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Report

by the Court of Auditors of the European Community

on the ~~Joint~~ European Torus (JET) Financial Statements 1979

EUROPEAN COMMUNITIES
COURT OF AUDITORS

Luxembourg, 2nd May 1980

Mrs Simone VEIL
President of the European Parliament
Plateau du Kirchberg
B.P. 1601
LUXEMBOURG

Dear Mrs Veil,

Under Article 12 of the Statutes of the Joint European
Torus (JET) Joint Undertaking (O.J. no. L 151/11 dated 7.6.78)
the Court of Auditors is required to send its report on the JET
Financial Statements to the European Parliament.

I have pleasure in enclosing herewith the JET Financial
Statements for 1979 and the report of the Court of Auditors
thereon.

Translations of the enclosed documents into the other official
languages of the Communities will be forwarded as soon as possible.

Yours sincerely,

N. PRICE
for M.N. MURPHY

A.J. MIDDELHOEK

DE EUROPÆISKE FÆLLESSKABER
REVISIONSRETEN

EUROPÄISCHE GEMEINSCHAFTEN
RECHNUNGSHOF

EUROPEAN COMMUNITIES
COURT OF AUDITORS



COMMUNAUTÉS EUROPÉENNES
COUR DES COMPTES

COMUNITÀ EUROPEE
CORTE DEI CONTI

EUROPESE GEMEENSCHAPPEN
REKENKAMER

Luxembourg, 30.04.1980

REPORT OF THE COURT OF AUDITORS
ON THE 1979 JET FINANCIAL STATEMENTS

GENERAL

1. Under Article 12 of the Statutes of the JET Joint Undertaking the Director of the Project is required to submit the annual accounts and the annual balance sheet for audit to the Court of Auditors of the European Communities. The Court is required to send copies of its audit report to the Members of the Joint Undertaking, to the Council of the European Communities and to the European Parliament. The Director of the Project is required to present the audit report together with the annual accounts and balance sheet to the JET Council for approval.
2. In carrying out the audit of the JET financial statements for 1979, staff of the Court have visited the project on several occasions in 1979 and 1980. The audit has consisted mainly of reviews of the financial procedures and accounting systems supported by such tests of records and transactions as have been considered necessary.

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During the audit an examination was also made of expenditure of personnel costs. Arising out of these reviews and examinations the attention of the Director of the Project has been drawn to certain weaknesses in the internal financial control procedures. The Director has replied to these observations and steps are being taken to effect improvements.

3. In its audit the Court has also had regard to the work carried out by the Internal Auditor of the Joint Undertaking. In the opinion of the Court this work would have been more valuable had it been based on clearly defined audit programmes and resulted in clear, well-documented internal audit reports; and the Court recommends that improvements in these areas should be introduced as soon as possible.
4. Based on its audit the Court is of the opinion that the financial statements of the Joint Undertaking at 31 December 1979 present fairly the financial position of JET at 31 December 1979 and its income and expenditure for the year ended on that date, in accordance with the JET Financial Regulations.
5. There are, however, certain matters concerning these financial statements to which the Court wishes to draw attention. These are dealt with in the following paragraphs of this report.

FORM OF ACCOUNTS

6. There have been a number of changes in 1979 in the form of the financial statements and in the accounting conventions applied by the Joint Undertaking. The most material of these are :
 - (1) that the assets of the Joint Undertaking are now included in the balance sheet according to the accounting convention explained in Note A4 to the financial statements;

- (ii) that the current liabilities are now shown in two categories, a) under Creditors where the amounts are known precisely and b) under Provision for Accrued Expenditure where the amounts include some element of estimation. This explains why the 1978 balances shown in the balance sheet as at 31 December 1979 do not match directly those shown in the balance sheet as at 31 December 1978;
- (iii) that an accounting convention has been introduced whereby unpaid commitments on major contracts are revalued at the close of the financial year to reflect any movements in currency/EUA exchange rates and the accrued effects of escalation clauses written into these contracts (see paragraph 16 below for comments on the practical application of this convention); and
- (iv) that the financial statements now include a statement of unpaid commitments at the close of the financial year.

The Court welcomes these changes as an aid towards clarifying the financial position of the Joint Undertaking.

OUTTURN

Income

7. The budget for 1979 approved by the JET Council provided for income of 40 MEUA, consisting solely of contributions from the Members of the Joint Undertaking and this amount is credited in the accounts.

The only contribution for 1979 not paid by the date of the Court's final audit was that from CNR in the sum of 25,600 EUA. Also, JET made an error in the calculation of the Swiss contribution payable in 1979 and, in consequence, Switzerland has

underpaid for the year by about 150,000 EUA. The other Members, apart from Euratom, have overpaid by a corresponding amount. Adjustments for this error should be made in 1980.

8. In addition to its income from contributions, the Joint Undertaking received in 1979 miscellaneous income, almost entirely bank interest, amounting to 1,469,359 EUA which had not been provided for in the approved budget. This amount will be applied to a reduction of Member's future contributions.

Expenditure

9. In addition to the approved expenditure budget for 1979 of 40 MEUA JET had available 5,634,493 EUA from the reserve created at the end of 1978.
After allowing for expenditure in the year of 30,724,747 EUA, transfer to reserve of 12,856,636 EUA and a minor adjustment for amounts over-reserved in 1978, there is a balance of unspent payment appropriations of 1,881,989 EUA which will be available for set-off against Members' future contributions.
10. The Court has examined the utilisation of the reserve created at the end of 1978 (summarized on page 17 of the financial statements). Generally, it is satisfied with the results of this examination and notes, particularly, the very small carry forward of 17,936 EUA to 1980.
11. When it approves the expenditure budget the JET Council allocates appropriations down to Title and Chapter level. Any subsequent transfers between Titles and between Chapters which the Director of the Project proposes have to be approved by the JET Executive Committee. During the course of 1979 the Director of the Project on two occasions proposed transfers between Titles and between Chapters and these were approved by the JET Executive Committee at meetings in October and December.

The most significant of these transfers had the effect of increasing the payment appropriations available for JET buildings (Title 1, Chapter 4) from 4.7 MEUA in the approved budget to 10.0 MEUA, and later to 11.5 MEUA, at the expense of other Chapters of Title 1. In the Court's opinion transfers on this scale cast doubts on the accuracy of the estimating processes which have led to the budget and derogate from the authority of the budgetary authority.

12. In March 1980, the Director of the Project proposed further transfers between the Chapters of Title 1 of the budget and these were approved by the JET Executive Committee on 6 March 1980 i.e. six days after the financial statements for 1979 were due to be presented for audit. In the Court's view this is not satisfactory procedure. Such late proposals for transfers limit the JET Executive Committee's ability to judge the proposals on their merits.

Commitments

13. The approved commitment budget for 1979 amounted to 68 MEUA, added to which 18,725 EUA was available from unused appropriations carried forward from the 1978 budget. New commitments entered into in the year amounted to 62,132,862 EUA to which must be added accrued escalation of 10,741,498 EUA at 31 December 1979, a total of 72,894,360 EUA. Thus commitments in 1979 exceeded the approved budget by 4,855,635 EUA. The Joint Undertaking has proposed, and the JET Council has agreed, to deal with the accrued escalation by charging 4,075,092 EUA against the 1979 budget, the balance of 6,666,406 EUA being charged against the 1980 budget.
14. The Court does not find this arrangement satisfactory. Until the JET Council in March 1980 approved the charging of the excess escalation against the 1980 commitments budget the position was that JET had acted contrary to the Financial Regulations in incurring commitments in 1979 in excess of the

commitment budget approved by the budgetary authority (Article 1 of the JET Financial Regulations). The Court recognises the problems posed by having to revalue commitments at the end of the year for accrued escalation, in particular the fact that the amounts concerned cannot be established until after the end of the financial year. Nevertheless if the situation which arose in 1979 is to be avoided in future years, procedures must be developed to control commitments and the effects of accrued escalation during the course of the year. The Court recommends that this problem should be studied by JET management and the budgetary authority.

15. The Court has carried out test checks of JET's calculations of escalation accrued at 31 December 1979 with generally satisfactory results. In a few cases the Court was not able to agree with the methods applied by JET. The amounts concerned in these disputed cases are not material in 1979 but could be in similar cases in future years as contracts start to reach their final stages. JET have been made aware of the Court's view in these cases and agreement on how they should be handled will be reached before the completion of the 1980 exercise.

BALANCE SHEET

Bank Balances

16. The most noteworthy aspect of the JET balance sheet as at 31 December 1979 is the size of the bank account balances. During 1979 the JET bank balances increased from 7,486,293 EUA at 1 January to 19,271,395 EUA at 31 December.
17. These large bank balances have arisen for the greater part from the following combination of circumstances. Members' annual contributions are based, not on the actual cash requirements of

the Joint Undertaking, but on the approved payments or expenditure budget for the year in question and are due on dates which the Director of the Project notifies at the beginning of each financial year. Where, as happened in both 1978 and 1979, actual expenditure in the year is substantially less than provided for in the payments budget, unspent payment appropriations which are needed to settle outstanding commitments are transferred to a reserve instead of being surrendered to reduce Member's future contributions. This reserve is carried forward in the balance sheet and, at 31 December 1979, stood at 12,856,636 EUA.

18. The bulk of the JET funds which are not required for immediate use (some 16 MEUA out of 19 MEUA) are held on 1-2 month EUA deposit accounts with the Salomon Oppenheim Bank of Cologne. There is a deposit account for each of the nine national currencies of the European Communities and interest rates vary according to the currency concerned. During 1979 JET was content to accept the interest rates offered by their bankers and did not seek to test the competitiveness of these rates by reference to interest rates obtainable elsewhere. The Salomon Oppenheim Bank was selected by JET after a restricted tendering procedure, in July 1978, when it could not have been foreseen that JET would accumulate the very large bank balances which it now has and the competitiveness of interest rates did not figure greatly as one of the selection criteria. The decision to select this bank was made by JET management and has not been subject to covering approval by either the JET Council or the JET Executive Committee.
19. If it does not prove possible to run down the large JET bank balances by achieving a closer alignment of Members' contributions with JET's actual cash needs the Court recommends that the budgetary authority should initiate a review of the arrangements which JET has with its banks and, in particular, its investment policy to ensure that the interest rates which it receives are fully competitive.

Value Added Tax

20. The other feature of the balance sheet to which the Court wishes to draw attention is the balance of 1,024,263 EUA due to be recovered from the British government in respect of VAT paid by JET on UK suppliers' invoices. In the Court's opinion there were unnecessary delays in 1979 in claiming reimbursement of this tax which have led to a substantial loss of interest to the Joint Undertaking. For example, a VAT payment of some 400,000 EUA made in June 1979 was not submitted for reimbursement until the end of January 1980; and this is only one of several such examples.
21. The Court recommends that, in the case of large VAT payments, a special procedure should be established to ensure that claims for reimbursement are initiated simultaneously with the passing of the payment.

STAFF NUMBERS

22. At 31 December 1979 only 163 of the 275 posts provided for in the 1979 budget had been filled, the shortfall being mainly of qualified draughtsmen. To prevent delays to the project JET has gone some way towards bridging this gap by entering in to service contracts with various UK firms for the supply of draughtsmen and, at the time of the audit, a total of about 80 staff were working at JET on this basis.
23. The Court recommends that particular attention be paid to the number of persons employed under these contracts so that, as the vacant budget posts are filled, the total budgeted personnel costs of the project are not exceeded.

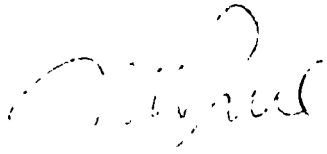
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The Court wishes to place on record its appreciation of the co-operation and the assistance given to it by the staff of the Joint Undertaking.

JET JOINT UNDERTAKING


FINANCIAL STATEMENTS FOR 1979

In the opinion of the Court, the revised Financial Statements of the Joint European Torus at 31 December 1979 present fairly the financial position of JET at 31 December 1979 and its income and expenditure for the year ended on that date, in accordance with the JET Financial Regulations.



N. PRICE

for M.N. MURPHY



A.J. MIDDELHOEK

