

EUROPEAN PARLIAMENT

Working Documents

1981 - 1982

10 December 1981

DOCUMENT 1-840/81

Report

drawn up on behalf of the Committee on
Budgetary Control

on the reports of the Court of Auditors on
the financial and budgetary activities of
the ECSC in the financial years 1978 and
1979 and the draft decision on the discharge
in respect of these activities

Rapporteur: Mr D. ANTONIOZZI

By letter of 7 August 1979, the Court of Auditors forwarded to the European Parliament its report on the ECSC balance sheet and revenue and expenditure account for the financial year 1978.

By letter of 6 January 1981 the Commission of the European Communities forwarded to the European Parliament the report by the Court of Auditors on the ECSC balance sheet and revenue and expenditure account for the financial year 1979.

On 29 September 1980 the Committee on Budgetary Control confirmed Mr Antoniozzi's appointment as rapporteur.

The President of the European Parliament referred the reports to the Committee on Budgetary Control on 10 March 1981.

The committee considered them at its meetings of 16/17 February 1981, 17/19 March 1981, 1/2 October 1981, 26/27 October 1981, 9/10 November 1981 and 23/24 November 1981.

At its meeting of 4 December 1981, the Committee on Budgetary Control adopted the motion for a resolution and the draft decision, together with the explanatory statement, by 10 votes to 3 with 2 abstentions.

Present: Mr Aigner, chairman; Mrs Boserup, 2nd vice-chairman; Mr Price, 3rd vice-chairman; Mr Alber, Mr Cluskey, Mr Forth, Mr Gouthier, Mr Georgiadis (deputizing for Mr Wettig), Mr Irmer, Mr Kellett-Bowman, Mr Key, Mr Mart, Mr Notenboom, Mr Ryan, Mr Saby and Mr Konrad Schön.

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The Committee on Budgetary Control hereby submits to the European Parliament the following motion for a resolution and draft decision together with explanatory statement

MOTION FOR A RESOLUTION

on the reports of the Court of Auditors on the financial and budgetary activities of the ECSC in the financial years 1978 and 1979

DRAFT DECISION

on the discharge to be given to the Commission of the European Communities in respect of the financial and budgetary activities of the ECSC in the financial years 1978 and 1979.

The European Parliament

- having regard to the balance sheet and accounts of the ECSC for the financial years 1978 and 1979,
- having regard to the reports by the Court of Auditors on the financial activities of the ECSC during the same financial years as also the replies from the Commission,
- having regard to the report by the Committee on Budgetary Control (Doc. 1-840/81),
- whereas, owing to the delays in the closing of the accounts of the ECSC for the financial years 1978 and 1979 and because of the incomplete drafting of the texts of the Court of Auditors on the financial management of the ECSC for these same financial years, Parliament has been unable to adopt a position on the decision of discharge in respect of the financial activities of the ECSC at the same time as the decision of discharge in respect of the financial activities of the other Communities,
- whereas, by virtue of the developments in the provisions of the Treaties of 1970 and 1975 on the powers of Parliament regarding the giving of discharge in respect of the financial activities of the EEC and the EAEC, it lies with Parliament also to adopt a position on the discharge of the Commission in respect of the financial operations of the ECSC,
- whereas, by the same token, Parliament must also be able to adopt a position on the financial activities of the ECSC, on the basis of a general report from the Court of Auditors, from the point of view of legality, regularity and proper financial management, and consequently it is necessary for the Court of Auditors to draw up, in addition to the report provided for under Article 78 f (5) of the ECSC Treaty concerning the regularity of accounting and financial operations, a report such as that described above which must be similar in substance

to that drawn up to allow assessment of the financial activities of the other Communities,

- whereas the commitments made respectively by the Commission of the European Communities and by the Court of Auditors to establish an analytical balance sheet and accounts in time for Parliament to be able to give discharge simultaneously to the EEC and the EAEC, on the one hand, and to the ECSC on the other, and the commitment of the Court as far as it is concerned to draw up these reports to meet the requirements of content and deadlines mentioned above,
- whereas the examination of the points under dispute for the purposes of appraising the management of the 1978 and 1979 financial years has enabled the Committee on Budgetary Control to play a role of mediation, stimulation and proposal, which in the future will make it possible to dispose of the most important criticisms levelled, for the financial years concerned, at the operations of the Commission/High Authority,

To strengthen parliamentary control over the activities of the ECSC

1. Urges the Commission and the Court of Auditors to take steps to ensure that, by means of a continuous dialogue, Parliament will be in possession of the balance sheets and reports necessary in order for it to give discharge in full knowledge of the facts, within the same deadlines as those laid down in the EEC and the EAEC Treaties;
2. Calls therefore on the Commission of the Communities to forward to the Court of Auditors the accounting documents and the balance sheet drawn up on the basis of the new computerized accounting systems, which, according to statements made by the Commission, should make it possible to remedy the existing shortcomings; calls furthermore on the Commission to place at the disposal of the Court all the explanatory documents so that the latter is not obliged to provide Parliament with information which would normally be the responsibility of the Commission;
3. Insists finally that the Court of Auditors be enabled to take into account, before it draws up its final report in analytical form, all the accounting documents on which the financial report of the Commission is based; recalls the fact that the Commission had already undertaken to achieve this goal as from February 1980;
4. Requires the Court of Auditors to draw up not only its annual report on the regularity of the financial management, but also an analysis of the management accounts and of the remarks which, established on the basis of a procedure whereby opposing viewpoints are heard through a dialogue with the Commission/High Authority, should permit Parliament to know exactly the essential elements of the financial activities of the Commission/High Authority;

To be able to adopt a position on the discharge to be given to the Commission/
High Authority for the financial operations during 1978 and 1979 in the
light of the activities pursued

5. Notes with satisfaction that
 - (a) the Commission has already committed itself to, and elaborated a system for codifying procedures and rules concerning borrowing and lending activities, responding in this way to the remarks of the Court;
 - (b) it has in any case defined the basis for assessment of the levy in a relatively satisfactory manner since this basis was recently taken into consideration as a reference point for the fixing of the quota regime for the iron and steel industries;
6. Requests the Commission - which has been unable to make a full assessment of the effectiveness of the policies pursued by it in respect of reconversion expenditure or to provide data on the possibility of finding new jobs for the workers retrained in this way - to provide the instruments for such an assessment which are essential if Parliament is to determine the extent to which the expenditure incurred has been appropriate to the objectives pursued.
7. Expresses a wish for more effective systematic supervision of loans for investment and reconversion purposes, through the formation of a specialized unit in the Commission's services; refers, in mitigation of the Court's criticism regarding the lack of interest shown by the Commission in the results of its management policy in respect of these loans, to the statement made by the Commission to the Committee on Budgetary Control. According to this statement, the management of loans, in so far as it determines relations with the recipients for a 30 year period, necessitates a policy of continuous attention and therefore of systematic appraisal of management.
8. Takes note of the undertaking given by the Commission to harmonize the presentation of the various memorandums fixing the objectives of technical and social research, in order to ensure closer coordination of those objectives; welcomes, however, the constant reference made by the Commission, in the initial examination of the dossiers, to external specialized bodies capable of providing information concerning the required guarantees.

To deal with other criticisms voiced by the Court

9. Agrees with the Court of Auditors when it states that
 - (a) the activity of control and verification by the Court is at present hindered by the excessive dispersion of the files relating to the financial activities of the ECSC, since they are managed by at least six directorates-general in the Commission;
 - (b) it is necessary to affirm the principle of independent control by the Court of Auditors within the Member States as regards the financial activities of the ECSC, and if the difficulties pointed out by the Commission should persist, it is, at the very least, essential that any joint control visits by the Commission and the Court of Auditors that prove necessary should be carried out on the initiative of the Court of Auditors.
10. Considers it inadmissible that, despite the representations made by the responsible bodies of Parliament to implement in practice the principles of cooperation between the Commission and Court of Auditors referred to in the previous paragraph, no agreement to that effect had been reached before the adoption of the report on the discharge by the committee responsible;
11. Draws the attention of the Commission to its view that the lack of agreement on cooperation with the Court of Auditors in the matter of on the spot verifications by the latter is a factor which is serious enough to influence future decisions by Parliament on a discharge in respect of financial years after 1979 and hence also on the management of activities pursued under the ECSC Treaty.

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DRAFT DECISION ON THE DISCHARGE

12. Having regard to the declaration on the regularity of the financial operations duly signed by the Court of Auditors and to the undertakings given by the Commission to make improvements to its management, gives a discharge to the Commission for the financial activities in the years 1978 and 1979, on the basis of the following financial statement¹ expressed in EUA; but expresses reservations as regards the way in which the balance sheets have been presented;

¹ Doc. 1-88/81, pp. 6-7

(A) - 1978

BALANCE SHEET

ASSETS

Disbursed loans	4,549,891,467
Banks	309,677,951
Ordinary portfolio	167,265,646
Interest receivable	105,172,525
Issuing costs and redemption premiums to be written off	70,494,437
Other assets	43,356,556
Bank deposits for bonds and coupons due	34,230,814
Repurchased bonds	78,209,905
Fixed assets	272,401
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	5,358,571,712
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LIABILITIES

Reserves	379,562,662
Allocation of surplus	343,279,163
Unallocated surplus	113,045
Borrowings	4,416,237,654
Interest payable	151,289,973
Bonds and coupons due	34,230,814
Short-term bank loans	28,457,135
Sundry creditors	4,196,928
Redemption premiums payable	1,204,336
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	5,358,571,712
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REVENUE AND EXPENDITURE ACCOUNT

INCOME

Service of loans and guarantees	374,456,791
Levy	100,775,514
Member States' contributions	28,000,000
Interest on bank deposits and portfolio	33,781,463
Miscellaneous	187,876
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	537,201,644
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EXPENDITURE

Service of borrowings and guarantees	352,181,251
Other financial expenses	236,252
Research	32,306,675
Rehabilitation	20,993,860
Interest reduction under Art. 54	3,976,808
Interest reduction under Art. 56	4,799,675
Assistance to coke	---
Administrative expenditure	5,000,000
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Loss on exchange rate adjustment	10,783,339
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	430,277,860
Net balance to be utilized	106,923,784
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	537,201,644
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(B) - 1979

BALANCE SHEET

ASSETS

Disbursed loans	4,793,693,335
Banks	448,858,943
Ordinary portfolio	169,380,099
Interests receivable	113,121,166
Issuing costs and redemption premiums to be written off	70,902,275
Other assets	47,523,448
Bank deposits for bonds and coupons due	40,376,952
Repurchased bonds	37,254,525
Fixed assets	260,752
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	5,721,371,494
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LIABILITIES

Reserves	411,530,962
Allocation of surplus	415,055,243
Unallocated surplus	419,033
Borrowings	4,675,047,371
Interest payable	166,822,885
Bonds and coupons due	40,376,859
Short-term bank loans	8,268,671
Sundry creditors	2,848,488
Redemption premiums payable	1,001,983
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	5,721,371,495
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REVENUE AND EXPENDITURE ACCOUNT

INCOME

Service of loans and guarantees	406,186,807
Levy	103,239,638
Member States' contributions	28,000,000
Interest on bank deposits and portfolio	44,080,665
Profit on the withdrawal of repurchased bonds	2,739,281
Other income	801,725
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	585,048,116
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EXPENDITURE

Service of borrowings and guarantees	382,613,609
Reduction of portfolio to stock exchange value	10,387,724
Other financial expenses	231,627
Research	33,101,821
Rehabilitation	33,020,436
Interest reduction under Art. 54	5,374,622
Interest reduction under Art. 56	6,399,500
Assistance to coke	4,570,486
Administrative expenditure	5,000,000
Loss on exchange rate adjustment	297,923
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	480,997,748
Net balance to be utilized	104,050,368
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	585,048,116
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EXPLANATORY STATEMENTI. Terms of reference of the European Parliament

Parliament's authority in the matter of granting a discharge for the activities of the ECSC is formally provided for in the Treaties only in respect of the administrative revenue and expenditure included in the general budget of the Community.

In practice, however, through an agreement with the Commission/High Authority, Parliament's power has been extended to the granting of a discharge in respect of revenue and expenditure not of a strictly administrative nature, in other words that included in the 'operating budget' as well as that relating to the financial activities of the 'borrowing and lending operations'. In this connection, the Commission/High Authority pointed out, in its reply¹ to Parliament's resolution of 22 May 1980 on the ECSC discharge for 1977, that the powers enjoyed by Parliament in respect of granting a discharge for the financial management of the ECSC 'were identical with those exercised under the Treaty of Rome'.

To enable the discharge procedures to be completed rapidly and, in particular, to ensure effective and comprehensive control over the financial and budgetary activities of the ECSC, it is vital for an agreement on the subject to be reached between the Commission/High Authority and the Court of Auditors.

In fact, it is only through cooperation between the three institutions concerned that the desired result can be achieved, while at the same time attaining the objective of synchronizing the discharge in respect of the activities of the ECSC and of the general budget of the Community. This would facilitate the overall assessment of the effectiveness of Community policies and the role played in them by the financial and budgetary activities of the ECSC.

II. Terms of reference of the Court of Auditors

If Parliament really wants to exercise the same controls within the ECSC framework as it does under the EEC/EAEC Treaties, it is essential for the Court of Auditors to effect its control activities in the same manner in both cases, so as to provide Parliament with the basis for a judgement of comparable validity.

¹ COM(80) 623 final, Annex E

In this connection, it is worth noting that, under Article 206 a (2) of the EEC Treaty and Article 180 a (2) of the EAEC Treaty, the Court of Auditors 'shall examine whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound'.

However, the parallel provision in the ECSC Treaty (Article 78 f (2)) refers only to administrative revenue and expenditure, while in the case of other activities it stipulates that the Court of Auditors should draw up a separate report 'stating whether the accounting ... and the financial management ... have been effected in a regular manner' (Article 78 f (5)).

In view of the foregoing, it is necessary to move beyond the literal provisions of the Treaty to enable the Court of Auditors to also exercise control within the framework of the ECSC extending beyond mere verification of the regularity of the accounting and financial management to consider at the same time the sound management of the activities in question, in other words the problems of internal cohesion in decision-making and compatibility of the objectives pursued in the various sectors with the aims laid down in the Treaty.

The Court of Auditors is substantially in agreement with this approach (see Note from the Court of Auditors PE 75.700/Ann.) and proposes, continuing the practice introduced in 1977, to provide Parliament, in addition to its analysis of the accounts, with a set of 'remarks', compiled in the light of the reactions of the other institutions and covering the aspects of 'sound management' referred to above.

The proposed timetable for the preparation of these remarks is intended to coincide with the procedures relating to the general budget; this would permit the synchronization of the discharge procedures mentioned above, which has proved impossible in the past because of delays and difficulties of various kinds.

III. Difficulties encountered in the discharge procedure

According to the Commission/High Authority, the considerable delays and difficulties experienced in the procedures for the financial years under review are attributable to the notable increase in the annual volume of the financial activities of the ECSC (loans disbursed rose by 30% and loans contracted by 40% in the period 1975-1980), but above all to the overall increase in the financial operations of the Directorate-General for Credit and Investments, which was assigned the task of administering EURATOM and NCI loans during this period. The day-to-day management of financial operations also increased and the number of accounting entries for the period in question doubled (from 45,000 to 90,000), while the number of staff dealing with them remained almost unchanged.¹

¹ From Comments by the Commission of the European Communities on the Report of the Court of Auditors on the Administration of the ECSC in 1979 (PE 72.169/Ann.) p. 2

This made it impossible, according to the Commission/High Authority, to provide the necessary data at the proper time for the Court of Auditors to verify the regularity of the accounts and make the subsequent assessment of financial management. In fact, it was only thanks to the collaboration of the Court of Auditors that an analysis of the management accounts was able to be prepared in 1978 and 1979 and will continue to be so on a temporary basis in the future (see the abovementioned Note from the Court of Auditors, p. 2).

A further factor in the delays is the inadequate organization of internal control, particularly with regard to financial activities (as far as actions under the operating budget are concerned, the Commission adopted a manual of internal procedures in 1976), not to mention the dispersion and duplication of the accounts departments. The Commission/High Authority has accepted the validity of these comments up to a point and has begun to draw up manuals on procedure and accounting.

The decisive element in the delays and difficulties encountered by the discharge procedure must be seen as the divergence of views between the Commission/High Authority and the Court of Auditors on the role of the latter institution and the extent of its supervision and control.

At the heart of this disagreement, which has yet to be settled, is the possibility of the Court of Auditors carrying out on-the-spot controls in the Member States and receiving the statements relating to the Commission/High Authority's accounts directly from the banking establishments;

- (a) with regard to on-the-spot controls, it should be pointed out that the positions adopted on this point by the two institutions are diametrically opposed. In a letter of 16 February 1981 to the President of the European Parliament, for instance, Mr Tugendhat affirmed that the provisions of the ECSC Treaty, even if interpreted broadly, did not authorize the Court of Auditors to carry out independent on-the-spot controls in the Member States. On the other hand Mr Murphy, in a letter of 3 December 1980 to the President of the European Parliament pointed out that the Treaty was silent on this point and that therefore a very different interpretation was certainly possible. It was totally unacceptable for the institution which was subject to control to put forward its own proposals for limiting the independent right of control enjoyed by the Court of Auditors.

For practical reasons, and in view of the silence of the Treaties on this point, the approach urged by the Court should be accepted. This seems to provide the largest measure of efficiency and independence as far as external control is concerned. However, in this connection

it should be remembered that there is urgent need for an agreement to be reached between the institutions concerned, as a possible framework for devising a procedure for joint control visits by the Commission and the Court of Auditors, at the initiative of the Court.

- (b) As for the external verification of bank balances, the Commission/High Authority's assertion¹ that 'Article 78 f (3) ECSC states that the Court shall hold its audit in the institutions' is incomplete. The Article in question also adds the words: 'and in the Member States'. The Commission's scruples about bank secrecy seem irrelevant inasmuch as it is within the Commission's power to release the banks from any obligation of secrecy and to ensure that its statements of account are made directly available to the Court. Here again it is of the utmost urgency that an agreement be reached between the institutions concerned.

IV. Discharge for 1978 and 1979 and future prospects

The difficulties described above have therefore led to an exceptional delay in the discharge procedure.

Looking more closely at the matter, it should be pointed out that the Commission/High Authority has accepted the validity of the comments made by the Court of Auditors on some points: for example, the many remarks made by the Court in its 1979 Report (Doc. 1-88/81) on the need to alter the structure of the annual accounts in order to adapt the presentation of the accounts to comply with the draft Council Directive on the coordination of provisions relating to the annual accounts of banks; it also accepted the remarks on the difficulties involved in the exact definition of the basis of assessment for the levy and the problems encountered with undertakings operating under licence (Comments by the Commission 1978, PE 73.243, p. 3).

With regard to the basis of assessment for the levy, it should be noted that the survey of undertakings carried out by the Commission, despite the shortcomings noted by the Court of Auditors, was satisfactory on the whole, so much so that its results were taken into account recently when the quotas for the steel industry were fixed.

With regard to technical and social research, although it must be remembered that during the 1978 financial year the Commission was forced to readjust its medium-term programme on steel, owing to the crisis in the steel industry, it is vital that in future there should be greater control of priorities in individual sectors and of the speed of execution of projects which are financed.

¹ Comments by the Commission of the European Communities on the Report of the Court of Auditors on the Administration of the ECSC in 1979, p. 8

With regard to loans for investment and reconversion, the Commission has undertaken (Comments by the Commission, 1978, PE 73.243, p. 9) to reconsider the Court of Auditors' remarks when reorganizing its procedures. It should be noted that, according to statements made by representatives of the Commission to the Committee on Budgetary Control, the Court's comments on the lack of interest in the development of actions which have been financed, do not take full account of the fact that most of the undertakings concerned have maintained a continuous exchange of information with the Commission for almost thirty years, which should permit a thorough knowledge of their production techniques and potential as well as of their economic management. It should also be borne in mind that the Commission/High Authority often has recourse to outside specialist bodies, during preliminary negotiations, to obtain more detailed information on the necessary guarantees.

With a view to granting the discharge, still greater importance must be attributed to the future commitments given by the Commission to improve the efficiency of its own management and to respond to the comments made by the Court. It is significant for the future cooperation called for between the institutions concerned that the representatives of the Commission have recognized the value of these remarks.

A favourable view should therefore be taken of the Commission's undertaking to:

- (a) computerize its accounting system within 18-24 months from March 1981;
- (b) draw up 'a Manual of Procedures which will codify and complete the rules followed and take account of the Court's observations';¹
- (c) draw up an accounting manual, currently in preparation, 'which will be sent to the Court of Auditors';²
- (d) form, using the accounting staff freed by computerization, 'an internal control unit responsible for validating operations before they are recorded; ... it is also intended to set up a new unit to supervise the implementation of financial projects'.

V. Conclusion

Looking to the future, it must again be stressed that only by fulfilling the commitments listed above and by concluding the desired agreement between the Commission and the Court of Auditors will it be possible to achieve a control system capable of providing Parliament with the basis for an up-to-date

¹ Comments by the Commission of the European Communities on the Report of the Court of Auditors on the Administration of the ECSC in 1979, p. 4

² Idem, p. 5

and reliable assessment. In particular, the control of the sound and efficient management of the financial and budgetary activities, in other words a comparison between the objectives and the methods employed to attain them, cannot be performed by the Court and forwarded in good time to Parliament unless an agreement is reached with the Commission on a precise timetable for forwarding the management accounts, so as to leave the Court sufficient time to make its own assessment with a full knowledge of the facts.

The attached Note from the Court of Auditors is therefore correct in saying that in the past there has been considerable uncertainty as to the type and the dates of the documents to be forwarded; absolute priority must be given, with effect from the 1981 financial year, to reaching an agreement on which documents should be forwarded by the individual institutions and on a precise timetable for this to be done.

The Committee on Budgetary Control should devote its efforts to promoting the conclusion of such an agreement.

