (EAGGF, Social Fund, Regional Fund, etc.)
- verification by random sampling by the national administrations, and audits carried out where there is presumptive evidence of fraud or bad management (by means of specialist auditing teams who will act as "flying squads" in the different Member States, in liaison with the national services)
- creation, in the authorizing departments, of documentation centres for the collection and processing of information on the administrative practices and the regulations applicable in the Member States for the management of Community funds
- constitution of a special commission of inquiry into frauds, composed of nine senior national officials placed temporarily at the disposal of the Commission and presided over by the Commission's Financial Controller

- with regard to the preparation and implementation of the Budget:

- prior to the annual budgetary procedure, deliberation by the Commission with the aim of determining the political priorities and the expenditure ceilings for the major Community activities
- refusal to allow recourse to the practice of supplementary budgets, except in unforeseeable circumstances
- creation, in each spending directorate-general, of budget teams to keep the responsible Commission Member informed on the management of his appropriations
- systematic preparation of financial record sheets giving precise substantiation of every new measure and every increase in expenditure exceeding the indicative percentage authorized by the Commission

- precise rules for keeping the implementation of the Budget under review, particularly by the preparation of quarterly reports on implementation addressed to Parliament and the Council
- adaptation of the organizational structures, notably by the appointment, in the Directorate-General for Budgets, of "budgetary officers", charged with keeping under review, in relation to their budgetary consequences, each of the major Community policies in its implementation as it passes through several directorates-general.

b) Internal rules for the implementation of the General Budget of the European Communities (Commission Section)

The new legal framework constituted by the Financial Regulation which came into force on 1 May 1973 and by the "Rules of Implementation" of the Financial Regulation (made provisionally applicable by the Commission, for its departments, by means of internal implementing provisions with effect from 1 January 1975) called for an additional set of rules for the running administration of the budgetary appropriations. The Commission therefore adopted, on 20 December 1974, some "Internal rules for the implementation of the General Budget of the European Communities (Commission Section)" which are applicable as from 1 January 1975 by all the Commission's departments. These "internal rules" group together and supplement various texts relating to certain sectors and codify the administrative practices which have been arisen in the absence of texts. They fix, in particular, the delegations and sub-delegations authorized by the Commission for the implementation of the expenditure and revenue by specifying the limits of powers, and lay down the procedures to be followed for transfers, carry-overs, internal endowments and imprest advances.

These "internal rules" reflect the double desire of the Commission to make budgetary management more strict and to promote the deconcentration of powers and responsibilities in the field of the utilization of appropriations.

At the same time these "rules" meet the instructional need to create a working document which can be used as a guide for the officials and departments.

On 6 February 1975 the Commission communicated these "internal rules" and the "Rules for the Implementation of certain provisions of the Financial Regulation" to the Audit Board.

B: 1973, year of enlargement1) Enlargement of the territory of the Communities

The Europe of the Six, enlarged to nine Member States, has undergone a marked territorial extension. The field of application of the Communities' Treaties, regulations and policies has included since 1 January 1973 three countries whose legislations will henceforth have to develop within the Community framework. To meet the new requirements, adaptations have been necessary. Thus on the budgetary level a very marked increase in the volume of appropriations has been necessary. Four supplementary and/or amending Budgets were adopted during the financial year 1973, of which three were mainly caused by the enlargement: the new amendment to the table of the Commission's staff was the subject of supplementary Budget no. 1; amending and supplementary Budget no. 2 was the result of the non-accession of Norway (the 1973 Budget having been prepared on the basis of a Community composed of ten Member States); the necessity of adapting the EAGGF appropriations not only to the changed prices but also to the new geographical dimensions of the Community led to the adoption of supplementary and amending Budget no. 4.

In certain spheres, in the social field for example, normal operations were delayed to facilitate the integration of the three new Member States. The necessary adaptation of the various intervention policies to the new economic territory of the Europe of the Nine has been that much more difficult because carried out within a relatively short time.

2) Increase in staff and changes in the directorate

The enlargement of the Communities has quite naturally meant a marked increase in staff: nearly 1,000 posts have been created or released for nationals of the new Member States. The number of posts released amounted to 247, all in category A (grades A/1, A/2 and A/3); they were made available by the voluntary departure of officials who had expressed the desire to take advantage of the special provisions laid down by Regulation No. 2530/72 for the termination of duties.

The occupation of released and newly-created administrative posts by the nationals of the new Member States profoundly changed the existing situation. The assumption of the direction of large administrative units by officials who were complete strangers to the Communities'

rules and methods was one of the notable features of 1973. The staggering in time of the filling of the posts has helped to increase the Commission's administrative difficulties.

It must be emphasized that continuity has been maintained despite the obstacles and even the conflicts inherent in such a profound administrative change.

On the administrative level, the enlargement has had a series of mechanical effects: a large number of recruitment operations, use of new official languages, consultation of governmental and private experts, etc. On the budgetary level, it has been reflected by an appreciable increase in the absolute value of the administrative expenditure, whilst the latter expenditure actually fell in relative value as a consequence of the more than proportionate increase in operational expenditure.

C. 1973, year of inflation and monetary disorder

1) Inflation

The change, uneven but universal, in the level of prices in the different Member States (almost 8.5% on average), has been felt by the Community administration just as much as by the national administrations. All the budgetary and accounting operations took place in 1973 in an inflationary climate which forced the Commission permanently to adjust its budgetary resources to its policies.

2) Disorder of currencies and the unit of account

After a decade of stability of exchange rates, the international monetary system, starting in 1968, underwent some increasingly marked disturbances: large and frequent changes of parities,

then abandonment of the system of parities in favour of the system of central rates, recourse to wider margins, then transition to a generalized system of floating exchange rates. These monetary disturbances, because they also affect the exchange relationships between the Member States of the Community, have the effect of distorting the normal functioning of certain Community mechanisms which rely on the technique of the unit of account.

Since 1971 some Member States have ceased to have official parities. Some allow their currency to float, others have redefined an official pivotal rate without declaring a parity to the International Monetary Fund.

Faced with the ever-growing disparity between the official rates and the rates used by the financial institutions from day to day, the Commission, in 1973, raised the question whether it should not update the exchange rates, as the Audit Board had suggested, rather than continue to use rates fixed several years before which did not, at first sight, reflect economic realities.

Beyond the problems connected with administrative expenditure, the question of transfers of funds from one country to another arose. The definition of the unit of account in Article 10 of the financial regulation is based on gold. In the present context of generalized floating, the use of the central rate of the currencies of the "Community snake" was a first attempt to adapt to the new monetary situation. However, the abandonment of the "snake" by some currencies, the acceleration of the fluctuations and the absence of a valid external reference point have led the Commission to propose the creation of a new unit of account known as the Community "basket unit of account", an average of the value of all the Community currencies.

The Council of 18 March 1975 adopted the definition of the unit of account proposed by the Commission and decided to use this new unit of account to express the amounts stated in the EEC/ACP Lomé Convention. The envisaged extension of the use of this unit of account will bring about a profound change in management methods in all the spheres where the unit of account defined by the Financial Regulation of 25 April 1973 is currently used. Debts receivable and expenditure commitments will be stated in units of account and executed for their countervalue in the national currency in question according to the rate of exchange ruling on the date of settlement. These new prospects remove the relevance of the observations which could be made on the various passages of the Audit Board's 1973 report dealing with rates of exchange or monetary parities.

3) Consequences for staff expenditure

In the Commission's view it is essential to distinguish three groups of emoluments. These are, respectively:

- reconversion of remuneration, expressed in Belgian francs, into the currency of the country of posting (Articles 63 and 64 of the Staff Regulations);
- transfers which officials may make to the country of origin by virtue of Article 17 to Annex VIII of the Staff Regulations;
- grants and allowances intended to provide reimbursement
  - . on presentation of invoices
  - . as a lump sum

The administrations of the other Institutions and the representatives of the staff have participated in the Commission's work in this connexion. It has been agreed that common rules should in future be applied in this matter.



Thus, after the necessary consultations had been carried out, it was decided to use the guidelines set out below, which take the direction indicated by some of the observations of the Audit Board.

- The present system for remuneration proper, covered by Article 63 of the Staff Regulations (use of the monetary parities accepted by the International Monetary Fund at 1 January 1965, in conjunction with regional correcting factors established in consequence) is to be retained.
  
- For transfers, the Commission has proposed an amendment to the Staff Regulations, an amendment on which Parliament expressed an opinion in November 1974 and which was submitted to the Council for examination at the beginning of 1975. Pending this revision, internal directives have been issued to remove certain disadvantages of the present system.
  
- For the reimbursement of expenses on presentation of an invoice and for sickness expenses, updated rates exchange have been in use since 1 November 1974.

Finally, updated rates of exchange have also been used to reimburse experts called for consultations and freelance conference interpreters.

D. The constant elements

1) Repetitions - Characteristics of the administrative expenditure

a) In respect of the 1973 report, the Commission renews the statement it made on the occasion of previous reports: several points repeat, almost word-for-word, points in the 1972 report and even in earlier reports. To avoid these repetitions, which burden the text of the report and the replies from one year to the next, the Commission proposes to proceed as follows:

- It will reply to each individual point which it considers calls for information, comment or refutation. It will not renew this reply unless new circumstances arise.

- It will conform to the provisions, which have not yet been implemented, of Article 92 of the Financial Regulation of 25 April 1973, namely:

- "At the request of the European Parliament or the Council, the Institutions shall report on the measures taken in the light of the comments (made in the discharge decisions). Such reports shall also be forwarded to the Audit Board."

- If there has been no request from Parliament or the Council, annexation to the management account of the following financial year of a report on "the measures which have been taken in the light of the comments (made in the discharge decisions)".

b) Each year the Audit Board devotes considerable space to its observations on the administrative expenditure. In order to limit the replies required by these observations, the Commission considers it appropriate to make certain observations on the essential characteristics of this category of expenditure, as follows. These characteristics will make it easier to place the individual detailed points mentioned further on:

The Communities' administrative expenditure has a double character:

- Contrary to the situation in some national Budgets, the administrative expenditure proper occupies - as has already been pointed out above - a relatively modest place in the Budget of the Communities, as the latter is basically operational in character.
- This expenditure includes a substantial proportion of appropriations covering expenditure resulting from legal obligations, that is, expenditure stipulated in Staff Regulations or other regulations (salaries, allowances, etc.) or expenditure incurred in fulfilment of contractual obligations (rents, etc.).

The control of this expenditure, however, merits all the attention which is required in operations of current and active management.

The appropriations for administrative support call for another observation. Their evolution is mainly dictated by a series of constraints, among which must be mentioned:

- the geographical dispersion of the places of work: Brussels, Luxembourg, research centres, external delegations and offices;
- the plurilingualism marked by the use of six official languages since 1973;
- the multiple and quasi-permanent consultation which has to take place with national authorities (governmental and professional) at all levels.

All these elements combine to give the Communities' administrative appropriations their own particular budgetary character and dimension.

## 2) Inter-institutional problems

On several occasions the Audit Board restates observations which have already been made in earlier reports on the subject of the inter-institutional nature of certain measures.

The Commission welcomed these observations in the spirit of the greatest frankness. It was pleased with their highly constructive character and decided, for its part, to contribute to translating them into action.

However, progress can only be made towards joint measures if formulas are adopted which are calculated to reconcile the administrative autonomy of each Institution with the necessary unity of implementation of the Budget.

The concern of each responsible official to arrive at a greater harmonization of administrative practices and to achieve certain economies in the sound financial management of the Communities' administrative appropriations has facilitated the development, within the framework of the monthly meetings of the administrative heads, of a closer inter-institutional co-ordination than in the past.

To this end a study has been initiated on:

- the creation of an inter-institutional consultative committee for purchases and contracts: a draft has been prepared by the Commission and was submitted to the other Institutions in 1974;
- the drawing up of joint recruiting procedures: some first concrete measures are in the process of being implemented;
- joint use of the Computer Centre by the Institutions: a first combining with the European Parliament took place in 1974;
- joint preparation of the budgetary estimates for 1975 relating to appropriations for social purposes.

It is clear that this inter-institutional co-operation must be developed and that it will be pursued in connexion with the various points mentioned by the Audit Board.

REPLIES TO VARIOUS SPECIFIC OBSERVATIONSIN THE REPORT

The references to the numbers of the chapters, the points, and their headings, as well as the page numbering, are those used in the Audit Board's 1973 Report. To facilitate the reading of the replies; it has been thought appropriate to introduce titles for certain points and paragraphs which did not have titles in the Audit Board's Report.

PART ONE: THE BUDGET OF THE COMMUNITIESCHAPTER 2: REVENUE (p. 17)8. Procedure for recording various debts (p. 17)Paragraphs 1 and 2 (p. 17)

Article 24 of the Financial Regulation stipulates that "the accounting officer shall assume responsibility for the receivable orders duly drawn up". The accounting officer approaches the debtors to obtain recovery of the sums due.

With regard to the Audit Board's recommendation that "the respective responsibilities of the accounting officer and the authorizing officers be clearly defined", it will be seen that this recommendation is satisfied by the Commission's draft regulation containing Rules for the Implementation of certain provisions of the Financial Regulation. The provisions of this text clearly define the respective responsibilities of the accounting officer and the authorizing officers (1).

This draft will become definitive as soon as the procedure of consultation, which is still in progress in the Council, has been completed.

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(1) Article 23 of the Financial Regulation

"Every measure which is such as to give rise to a debt due to the Communities must be preceded by a proposal from the competent authorizing officer ...".

Article 15 of the Rules for the Implementation of certain provisions of the Financial Regulation

"Every act establishing a debt must be the subject of a title to revenue which is submitted to the approval of the financial controller and to recording by the accounting officer before notification to the debtor".

Article 24 of the Financial Regulation

"The accounting officer shall assume responsibility for the receivable orders duly drawn up. He shall exercise all diligence to ensure resources due to the Communities are recovered on the due dates stipulated in the receivable orders and he shall ensure that the rights of the Communities are safeguarded".

Paragraphs 3 to 5 (p. 17)

As the Audit Board itself states, the Commission has decided that the receivable orders will be recorded in the accounts. This decision has been implemented for the financial year 1974.

With regard to the services provided to the Council, it is true that a period of about a year often elapses between the provision of these services and the formal noting of the claim which serves as the basis for the preparation of the receivable orders. In order to mitigate the drawbacks of this situation, the Commission, at the end of 1973, instituted a system of invoicing the Council and the Economic and Social Committee with a provisional estimated sum.

Paragraph 6 (p. 18)

All the authorizing departments were reminded, at the end of 1973, of the obligation to issue a receivable order at the moment the debt comes into being. This procedure will be complied with in future.

Paragraph 7 (p. 18)

The Commission has taken the necessary steps to ensure that the authorizing officers comply with the articles of the Financial Regulation relating to revenue, particularly within the framework of Articles 15, 18 and 19 of the rules for the implementation of that Regulation.

9. The Communities' own resources (p. 18)a) Control of the operations carried out in the Member States (p. 18)Paragraph 3

The Commission's departments made visits to Member States for the purposes of control in 1973, under an ad hoc procedure. There were five such visits, which took place on the following dates and to the following countries:

- |                             |                  |
|-----------------------------|------------------|
| - 15 to 16 May              | : Denmark        |
| - 25 to 28 September        | : United Kingdom |
| - 29 September to 3 October | : Ireland        |
| - 21 to 23 November         | : Netherlands    |
| - 12 to 14 December         | : Germany        |

The Audit Board, which participated in two of these visits, took note at the beginning of 1975 of the verification reports prepared following these visits.

The rules for the implementation of Regulation No. 2/71 were laid down in Council Regulation No. 165/74 which specified the powers and duties of agents appointed by the Commission under Article 14, Paragraph 5, of Regulation (EEC, Euratom, ECSC) No. 2/71.

- c) Lack of financial accounts showing movements during the year of the Commission's liquid assets in cash accounts in the Member States  
(p. 20)

Financial accounts showing the movement during the year of the Commission's liquid resources have always existed.

The delays in recording the "own resources" in the accounts, mentioned by the Audit Board, are due to the fact that generally speaking the Member States are late in communicating to the Commission the information necessary for the preparation of the revenue titles. These delays arise from the failure of the Member States to implement Article 6 of Regulation No. 2/71 (1).

It is out of question that a single receivable order of those in question should have been submitted for the Financial Controller's approval after being recorded in the accounts. Since the beginning of 1975 the accounting officer has been recording in the accounts all the receivable orders before and after they have received the Financial Controller's approval.

The documents referred to in Article 72 of the Financial Regulation have, moreover, been forwarded to the Financial Controller since 1 February 1974.

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(1) Council Regulation (EEC, Euratom, ECSC) No. 2/71 of 2 January 1971 implementing the decision of 21 April 1970, which related to the replacement of the financial contributions of the Member States by the Communities' own resources.



10. Delays in clearing suspense accounts (p. 20)

The clearing of the sums entered on extra-budgetary suspense accounts is monitored with the greatest care by the accounting officer.

Nevertheless, delays in clearing the accounts are often very long, as, for example, when settlement is conditional on a legal decision first being reached, or is dependent on the personal situation of the creditor (in the case of death, marriage, non-notification of change of address, etc.).

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**CHAPTER 3: THE ADMINISTRATIVE EXPENDITURE OF THE INSTITUTIONS (p. 23)**

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**A. STAFF EXPENDITURE (p. 23)****12. Comments on the collective statements of staff remuneration (p. 24)****a) Desirable improvement in the security measures for the data-processing treatment of the remuneration of the Commission's staff (p. 24)****Paragraph 2 (p. 24)**

It is true that in the past it has not been possible to carry out this important work in full because of lack of staff. As far as the new work at the Computer Centre is concerned, on the other hand, the requisite files for analysis, programming and utilization have been opened and are kept up to date.

The Centre is trying to fill the gaps in the previous work by compiling:

- utilization files, to which it is giving the top priority,
- analysis and programming files.

**Paragraph 3 (p. 25)**

Separation of the functions of operator and programmer has been in force since the end of 1973.

In addition, a centralized tape library has been in existence since March 1974; this tape library employs a system which enables the use of all magnetic tapes to be monitored.

**Paragraph 4 (p. 25)**

Since April 1974 the use of the computer has been monitored by means of desk sheets. One copy of these sheets is for the programmer; the original is retained and examined by the Centre.

Paragraph 5 (p. 25)

Since the beginning of 1974 the library has been managed by a system which involves the keeping of a complete record of the use of the magnetic tapes.

b) Duplication of the files kept by computer (p. 25)

The various programme chains for processing the data on staff (for example, the programmes for salaries, personnel administration, the sickness fund, etc.) have been designed in the classical manner, that is to say, with each chain of programmes having its own file.

The integration of these different files is being studied and will require the hiring, in 1975, of special software for the administration of a personnel data bank. This step is the consequence of the development of data-processing techniques.

c) Possibility of centralizing the calculation and payment of the remuneration of the staff of all the Institutions (p. 25)

Given that the staff of the Institutions is remunerated on a common basis, it is clear that the other Institutions could benefit, within the framework of the closer inter-institutional co-operation mentioned in the General Introduction, from using the equipment of the Commission's Computer Centre in conjunction with the existing programmes prepared by the Commission's staff.

In the report which it presented in 1974 to the sub-committee of the European Parliament responsible for supervision of the implementation of the Budget of the Communities, the Commission has already expressed the desire to place its equipment, and also its stock of programmes, at the disposal of the other Institutions; the latter are to acquaint the Commission of their reactions to this suggestion at an early date.

13. Insufficient results and imperfect application of certain measures intended to facilitate recruitment of nationals of the countries which have acceded to the Communities (p. 26)

- The promotion enjoyed by some officials in 1973 before the termination of their duties was the result of a staff policy which the Commission was entitled to adopt in the normal exercise of its powers. The promotions were dictated by reasons of conscience in the context of the enlargement of the Communities (for example, in the case of the promotions to Grade A 5).
- The contracts concluded by the Commission with former officials were intended to prevent the occurrence, in areas important for the good functioning of the departments, of a hiatus between the voluntary departure of some officials and the effective assumption of duties by the officials from the three new Member States.

These contracts were confined to sectors which were especially overburdened in 1973, such as the selection boards responsible for the recruitment of new officials, or which were greatly affected by the departure of officials, such as the sector responsible for implementing the European Social Fund (by virtue of the Council's decision of 19 November 1972).

Finally, as the Audit Board notes, no remuneration was granted to these voluntarily-retired officials with the exception of the reimbursement of certain expenses (relocation, insurance cover).

14. The high cost of some expenditure on medical examination before acceptance in the Commission's departments (p. 27)

The Commission entirely agrees with the Audit Board's comments and the departments are trying, as far as they are able, to apply the following principles:

- that the interview with the departments and the medical examination should be the subject of a single visit;

- that candidates residing on Community territory should have their medical examination at the offices of the Institution or at Ispra; as far as other candidates are concerned, that the consultant doctor should send them a medical file to be completed by an approved doctor.

This policy with regard to the medical examination before acceptance is dictated by the necessity to ensure a certain degree of uniformity in the aptitude criteria. The solution of entrusting the medical examination of candidates residing within the Community to a doctor at their place of residence would, moreover, not necessarily be less expensive, because those concerned would have to be summoned for an interview in any case.

The Commission admits, however, that in 1973 some candidates were summoned solely for the medical examination. This situation is principally due to the fact that the financial year 1973 was an exceptional year for recruitment in consequence of the enlargement of the Communities; it is also the result, in certain cases, of the fact that the candidates' interview took place when an official was engaged on a mission or that the proposal for appointment or engagement was made more than 6 months after the medical examination which took place at the time of the candidate's first attendance.

15. Lack of conformity between the working conditions of some locally-recruited servants of the Commission and the conditions of employment of other servants (p. 28)

Article 4 of the conditions of employment of other servants of the Communities defines the duties to be given to locally-recruited servants as being "manual work or services in a post not provided for in the table of staff annexed to the section of the Budget relating to each Institution".

Almost all the duties carried out at present by locally-recruited servants in the Commission's service meet the criteria of the definition in question.

The few exceptions found relate to duties which are not directly connected with the tasks assigned to the Institution, but which, nevertheless, fulfil subsidiary - but essential - needs of the administrative apparatus (staff restaurants, for example).

17. Comments relating both to 1973 and to previous financial years (p. 29)

a) Employment of staff outside the Staff Regulations and conditions of employment of other servants (p. 29)

Every year the Commission finds it necessary to use the services of additional external personnel: freelance interpreters, proof-readers, experts.

This applies especially to the linguistic sector, where it has not yet been possible, despite repeated efforts, to attain the desired steady rhythm. Out of concern to reduce this recourse to external personnel, the Commission has requested, each year, the creation of new posts to enable it to cope with the increase in the number of meetings requiring the attendance of interpreters and the growth in the number of languages to be interpreted and translated as a result of the enlargement of the Communities.

The Commission has meanwhile been endeavouring to remedy the scarcity of interpreters by multiplying the accelerated training schemes for trainee interpreters who hold degrees in other disciplines and by allocating money for the accelerated additional training of qualified interpreters who have not had sufficient training. Nevertheless, the Commission still continues to encounter difficulties at the recruitment level. It has to be accepted that many interpreters often prefer to work as freelances rather than to lose their independence by working for a public service.

A similar problem arises with regard to the experts who are often attached permanently (or for several years at least) to the Commission, yet who, by the nature of their duties, only give the Commission a few days' work in a year.

Generally speaking, it must be borne in mind that the collaboration of these highly-qualified persons is necessary for the execution of essential additional work for the Commission. Moreover, it can be seen that the budgetary authority itself accepts this necessity since it has provided two budgetary lines to cater for it (Articles 260 and 262 of the 1975 Budget). The Community is thus able to have work done which requires high qualifications, spending no more on it than the sums strictly necessary which would not be the case if it demanded the creation of permanent posts for each of the duties in question.

As for temporary staff, an attempt to reduce their numbers was made in 1974; in addition, the Commission requested and obtained from the budgetary authority 60 Grade C posts which are intended to regularize the situation of the telex and switchboard operators.

b) Continued drawbacks connected with the "statutory" provisions governing certain allowances and reimbursements of expenses (p. 29)

The provisions of the Staff Regulations provide for the reimbursement to the official of the expenses he incurs as a result of entering or leaving the service or being transferred. Some of these reimbursements are made on a lump-sum basis (per diem allowances, installation allowances), others on presentation of the supporting documents (removal expenses). In every case it is a matter of proceeding in such a way that the official does not have to suffer any loss by reason of the administrative change in which he has been involved.

The existing regulations governing this matter clearly allow the departments responsible for applying them a certain margin of discretion. Considering that the risk of objection is inherent in the task of applying or interpreting regulations, the number of cases brought before the Court of Justice does not seem high in relation to the large number of individual cases which have to be dealt with. The system of reimbursement of removal expenses against supporting documents enables one, in the present situation, to gain the closest insight into the real problems connected with the relocation of officials, arising from the diversity of the individual cases, the dispersion of the places of work and the extension of the territory in which recruiting takes place (Europe of the Nine).

c) Delays in implementing a regulation for covering accident and occupational disease risks (p. 30)

A solution to this problem should be arrived at during 1975 following the adoption, by joint agreement between the Institutions, of the regulations on the covering of accident and occupational disease risks. A written procedure has been laid down by each Institution with a view to the adoption of these regulations.

d) Recovery of reimbursed medical expenses and remuneration paid from third parties responsible for accidents (p. 30)

The Commission intends to supplement the provisions of the Staff Regulations with an appropriate legal order laying down, in the case in point, a subrogation clause analogous to that in Article 47 of Annex VIII of the Staff Regulations.

It has brought this question before the other Institutions in the context of the discussions which are in progress on certain changes in the Staff Regulations.

18. Pension expenditure (p. 31)

b) Simultaneous award of retirement or invalidity pensions and payment for services rendered to the Communities' Institutions (p. 31)

In the Commission's opinion, it is perfectly conceivable that a retirement pension and fees for occasional services rendered can be awarded simultaneously. Any contrary interpretation would run counter to the provisions of the labour laws applicable in the various Member States of the Community.



B. EXPENDITURE RELATING TO BUILDINGS (p. 31)19. Budgetary management (p. 31)Paragraphs 1 and 2 (pp. 31-32)

The Commission wishes to underline the special character of the year 1973, during which its departments had to prepare for the reception and installation of the officials of the new Member States in a very short time. If account is also taken of the very considerable rise in rents during 1973, the appreciable increase in the expenditure relating to buildings may be thought not excessive.

Last paragraph (p. 33)

It is true that 18.9% of the appropriations recorded under Chapter 21 were committed in 1972, carried forward in 1973 and cancelled at the end of that year. If the amount of the orders approved for the work on the rooms in the Berlaymont building, for which the Belgian authorities have assumed responsibility, is deducted from this body of appropriations, there remains a level of cancellation of 8.4%, which cannot be considered abnormally high.

20. Renting of premises occupied by the Commission in Brussels (p. 33)

1) It is certainly desirable, as the Audit Board observes, that certain actions of the Commission should be made to occur concurrently, in particular the negotiations prior to the renting of buildings and the preparation of orders for their partitioning.

However, this requires prior information, which is seldom available, in order that the correct preparatory work may be carried out.

In particular, lack of knowledge of the exact date of the possible start of the work makes it impossible for the contractors to submit prices or to determine their time schedules under conditions acceptable to the Consultative Committee on Purchases and Contracts.

The only exception which could be cited in this connexion is that of the Nerviens building, where the departments knew long in advance the date on which the building would become available and where the partitioning was carried out practically under ideal conditions.

- 2) Among the details quoted in the penultimate paragraph on the occupation of buildings, it should be pointed out that the last of the five months' delay in the occupation of the Nerviens building was caused by the delay in the installation by R.T.T. of the telephone cable linking the new building with the Berlaymont.

21. Capital expenditure on buildings (p. 34)

d) (p. 36)

The joint technical department which ought to supervise the studies in question does not yet exist. The Institutions have technical departments which are equipped to handle their current maintenance and fitting-out problems but are not competent to undertake the technical work involved in difficult applications where techniques are still in full development, such as those relating to the equipment of conference halls.

It should be added that it was because of the shortage of technical staff needed to take on this additional burden without prejudice to current work that the Commission decided to approach an external expert.

The suggestion that duties relating to building work should be assigned to a Community department acting for all the Institutions does not seem acceptable, because the creation of such a department would entail additional staff expenditure for operations of an occasional nature.

**22. Geographical dispersion of the buildings (p. 36)**

- The Commission shares the Audit Board's opinion:  
in view of the new geographical dispersion of the buildings, it would certainly be advisable to keep a "buildings file" for each building. Although this represents additional work for the administrative departments, a first experiment in this field was made in 1974.
- As regards the situation in Luxembourg, it is the reverse of that in Brussels, since the Commission's departments are to be grouped together before the end of 1975 into a new building which is at present under construction.

**23. Fitting out of the Commission's reprographic workshop (p. 37)**

- The situation highlighted by the Audit Board has been caused, in the past, by the necessity of continually adapting the technical installations to the steady growth in the reprographic work required by the Commission and the consequent increase in its complement of machines.

Because of this constant increase in demand and in consideration of the length of the waiting period now required for reprographic work, the Commission decided not to augment its own productive capacity but to have recourse as much as possible to private firms.

Consequently the fitting out of the premises is practically complete, with the exception of the cloakrooms and dining hall intended for this department, which have not yet been finished.

- The expenditure mentioned in the first paragraph (tiling, lighting and electrical fittings) was not improvement expenditure but was intended to adapt the premises to their new purpose (tiling to support heavily loaded machines) or to the new equipment which they were to receive (electrical fittings) or to the specific conditions for the functioning of a workshop (lighting).

- In Paragraph 6 it is not true to say that the installation project for the courtyard was abandoned at a time when the work on the ground-floor had been started.

At the beginning of 1972, having regard to the various difficulties obtaining in the reprographic workshops, the Administration decided to try to move the personnel employed in these workshops to the ground floor by transferring the technical premises to a workshop which was to be built in the courtyard and placing at their disposal some premises on the ground-floor of the Cortenberg building. The transfer of the machines to the latter premises was not planned until after the abandonment of construction in the courtyard (end of August - beginning of September 1972).

24. and 25. Fitting-out of the 7th floor of the Cortenberg building (pp. 38-39)

The observations by the Audit Board on the subject of the three contracts in question (partitions, electrical and lighting equipment, and carpentry work) are correct. All the documents relating to this matter were forwarded to the Audit Board in good time (in the middle of 1974).

The Commission will provide all additional details desired by the budgetary authority in the course of the discussions which will precede the discharge decision on the implementation of the Budget.

The fitting-out of the three meeting-rooms in the Berlaymont building was the subject of an overall agreement concluded in 1972 between the Commission and the State of Belgium. But differences arose at the time of the execution of the work and the Belgian State raised "ethical" objections which the Commission had no alternative but to accept.

This regrettable state of affairs seems to be attributable to a lack of co-ordination within the different departments of the Belgian Administration and it cannot be held against the Commission either that it was in a hurry to fit out the rooms which it urgently needed or that it was imprudent to base its action on a properly concluded agreement.

26. Fitting-out work for the Commission (p. 39)

The stipulations of the conditions relating to fixed-price contracts for fitting-out work may either be very detailed and be the result of thorough studies or may be less detailed and may thus leave the tendering contractors more freedom in the choice of methods to offer for resolving the problems set.

Up to now the departments responsible have preferred the second solution which, in their opinion, allows the Commission to benefit both from new and improved fittings constantly coming on the market and from the imagination and creativity of the contractors with regard to the assembly and use of the fittings. These departments are structured to implement this policy.

This constitutes, in the present state of affairs, an approach that is perhaps more difficult but certainly more capable of satisfying the spirit and the letter of Article 59(2) of the Financial Regulation than the solution which would consist in setting up a study office capable of drawing up very detailed conditions (and corresponding plans) for which the Institutions could offer far too little work, and which would be highly unprofitable.

The option selected may cause disparities between tenders larger than those met with in public awards on the basis of very detailed conditions. They cannot be considered reprehensible, since they are the normal result of competition on the technical and commercial planes.

With regard to the comment in the last paragraph, the departments responsible are aware of the necessity to improve the description of the work ordered and to improve control of the execution of the work. Moreover, they are increasing their staff for this purpose.

28. Supplies of hired labour requested by the Commission (p. 40)

- The increase in the invoiced price of hired labour as between 1972 and 1973 is the result, firstly, of wage increases (average SOPA indices:- 1972: 133.84; 1973: 154.12) and, secondly, of the increase in the area and number of buildings occupied.
- The number of hours used as the basis of calls for tenders for hired labour is estimated according to the normal foreseeable needs of the coming financial year, arbitrarily reduced by an amount intended to prevent the Commission finding itself with surplus labour on its hands.
- The departments responsible maintain a careful supervision of the use of their labour; moreover, they are increasing their staff for this purpose.

C. EXPENDITURE ON EQUIPMENT (p. 44)31. Budgetary management (p. 44)

The Commission is endeavouring to bring about the creation of an inter-institutional purchasing department (see the General Introduction). It has already consulted the other Institutions and the first studies were started in November 1974. If these efforts are successful, it is certain that the price and delivery terms will be appreciably improved, since the larger the order the more advantageous the terms.

32. Printing and reprographic equipment (p. 45)

- Since 1970 the complement of offset machines or duplicators kept by the Commission's reprographic workshops has only been increased by one two-colour offset press; this purchase was necessary for the execution of certain work by the Commission's workshop. As for replacements of equipment, these have been strictly limited to replacements intended to improve the department's productivity; it should be emphasized that such replacements have not entailed any significant increase in either personnel or premises.
- Since the creation of the Office for Official Publications, the Commission's workshops have only very seldom, and always with the agreement of the Office, undertaken the printing of publications which do not require type-setting.
- As the workshops of the Office are under-employed, they could effectively take on certain work which up to now has been given to outside firms. It must be stressed, however, that this under-employment of the Office's workshops is due to an irregular flow of work. The Office often has to meet a rush of urgent and sudden orders, which is followed by quiet periods.

Nevertheless it should be noted, on the subject of the study envisaged by the Audit Board, that the Commission's workshops have already been working for two years almost exclusively on priority documents; this entails a work-load that is very irregular and in any case beyond the normal productive capacity of the workshops.

- The stencil system is still much used by the Commission's departments; indeed an increase (in pages) of 21% was recorded for 1973 by comparison with 1972.
- The increased production (in pages) of offset work is justified by the fact that this technique enables a substantial reduction in typing work to be obtained.
- The excessive growth in the volume of photocopying prompted a detailed study of the possibilities of less expensive methods of duplication, started at the beginning of 1974. This study led to the decision to sign a contract with the firm AB DICK for the installation of "print shops" which produce the copies at a cost 50% lower than that of photocopies. It can therefore be considered that this problem was solved during 1974.

The Audit Board's recommendation that the stencil printing process should be more used because of its lower cost is only valid if the text to be reproduced does not have to be retyped on to the stencil.

33. Electronic calculation and management equipment (p. 47)

The comments made by the Audit Board under the heading "Electronic calculation and management equipment" should be moved to the general context in which this sector is situated, a sector which is less important for its volume of expenditure than for the place it occupies in the administrative structures of numerous departments.

At the present stage of development of the equipment, the Commission has at its disposal:

- in Luxembourg, for its Computer Centre (the establishment of which was the result of the decision of representatives of the Governments of the Member States of 8 April 1965), two "electronic installations" (CII and IBM).



- in Brussels, several much smaller machines to meet the particular needs of several operational sectors (for example: agricultural prices, ECDOC, establishment of the "single accounting centre").

The Audit Board found that Item 2240 covered expenditure of a widely varying nature. In fact, all the expenditure of the Computer Centre is charged to this budgetary heading: thus it includes the rental charges for two computers (CII and IBM), for terminals, for the software and all the costs of supplies (punched cards, paper for the printers, etc.).

The expenditure relating to the time-sharing terminals and the mini-computers is also included under Item 2240 in order to facilitate proper management of all the Commission's data-processing expenditure by the management committee of the Computer Centre which decides on the response to be given to all requests for appropriations for data-processing purposes.

Nevertheless, an attempt at rational presentation of the data-processing appropriations has been made in connexion with the preparation of the 1975 Budget. To this end the Commission's data-processing activities have been grouped under the following three budgetary headings:

- Item 2240: normal data-processing activities (utilization expenses and current expenditure on external analysis and programming);
- Item 2241: services rendered by Ispra's CETIS;
- Item 2242: major studies and projects carried out with external assistance, such as the econometric models for the Directorate-General for Economic and Financial Affairs (METEOR and COMET models, etc.).

It should be added that, as the Computer Centre is unable to provide a time-sharing service with its present resources, it has been necessary to have recourse to external firms for the utilization of time-sharing terminals.

35. The inventory and purchasing policy (p. 49)

The Audit Board's observations with regard to inventories are in line with the efforts undertaken by the Commission since the beginning of 1974. However, the guidelines suggested by the Audit Board do not seem to enable all the desired results to be achieved. The suggestions relating to the increase in the price figure above which an object should be entered in the inventories have already been incorporated in the "Rules for the Implementation of certain provisions of the Financial Regulation". Even if the number of objects which must be entered in the inventories can be reduced in this way, the number of objects to be recorded will still be too large to permit the establishment of a well-maintained, properly-checked inventory without incurring expenditure disproportionate to the desired goal.

In the Commission's view, it will be necessary in future to make a more profound change in the structure and rules of the inventories. On another matter, it should be noted that as regards office machines it is incorrect to say that no control is exercised. The machines are in fact checked twice a year, when they are serviced.

D. ENTERTAINMENT AND MEETING EXPENDITURE (p. 50)36. Budgetary management (p. 50)a) Meeting expenditure (p. 50)

The Audit Board desires greater strictness in the estimating of the expenses. The Commission is endeavouring to effect improvements in this field; it must be pointed out, however, that estimating in connexion with meeting expenditure is very difficult. It cannot be accurately known in advance how many experts will reply to the invitation and what means of transport they will use (reimbursement of air, rail or car expenses).

c) Amounts carried forward (p. 52)

As for the amounts carried forward in 1973, their size is due to the accumulated delays in the payment of the meeting expenditure consequent on the increase in the volume of work connected with the enlargement of the Communities and the shortage of staff.

37. The "Industry and Society" conference in Venice - April 1972 (p. 52)

The replies to all the questions raised on the subject of the publication of the work entitled "Reports and summaries of the proceedings" will be given orally to the budgetary authority, if it so desires, in the course of the discussions which will precede the decision of discharge.

E. COST OF STUDIES, ENQUIRIES AND CONSULTATIONS (p. 55)38. General observations on the studies (p. 55)

On this point the Audit Board makes two observations: the first relates to the significant increase in expenditure in this field, the second concerns the volume of the amounts carried forward from one financial year to the next.

These two observations prompt the following comments:

- The assertion that the expenditure has doubled (or even tripled) in relation to previous years does not objectively reflect the reality of the situation. Like should be compared with like, and the Audit Board should analyse the items making up Chapter 26. If this analysis is made, it will be seen that the increase is explained either by the creation of new items (for example: Article 267, "Studies with reference to the environment"), or by the significant expansion of the statistical studies and enquiries in 1973, as a result, inter alia, of the enlargement of the Communities;
- The majority of the amounts carried forward noted by the Audit Board arise from the very nature of the operations required for the implementation of the studies. For, during the financial year when the appropriations are opened, the authorizing officers must first carry out the necessary search to find experts or institutes capable of executing the studies and they must then negotiate and draw up the contracts to obtain the authorization of the Commission; the signing of the contracts after the authorization has been obtained is the final phase in this lengthy process.

Moreover, it must be added that, in certain cases (see Article 266), the studies are made at the request of the Member States: in such cases the Commission cannot control the time taken in carrying out the procedures, because it is acting in a subsidiary capacity to the national administrations.

Consequently, it is perfectly understandable that the process of carrying out these various operations should require relatively long periods of time, which may cover a large part of the financial year. The length of the budgetary year should not be confused with the time required for the execution of certain operations, such as studies, which are not of the nature of current administration but very often of a multiannual character;

- It is emphasized, moreover, that the Commission took steps in 1974 with a view to improving the conditions of utilization and management of the appropriations for studies: it issued new directives on this matter on 26 June 1974 and created a Consultative Committee for Studies with the task of rationalizing both the estimates and the implementation of the appropriations for studies, to prevent, in particular, the duplication of effort. The development, among other things, of a standard contract is calculated to secure harmonization and a saving of time in the negotiation of study contracts. The new procedure will make it possible to achieve better conditions for the utilization of the study appropriations: nevertheless, the fact remains that by the very nature of this expenditure, the amounts to be carried forward will remain substantial in this budgetary sector.

39. to 43. (pp. 56-57)

With regard to the various observations appearing under these points, it can be stated that the measures taken by the Commission within the framework of the directives quoted above are aimed at securing the desired improvements.

F. INFORMATION EXPENDITURE (p. 58)45. Introduction of a system of rationalization of Budget choices for the management of the information appropriations (p. 59)

The mention by the Audit Board of the use of information prepared by data-processing techniques calls for the following observations:

Paragraph 1 (p. 59)"Unsatisfactory situation" with regard to information prepared by data-processing techniques:

A contract was concluded with an expert in May 1974. However, this contract was in no way the result of an unsatisfactory situation with regard to information prepared by data-processing techniques. It should be emphasized that the data-processing system used hitherto was the smallest possible, for reasons of economy. In practice the system has been extremely successful and new needs have even emerged. As the trial period had been completed, the transition to a normal automatic sorting operation had become necessary.

Paragraph 2 (p. 59)Recording of accounting data:

Although three different departments are involved in the P.P.B. accounting system, there is no duplication of effort. A distinction between P.P.B.S. accounting and accounting for commitments in Directorate-General X has proved to be necessary because of the specific character of the former. In addition, the Directorate-General for Budgets is involved in connexion with the technical and methodological problems and is also involved, for the purposes of economy, in putting on to punched cards the information with which the Directorate-General for Information is concerned.

46. "European Communities" emblem (p. 59)

As the Audit Board states, a public competition was organized at the end of 1972 for the design of a "European Communities" emblem. This project was subject to considerable delays owing to the enlargement of the Communities and the restructuring of the Commission's information departments.

Despite the large number of designs submitted, it was not possible to award a first prize. The jury finally decided to award ten equal prizes. It was therefore necessary to modify the designs selected in order to arrive at a satisfactory solution. A definitive design has been developed; it is at present awaiting the approval of the Commission and its application should take place shortly.

G. WELFARE EXPENDITURE (p. 60)48. Need for inter-institutional management of welfare services (p. 60)

The Commission shares the opinion of the Audit Board on the subject of the reorganization and rationalization of the welfare services at the inter-institutional level.

With this in view, and in accordance with the wishes expressed by Parliament, the administrative heads decided in 1974 to adopt common criteria in the sphere of welfare services; the budgetary authority has given its agreement to these measures (1975 Budget).

A number of joint measures have already been defined, both for the Institutions in Brussels and for those in Luxembourg; for each of these measures the needs for 1975 have been identified and a scale of contribution has been provided to determine the financing of the measures.

In addition, the Audit Board's observations call for the following individual comments:

- welfare services in Brussels:

- . a first rationalization has already been carried out in the restaurant sector by means of the transfer in September 1974 of the Archimède club restaurant to the Berlaymont complex;
- . the reorganization of all the crèches and nursery schools, involving their transfer to the new building on the Boulevard Clovis, took place during the last quarter of 1974. This centre, called "La Petite Enfance", will take the children of the staff of the European Institutions and agencies in Brussels; the administrative expenses will be recorded in a financial statement which will permit an equitable allocation of the charges to be made between the Institutions;
- . in the case of the medical services, it has not yet been possible to arrive at a joint organization with the Council; in 1973, indeed, the Commission's medical service had to make a special effort with regard to the medical examination of candidates.



- welfare services in Luxembourg:

The grouping of the Commission's departments on the Plateau du Kirchberg in the new FEAL building at the end of 1975/beginning of 1976 will enable the medical service and the restaurants to be reorganized, in consultation with the other Institutions.

As for the crèche and the day nursery, these facilities are already common to the Institutions established in Luxembourg. It is intended further to improve the book-keeping in order to achieve, here too, a correct distribution of the administrative expenses.

H. PUBLICATION EXPENDITURE (p. 61)49. Budgetary management (p. 61)

The Commission, conscious of the fact that a harmonization and rationalization of the practices connected with the production of publications have proved desirable, set up in June 1973 the Consultative Committee on Publications. One of the principal duties of this committee is to prepare - on behalf of the Commission - detailed programmes for each authorizing department with regard to publications. The editorial departments are associated in the drawing-up of these programmes.

The new procedure introduced as a result of the creation of the Consultative Committee on Publications, which was brought into use in 1974 but will not bear full fruit until 1975, enables improvements in management to be obtained, particularly on the three following levels:

- the preparation of the overall programmes for each authorizing officer takes place in the budgetary context of the available appropriations. Under these conditions, a strict selection is made among the intended publications in relation to the available appropriations;
- the scrutiny of all the proposed publications by the committee ensures a better harmonization of the publications from the technical point of view;
- closer collaboration between the Commission's departments and the Publications Office is achieved.

Besides these comments of a general nature, the following replies may be made to the points of detail raised by the Audit Board:

- a) With regard to the correct use of Item 1172, the Commission has taken adequate precautions to ensure the strictest possible observance of the rule for budgetary particularization; this does not prevent uncertainties persisting in the matter of budgetary charging, especially when a typed text is used for the purposes of a publication which is to be produced by the offset method.

- b) In fact, as is provided by Article 6 of the administrative rules of the Office for Official Publications of the European Communities, the methods of payment necessary for the execution of the expenditure take the form of payments on account made by the various Institutions on demand from the Office and on presentation of a provisional statement of account. These payments on account are regularized at the end of the quarter.

This is why, at the end of 1973, the Commission had only been able to regularize the first three quarters of the year. However, to avoid this disadvantage noted by the Audit Board, the Commission intends to regularize the expenses in question on presentation of a final statement of account each month.

- c) With regard to the exceeding of the estimates by some invoiced amounts, this has only occurred in a limited number of cases; the disparities in invoicing correspond to real requirements which reflect the necessity for editing the publications produced. Thus, in six of the cases raised, the volume produced is lower than the estimate, in terms of numbers of pages; this clearly demonstrates the concern of the Commission to publish only relevant documents and to restrict the length of the texts to be published to the minimum absolutely necessary.

For the rest, reference should be made to the remarks of the Commission in its replies to the report on the accounts for the financial year 1971 (p. 200, point 62) and to the report on the accounts for the financial year 1972 (p. 11, point 16).

I. AID, SUBSIDIES AND FINANCIAL CONTRIBUTIONS (p. 70)54. Aid (paragraph 2, p. 70)

The Commission, when preparing the Budget for the financial year 1975, endeavoured to revise the nomenclature of Title 4 in order to group together in it the appropriations of a similar character, according to the following criteria:

- appropriations permitting the granting of subsidies, in the strict sense of that term, to activities connected with European integration, which cannot be charged to chapters of the Budget containing appropriations grouped together because of their specific destination (Chapter 41);
- balancing subsidies to satellite agencies or services of the European Communities (Chapters 42 and 43);
- financial contributions made by the EEC to the administrative expenditure of international agreements (Chapter 44), hitherto scattered throughout the Budget;
- Community aid to populations who have fallen victim to catastrophes, wherever these may occur (Chapter 40); this prevents the aid being charged to Title 9 (co-operation with the developing countries).

Subsidies (paragraph 4, p. 70)

With regard to the appropriations of Chapter 41, it should not be forgotten that the Commission and its departments are bound by the applications and dates on which the files are transmitted by the applicant bodies.

Some applications are sometimes inadequate and necessitate the provision of additional information; it is not until a file is complete and, in particular, until verification has been made of its validity and its supporting documents that it can be submitted to the Commission for a decision. This is particularly the case with the consumer organizations.

It must be added that, in an effort to achieve rationalization and in order to avoid an unbalanced use of appropriations, it has been agreed that the various proposals shall be divided into three movements per year (April - July and November). It may of course happen that an application which is perfectly valid but arrives late requires exceptional treatment and is submitted after the last movement.

55. Office for the establishment of closer links between firms (p. 72)

The Audit Board states in its report that the "Business Cooperation Centre" was set up in the form of a decentralized department of the Commission. This accords well with the terms of the Commission's Decision of 21 June 1973 instituting the office. This Decision defines it as a "functionally autonomous administrative unit". It is in order to underline this independence of the office that its operational expenditure is charged to Chapter 42.

CHAPTER 4: THE EUROPEAN SOCIAL FUND (p. 73)59. Comments concerning the control of the expenditure of the Social Fund  
(p. 79)a) Use of the appropriations available to cover the expenditure under Article 4 of the Council Decision of 1 February 1971 (p. 79)

The situation noted by the Audit Board in 1973 (only 40.8% of the appropriations available under Article 500 of the Budget were committed during the financial year) is the result of an insufficient demand for assistance. This situation has improved slightly in 1974: out of a total of 98.8 million u.a. appropriated to this article, 47.4 million u.a. (or 48%) has been committed. 40.7 million u.a., not used in 1973, carried forward to 1974 and transferred to Article 510, has been committed for measures to assist unemployed persons and for integrated programmes of readaptation and training of the physically handicapped.

The opening of two new areas of intervention under Article 4 (aid to migrant workers and physically handicapped persons) was sanctioned by the Council on 27 June 1974 and took effect in July. With regard to the migrant workers, it is clear that the amount of the applications for assistance relating to the financial year 1974 could only be limited. In addition, the utilization of the appropriations opened on behalf of the physically handicapped has been limited by the restrictive character of the Council's decision: for this reason a large number of applications have continued to be charged to Article 5.

It may be pointed out, however, that out of a total of 110 million u.a. appropriated to Article 500 in 1975, 38.4 million u.a. has been committed in the form of commitment authorizations.

There is therefore every reason to think that the problem of the under-utilization of the Fund will not arise for the financial year 1975 or thereafter.

c) On-the-spot audits (p. 80)

Like the Audit Board, the Commission considers it necessary to carry out an on-the-spot audit of the majority of the applications for definitive payment, owing to the volume of the supporting documents to be examined. The departments of the Social Fund will endeavour in future to increase these on-the-spot verifications as much as their staff establishment permits.

d) Use by the Member States of lump-sum averages and scales in the applications for aid (p. 80)

The use of lump-sum averages and scales in the applications for aid submitted by some Member States has been the source of considerable difficulties in 1973 and 1974. Conscious of these difficulties, the Commission proposes to implement a series of measures designed to improve the financial functioning of the European Social Fund. Among these measures is one in particular which involves seeking a precise definition of the conditions in which the Member States may have recourse to lump-sum averages and scales for their applications for aid. The Commission also decided to remind the Member States of the obligations flowing from the Community rules (agreement of aid on the basis of the real cost of the operations).

CHAPTER 5: THE EUROPEAN AGRICULTURAL GUIDANCE  
AND GUARANTEE FUND (p. 81)

I. GUARANTEE SECTION (p. 81)

61. Verification by the Commission, in the Member States, of expenditure  
financed by the Guarantee Section of the EAGGF (p. 81)

The Audit Board several times mentions the question of the on-the-spot verification of the expenditure of the Guarantee Section of the EAGGF.

The Commission shares the Audit Board's opinion as to the necessity for appreciably developing the on-the-spot verifications. The entire system of financing the Guarantee Section is based on a decentralized arrangement whereby the making of payments to the recipients is carried out by a number of the Member States' services. Consequently, a complete examination of the supporting documents can only be made at the national administrations, however detailed the declarations made by the Member States to the Commission may be.

As the Commission has the responsibility of accepting the validity of the expenditure under the Guarantee Section, in the form of decisions on aid or on settlement of accounts taken after consultation with the Member States within the framework of the EAGGF Committee and after the visa of its financial controller has been given, it falls to the Commission to organize systematic verifications on the spot.

63. Persistent delay in closing the accounts for periods prior to  
January 1971 (p. 83)

The Commission, conscious of the necessity to improve the verification of the expenditure of the Guarantee Section and to make good the delays in the closure of the accounts, has taken the following measures:

- 1) replacement of the single "guarantee" division within the Directorate-General for Agriculture by two divisions, one of which is specially responsible for documentary and on-the-spot verification;
- 2) intended strengthening of the staff of the Guarantee Section, including



- strengthening on a temporary basis, with provision for calling in experts from the Member States to close the oldest accounts;
- 3) simplification of the declarations of the Member States relating to the periods 1967/68 to 1970;
  - 4) grouping together of several periods for the documentary and on-the-spot verifications;
  - 5) drawing up of programmes for on-the-spot verifications.

It was possible to resume systematic on-the-spot verification from March 1974. This work consisted of the examination, by random checks, of the accounts and the supporting documents, followed by corrections on the spot and, in some cases - on the return of missions teams - a thorough examination of particular questions in collaboration with several of the Commission's departments with the aim of finding solutions.

With regard to verification, the officials of the authorization department of the Commission carried out 113 days' work on the spot in connexion with the financial years 1971 and 1972. The Financial Controller's department, for its part, carried out 10 days' work. The Audit Board was informed of these verifications and its representatives took part in them for 12 days. In addition, the Commission charged the Financial Controller's department (by Decision of 3.10.1973) with carrying out audits with a specific bias, which led to a first audit in 1974 (powdered milk). This type of audit, following the increase in the staff of the Directorate-General for Financial Control which took place at the beginning of 1975, is destined for further development.

During the closing months of 1974 the Commission directed its efforts towards documentary and on-the-spot verification of the periods 1967/68 to 1970. The progress made should enable the Commission to take a substantial number of aid decisions and decisions on the settlement of accounts in 1975.

64. Periods subsequent to 1 January 1971 (p. 83)

b) Concept of the payment date (p. 84)

At the Commission's request, the Italian Government took steps in 1973 with the aim of altering the payment system of the Azienda di Stato per Interventi nel Agricolo (AIMA) which up to that time had been in force for certain categories of expenditure (olive oil and durum wheat aid). This alteration is intended to eliminate the opening of appropriations granted to the peripheral services and to establish a system which will enable the amounts paid to the beneficiaries via the banks to be directly recorded in the accounts and declared.

Since the concept of payment as interpreted by the Member States is influenced by the general rules of public finance and accounts of the Member States, sometimes established by legislative enactments, the Commission is proceeding by means of point-by-point measures aimed at requiring the modification of laws, regulations or administrative provisions when its departments find an application of a concept of payment which does not appear to it to conform to the Community provisions. This is the method which has been successfully applied in the case of Italy.

c) Monetary compensatory amounts (p. 84)

In December 1974 the Council adopted Regulation No. 3259/74 which enables the difficulties connected with the compensatory amounts to be resolved:

- a) by instructing the Commission to adopt a method of accounting;
- b) by fixing for 1973 the precise amounts to be charged as EAGGF expenditure and consequently the amounts to be retained as own resources.

e) Financial year 1972 (p. 85)

The Commission could indicate the true date of the payments which take place after 31 December. But if this date had to appear in the "date of operation" column, there would be a risk of confusion between the operations paid for during a year and those taking place, in accordance with the Financial Regulation, during the following year. If the date was entered in the part reserved for the description of each operation, the capacity of this part would be reduced by more than a quarter. The solution of this problem therefore requires a thorough examination.

65. Sale of public butter stocks to the USSR (p. 90)

The Commission defined its position on this question in its reply to Written Question No. 287/73 from Mr. Spenale. It pointed out that this decision lay within its powers and that at the time the decision was taken the appropriations were available. The Commission explained the details of this operation at the European Parliament's sessions of 18 and 19 September 1973.

66. Application of Regulation No. 283/72 concerning irregularities and the measures taken by the Commission to discover and prevent fraud (p. 91)c) Special Committee of Enquiry (p. 92)

The role of the special Committee of Enquiry, mentioned in the Audit Board's report, was, in the first instance, to examine the EAGGF dairy products sector. It has submitted a report which has been approved by the Commission and transmitted to the European Parliament, the Council and the Audit Board. The major themes of the report, accompanied by suggestions for the more effective repression, in the future, of irregularities and fraud, relate principally to:

- the improvement of the Community's system of regulations with regard to the sector under consideration,
- the possibility of the management of the EAGGF Guarantee Section by data-processing methods,

- improvement of the control mechanisms,
- strengthening of co-operation between the national services and between the national services and the Commission,
- strengthening of the system of suppression of infringements, and improvement of the possibilities of recovering aid improperly paid out.

On the question of the work of this mission, the Commission decided in particular:

- to undertake a study with the object of examining the possibilities of management and control by data-processing methods within the framework of the EAGGF Guarantee Section,
- to speed up the discussion on the proposed regulation relating to mutual assistance between the competent authorities of the Member States and between the latter authorities and the Commission, with a view to the correct implementation of the Community regulations in agricultural and customs matters (1) and on the proposed directive relating to mutual assistance in the recovery of amounts improperly paid out in the context of the agricultural policy and of agricultural levies and customs duties (2),
- to intensify the implementation of Council Regulation (EEC) No. 283/72 (3) relating to irregularities and the recovery of sums improperly paid out in connexion with the financing of the common agricultural policy and also the organization of an information system in this field.

In addition, the Commission, on 8 November 1974, transmitted a report to the Council and to the Conference of Ministers of Justice relating to the strengthening of co-operation in the suppression of offences against Community economic law (4). The Ministers of Justice approved this report and resolved that a draft of common rules for the suppression of infringements in certain areas of Community law should be drawn up. The drawing-up of these rules should be completed by the end of 1975.

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(1) O.J. L/130/73 of 17 May 1973

(2) Doc. COM/72/1578 final, of 15 December 1972

(3) O.J. L 36 of 10 February 1972

(4) Doc. COM/74/4227 final

g) first indented sub-paragraph: quarterly submission of information pursuant to Article 3 (p. 93)

The quarterly notifications by the Member States in implementation of Article 3 are improving but additional efforts will have to be made in order to reach a completely satisfactory level.

second indented sub-paragraph: complexity of the agricultural regulations (p. 93)

The Commission defined its position on this subject in the document entitled "Balance sheet of the common agricultural policy" of 26 February 1975 (§ 102 to 104), stating in particular that:

- a) the Commission had undertaken work intended to simplify the agricultural regulations, taking into account the useful suggestions contained in the German Government's memorandum of 20 June 1974, relating to the simplification of the Community's legal measures adopted with a view to the establishment of the customs union and the institution of common market organizations in the agricultural sector, while emphasizing the limits of these efforts by reason of the characteristics of the agricultural markets and of the functioning of their organization;
- b) an internal working party had been set up to examine thoroughly the criticisms made against the agricultural regulations; this action will lead the Commission to bring a report before the Council during 1975;
- c) significant efforts are in progress with a view to the codification of the measures of the common agricultural policy.

third indented sub-paragraph: the interpretation of certain articles (p. 93)

It is true that the implementation of Article 3 of Regulation No. 283/72 has given rise to some differences of interpretation, particularly in connexion with the cases which have been the subject of an initial administrative or judicial report which had to be communicated. But the statements made in response by the Commission's departments have clarified the scope of the provisions enacted.

fourth indented sub-paragraph: attempted fraud (p. 93)

The Commission's departments proposed to the various delegations of the Member States that they should include in the communications required by Article 3 the cases of attempted fraud which they had discovered, even if such attempts had not given rise to losses for the EAGGF. All the delegations have declared their willingness to intensify the notifications of attempted fraud but they are not all willing to link them with Article 3.

fifth indented sub-paragraph: comparisons between stock records and accounts (p. 93)

Since a considerable part (80%) of the frauds notified by the Member States have been discovered in the course of comparisons between stock records and accounts records carried out by the national auditors, the Community's departments have prepared a list of agricultural regulations which stipulate that the recipients of Community finance are obliged to keep accounting records for materials.

This list was discussed by the delegations of the Member States and it was found that the audit of stock records alone was not sufficient, having to be supplemented, in all the Member States, by the said comparison. The introduction of an obligation, for the agencies responsible for carrying out the audits, to compare the stock records or the supporting documents with the financial accounts of the enterprises appears to be necessary.

II. GUIDANCE SECTION (p. 95)A. Financing of investment projects (p. 95)69. Commitments (p. 95)

Although for the projects relating to 1972 there was indeed a time-lag of 11 months in the decisions on aid, it should be noted that for 1973 the time limits set have been complied with and that the examination of the aid applications was completed by 31 July 1974, which represents a recoupment of 5 months (or almost 50%) of the accumulated arrears.

D. Comments concerning the auditing of the investment projects (p 103)75. Conformity between completed projects and estimates; profitability of the investments (p. 103)

It is clear that "the sufficient guarantee as to the permanent economic effect of the improvement achieved in the agricultural structure" referred to in Article 14 (1)(c) of R 17/64/EEC constitutes a condition for the granting of aid. This profitability is examined by the Commission's departments in relation to the regional context into which the project fits, firstly on the basis of the data contained in the aid applications (in accordance with R/45/64/EEC) and secondly on the basis of the data which the Commission's departments themselves have at their disposal.

Two categories of event may affect the conditions referred to in Article 14 (1) of R/17/64/EEC;

- either, modifications of the project made after the aid decision;
- or, changes in the economic situation into which the project fits, without any change in relation to the decision.

The rapid development of techniques and the development in the economic situation are the principal reasons for the adaptation of projects, the realization of which generally extends over several years. The changes in the basic data may in fact be so great that the initial calculations of profitability are overtaken by this development. But the beneficiaries must inform the Commission of the economic and financial consequences of major modifications and the Commission may judge whether these modifications do or do not constitute an improvement of profitability.

Of course, if these modifications cause a reduction in profitability or are contrary to Community interests, or again if there is bad faith on the part of the beneficiary and an inquiry shows that the information given was not in accordance with the facts, the Commission is empowered to cancel the aid or to recover the funds.

However, the decision to grant aid creates rights and duties for the beneficiary. He is obliged to satisfy himself that the conditions "imposed" are fulfilled and to execute the project in accordance with the decision to grant aid or, if appropriate, with the modified decision. On the other hand, payment is due to him if he has fulfilled his obligations and if the non-correspondence of the project to the criteria of Article 14 of R 17/64 is imputable to developments which the beneficiary was unable to influence.

In any case, the Commission's departments, both technical and economic, thoroughly study the likely effect of the project on agriculture, both at the production level and at the marketing level.

If the project is executed in the manner originally envisaged - and it is part of the Commission's functions to check that it is - the effect should then normally be that envisaged in the project. If, however, in some marginal cases, the effect is not that which both the beneficiary, the Member State and the Commission were expecting, it may be asked whether it is fair to hold the beneficiary responsible for it, since the situation is probably the result of a combination of circumstances outside his control.



In this connexion it should be emphasized that in the draft proposal for joint measures concerning the marketing and processing of agricultural products which the Commission must submit to the Council and which will be based on a project financing system comparable to that of Regulation 17/64/EEC, it is envisaged that the beneficiaries will transmit to the Commission a report on the economic results of the project within a period of 3 years following its completion. This will make it possible to gain a far more precise idea of the real economic effects of the projects financed than is the case at present.

77. Evidence required before payment and date of commencement of the work (p. 104)

The certificate issued by the authority charged by the Member State with transmitting the payment files constitutes, together with the list of supporting documents, the documentation which enables the Commission's departments to establish whether the conditions laid down for the making of the payment have been fulfilled. In the certificate the intermediary authority, which in all the Member States is the Ministry of Agriculture, expresses an opinion on the execution of the work, the audit of the supporting documents, compliance with the financial provisions and the date of commencement of the work. The list of supporting documents makes it possible to compare the estimated expenditure with the actual expenditure relating to the various headings of the specifications and contains information on the object of the expenditure and the dates of the drawing up of the documents and the making of the payments.

It should be pointed out that, besides the 19 cases in which supporting documents were demanded, 98 applications for payment were refused in the first instance for lack of sufficient information, both from the point of view of the conformity of the finished projects with the estimates and in connexion with the date of commencement of the work or the financing of the actual expenditure. This represents approximately 14% of the applications for payment made in 1973.

78. Financial participation by Member States (p. 105)

The financial participation of the Member State, irrespective of its size, is linked to the application of the national provisions in force with regard to the justification of payment of the aid granted. To this effect the Member States have transmitted, pursuant to Articles 1 and 2 of R 99/64, descriptive lists of the supporting documents containing an enumeration and description of the documents which are available in the context of the national procedures and which are kept available for the Commission's departments.

It should also be noted that, by the very fact that the Member State participates obligatorily in the financing of the project, it may place conditions on the granting of its aid. On the other hand, the beneficiary must observe, and this independently of the financial aid, all the national provisions in force for the realization of his project.

This, however, does not imply a preponderant intervention by the national administration in the choice of the cases and the development and execution of the projects, nor does it imply a less rigorous treatment of the files by these administrations.

With regard to the choice of projects, it should be remembered that the number of projects introduced is appreciably higher than the number of projects financed. Thus the Commission has a real possibility of exercising a choice between the projects to be financed and of refusing those which it considers the least promising; by way of example, in the case of the projects introduced for 1972, 429 projects were financed, out of a total of 918 submitted.

79. Project F/122/70 (p. 105)

On the subject of the financing of Project F/122/70, "Construction of an industrial unit for producing proteins for use as an animal feeding-stuff at Lavera (France)", it should be pointed out that:

- the manufacture of a new protein concentrate from a readily available raw material will have an appreciable effect on the development of stock-farming, making it possible to anticipate very favourable results, despite the present economic difficulties, in a sector of the Community which still shows a deficit.

Research is currently in progress into cheap feeding-stuffs for cattle, because of the substantial increases in the price of these products which has taken place in recent months. Events have confirmed that the Commission's choice, which is a means of research into ways of producing meat under good economic conditions, was justified.

- The Commission in no way intends to finance the petrochemical industry. Rather, it saw in this project a means of encouraging a process of research connected with agricultural production and capable of opening up interesting possibilities.

80. Examination on the spot (p. 106)

It is essential that the verification of the documents should be supplemented by visits to the site. As the number of such visits is limited by the material possibilities, they can only take place in connexion with projects whose payment files have thrown up specific problems, either concerning the execution of the project or concerning the date of commencement of the work. This was the case with regard to the two projects quoted by the Audit Board, namely Project F/4/71, where the payments file showed that the foundation work had been started before the aid application had been lodged, and Project N/26/68, where it also appeared that the project had undergone modifications. The site visits were made in order to obtain more information. They showed that for Project F/4/71 it had not been possible to make payment of the aid, while during the visit to the site of Project N/26/68 it was found that the project had not undergone any fundamental modification, the increase in the cost being due to an increase in the planned capacities, to the acquisition of equipment not provided for in the specifications, to price increases (particularly for steel) and to wages payable since the time when the specifications were drawn up.

Moreover, on the basis of the real capacities of the factory, the estimated profit and loss account shows a net profit of more than double that which would have been earned by the initial investment. Furthermore, right from the first year, even before maximum capacity was reached, the project has made a profit.

Since the amount of aid from the Fund cannot be increased, the practical consequence of this adaptation of the project was that the percentage of aid from the Fund was finally 10% instead of 14%.

It does not seem appropriate, therefore, to draw any conclusions of a general nature from the very small number of occasions when participation in on-the-spot examinations took place, particularly since it was known in advance that the projects in question were very special.

Moreover, the Audit Board was able to participate in an on-the-spot examination in 1974 (F/37/70) at which it became evident that, in conformity with the payments file, execution had taken place in accordance with the aid decision on all points.

E. Comments concerning the auditing of joint  
measures and special measures (p. 106)

81. Auditing of the joint measures and special measures (p. 106)

c) Presentation of the material on which the calculation of the aid  
is based (p. 108)

The Community regulations do not exclude the reimbursement of aid to groups of fruit and vegetable producers granted under the national system, to the extent that this aid has been paid out after the coming into force of R/159/66/EEC on 1.1.1967.

France, the only country to have granted aid before 1.1.1967 - part of the payment of which took place after that date - presented its applications for reimbursement, which, owing to faults in presentation and incorrect interpretation of the Community regulations, could not be accepted by the Commission.

France therefore decided to revise its applications for reimbursement. The latter having been subsequently submitted in good and proper form for the years 1967 to 1970, reimbursement was made. It should be noted that in view of the fact that the method of calculating the market value was defined only in 1969 by Regulation No. 449/69 and that this would oblige the French recipients to reconstitute in 1973 files dating in some cases back to 1962, the Commission's departments have used a certain degree of discretion, without however affecting the bases laid down for the calculations.

In this context it should be noted that the national provisions in force in 1965, on the basis of which aid was granted in France, coincide with the Community provisions as to the objectives and tasks of the producers' organizations and also as to the goal pursued by the aid and the rules for the payment of this aid. Although they are based on a lump-sum system, it was found that they are lower than the Community ceilings authorized by Regulation EEC/1035/72. It is also to be noted that the conditions linked to the granting of the aid are very rigorous and that each payment is preceded by a strict audit.

CHAPTER 6: FOOD AID (p. 111)I. Aid operations (p. 111)85. Grouping of the appropriations (p. 111)

The Commission is delighted at the Audit Board's observations about the grouping of appropriations of the same nature. It had itself had the same concern. The proposals which it has been able to have adopted by the budgetary authority in 1974 have made possible to form two series of groupings:

- Regulation R/2681 of 21 October 1974 effected the division between the various items of expenditure on food aid (henceforth entered under Chapter 92, "Food aid") and the expenditure relating to export refunds for the products supplied by way of food aid (which alone continue to be entered under Title 6, "EAGGF Guarantee");
- a modification of the budgetary nomenclature, applicable from 1.1.1975, has made it possible to group under Title 9 all the appropriations destined for covering expenditure on food aid and on co-operation with the developing countries (in particular the appropriations entered under the old Chapter 32, "Expenditure arising from development aid", and under Article 402, "Expenditure resulting from the convention concluded between the EEC and UNRWA"). The appropriations for the international emergency action by the United Nations on behalf of the developing countries most affected by the crisis were naturally entered under this Title 9.

II. Comments (p. 112)87. Delays in implementing the aid (p. 112)

It is true that delays, sometimes of considerable length, have affected the implementation of the aid, even though special procedures such as the procedure of anticipated execution have enabled the delivery of the products to take place, in emergencies, immediately following the end of the negotiations between the Commission and the beneficiary country, without therefore having to wait for the formal signing of the agreement.

These delays are attributable to the beneficiaries (delays by the beneficiary country in replying after being sent the draft agreement) and to the Community itself (procedure of decision by Commission and Council, insufficiency of the staff assigned at the Directorate-General for Co-operation and Development to the duties of food aid - 10 persons for a Budget of 223 million u.a. in 1974 and 226 million u.a. for 1975). In order to remedy some of the causes imputable to the Community, the Commission proposed, in its memorandum of March 1974 on food aid, that the management procedures should be made more flexible, both with regard to normal aid and emergency aid. This proposal is now in process of being examined by the Council officials.

88. Administrative and financial management of the aid (p. 112)

Whatever the details of the division of responsibility between Directorates-General VI and VIII, it is unavoidable that several departments should have to be involved in the implementation of the food aid actions. The supply of the agricultural products distributed by way of food aid requires the involvement, at the mobilization stage, of the divisions of the Directorate-General for Agriculture which have been given responsibility for the products in question (for example: cereals, sugar, dairy products, etc.). The technical and financial execution of the supply of the products is undertaken by the intervention agencies of the Member States.

Whatever the adjustments of responsibilities which may be made within the Commission's departments in the direction indicated by the Audit Board, it will be necessary to have recourse to several different administrative units for the proper execution of the food aid operations.

The Commission, which shares the Audit Board's views on the necessity for strengthening the administrative co-operation of all the departments charged under whatever head with the financing of food aid, has already taken steps with a view to improving this co-operation.

Invitations to tender

91. (p. 114)

As long as the supply agreements concluded between the Community and the beneficiary countries are not standardized, the mobilization regulations and the notices of award cannot be standardized.

Assessment of a tender when only one tenderer comes forward is entirely possible, because the intervention agencies are familiar with the market situation. Moreover, it has happened in some cases that the one tender submitted has been rejected: the agency responsible considered it too high in relation to the market situation.

92. (p. 114)

For the departments, the information provided by the intervention agencies is sufficient, particularly since known firms are involved.

As the invitations to tender are open to any interested firm in the entire Community, each one therefore has the possibility of submitting tenders. If some firms do not do so, it must be concluded that this type of operation does not interest them.

The cases quoted, of tendering companies in Italy and Belgium which are said to occupy special positions, in no way prejudice the result of the award of contract, since any interested firm may submit tenders whatever its geographical situation in the EEC.



93. Mobilization of aid (p. 114)

It must be emphasized that the increase in delivery charges caused by the dispersion of the storage sites is in any case lower than the costs which the Community's intervention agencies would have had to bear for storing the cereals, especially when the tonnages are small and the warehouses widely scattered, as is the case in Italy.

In addition, it should be remembered that the list of warehouses is often only notified by the intervention agency responsible for mobilization 48 hours before presentation of the regulations and the notice of award to the management committee and that it is no longer possible to change it except by holding up the mobilization action, which would be inappropriate by reason of the urgent nature of the aid to be supplied.

Furthermore, the Commission wishes to point out that the conditions of mobilization were submitted to the cereals management committee (on which the different Member States are represented) for approval and that the committee made no objection.

94. Reimbursement of costs for which no provision was made (p. 114)

With regard to the additional costs accepted by the Commission over and above the expenditure fixed by the awards, it should be noted that it is a question of expenditure which is borne by the intervention agencies (weighing, checking and insurance costs, costs of removal from storage) and which has been charged to Chapter 90 because it was not included in the tender price. This expenditure would in any case have been borne by the Communities' Budget. As for the demurrage charges and costs for delays, where they are attributable to the recipients of the aid or to third parties the additional costs which they occasion are in principle the subject of a procedure for recovery.

The costs resulting from tariff increases have been considered eligible, taking into account the following elements:

- a) the change in the tariff took place after the award;
- b) the increase was not foreseeable and the tenderers could only take into account the tariff elements known and in force on the date of submission of the tender;
- c) there was no distortion of competition.

95. Standardization of practices with regard to awards (p. 115)

The breakdown of a total price is of only minor importance in view of the fact that it is necessary, out of all the tenders received, to take up the most favourable one whatever the constituent elements of the price demanded by the tenderer.

With regard to the maximum tonnage to be required per storage point for the mobilization of cereals, in addition to what has been said under point 93 it must be borne in mind that if there are small quantities in the warehouses of the intervention agencies and if they must remain in store there for several months, which is generally the case, the costs occasioned by this storage will be higher than those which have been committed for the mobilization operation. It will be observed in particular that in Italy the trade is organized in such a way that the warehouses can, as a rule, only receive low tonnages.

96. and 97. Execution of the agreements and use of the counterpart funds (p. 115)

In spite of the information received from the beneficiary countries under the head of the 1969/70 plan, both as regards the arrival of the aid and the use of the counterpart funds, the Commission shares the opinion that generally speaking the system of monitoring the food operations has proved inadequate during the first years of the implementation of these operations. This, it must be added, is the reason why, immediately following the implementation of the Second Food Aid Convention, the Commission proposed the improvement of this

monitoring (1) and then, as part of the memorandum transmitted to the Council on 6 March 1974, renewed these proposals in stronger form.

With regard to the problem of the reports of execution, a distinction should be drawn between information about the arrival of the goods and information about the other conditions of execution of the agreements.

1. Information on the arrival of the goods (2) (p. 115)

As to fob agreements, the Commission is of the opinion that it is not possible to obtain further information beyond that supplied by the beneficiary country, because the country in question becomes the owner of the goods at the time of loading on to the ship.

As to cif agreements, on the other hand, the Commission favours a strengthening of monitoring on the arrival of the goods because the transfer of ownership takes place at the same time as this arrival, at the port of unloading. For this purpose the captain's certified report, with discharge by the qualified representative of the beneficiary country, cannot be used, as the captain cannot be the judge in his own case. By contrast, the certified report of a supervision company is a more suitable method and is henceforth envisaged in certain circumstances.

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(1) on the basis of these proposals, the Council adopted:

- the principle of the prior notification by the beneficiary country of the development projects to be financed by means of counterpart funds, this implying the communication of estimated data on marketing (sale price of the product on the local market, normal selling expenses, etc.)
- with regard to the associated countries, the possibility of a direct on-the-spot examination by the resident supervisors of the EDF.

(2) In the Commission's view, the differences shown by Table 12 between the quantities loaded and the quantities unloaded do not constitute a major problem, contrary to the implication of the Audit Board's analysis. In 7 of the 11 cases quoted, the quantities unloaded were equal to or in excess of the quantities loaded, probably as a result of gains in weight due to humidity; in 4 cases they were less, but in a proportion lower than 1% (except in 1 case), probably as a result of loss in weight during transit.

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If such control measures on the arrival of the goods could be made general practice (the question is being studied), they would, with regard to the associated countries, supplement the interventions of the resident supervisors of the EDF, who have been assigned even-wider duties in the field of food aid and who are now able to intervene directly in cases of difficulty in connexion with the arrival of the goods at the port or place of destination.

2. Information on the other conditions of execution of the agreements  
(p.116)

(Marketing, special account, development projects)

The Commission considers that the first means of improving the control of these other conditions of execution is a more thorough study of the relevant execution reports (1). But this has not been possible, owing to the staff strength of the Food Aid Division of the Directorate-General for Development and Co-operation; the Commission has not been able to increase the staff to keep pace with the growth of the tasks connected with the planning and management of this aid.

The Commission hopes that the situation in this field will be capable of improvement in the near future and that a better examination of the execution reports can thus be made.

This work may also be facilitated by the fact that, in accordance with what has been stated above, estimated information on marketing and on the development projects is, since the implementation of the Second Food Aid Convention, provided by the beneficiary countries before the delivery of the products.

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(1) it should be noted that, besides the three countries referred to in point 97 (Mali, Lebanon and Tunisia), Indonesia, Pakistan and Sri Lanka supplied information on the use of the counterpart funds. In all, therefore, 6 countries out of 8 provided information.



This inevitably leads, in the context of the closure of the accounts of a financial year, for example, to the necessity of effecting a whole series of accounting operations after the official closure date.

This is even more the case because of the fact that the majority of the appropriations managed by the J.R.C. are subject to secondary charging.

A. Comments concerning the organization of the J.R.C. (p. 120)

103. and 104. Restructuring of the J.R.C. (p. 120)

The difficulties encountered in reorganizing the J.R.C. have been enumerated by the Audit Board itself. The delay which has occurred in the taking of decisions on the programme, the establishment of the operational Budget and the staff disengagement measures have seriously disrupted the functioning of the Centre.

Since then the Commission has appointed new directors-general and directors. Generally speaking, the reorganization of the departments has now entered the implementation stage.

105. The General Advisory Committee (p. 121)

Paragraphs 2 and 3

The management of the J.R.C. has been placed on the agenda of the General Advisory Committee which has principally concerned itself with the programmes.

106. Quarterly report on the management of the J.R.C. (p. 122)

Because of the delay in computer programming, the complexity of the operation of expressing the function-orientated Budget in accounting terms prevented the presentation of the reports on management in the desired form. As soon as this situation has been improved, it will be possible for the quarterly report to be regularly prepared and transmitted.

B. Comments concerning the function-orientated Budget (p. 122)108 to 111. Problems connected with the installation of the "function-orientated Budget system" (p. 122)

It is perhaps not without interest to recall first of all, by way of information, that the "function-orientated Budget system" is one of the results of the agreement reached between the Commission and the Council on 16/17.12.1970 on the subject of the restructuring of the Joint Research Centre, on the one hand, and of the Commission's decision of 13.1.1971 on the reorganization of the J.R.C. (O.J. L 16 of 20.1.1971), on the other. It is based on the provisions of Title VII of the Financial Regulation of 25.4.1973 (O.J. L 116 of 1.5.1973) and, at present, has its concrete expression solely in the statement of revenue and expenditure relating to the research and investment activities (Annex I to Section III - Commission - of the Budget of the European Communities).

The implementation of the first function-orientated Budget in 1972 already posed a number of problems due essentially to the difficulties inherent in the running-in period which the application of any new system requires. Such difficulties can only be surmounted progressively in step with the refinement of the very complex management techniques necessitated by the structure of the function-orientated Budget. This requires thought, experience and, consequently, time. In this respect, it does not seem wrong to regard the financial year 1973 as still being a period of running-in. Nevertheless, in spite of this situation, it has been possible to make appreciable progress in 1973, by comparison with 1972, (on this subject, see the findings of the Audit Board under point 110 of its report). Indeed, the improvements in the matter of secondary charging announced for 1973 in the Commission's reply to the Audit Board's report on the financial year 1972 have already made it possible to come very close to a satisfactory implementation of the function-orientated Budget. This is particularly relevant to the comments in point 111 of the Audit Board's report.

However, certain problems, notably in connexion with the definition of the criteria for internal invoicing, were not finally resolved until 1974. The Commission is making every effort to mitigate the imperfections noted. It has already installed, recently, a data-processing system which enables the operations relating to secondary charging to be handled by computer.

112. General comments on the function-orientated Budget (p. 125)

- a) (p. 125) The scientific departments have already begun to estimate their expenditure within the budgetary limits, using lump-sum scale rates which can be revised every 3 months.
- b) (p. 125) A specific problem is the necessity to clear the balances on the appropriation accounts at the end of the financial year. This requirement causes many transfers and considerably restricts the flexibility of management. This point is fundamental for the significance of the function-orientated Budget and is currently the subject of a thorough examination. The Commission for its part desires that all the competent authorities in this matter should show their agreement on the principle under which some appropriation accounts may from now on show balances at the end of a financial year and that the problems of budgetary technique connected with this solution should be resolved.

Owing to the arrears which had built up in 1973 in invoicing in general, it was not possible to invoice the services rendered by CETIS for the account of third parties during the second half of 1973 until the financial year 1974.

- c) (p. 126) The operations of internal invoicing have been simplified as much as they possibly can and the estimating has been improved. This should enable the number of necessary transfers to be reduced in future.



- d) (p. 126) The improvement of the method of invoicing staff expenditure to objectives via appropriation account 1.50 is being studied.
- e) (p.126) The internal rules for the management of the appropriations are in the process of preparation. The same is true of the rules as to the rates to be charged, following the work carried out by an "ad hoc" group set up for this purpose.
- f) (p. 126) As was stated in the Commission's reply to observation no. 59 (a) of the 1972 report, the revenue from the Community tax, as a resource of the appropriation account "Staff", is indispensable for ensuring, in the implementation of the function-orientated Budget, complete consistency with the after-tax funds assigned to programmes.

C. Further comments concerning research and  
investment expenditure (p. 127)

113. Work for third parties and in return for remuneration (p. 127)

The conditions for the conclusion of contracts for the provision of services for the account of third parties and the scales of charges to be applied in connexion with these contracts have been the subject of the work of an ad hoc group.

The management of these contracts, particularly those whose execution extends beyond the financial year in progress, has posed a number of problems, notably in the matter of the closure of the accounts at the end of a financial year. Within the ad hoc group mentioned above there have been worked out, firstly, a standard contract and, secondly, a set of financial notes the contents of which allow the financial management of each contract to be regularly monitored.

With regard to the management of these contracts, it should be pointed out that it will henceforth be included in the general data-processing system of the Centre, which will enable the execution of each contract to be monitored separately for revenue and expenditure.

114. Management of purchases and procurement (p. 128)

It is true that the decentralization of purchases has produced results which are not always convincing. The problem of procurement as a whole is under study.

The Directorate-General of the J.R.C. is determined to effect as far as possible a centralization of the largest purchases with a view to rationalizing this aspect of the Centre's management and making it more economical.

Small urgent purchases by Ispra have been brought under control. Increased supervision will prevent the fragmentation of purchases. The ceiling of 50 u.a. has been maintained for small purchases paid for in cash by imprest advances. The ceiling raised to 130 u.a. only relates to rapid purchases made by the office in Milan and paid on presentation of invoices according to the normal budgetary procedure.

With regard to the stores, the central store handles the joint materials, whilst the so-called decentralized stores are in fact specialist stores at the level of the various divisions.

The grouping in the central store of the activities which can be detached from the department to which they are at present subordinate will be studied by the Directorate-General of the J.R.C.

115. Supporting documents not communicated (p. 129)

The supporting documents relating to the recharging to allocation account 1.43 of the ESSOR operations, provisionally charged to an extra-budgetary account, have since been supplied.

116. Fiscal reimbursements (p. 129)

Paragraph 5 (p. 130)

The necessary steps have been taken to ensure that these tables are attached to the management account for the financial year 1974.

117. Management of the research and association contracts (p. 130)a) Liquidation of the investments (p. 130)

The liquidation of the Italian associations has since been effected in agreement with the contractual partners. The rules for the implementation of these agreements are now being developed by the Commission's services.

b) Application of Article 6 c) of the Euratom Treaty to the servants of the Communities seconded to the former associations (p. 130)

1 July 1973 was chosen as the date for the commencement of the conventions pursuant to the definitive decision taken by the Council on 18 June 1973 that research in the field of advanced reactors should no longer be included in the Community's multiannual programme. No other programme justification permitted the remuneration of this staff from that date out of research appropriations.

The negotiations with the former association partners, started immediately after the Council's decision of 18.6.1973, did not result in the conclusion of conventions until the beginning of the financial year 1974 but with retroactive effect from 1.7.1973, as provided for in the Budget for 1973. However, most of the agencies had given their agreement beforehand.

In order to respect the Council's wishes that the remuneration of the agents in question should no longer be charged to the Commission's Budget as from 1.7.1973, the Commission considered it correct to charge, at the time of the closure of the accounts for 1973, the amounts deriving from the said conventions and relating to the second half of 1973 to an extra-budgetary account as "expenditure to be regularized". Regularization took place during the course of the first half of 1974.

c) Verifications (p. 131)

The Audit Board has been invited to take part in the verifications carried out by the Commission's departments. It has already accepted this invitation in October 1974.

D. Problems concerning participation in the COST agreements (p. 131)

120. COST Agreement 11 - European informatics network (p. 132)

It is first recalled that COST Agreement 11 covers two different fields:

- a) Making nodal centres available to all the participants in the Agreement,
- b) Expenditure relating to the administrative costs and the study contracts.

The expenditure relating to the field covered by a), 0.710 million u.a. per participant, is the subject of individual execution and management by each participant. With regard to Euratom, the relevant appropriations are in Chapter 2.30 of the statement of expenditure relating to research and investment activities (Annex I to Section III - the Commission's Budget). It goes without saying that the execution of this chapter is controlled in the same way as that of the other budgetary chapters.

With regard to the field covered by b), on the other hand, the contributions of the signatories, 0.156 million u.a. for each participant, are paid over to the credit of a special account opened with a Belgian bank. The Commission manages these appropriations by virtue of the mandate contained in the Agreement itself and prepares, at the end of each financial year, a management account for submission to the management committee of the Agreement which considers it and grants discharge to the Commission. For this purpose the management committee may designate a person or a body responsible for examining this management account. The committee has not made use of this possibility. Meanwhile the committee has granted discharge to the Commission in respect of the financial year 1973.