

COURT OF AUDITORS



In accordance with the provisions of the Treaties (Article 78 f (4) ECSC; Article 206 a (4) EEC; and Article 180 a (4) EAEC) and the Financial Regulation of 21 December 1977 (Article 83), and the corresponding provisions relating to the European Development Funds, the Court of Auditors of the European Communities, at its meeting on 22 November 1984, adopted its

ANNUAL REPORT **concerning the financial year 1983**

The report, accompanied by the replies of the institutions to the comments of the Court, was transmitted to the authorities responsible for giving discharge and to other institutions on 30 November 1984.

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Annual report on the 1983 accounts

INTRODUCTION

1. This is the seventh annual report of the European Court of Auditors, which relates to the accounts of the financial year 1983 ⁽¹⁾. The Commission is required, by the Treaties ⁽²⁾ and the Financial Regulation ⁽³⁾, to draw up a revenue and expenditure account for the Communities for each financial year and a balance sheet as at the end of that year, and to forward them to the Parliament, the Council and the Court of Auditors by 1 June of the following year. These financial statements are used by the Court in drawing up its annual report. The accounts together with the annual report of the Court and the replies of the institutions to the Court's observations, are to be examined by the Parliament and the Council in connection with the discharge to be given by the Parliament to the Commission in accordance with the Treaties ⁽⁴⁾.

2. In Part I of the report, general matters arising from the Court's work are covered in Chapter 1. Chapters 2 to 13 relate to the general budget of the Communities. Chapter 14 deals with loans and borrowings operations under the EEC and EAEC Treaties and related interest subsidies financed by the budget.

3. Part II is concerned with the European Development Funds. These Funds, which provide aid to developing countries, are managed by the Commission but they are financed by specific contributions by the Member States and do not form part of the general budget of the Communities.

4. Annex I gives the allocation of responsibilities amongst the Members of the Court as at 30 November 1984 and Annex II is a list of all reports and opinions issued by the Court during the five years up to 30 November 1984.

5. Summaries and some detailed analyses of financial information relating to the general budget of the Communities and to the European Development Funds are presented in Annex III.

6. The Court has issued separate reports to the relevant discharge authorities on the 1983 accounts of JET (the Joint European Torus), the European Centre for the Development of Vocational Training (Berlin), the European Foundation for the Improvement of Living and Working Conditions (Dublin) and the Euratom Supply Agency, and the 1982 accounts of the European Schools. A summary of the JET report is included in Chapter 9 of this report, and summaries of the comments made by the Court in the reports on the other bodies are included in Chapter 13. The Court has also made the separate annual report on the accounting for the functional activities of the ECSC and the financial management by the Commission relating thereto, as required by Article 78f (5) of the ECSC Treaty.

⁽¹⁾ Produced in accordance with ECSC Treaty, Article 78f (4), EEC Treaty, Article 206a (4) and EAEC Treaty, Article 180a (4), Article 83 of Financial Regulation of 21 December 1977, OJ No L 356, 31. 12. 1977, and similar provisions in each of the Financial Regulations for the second, third, fourth and fifth European Development Funds, respectively, Council Decision 64/356/EEC, OJ No 93, 11. 6. 1964, Council Decision 71/68/EEC, OJ No L 31, 8. 2. 1971, Council Decision 76/647/EEC, OJ No L 229, 20. 8. 1976, Council Decision 81/215/EEC, OJ No L 101, 11. 4. 1981.

⁽²⁾ ECSC Treaty, Article 78d, EEC Treaty, Article 205a and EAEC Treaty, Article 179a.

⁽³⁾ Articles 73 to 77.

⁽⁴⁾ ECSC Treaty, Article 78g, EEC Treaty, Article 206b and EAEC Treaty, Article 180b.

Presentation of Community accounts and annual report of Court of Auditors

7. The accounts for the financial year 1983 were rendered by the Commission on 30 May 1984. The Court's comments were sent to the institutions on 13 July 1984. All the comments contained in this report were sent to the Commission. Relevant extracts of Chapters 1, 2, 11 and 12 were also sent to the Parliament, the Council, the Court of Justice and the Economic and Social Committee.

8. The Financial Regulation provides for each institution to address its reply to the Court by 31 October. In practice, the formal replies are generally preceded by discussions between the institutions and the Court which cover both the Court's comments and draft replies which are provided on an informal basis. These arrangements enable changes to be made, where necessary, in both the comments and the replies, to ensure that the issues would be readily understood by the reader. This is more likely to be achieved if there is a full and confidential exchange of views with the audited body before the report is finalised and made available with the formal reply.

9. The formal replies were sent by the institutions by 31 October and, after studying them, the Court adopted the final text of the report on 22 November 1984. The report, accompanied by the replies of the institutions, was sent to the institutions on 30 November 1984 in accordance with Article 84 of the Financial Regulation. Where, in the light of the replies, the Court has felt the need for some clarification to give the reader a better understanding of the issues, this has been provided in the relevant paragraph of the report. The absence of remarks by the Court on the individual replies does not imply that it necessarily agrees with them.

10. As last year, the replies of the institutions are presented, subject by subject, under the relevant chapter and item heading after the report.

11. The Court has continued the arrangements introduced last year for the audit of its own accounts. The Member responsible for the examination of a particular subject in other institutions also examines the use of corresponding appropriations in the Court's budget. Any observations arising are included in the relevant chapter of this report and the replies are included with the replies of the other institutions.

Special reports

12. As mentioned earlier, Annex II is a list of reports and opinions adopted by the Court during

the past five years. The Court would mention that, during its examination of the 1983 accounts, it has followed up issues raised in its report on the sound financial management of Community activities adopted on 6 October 1983 in response to the conclusions of the European Council of 18 June 1983; observations arising appear in the relevant chapters of this report.

Membership and organisation of the Court

13. There have been no changes of Membership of the Court since the last annual report was presented. Mr Pierre Lelong, after three years as President, resigned and was succeeded by Mr Marcel Mart on 18 October 1984. There was also some reallocation of responsibilities among Members at the same time, and the position as at 30 November, 1984 is given in Annex I.

Court budget and staff

14. The Court's expenditure in 1982, including carry-overs to 1983, amounted to some 14,1 million ECU, and in 1983, including carry-overs to 1984, amounted to some 15,3 million ECU. The main element in these amounts is for salaries and allowances.

15. The budgets for 1982 and 1983 provided for the following numbers of posts:

	1982	1983
A category staff	101	107
LA category staff	36	36
B category staff	63	63
C category staff	75	78
D category staff	19	19
Total	294	303

PART I

CHAPTER 1

General matters

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General budget of the European Communities

Accounts for the year ended 31 December 1983

1.1. The accounts of the general budget of the European Communities for the year ended 31 December 1983 are contained in a five-volume document (COM(84) 219 to 221) which was sent by the Commission to the Court of Auditors on 30 May 1984. Volume V (COM(84) 221) of the document includes the consolidated revenue and expenditure account and balance sheet. Volume V also provides certain other general summaries showing the outturn for each of the institutions, together with the principles applied in drawing up the accounts.

Utilisation of appropriations

1.2. The total final appropriations for commitment and payment authorised to be charged to the

accounts in 1983 amounted to 27 681,0 million ECU and 25 068,8 million ECU respectively. The utilisation of these appropriations by the institutions is shown in *Tables 1.1 and 1.2*.

Year of account and balance sheet questions

1.3. Article 27 of the Financial Regulation ⁽¹⁾ provides that the balance from each financial year shall be entered in the budget of the subsequent financial year on the adoption of an amending budget. No amending budget for the financial year 1982 was adopted and the surplus of 661,5 million ECU available from 1981 was introduced as revenue in Article 301 of the 1983 budget by amending and supplementary budget No 1 for 1983, which was adopted on 10 February 1983. The practical effect of bringing the surplus for 1981 to account in 1983 was to reduce the requirement for other revenue for 1983 by a corresponding sum.

⁽¹⁾ OJ No L 356, 31. 12. 1977.

Table 1.1 — Amounts and utilisation, by institution, of appropriations for commitment available in 1983

(Mio ECU)

Institution	Budget appropriations 1983	Final appropriations 1983 (2)	Commitments entered into in 1983	Appropriations remaining available for 1984	Cancellations
(1)	(2)	(3)	(4)	(5)	(6)
Parliament	228,0	228,0	211,5	0,4	16,1
Council (1)	130,5	130,5	121,4	0,4	8,7
Commission	26 128,2	27 276,2	26 427,2	611,6	237,4
(of which:					
— non-differentiated appropriations	(20 509,4)	(20 529,6)	(20 383,3)	(—)	(146,3)
— commitment appropriations)	(5 618,8)	(6 746,6)	(6 043,9)	(611,6)	(91,1)
Court of Justice	29,1	29,1	27,5	—	1,6
Court of Auditors	17,2	17,2	15,3	—	1,9
Total	26 533,0	27 681,0	26 802,9	612,4	265,7

(1) Including Economic and Social Committee.

(2) Including 1 141,1 Mio ECU remaining from previous years and 6,9 Mio ECU corresponding to receipts for services performed on behalf of outside bodies (research and investment).

Table 1.2 — Amounts and utilisation, by institution, of appropriations for payment available in 1983

(Mio ECU)

Institution	A. Appropriations of the financial year 1983					B. Carry-overs from 1982			
	Budget appropriations 1983	Final appropriations 1983 (2)	Payments made in 1983	Carry-overs to 1984	Cancellations	Carry-overs from 1982	Payments made in 1983	Carry-overs to 1984	Cancellations
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Parliament	228,0	228,0	182,3	29,6	16,1	36,8	32,5	—	4,3
Council (1)	130,5	130,5	109,4	12,4	8,7	8,5	7,3	—	1,2
Commission	24 656,3	24 664,0	22 769,3	1 662,6	232,1	1 473,2	1 169,6	7,5	296,1
(of which:									
— non-differentiated appropriations	(20 509,5)	(20 529,6)	(19 853,7)	(529,6)	(146,3)	(511,0)	(420,6)	(—)	(90,4)
— payment appropriations)	(4 146,8)	(4 134,4)	(2 915,6)	(1 133,0)	(85,8)	(962,2)	(749,0)	(7,5)	(205,7)
Court of Justice	29,1	29,1	25,8	1,7	1,6	1,5	1,4	—	0,1
Court of Auditors	17,2	17,2	14,8	0,5	1,9	1,0	0,6	—	0,4
Total	25 061,1	25 068,8	23 101,6	1 706,8	260,4	1 521,0	1 211,4	7,5	302,1

(1) Including Economic and Social Committee.

(2) Including 7,7 Mio ECU corresponding to receipts for services performed on behalf of outside bodies (research and investment).

1.4. The balance for the financial year 1982 was established when the revenue and expenditure account for that year was drawn up. The account was sent to the Court on 26 May 1983. Before that happened, however, 675,9 million ECU of the balance were used 'on account' to finance the amending and supplementary budget No 1 for 1983. As the Court stated in paragraph 1.5 of its annual report for the financial year 1982 ⁽¹⁾, it was unaware of any provision in the relevant legislation for a balance to be used in this way before the actual amount available was determined. The remainder of the balance for 1982 (149,3 million ECU) was introduced as revenue of the 1983 budget in amending and supplementary budget No 2 for 1983 on 24 October 1983.

1.5. During the audit of the 1983 accounts, various questions have arisen relating to the regularity of transactions and consequently to the amounts shown as revenue and expenditure in the accounts which are submitted to the discharge authority in accordance with the Treaties ⁽²⁾. These cases are

described in general in this chapter and in detail in subsequent chapters, and the amounts involved are given in *Table 1.3*. Furthermore, in five cases in the social sector (Title 6) involving a total of 1,9 million ECU, cancellations of commitments were brought to account in 1983 even though they were not approved by the Financial Controller until January 1984; the statement of commitments does not therefore reflect the real situation with regard to these cases as at 31 December 1983. In addition, the Court considers that certain cases which it has not been able to quantify (paragraphs 3.14-3.20, 3.21-3.23) should be evaluated by the Commission.

1.6. The Court pointed out in its annual report for the financial year 1981 ⁽³⁾ that the present regulations contain no specific provisions for dealing with amounts relating to irregular transactions which are included in the Community accounts. The Court considers, however, that the discharge authority should take account of these irregularities in the discharge procedure by instructing the Commission, in

⁽¹⁾ OJ No C 357, 31. 12. 1983.

⁽²⁾ ECSC Treaty Article 78 d and g; EAEC Treaty Articles 179a, 180b; EEC Treaty Articles 205a, 206b.

⁽³⁾ OJ No C 344, 31. 12. 1982.

Table 1.3 — Summary of quantifiable cases in this report where the Court considers that amounts have been overstated or understated in the revenue and expenditure account

(ECU)

Paragraph	Revenue 1983		Payments against 1983 appropriations		Payments against carry-overs from 1982		Commitments entered into in 1983	
	Amount understated	Amount overstated	Amount understated	Amount overstated	Amount understated	Amount overstated	Amount understated	Amount overstated
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.5							1 935 408	
2.7					88 943			
2.8			12 000 000					
2.19				152 000 1 700 000				152 000 1 700 000
2.25			11 457				11 457	
4.47 – 4.50	17 468 066							
9.4 (b)								9 200 000
9.4 (c)							67 000 000	
9.4 (d)								1 400 000
11.8 – 11.10								7 040 781
11.11 – 11.13				1 545 318				1 545 318
Total	17 468 066		12 011 457	3 397 318	88 943		68 946 865	21 038 099
Net total	17 468 066		8 614 139		88 943		47 908 766	

the resolution accompanying discharge, to adapt the accounts and take the necessary measures (budgetary or otherwise) to regularise the situation. Accordingly, the Court is of the opinion that, for the purposes of discharge, adjustments should be made as shown in *Table 1.4*.

1.7. There are a number of other subjects which the Court, while not formally questioning the regularity, nevertheless considers to be of sufficient significance to be drawn specifically to the attention of the discharge authority (paragraphs 4.13, 4.17, 4.21-4.22, 4.24, 4.31(b), 4.35, 4.46). In particular, the Commission's action in deferring EAGGF Guarantee expenditure of some 825 million ECU to 1984 was contrary to the principle of annuality.

Availability and management of appropriations

1.8. On 7 June 1984 the Court presented its opinion on the Commission's proposal for a regulation introducing measures to cover budgetary requirements in 1984 given the exhaustion of own resources. In its opinion the Court referred to certain developments in the management of appropriations; these were particularly marked in 1983 and had significant effects on the financial situation at the end of the financial year with consequent implications for the future. In view of the importance of these matters and the fact that the trends are not readily apparent from the Commission's financial

Table 1.4 — Advice concerning the amounts on which to give discharge to the Commission for the execution of the general budget of the European Communities for the financial year 1983 (1)

(ECU)		
1. Revenue for 1983		
1.1. Receipts of the financial year Adjustments (see Table 1.3, column 1)	24 765 506 219,52 + 17 468 066,00	24 782 974 285,52
1.2. Carry-overs from 1982 unused and cancelled Adjustments (see Table 1.3, column 5)	302 061 138,17 - 88 943,00	301 972 195,17
1.3. Exchange rate difference		47 947 118,37
Total 1 (adjusted revenue)		25 132 893 599,06
2. Expenditure charged to 1983		
2.1. Payments against 1983 appropriations Adjustments (see Table 1.3, columns 3 and 4)	23 101 563 603,38 + 8 614 139,00	23 110 177 742,38
2.2. 1983 appropriations carried over to 1984		1 706 775 257,62
2.3. Earmarked revenue to be repaid		70 766,37
Total 2 (adjusted expenditure)		24 817 023 766,37
3. Balance of the financial year 1983 (total 1 minus total 2)		315 869 832,69
4. Commitments entered into in 1983 Adjustments (see Table 1.3, columns 7 and 8)	26 802 911 663,04 + 47 908 766,00	26 850 820 429,04
5. Payments against carry-overs from 1982 Adjustments (see Table 1.3, column 5)	1 211 414 977,45 + 88 943,00	1 211 503 920,45

(1) The adjustments only take account of the cases quantified by the Court and do not necessarily cover all irregularities.

Table 1.5 — Underutilisation of appropriations for payment*(Mio ECU)*

Year	Carry-overs from preceding year	Final appropriations for current year	Total available	Payments made	Cancel-lations	Carry-overs to following year
1979	2 098,9	14 488,3	16 587,2	14 367,1	311,5	1 908,6 ⁽¹⁾
1980	1 869,8 ⁽¹⁾	16 233,3	18 103,1	16 290,4	374,9	1 437,8 ⁽²⁾
1981	1 435,1 ⁽²⁾	18 441,5	19 876,6	17 792,8	679,7	1 404,1
1982	1 404,1	21 994,3	23 398,1	20 422,7	1 454,7	1 521,0
1983	1 521,0	25 068,8	26 589,8	24 313,0	562,5	1 714,3

⁽¹⁾ Differences are due to transfers.⁽²⁾ Differences are due to transfers.

statements, the Court summarises here the main elements. References are given to the paragraphs in subsequent chapters where more detailed information can be found.

1.9. *Table 1.5* shows the amount of appropriations for payment which remained unused at the end of each of the last five years, the amounts which were cancelled and the amounts which were carried over to the following year. These unused appropriations related mainly to the structural funds, research and energy, and development aid. The amounts involved reflect over-optimistic assessments of the rate at which Community policies in these areas could be executed and, as a result, Member States were called upon to make available revenue in the form of value added tax that would not in fact be used.

1.10. On the other hand, *Table 1.6* shows that, in the areas covered by differentiated appropriations, there has been a steady build up in the level of commitments entered into each year which has not been matched by payments to liquidate those commitments. Payments during the past five years have, on average, represented only about two thirds of commitments entered into in those years, with the proportion falling somewhat since 1980. Consequently, at the end of 1983, outstanding commitments totalled almost 8 900 million ECU; just over 1 100 million ECU of corresponding payment appropriations were carried forward, leaving a balance of some 7 800 million ECU to be financed out of future Community budgets (see, for example, paragraphs 7.11-7.16). Against this, the balance of the year 1983 (some 300 million ECU) could be used to meet expenditure in 1984 through the medium of an amending budget.

Table 1.6 — Build-up of outstanding commitments (differentiated appropriations)*(Mio ECU)*

Year	Net commitments entered into in the year ⁽¹⁾	Payments made in the year	Increase in unliquidated commitments during the year	Cumulative outstanding commitments at the end of the year
1977				1 802,7
1978	1 623,5	918,8	704,7	2 507,4
1979	2 797,6	1 763,5	1 034,1	3 541,5
1980	3 262,0	2 338,2	923,8	4 465,3
1981	3 700,6	2 594,6	1 106,0	5 571,3
1982	4 554,9	3 032,5	1 522,4	7 093,7
1983	5 466,1	3 664,6	1 801,5	8 895,2

⁽¹⁾ Taking account of cancellations of commitments and, for 1978, of adjustments of balances due to the EUA variations.

1.11. In addition, as explained in paragraphs 4.51-4.65 of this report, the management of EAGGF Guarantee Section appropriations in 1983 has resulted in the deferment of expenditure of some 825 million ECU, to which must be added the contingent liability for the disposal of intervention stocks (2 800 million ECU). At the end of 1983, therefore, there was a clear and foreseeable need for some 3 600 million ECU, with the possibility that this could be even higher if account is taken of greater potential losses (which is suggested by 1984 sales results) on existing intervention stocks. Furthermore, as shown in paragraph 10.5, some 500 million ECU will have to be found to finance obligations

entered into by 31 December 1983 in the context of food aid, but not covered by 1983 appropriations.

The Commission's replies to paragraphs 1.9 to 1.11 fail to deal with the central issues raised by the Court. The Court's main criticisms were that large amounts of appropriations remained unused at the end of each of the last five years, and that the 1983 accounts do not adequately present the real liabilities of the Community.

The Court recognises that there may be room for debate as to how far the blame for this situation lies with the system (in particular the Financial Regulation), and how far with the way in which the Commission has administered that system.

In its reply to paragraph 1.9 the Commission has laid emphasis on certain technical aspects of the distinction between differentiated and non-differentiated appropriations. These do not in fact answer fundamentally the concerns expressed by the Court.

In reply to paragraphs 1.10 and 1.11 the Commission has questioned whether it is appropriate to consider future liabilities related to the management of the EAGGF Guarantee, notably those arising from the management of intervention stocks, as part of the total liabilities outstanding at 31 December 1983. The Court fully recognises that the liabilities arising from the accumulation of intervention stocks are not of the same nature as, for example, those arising from commitments entered into in 1983 or earlier years for the structural funds. The fact remains, however, that the level of intervention stocks does represent a contingent liability for future Community budgets, and that it is therefore necessary to include an estimate of this liability in order to give as accurate a picture as possible of the overall position at the end of the financial year.

It seems, therefore, to the Court that there is an urgent need to review the relevant aspects of the Community budgetary system and management and the presentation by the Commission of the overall financial situation.

1.12. In this context of the clarity of the Communities' financial situation, the Court would also draw attention to the observation it made in paragraph 1.5 of its annual report for the financial year 1980⁽¹⁾ and paragraph 1.3 of its annual report for

the financial year 1981. It pointed out then that the system of accelerated payments which had been introduced for Community grants for structural projects did not represent any real speeding up in the execution of Community policies. That change gave the impression of increased Community activity but the only practical effect was to call on Member States to provide revenue for earlier financing of Community assisted projects in the Member States. In spite of the introduction of accelerated payments, which would tend to reduce the trend described in paragraph 1.10 above, the level of outstanding liabilities has continued to grow.

1.13. The Court also notes that during 1982 and 1983 contributions totalling 162 million ECU were made out of the general budget to the operating budget of the ECSC. Significantly greater amounts remained unused in the ECSC accounts at the end of 1983 and the Court questions whether such contributions, which have added to the already difficult situation of the general budget, were justified.

1.14. The Court's purpose in drawing attention to this situation is threefold, i.e.

- (a) to show the trend and the overall position at the end of the 1983 financial year which are not readily apparent from the financial statements produced by the Commission,
- (b) to point out that total net liabilities at the end of 1983, which will have to be financed by Community revenue during the immediately following years, amount at a minimum to more than 11 000 million ECU and could be even higher, and
- (c) to draw attention to the consequences of the present Community budgetary and accounting systems, and the need to establish arrangements which will give a clear picture of future liabilities while only calling on funds to meet genuine and immediate cash requirements.

Summary of observations in this report

1.15. The Court's examination of the 1983 accounts and the observations arising therefrom have tended to bear out a number of general comments and suggestions already presented in the report of 6 October 1983⁽²⁾ in response to the con-

⁽¹⁾ OJ No C 344, 31. 12. 1981.

⁽²⁾ OJ No C 287, 24. 10. 1983.

clusions of the European Council of 18 June 1983. Those of the principal issues which have been developed in this annual report, and the corresponding paragraphs, are

(a) in the field of the EAGGF Guarantee section:

- (i) that the present budgetary and legislative framework does not serve to control commitments; this has been referred to in this annual report in paragraphs 4.51-4.62, and particularly in paragraph 4.56 which refers expressly to paragraphs 2.2.3 and 2.2.6 of the above-mentioned special report;
- (ii) the deficiencies in the system of decentralised management (paragraphs 4.25-4.26 of this report and 2.2.8-2.2.9 of the special report) as illustrated by inadequate control of the management of cash resources, by blockages in the charging of expenditure to the budget and by persistent delays in the clearance of the accounts;

(b) in the structural funds:

- (i) there is often a lack of clear Community objectives and criteria and consequently a tendency for Community aid to degenerate into a partial reimbursement of national budgetary expenditure (paragraphs 5.18, 5.25, 7.17 et seq.);
- (ii) effort is usually concentrated on the establishment of programmes and projects, with insufficient concern for action needed to ensure their fulfilment and the achievement of such objectives as are defined; (paragraphs 5.17, 5.25, 8.15-8.16, 8.24);

(c) in the case of food aid and cooperation with certain third countries:

- (i) there are numerous deficiencies in the quality of food aid supplied and the speed of delivery (paragraphs 10.16, 10.17, 10.18);
- (ii) insufficient account is taken of the real needs of the recipients (paragraph 10.32).

1.16. The Court has also noted that subjects dealt with in subsequent chapters of this report reflect a number of problems of a general character, as set out in the following paragraphs. Some of these problems were drawn to attention in paragraph 1.13 of the annual report for the financial year 1982. The aim of a presentation of this kind is to demonstrate

that there appear to be certain fundamental weaknesses which, if remedied, could have beneficial effects in the administration of Community policies in general — not only in the specific areas giving rise to observations.

1.17. Control and supervision by the Commission and its services, as well as the budgetary authority, tend to be hampered by the lack of relevant financial and management information. In some cases there is no formal requirement for such information, while in others national administrations and other bodies in the Member States have failed to provide reports and returns on time or at all. The effect is to impair the review and evaluation of Community activities and prevent useful lessons from being drawn when drafting new rules and regulations and planning future activities (paragraphs 2.38, 3.10-3.13, 5.32, 5.64, 7.17-7.23, 7.25, 7.47, 8.19-8.24, 9.10, 9.21).

1.18. The Court has also noted important areas where the objectives of Community policies or Community financed activities have not been fully achieved. In some cases this may be due to changed circumstances or other external factors which could not reasonably have been foreseen. But the persistence of similar criticisms can only lead to the conclusion that the experiences of the past are not being drawn upon as they could and should be (paragraphs 4.63, 5.32, 5.64, 7.17, 7.25, 10.19, 11.16).

1.19. The arrangements for placing contracts with outside bodies have again given rise to observations. Notwithstanding Title IV of the Financial Regulation, contracts which might have been the subject of competitive tendering have been placed by private treaty. In addition, there has not been systematic follow up and evaluation of the performance of the contractors and there appears to be no central service of the Commission responsible for co-ordinating practice or for disseminating the lessons of experience (paragraphs 8.45-8.49, 9.4-9.8, 9.11-9.14, 9.20-9.22, 9.23-9.26, 9.34-9.38, 10.26, 10.37-10.38, 12.12, 12.15).

1.20. In 1983 there was a significant accumulation of activity towards the end of the year. This was sometimes due to delay in producing the necessary regulations or the late approval of programmes. But whatever the reason, such concentration of activity during a short period can adversely affect the examination and control which can be exercised by the Commission (paragraphs 7.9-7.10, 8.11-8.13).

1.21. The Court has noted inconsistencies in the interpretation by the Commission of the stage in the decision making process at which a financial commitment should be recorded in the accounts (paragraphs 9.4, 10.5).

1.22. There is a need for harmonisation and improvement in the accounting for value-added tax (paragraphs 2.18, 10.7, 13.7 (b)).

(c) Special report on the management of Community development aid funds by the European Investment Bank (EIB):

(i) the Court, the Commission and the discharge authority have insufficient information on which to base their appraisal of the management of appropriations which is delegated by the Commission to the EIB for development aid programmes;

(ii) the level of income received by the EIB and arising from the management of certain appropriations, should be reviewed.

Observations in special reports which are relevant for discharge

1.23. Special reports adopted by the Court since its last annual report which are relevant to the discharge for the financial year 1983 are:

(a) Special report on the operations of the common organisation of the market in sheepmeat:

This report highlights the fact that the system established in 1981 has, until now, in no way contributed to harmonising the real market conditions and that the increased gap between the guaranteed prices (reference prices) and market prices has had to be made good by rapidly increasing budgetary expenditure.

(b) Special report on the coordination of Community aids to third countries:

The use of appropriations for development aid could be improved by a better coordination between the departments of the Commission and between the Commission and other aid donors, in particular the Member States.

Refusal of approval by Financial Controllers

1.24. Under the provisions of the Financial Regulation, proposals for the commitment of expenditure and payment orders are subject to the prior approval of the Financial Controller. Such prior approval is also required for contracts with third parties for supplies and services. A refusal of approval can be overruled (except where the availability of appropriations is in doubt) by a reasoned decision of the superior authority of the competent institution. The Financial Regulation provides for such cases to be notified to the Court of Auditors every three months.

1.25. The Court has been informed that, in relation to 1983, refusals of approval by Financial Controllers were overruled on 10 occasions by the Commission, on three occasions by the Parliament (one of these decisions was subsequently modified) and on two occasions by the Court of Auditors. The other institutions have informed the Court that none of the decisions of the Financial Controller was overruled during 1983.

CHAPTER 2

Accounting matters

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Introduction

2.1. This chapter is concerned, on the one hand, with questions relating to the general accounts and, on the other, with the results of the examination of the balance sheets of the Community institutions

(Parliament, Council, Commission, Court of Justice, Court of Auditors, Economic and Social Committee and the Joint Research Centre at Ispra), along with the (consolidated) balance sheet of the Communities as at 31 December 1983. The results of the examination of the revenue and expenditure account relating to the implementation of the budget are set out in Chapters 3 to 14.

2.4. *Tables 2.1 and 2.2 summarise the balance sheets and revenue and expenditure accounts of the institutions and the (consolidated) balance sheet and revenue and expenditure account of the Communities.*

[illegible]

Parliament

Cash deficit

2.5. In its special report on the Members' Cash Office (⁽¹⁾), the Court drew attention to numerous administrative irregularities, including the cashing of two cheques for a total of approximately BFR 4,1 million (0,1 million ECU) in questionable cir-

cumstances during 1981. The Court informed the President of the European Parliament of these matters in April 1982. In the conclusion to its report, the Court called upon the Parliament to look into the transactions in question, to recover the missing sums and to establish who was responsible, paying particular attention to an examination of the positions of the accountant, the administrator of the imprest accounts and the Financial Controller in the light of the relevant regulations. After a detailed examination of the situation, the Parliament was obliged to enter the sum of BFR 4,1 million in the accounts under the heading 'Expenditure to be charged' as a 'cash deficit' and, in addition, to institute disciplinary proceedings against the persons who held the

(⁽¹⁾) OJ No C 202, 5. 8. 1982.

(Mio ECU)

Liabilities									
Balance-sheet items	Parliament	Council	Commission	Court of Justice	Court of Auditors	Economic and Social Committee	Office for Official Publications	Joint Research Centre	Consolidated balance sheet
Fixed capital:									
Own capital	21,0	9,2	266,1	3,7	0,9	2,1	—	312,2	615,4
Surplus for 1983	—	—	307,1	—	—	—	—	—	307,1
Unallocated surplus from lending and borrowing operations	—	—	6,3	—	—	—	—	—	6,3
Long-term debts:									
Loans raised	—	—	9 558,6	—	—	—	—	—	9 558,6
Short-term debts:									
Payable to Member States	—	—	12,6	—	—	—	—	—	12,7
Community bodies	—	—	2,2	—	—	—	9,4	55,2	8,7
Appropriations for the year to be carried over	—	—	1 706,8	—	—	—	—	—	1 706,8
Earlier appropriations to be carried over	—	—	7,5	—	—	—	—	—	7,5
Sundry accounts payable	—	0,2	188,2	0,1	0,1	—	0,4	6,8	195,8
Revenue still to be entered	0,2	—	32,1	0,1	—	—	0,2	1,2	33,8
Revenue to be recovered	0,2	—	43,1	—	—	—	—	7,7	43,3
Payments in hand	0,1	0,4	687,7	—	0,2	—	—	8,5	696,9
Inter-institutional accounts	55,7	6,2	—	4,9	0,8	1,4	—	—	—
Accrued expenses	—	—	214,7	—	—	—	—	—	214,7
Total	77,2	16,0	13 033,0	8,8	2,0	3,5	10,0	391,6	13 407,6
Commitments not included in the balance sheet	—	—	7 883,9	—	—	—	—	—	7 883,9

Table 2.2 — Revenue and expenditure account of the Community institutions and bodies and (consolidated) revenue and expenditure account of the Communities for 1983

(Mio ECU)

Sector		Parliament	Council	Commission (¹)	Court of Justice	Court of Auditors	Economic and Social Committee	Office for Official Publications	Consolidated account
A. Actual revenue:									
Own resources				22 982,7					22 982,7
Financial contributions				217,7					217,7
Surpluses available				1 299,9					1 299,9
Other revenue		19,1	10,2	226,6	3,8	2,1	2,4	1,0	265,2
Total revenue		19,1	10,2	24 726,9	3,8	2,1	2,4	1,0	24 765,5
B. Expenditure:									
Staff	(a)	132,9	63,3	483,9	20,8	13,0	14,7	9,6	738,2
	(b)	13,8	0,4	6,6	0,1	0,1	—	0,2	21,2
	(c)	146,7	63,7	490,5	20,9	13,1	14,7	9,8	759,4
Administration	(a)	49,4	24,3	188,1	4,9	1,8	7,0	5,5	281,0
	(b)	15,7	11,6	48,6	1,6	0,5	0,4	0,9	79,3
	(c)	65,1	35,9	236,7	6,5	2,3	7,4	6,4	360,3
Agricultural market guarantees	(a)			15 785,7					15 785,7
	(b)			0,1					0,1
	(c)			15 785,8					15 785,8
Agricultural structures	(a)			513,7					513,7
	(b)			131,5					131,5
	(c)			645,2					645,2
Fisheries policy	(a)			31,9					31,9
	(b)			12,5					12,5
	(c)			44,4					44,4
Regional policy	(a)			2 265,5					2 265,5
	(b)			115,2					115,2
	(c)			2 380,7					2 380,7
Social policy	(a)			801,0					801,0
	(b)			617,7					617,7
	(c)			1 418,7					1 418,7
Research, energy etc. (¹)	(a)			1 216,2					1 216,2
	(b)			166,7					166,7
	(c)			1 382,9					1 382,9
Repayments to Member States	(a)			950,6					950,6
	(b)			99,5					99,5
	(c)			1 050,1					1 050,1
Cooperation with non-member countries	(a)			517,8					517,8
	(b)			463,1					463,1
	(c)			980,9					980,9
Total expenditure	(a)	182,3	87,6	22 754,4	25,7	14,8	21,7	15,1	23 101,6
	(b)	29,5	12,0	1 661,5	1,7	0,6	0,4	1,1	1 706,8
	(c)	211,8	99,6	24 415,9	27,4	15,4	22,1	16,2	24 808,4
C. Outturn for the year 1983 (A – B)									– 42,9
D. Cancellation of appropriations carried over from previous year									302,1
Exchange differences for the year 1983									48,0
Revenue earmarked to be repaid									– 0,1
E. Balance for the year 1983 (C + D)									307,1

Notes: (a) Payments against appropriations for the year 1983.

(b) Appropriations for the year carried over to 1984.

(c) Total (a + b) = expenditure charged to the financial year.

(¹) Including the Joint Research Centre.

posts of administrator of the imprest accounts and accountant at the time of the irregularities in question.

2.6. The disciplinary proceedings against these persons were concluded in February 1984, and in May disciplinary action (downgrading) was taken with regard to the person who held the post of accountant at the time of the irregularities in question: this person has since instituted legal proceedings at the Court of Justice with a view to having this sanction overturned. In addition, Parliament, acting on the recommendation of the Committee on Budgetary Control and its rapporteur, voted in plenary session to give the accountant discharge for the exercise of his duties during the financial year 1981, but reserved the right to look at the matter again in connection with the discharge for the financial year 1982.

2.7. The Court wishes to make the following observations:

- (a) Two years have passed and no valid supporting documents have yet been produced to justify the utilisation of the BFR 4,1 million. Parliament has therefore been obliged since 1982 to enter this sum in the balance sheet as an asset under 'Expenditure to be charged' ⁽¹⁾.
- (b) In accordance with Article 70 of the Financial Regulation, any cash or bank shortage may be recovered:
 - (i) from an insurance policy taken out in the name of accounting officers or imprest account administrators;
 - (ii) and/or from a guarantee account into which a special allowance granted to officials holding such appointments is paid.

The Court invites the Parliament to take all necessary measures to ensure that the deficiency in this case is recovered from either or both of these sources before any payment is made to the officials concerned out of the funds standing in their names.

Advances to be settled and expenditure to be charged

2.8. The Court has already had occasion, in its annual report for the financial year 1982 ⁽²⁾, to draw attention to the large amount of advances to be set-

tled and expenditure to be charged, which, at the time, amounted to 7 million ECU. By 31 December 1983, this sum had risen to more than 12 million ECU. Most of this expenditure was accounted for by the imprest accounts:

- (a) approximately 7 million ECU was accounted for by the imprest account 'all members' meetings';
- (b) approximately 3,9 million ECU was accounted for by the imprest account 'mission expenses'.

Although the figures for 1983 are not comparable to those for 1982 (the closing of the accounts for 1983 took place considerably earlier, so that the expenditure to be charged was artificially inflated), it nevertheless appears that the measures for procedural improvement alluded to by Parliament in its answers to the Court's observations on the financial year 1982 need to be implemented urgently.

Monitoring of 'sundry accounts receivable' and 'sundry accounts payable'

2.9. The 'sundry accounts receivable' and 'sundry accounts payable' accounts contain numerous old sums which have yet to be settled. The progress achieved in clearing some of the accounts must be continued and all the other accounts must now be cleared, as Parliament has undertaken to do.

Imprest accounts

2.10. Parliament has adopted a series of measures with a view to improving the procedures currently in force. However, in the case of some imprest accounts the adjustments have still not been carried out in the manner and within the deadlines prescribed. In addition, as there has never been a detailed reconciliation between the main accounts and the imprest account for mission expenses, it is not possible to arrive at a judgment regarding the sum entered in the balance sheet (3,9 million ECU - see paragraph 2.8). The Court recommends that Parliament should continue its efforts.

Council

Financial Regulation

2.11. Amounts receivable (some 8 000 ECU) were entered in the accounts in 1983 as revenue before

⁽¹⁾ Annual report for the financial year 1982, paragraph 2.9, OJ No C 357, 31. 12. 1983.

⁽²⁾ OJ No C 357, 31. 12. 1983, paragraphs 2.4-2.10.

the sums in question had actually been received, which took place in 1984. This procedure is clearly an infringement of Article 5 of the Financial Regulation, according to which the revenue of a given financial year must be entered in the accounts on the basis of the amounts collected during that financial year.

2.12. Contrary to Article 42 of the Financial Regulation, payment orders for cash advances paid to the Economic and Social Committee (approximately 17,8 million ECU) are made without the prior approval of the Financial Controller. The payments in question are therefore irregular.

2.13. The Court pointed out in its annual report for the financial year 1982 (!) that the travel expenses of the representatives to the Council were reimbursed in cash and without the prior approval of the Financial Controller. This practice, which is at odds with the stipulations of the Financial Regulation, continued in 1983.

Commission

Reconciliation of bank accounts

2.14. The Court investigated 43 bank accounts, selected from the Commission's main accounts, and checked the number of reconciliations between the balance of the account as indicated in the general accounts and the balance given in the bank statements. The Court established that, for 1983 and for these 43 bank accounts, there were 161 reconciliations; this figure includes, on the one hand, the 43 reconciliations carried out by 31 December 1983 and, on the other hand, reconciliations which were carried out simultaneously for several successive months. In the case of 32 of the 43 bank accounts, two reconciliations were in fact carried out during the financial year, the first usually in August and the second in November. This inadequacy in the number of checks explains why the reconciliations for all the bank accounts together included old transactions, for which no supporting documents had been provided, amounting to approximately 79 000 ECU.

2.15. The Court once again recommends that the Commission should take the appropriate steps to see that adequate checks are applied to banking transactions.

Accounts with Treasuries of Member States

2.16. The advances under the terms of the EAGGF Guarantee Section for January 1984, which would normally have been paid in December 1983, were not paid until January 1984. If the Commission had paid over these advances in December 1983, the Community balance sheet would have been altered as follows:

- (a) The balance of the account 'Advances to Member States' would have been 1 904 million ECU higher and the balances of the accounts with the Treasuries of the Member States would have been correspondingly lower.
- (b) The balance for the financial year would have fallen by 2,2 million ECU, corresponding to exchange rate losses (not actually realised) in connection with the revaluation of these advances at the ECU exchange rate for 31 December.

Recoverable taxes and duties

2.17. The recoverable taxes and duties (mainly value added tax — VAT) are charged by the Commission to the same budget headings, and usually the same commitments, as the corresponding purchases and services rendered. They are subsequently claimed back from the Member States on the basis of documentation which is kept separate from the main accounts. Sums in course of recovery are generally entered in the accounts at the end of the financial year in a suspense account on the asset and liability sides of the balance sheet. Once they have been refunded, these sums may be re-utilised.

2.18. This procedure has numerous weaknesses (2):

- (a) Monitoring on the basis of documentation which is separate from the main accounts makes it impossible to ensure that the recoverable taxes and duties have been fully refunded. The sum of approximately 152 000 ECU, for example, which largely represented taxes and duties for the last quarter of 1982, was not included in the refund applications;
- (b) The balance of recoverable taxes and duties entered in the balance sheet as at 31 December 1983 under a suspense account did not corre-

(1) OJ No C 357, 31. 12. 1983, paragraphs 2.23, 2.24 and 2.25.

(2) See also the annual report for the financial year 1981, paragraph 11.18, OJ No C 344, 31. 12. 1982.

spond to the actual amount of taxes and duties which were charged to the 1983 budget and had not yet been refunded, because

- (i) the sum of approximately 375 000 ECU was entered twice on the asset side of the balance sheet, under 'Recoverable taxes and duties for procurement at Petten' and under the suspense account 'Recoverable VAT receipts';
 - (ii) the sum of approximately 1,7 million ECU was not entered in the balance sheet as at 31 December 1983 under the 'Recoverable VAT receipts' suspense account because the corresponding applications for refund had not been made.
- (c) Refund applications are sent to the Member States once a year only, which means that more than a year may elapse before certain sums are repaid. These delays are partly caused by the stringent conditions which some Member States impose on refund applications.

2.19. The Court recommends that the Commission should review all its procedures for the recovery of taxes and duties. One solution, which has already been adopted by certain Community bodies, would consist of ensuring that:

- (a) all invoices involving recoverable taxes and duties are charged to the budget net of tax;
- (b) VAT and other recoverable taxes and duties are correctly entered under a 'Recoverable VAT' account;
- (c) refund applications are regularly sent to the appropriate authorities in the Member States;
- (d) refunds are made by the Member States within a reasonable period of time.

Principle of consistency of accounting methods

2.20. During the process of final settlement of the financial year 1983 for the press and information offices and external delegations, which was carried out in March 1984, it was established that, in the case of one budgetary heading managed by DG IX, the ceiling for appropriations had been exceeded by approximately 243 000 ECU, which led the Financial Controller, on 3 May 1984, to refuse to give his approval. The Commission decided, on 23 May 1984, to overrule this refusal and to charge spending

in excess of the budgetary appropriations during 1983 to extra-budgetary accounts ('advances' accounts) which were entered in the balance sheet of the Commission as at 31 December 1983.

2.21. Entering advances under extra-budgetary accounts is a perfectly normal procedure. In this particular case, however, it resulted in changes in the accounting methods which were implemented retroactively and which were used exclusively for the purpose of solving the problem of spending in excess of the budgetary appropriations. The Commission cannot treat recoverable expenditure as an advance to be entered in an extra-budgetary account at one moment and expenditure for the financial year at another.

2.22. In addition, the Commission has also introduced changes in the book-keeping methods used for the NCI and Euratom loans and borrowings:

- (a) In accordance with the Court's recommendations⁽¹⁾, the balance of issue expenses as at 31 December 1982 and the issue expenses arising from new borrowings, for which the related loans are granted without loan disbursement premiums, are gradually written off. The issue costs of other borrowings and the corresponding disbursement premiums are included directly in the results for the financial year.
- (b) The *pro rata* proportion of accrued profits from the redemption of bonds at maturity corresponding to the financial year in question is no longer included in the surplus for the financial year, which is, moreover, more in line with the principle of prudence in accounting methods.

2.23. Both of these changes of method were implemented retroactively and the effects of the changes are summarised in the note to Table 14.2. The change of method regarding the Euratom issue costs was not, however, uniformly applied during the 1983 financial year, so that the results for Euratom borrowing and loan operations were understated by about 22 000 ECU.

2.24. The Court must remind the Commission once again of the importance of the basic principle of consistency of accounting methods. This basic principle in no way excludes the possibility of procedural changes intended to improve the presentation of the financial information, provided that such changes are implemented consistently and in all cases.

⁽¹⁾ Annual report for the financial year 1982, paragraphs 14.12 and 14.13, OJ No C 357, 31. 12. 1983.

Court of Auditors

2.25. Payments under Article 140 (amounting to about 11 000 ECU) were made by the Commission on behalf of the Court. This amount was credited to the Commission's link account by debiting the 'Expenditure to be charged' account. This operation, which corresponds to a payment, was carried out in the absence of adequate appropriations. What is more, these payments were entered in the balance sheet as 'expenditure to be charged' and not as 'expenditure paid in excess of appropriations', as the Court had previously recommended in a similar case ⁽¹⁾. This payment in excess of the available appropriations could have been avoided if the necessary funds had been transferred to the account at the right time.

Economic and Social Committee

Financial Regulation

2.26. Article 5 of the Financial Regulation states that the revenue of a financial year shall be entered in the accounts for the financial year on the basis of the amounts collected during the financial year, whilst the expenditure of a financial year shall be entered in the accounts for that year on the basis of the expenditure for which authorisation reached the Financial Controller not later than 31 December and for which payment was effected by the Accounting Officer not later than the following 15 January. These principles have not always been respected, as the following examples show:

- (a) bank interest (amounting to approximately 20 000 ECU) credited with a 31 December 1983 value date was entered in the accounts as revenue for the financial year 1984;
- (b) expenditure (amounting to approximately 80 000 ECU) was charged to the financial year 1983 although the corresponding payment orders were not received by the Financial Controller until January 1984.

2.27. Disbursements for the travel and subsistence expenses of the Members of the Economic and Social Committee (approximately 2,8 million ECU), which are carried out by the cash office (which is not an imprest account within the meaning of

Article 49 of the Financial Regulation), are irregular, since the payment orders in question do not receive the prior approval of the Financial Controller. The Economic and Social Committee ought to create an imprest account for this purpose, as laid down in Article 49 of the Financial Regulation.

2.28. The Court calls upon the Economic and Social Committee to review all the above-mentioned procedures and bring them into line with the relevant regulations.

Bank accounts

2.29. Certain payments effected between 1 and 15 January 1984 were rightly considered, in accordance with Article 5 of the Financial Regulation, to be items of expenditure for the financial year 1983. These sums, however, were wrongly deducted from the bank account balances on 31 December 1983, with the result that the balances of these bank accounts were understated by 77 000 ECU. The same observation was addressed to the Commission in the Court's previous annual report for the financial year 1982 ⁽²⁾.

2.30. Whenever it found itself with a cash surplus during the financial year 1983, the Economic and Social Committee transferred such surpluses to a deposit account. The corresponding cash movements, however, were not entered correctly in the accounts: sums placed in a deposit account were entered under current accounts. The Court must repeat that all transactions carried out during a given financial year must be entered correctly in the accounts for that year.

Balance sheet and revenue and expenditure account of the Communities

2.31. The balance sheet and revenue and expenditure account of the Communities result from the consolidation of the balance sheets and revenue and expenditure accounts of the Community institutions and bodies set out in *Tables 2.1* and *2.2*. The preceding observations therefore all have a bearing on the balance sheet of the Communities. In addition, the Community balance sheet calls for a series of general remarks.

⁽¹⁾ Annual report for the financial year 1982, paragraph 2.40, OJ No C 357, 31. 12. 1983.

⁽²⁾ OJ No C 357, 31. 12. 1983, paragraph 2.31.

Fixed assets

2.32. The fixed assets set out in the various balance sheets are not based on uniform valuation criteria. The value of the fixed assets corresponds in some cases to the insured value and in other cases to the value in the permanent inventory, without any checks having been made to ensure that the permanent inventory reflects reality. The ECU exchange rate used for calculating the value of the fixed assets corresponds in some cases to the historic exchange rate (the rate at the date of acquisition) and in others to the ECU exchange rate on 31 December.

2.33. The Court pointed out in last year's annual report ⁽¹⁾ that the Community institutions and bodies ought to carry out regular checks to ensure that the permanent inventories, in which the fixed assets in the possession of the institutions and bodies are entered, agree with the actual situation regarding fixed assets. This observation still holds, since the institutions and bodies have not yet completed this work.

Stocks

2.34. As a result of various observations by the Court ⁽²⁾, the Community institutions and bodies, with the exception of the Economic and Social Committee, enter the value of their stocks in their balance sheet as at 31 December 1983. The sums set out in the accounts, however, were established according to widely differing monitoring (permanent inventory or physical stock-taking at the end of the financial year) and valuation principles (acquisition cost or replacement cost).

Adjustment of contra accounts of Community institutions and bodies

2.35. The Court has already drawn attention on several occasions ⁽³⁾ to the need to reconcile and

adjust the contra accounts held by the Community institutions and bodies before the end of the financial year in order to ensure that the balances agree. Reconciliation of this kind makes it possible to correct any anomalies and prepare the consolidated accounts on a satisfactory basis. All Community institutions and bodies must therefore endeavour to forward the relevant supporting documents to the institutions concerned as soon as possible and, in any case, well before the accounts are closed. During the year under review there was, once again, a lack of agreement between the accounts of several Community institutions and bodies.

2.36. The Community institutions and bodies paid over advances to the Office for Official Publications in order to provide it with the working capital necessary to meet its printing costs. The amount of these advances had to be increased in November 1983 in order to keep up with price rises. These advances must be recorded in the general accounts and must also be entered in the balance sheet. The Court of Justice, however, is the only institution which has accounted for such advances correctly.

2.37. The Commission's balance sheet contains established claims amounting to 7,6 million ECU which are also entered, for the same amount, in the balance sheet of the Joint Research Centre at Ispra. The balance of a provident fund is also entered in both balance sheets. The Court calls upon the Commission to review and clarify the areas of responsibility of its departments in order to ensure that such duplication of entries is avoided in future.

Accounting principles and methods

2.38. The preceding observations show that there is a need to lay down uniform accounting principles and methods applicable to all the Community institutions and bodies. In the Court's opinion, it is the responsibility of the Commission, as part of its task of preparing the Community balance sheet, to decide, in consultation with the other institutions, the procedure to adopt in order to establish these principles and methods.

⁽¹⁾ Annual report for the financial year 1982, paragraphs 2.45 and 2.46, OJ No C 357, 31. 12. 1983.

⁽²⁾ Annual report for the financial year 1982, paragraph 2.48, OJ No C 357, 31. 12. 1983.

⁽³⁾ Annual report for the financial year 1982, paragraph 2.44 (a), OJ No C 357, 31. 12. 1983; Annual report for the financial year 1981, paragraph 2.14 (c), OJ No C 344, 31. 12. 1982. Annual report for the financial year 1980, paragraphs 2.17 and 2.18, OJ No C 344, 31. 12. 1981.

CHAPTER 3

Revenue

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Introduction

3.1. This chapter relates to own resources and certain miscellaneous revenues of the European Communities included in 'Revenue' of the general budget. It does not cover revenues for either the European Development Fund or the European Coal and Steel Community (which is the subject of a separate report by the Court). Nor is it concerned with income from co-responsibility levies, this being treated as negative expenditure; contributions by certain Member States to Euratom research programmes; or pension, tax and other deductions from staff remuneration.

3.2. The revenue under consideration consists, for the most part, of the own resources allocated to the Communities by Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 ⁽¹⁾, that is to say, Common Customs Tariff duties; agricultural levies, including sugar and isoglucose production and storage levies; and value added tax (VAT) not exceeding 1 % of a uniform Community-wide basis of assessment. Exceptionally, Greece continues to pay a financial contribution in lieu of VAT, based on its gross national product, in accordance with Article 4 (2) of the aforementioned decision and

pending the introduction in that Member State of the common system for this tax.

Summary of financial information

3.3. The general budget revenue of the Communities for 1982 and 1983 is set out in *Table 3.1*. The 1983 original budget was amended during the year by amending and supplementary budgets Nos 1 and 2 ⁽²⁾. These reduced the estimates of customs duties and agricultural levies by 4,5 % and 5,3 % respectively because of stagnation of trade and other changes in market situations. They also increased the VAT own resources rate to 0,9980 % to offset these reductions and to meet the net increase in expenditure estimates which was mainly in respect of EAGGF, Guarantee Section. Actual revenue compares closely with the final estimates, though the trend for customs duties and agricultural levies to decrease continues.

3.4. Article 27 of the Financial Regulation of 21 December 1977 ⁽³⁾ states that the balance from each financial year shall be entered in an amending

⁽¹⁾ OJ No L 94, 28. 4. 1970.

⁽²⁾ OJ No L 60, 7. 3. 1983 and OJ No L 331, 28. 11. 1983.

⁽³⁾ OJ No L 356, 31. 12. 1977.

Table 3.1 — Revenue 1982 and 1983

(Mio ECU)

Type of revenue	1982 actual revenue	1983		
		Original budget	Final budget	Actual revenue
Customs duties	6 815,3	7 574,5	7 234,6	6 988,6
Agricultural levies	1 522,0	1 558,5	1 475,4	1 347,1
Sugar and isoglucose levies	705,8	1 013,2	958,6	948,0
VAT own resources	12 000,5	11 052,4	13 691,0	13 699,0
Financial contributions (GNP)	197,0	175,1	216,9	217,7
Sub-total	21 240,6	21 373,7	23 576,5	23 200,4
Adjustment of 1982 VAT own resources	- 141,9	p.m.	- 256,6	- 256,6
Adjustment of 1981 VAT own resources	60,9	p.m.	24,2	26,8
Adjustment of 1980 VAT own resources	4,6	p.m.	34,2	35,6
Adjustment of 1979 VAT own resources	—	p.m.	7,4	7,3
Miscellaneous revenue	263,2	184,7	188,7	265,3
Balances from previous years	—	p.m.	1 486,7	1 486,7
Total	21 427,4	21 558,4	25 061,1	24 765,5

budget of the subsequent financial year. Exceptionally, no amending budget was adopted during 1982. The figure of 1 486,7 million ECU shown in the table as 'balances from previous years' therefore consists of 825,2 million ECU being the surplus from 1982, together with the surplus of 661,5 million ECU from 1981, as authorised by amending and supplementary budget No 1 for the financial year 1983 (see also paragraph 1.4 of this report).

3.5. In paragraph 3.11 of its annual report on the financial year 1982 ⁽¹⁾, the Court drew attention to the length of time which is taken to finalise accounting for each year's VAT own resources. *Table 3.1* details the adjustments carried out in 1983, for each of the years back to 1979. Further adjustments will need to be made for the matters referred to in paragraphs 3.14 to 3.20.

Recording and recovering revenue due

3.6. In paragraph 3.43 of its annual report on the financial year 1980 ⁽²⁾, the Court criticised the Commission's system for recording and recovering revenue due. The Commission's Financial Controller has also commented on its inadequacies in his reports drawn up pursuant to Article 24 ⁽³⁾ of the Financial Regulation.

3.7. The Commission has accepted the need to improve the system, and in particular to remedy the principal problems which had been identified: failures to issue recovery orders; lack of identification of due date or amount; reliance on manual records for outstanding items; delays in recovery; differences of opinion between authorising officer, legal service, and DG XIX on establishment of debt.

⁽¹⁾ OJ No C 357, 31. 12. 1983.

⁽²⁾ OJ No C 344, 31. 12. 1981.

3.8. Some progress has been made, thus:

- (a) the Commission's internal instructions were amended concerning the collection of fines imposed by the Commission, particularly those subject to appeal before the Court of Justice, by including the need to obtain guarantees and interest;
- (b) a special department within DG XIX to pursue the recovery of revenue commenced operations in mid-1983; and
- (c) by December 1983 DG XIX had programmed a new computerised system of accounting for revenue, redesigned the recovery order form, and formulated detailed amendments to the Commission's internal operating instructions.

3.9. The Court notes however that despite the comments in its annual report for the financial year 1980, neither the revised recovery order form nor the new accounting system was expected to be in use before mid-1984; nor had the Commission adopted the amendments to the instructions. The Court regrets the delay in bringing these changes into effect.

Fraud and irregularities

3.10. Under Council Regulation (EEC, Euratom, ECSC) No 2891/77 of 19 December 1977⁽¹⁾, it is the responsibility of each Member State to establish, collect and make available all own resources due in accordance with its own provisions laid down by law, regulation or administrative action. The amounts so established are to be made available to the Community, and the Member States are required to take all requisite measures to this effect, except where, for reasons of *force majeure*, these amounts have not been collected.

3.11. As the Court has stated in previous annual reports, the procedures for notification to the Commission of fraud or irregularities committed in respect of own resources are less precise than for those in the EAGGF. Certain Member States have taken the view that, where judicial proceedings have been commenced in respect of fraud or irregularity cases, sums of potential own resources should not be established or made available until the final out-

come of the proceedings, which may take several years. Even when notification of cases is given in the reports made by the Member States under Article 17, paragraph 3 of Regulation No 2891/77, this does not imply that any accounting record is made either in the Member State or the Commission; indeed, the details given in the reports are frequently insufficient. The Commission does not have direct responsibility for establishing own resources and the potential own resources that may arise from such cases are therefore not a present recorded in the Community accounts, nor is the total amount under consideration known. Nevertheless, the Court adheres to the view expressed in its study of the financial systems of the European Communities⁽²⁾ that the Commission should recognise its responsibilities for ensuring that it receives all that is due, and should be given information sufficient for this purpose.

3.12. That the delays in establishing own resources can be material is illustrated by the following examples:

- (a) Legal proceedings concerning transactions first questioned in July 1975 had not been completed by end 1983. About 8,25 million ECU own resources is involved; none of which is yet included in Community accounts.
- (b) Investigations started in July 1980 led to the amount of 0,5 million ECU being made available to the Communities in January 1984.
- (c) Transactions occurring in the period from May to October 1980, were fraudulently described so as to evade payment of levy. The amount of 5,1 million ECU was established and made available to the Commission during 1983 only after legal proceedings had been completed.
- (d) Levies evaded during 1979 and 1980 were the subject of a settlement totalling 3,9 million ECU. Money has been made available to the Communities only as collected from the trader concerned. The first two instalments totalling 2,4 million ECU were credited during 1983. The Commission has processed a recovery order for a balance of 2,0 million ECU which appears in the Community accounts as an outstanding debtor as at 31 December 1983.

3.13. The Court is of the opinion that the accounts and other financial records of the Communities should be as complete and informative as possible, and should contain entries of all known or potential claims so that the settlement of all outstanding cases can be monitored. It also considers that rules should

⁽¹⁾ OJ No L 336, 27. 12. 1977, p. 1.

⁽²⁾ OJ No C 342, 31. 12. 1981.

be adopted to require that the full amount of own resources evaded be made available to the Commission timeously.

Difficulties in application of VAT own resources system

3.14. The Sixth Council VAT Directive of May 1977 ⁽¹⁾ foresaw a transitional period during which existing national laws on turnover taxes would be gradually adapted. It identified as the Community objective the eventual harmonisation of the taxable base so that own resources might be collected in a uniform manner in all the Member States. The Directive authorised during this transitional period many specified variations to the norm, for most of which financial adjustments to the VAT taxable base would be calculated for the purposes of own resources.

3.15. The Directive gave the Commission the task of advising on certain specific aspects. Article 34 also required it to send to the Council, on 1 January 1982, a report on the application of the common VAT system, and thereafter every two years. The first such report was made on 14 September 1983. *Inter alia*, this commented on several of the fiscal 'difficulties' that have been encountered either through the lack of provision in the Directive, or through varied interpretations of its provisions. The report regarded these difficulties as flaws in the system, though it emphasised that otherwise it was operating satisfactorily. It indicated that there had been a measure of progress in identifying these areas of difficulty and the problems therein, resolution of which must be regarded as a long-term exercise.

3.16. In addition to these responsibilities as set out in the Sixth Directive, the Commission has responsibility under Article 12 of Regulation (EEC, Euratom, ECSC) No 2892/77 for ensuring that the data used and the operations undertaken to centralise the assessment basis and to determine the total net VAT revenue collected were correct. For this purpose, it examines each annual summary account forwarded by the Member States under Article 10 of the above-mentioned Regulation. Furthermore, under

Article 169 of the EEC Treaty, if the Commission considers that a Member State has failed to fulfil an obligation under this Treaty, it shall deliver a reasoned opinion on the matter to the Member State, and may ultimately bring the matter before the Court of Justice.

3.17. The Commission's Financial Controller, in his 10th report as at 15 May 1983 to the Commission under Article 24 of the Financial Regulation, noted in respect of VAT own resources that delays in initiating Article 169 proceedings mean that considerable time elapses before Member States regularise their position and this has an impact on own resources. He noted that it was becoming increasingly difficult to recover own resources, and that many cases of own resources were due since 1979, the first year in which the Commission reserved its position on own resources.

3.18. The Commission has started formal infringement procedures in respect of 23 of the fiscal 'difficulties' mentioned in paragraph 3.15 above. By 31 December 1983 only 11 of these had been the subject of reasoned opinions and five of actions before the Court of Justice.

3.19. Not all of these difficulties have a direct effect on own resources due. The Court notes, however, that several have been identified as having such an effect, by the Commission in its reports on its controls on the VAT own resources summary accounts for 1979 and subsequent years; but, to 31 December 1983, recovery action for any own resources that might be due had not been taken. The Court has questioned the Commission on these matters. In answer, the Commission has stated that:

- (a) it considers its rights to recovery are safeguarded by the inclusion of a reminder in the annual reports on each of the Member States' annual summary accounts that these problems remain unresolved; and
- (b) it is unable to either determine or estimate the amounts at issue, except in such broad terms that would be unacceptable for accounting purposes. This is because only the Member States have at their disposal the information necessary for such calculations.

3.20. The Court is concerned that these matters have not been resolved more quickly. It considers

⁽¹⁾ OJ No L 145, 13. 6. 1977, p. 1.

that, meantime, the Commission should include in the Communities' financial records a notation of all instances where sums are potentially or possibly due, and should seek to obtain estimates of the amounts involved as soon as possible.

Valuation of goods for customs purposes

3.21. Council Regulation (EEC) No 1224/80 of 28 May 1980 ⁽¹⁾ brought into effect a change agreed during the GATT Tokyo Round of the valuation system of goods for customs purposes. It replaced the notional concept of 'normal price' with a more universally accepted code of valuation upon the 'transaction' or 'invoice', i.e. on the price actually paid or payable for the goods when sold for export to the country of importation. This has been applied by the customs authorities of the Member States since 1 July 1980.

Methods of valuation

3.22. The Regulation foresees the 'transaction' method as being that to be applied in most cases. If this is impracticable, it allows five other methods to be considered sequentially. The only statistics on this aspect made available to the Court indicate that, while most dutiable activities were valued on the 'transaction' basis, the variation between the Member States over the use of the six methods is considerable (for example, see *Table 3.2*). The Court

⁽¹⁾ OJ No L 134, 31. 5. 1980, p. 1.

Table 3.2 — Customs valuation in respect of the 'transaction' method

Member State	Percentage of total valuations for which 'transaction' method applied
Ireland	90,0
France	92,0
United Kingdom	93,6
Denmark	95,0
FR of Germany	95,7
Greece	96,0
Netherlands	97,1
Luxembourg	97,9
Belgium	98,9
Italy	99,3

has asked the Commission to comment on these variations, and what might be their financial effect on own resources.

Practical cases

3.23. The text of the GATT Code Agreement, and its implementation in the Communities by Regulation No 1224/80, set out the basic principles for applying the new code. Questions of detailed interpretation continue to arise. A Customs Valuation Committee (CVC) was established by Articles 17 and 18 of the Regulation. Interpretations recommended by the CVC are not binding on the national customs administrations, but they are widely accepted as guidelines, aiming at uniform treatment. This attitude was confirmed in practice during the Court's audit visits to Member States, where it was found that recommendations of the CVC were, in general, implemented. The Court has examined a number of outstanding matters, for example:

- (a) Goods imported under special customs procedures (Article 20): The Community directive on warehousing (Council Directive 69/74/EEC ⁽²⁾) allows Member States to set the time of valuation either as the time of deposit in the warehouse or time of removal from warehouse. This can influence the level of valuation and therefore of own resources, as it is possible that in the intervening period between deposit and removal the value of the goods may have changed (e.g. ageing of alcohol or similar goods, a middleman awaiting market changes, deterioration of the product due to external influences).
- (b) Internal transport costs: Article 15, paragraph 1 of the basic Regulation No 1224/80 states:

'The customs value of imported goods shall not include the cost of transport after importation into the customs' territory of the Community provided that such cost is distinguished from the price actually paid or payable for the imported goods'.

In practice, this provision is difficult to operate on a fair basis when documentary evidence of the actual freight charges within the Community is not available to the importer. Thus if the invoice price is calculated cif or 'free house', a supplier may well wish to guard his actual freight cost secret from the purchaser as part of his commercial policy. The internal freight costs in such circumstances can only be estimated at

⁽²⁾ OJ No L 58, 8. 3. 1969, p. 7.

the discretion of the declarant or of the customs' authorities. Pragmatic solutions appear to have been adopted in some Member States which do not necessarily lead to the same result. For example, one State allows a 'reasonable' estimate of freight costs in the Community, and another — particularly with roadborne traffic — allows only officially fixed minimum flat-rates;

- (c) In principle, the EEC Common Customs Tariff applies only to physical goods. At present, therefore, 'application software' passed in hard

form (cassette or disc) is valued at its transaction value which would normally include a considerable element for intellectual content and 'knowhow'. However, if passed by telecommunication means, or if part of an overall contract for services, neither customs nor VAT is chargeable.

The Court has asked the Commission for its views on these matters, together with its assessment of the potential consequences for own resources.

CHAPTER 4

European Agricultural Guidance and Guarantee Fund, Guarantee Section

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Introduction

4.1. In 1983, the management of the EAGGF, Guarantee Section remained governed by Council Regulation (EEC) No 729/70 of 21 April 1970⁽¹⁾ which, together with the provisions of the Financial Regulation, forms a legislative framework which is more specific than the rules of the general budget. However, in Commission Regulation (EEC) No 3184/83 of 31 October 1983⁽²⁾ an important amendment was introduced which mainly concerns the financing of costs arising from public stocks in intervention.

4.2. Regulation No 729/70 organises budgetary management at two levels, that of global management and that of detailed management, completed by the clearance of the accounts:

- (a) The global budgetary management is carried out within the framework of the total appropriations of the Guarantee Section, entered under Titles 1

and 2 of the operational part of the budget and under Chapter 40 on the common organisation of the market in fishery products⁽³⁾. Within the limits of these appropriations, the Commission decides upon advances to be granted to the Member States in their national currency, sets aside the corresponding appropriations in ECU by a provisional global commitment and effects the payment by transfer to the account opened for this purpose on behalf of the Commission at the national treasury or other financial institution. The financial resources thus made available to the Member States enable them to ensure that payment is made by the paying agencies of the expenditure financed by the Guarantee Section, in accordance with regulations and management decisions applicable to each common market organisation.

- (b) The detailed budgetary management is based on the statements sent in each month by the Member States, broken down by type of expenditure, according to the budgetary nomenclature. This expenditure, converted into ECU, is then com-

⁽¹⁾ OJ No L 94, 28. 4. 1970, p. 13.

⁽²⁾ OJ No L 320, 17. 11. 1983, p. 1.

⁽³⁾ The management of the measures financed by means of appropriations entered under Chapter 40 forms the subject of observations in Chapter 6 of this report.

mitted by chapter, article and item within two months following receipt of the statements, and is also charged as a payment, in general within the same period. The necessary adjustments between the chapters and the articles are subject, within the Guarantee Section, to a special transfer procedure, provided for in Article 101 of the Financial Regulation ⁽¹⁾. These transfers, made without the intervention of the budgetary authority when they are between articles and solely with approval of the Council when they are between chapters, may be effected up to the final date for closure of the Guarantee accounts, i.e. until 31 March of the following financial year. The relevant section of the revenue and expenditure account, drawn up before 1 June, summarises all the preceding information.

- (c) The management of the various paying agencies is reviewed *ex post facto* by the Commission under the procedure for clearing the accounts, the time-limits and principles for which are laid down in Regulation No 729/70 and in Commission Regulation (EEC) No 1723/72 of 26 July 1972 ⁽²⁾.

Summary of financial information

4.3. The principal financial data on the management of the EAGGF, Guarantee Section appropriations are given in *Table 4.1*. Total appropriations available for the management of the EAGGF, Guarantee Section in 1983 were 15 956,2 million ECU ⁽³⁾, corresponding to the 15 848,1 million ECU entered as net appropriations ⁽³⁾ in amending and supplementary budget No 2 and the taking into account of a recovery of 108,1 million ECU arising from the clearance of the accounts for 1976 and 1977. The Commission made available to the Member States appropriations amounting to 15 954,9 million ECU. The Member States declared 15 919,2 million ECU in expenditure which the Commission charged to the accounts of the financial year, together with 0,4 million ECU for payments made directly.

⁽¹⁾ Financial Regulation of 21 December 1977, OJ No L 356, 31. 12. 1977.

⁽²⁾ OJ No L 186, 16. 8. 1972, p. 1.

⁽³⁾ Including 37,1 million ECU entered in Chapter 40 to cover the intervention expenditure of the common organisation of the market in fishery products.

Comments on the budgetary management

Presentation of the accounts and balance sheet

Slight change in the 1983 budgetary nomenclature

4.4. The nomenclature of the EAGGF, Guarantee Section, which, in the same way as that of the budget as a whole, was restructured for the financial year 1982, only underwent the following minor amendments in 1983:

- (a) division of the item 'refunds on cereals' and the item 'refunds on milk products' into several items according to the nature of the product concerned (wheat, barley, butter, skimmed-milk powder, etc.);
- (b) adaptation of the nomenclature for the wine-growing sector in accordance with the new rules which provide for the buying-in by the EAGGF of alcohol from compulsory distillation;
- (c) adaptation of the nomenclature to take account of the special measures for small-scale milk producers.

Nomenclature not adapted to entry of revenue in the accounts

4.5. This nomenclature continues to present the shortcomings already mentioned by the Court in respect of the presentation of revenue or agricultural levies entered in the form of negative appropriations ⁽⁴⁾. It was found that, for 1983, this revenue amounted to 1 597 million ECU (cf. *Table 4.7*); this amount has quadrupled since 1979 and it is approaching that for own resources of agricultural origin (2 295,1 million ECU). Thus, the expenditure recorded amounted to 17 408,6 million ECU, whereas the revenue and expenditure account only shows 15 811,6 million ECU. As can be seen, the rules governing entry in the accounts are far from being neutral and result in the appearance in the revenue and expenditure account of net balances of revenue and expenditure which do not clearly show the actual amounts subject to audit.

⁽⁴⁾ cf. Annual report for the financial year 1982, paragraph 4.6, OJ No C 357, 31. 12. 1983.

Table 4.1 — Summary of accounts 1983

(Mio ECU)

Appropriations	Commitments	Expenditure of Member States (Article 3 (2) (b) Regulation No 380/78 and Regulation No 3184/83)	Charging to revenue and expendi- ture account
Automatic carry-overs from 1982: 2,6 Cancellations of appropriations: 0,1 Appropriations used: 2,5			Payments against automatic carry-overs from 1982: 2,5
Appropriations initially available (Titles 1 and 2, Chapter 40): 14 087,1	Balance of appropriations available in the Member States at 1. 1. 1983: 130,9		
Appropriations from amending and supplementary budget No 1: —	Advances to Member States for: — January 1 472,4 — February 1 239,0 — March 1 341,2 — April 1 262,5 — May 1 467,9 — June 1 191,0 — July 1 151,0 — August 1 434,2 — September 1 326,2 — October 1 386,6 — November 1 629,9 — November 2 678,0 — December 1 654,2 — December 2 434,1 15 668,2	Expenditure declared by Member States: — January 1 396,8 — February 1 442,8 — March 1 370,1 — April 1 180,5 — May 1 261,2 — June 1 400,2 — July 1 324,0 — August 1 202,6 — September 1 443,1 — October 1 386,6 — November 1 543,6 — December 967,7	Charging as payments in respect of: — January 1 399,1 — February 1 443,4 — March 1 373,0 — April 1 177,3 — May 1 267,3 — June 1 405,8 — July 1 316,0 — August 1 207,9 — September 1 429,7 — Charging as payments suspended (April, June, August) — 14,2 — October 1 213,2 — November 1 252,5 — Commitment and charging of expenditure suspended (Sept., Oct., November) 475,1 — December 957,4 — Expenditure sus- pended (April, June, August) 14,2 — Expenditure suspended (Oct., November) 1,5
Appropriations from amending and supplementary budget No 2 to cover EAGGF, Guarantee Section operations: 1 869,1	Special advances for: — April (UK) 32,4 — July (DK) 15,0 47,4 Exchange difference: 3,1 Total advances: 15 849,6 Appropriations available in the Member States after repayment under 1976/77 clearances of the accounts: 105,3 (1)		
Total available to cover EAGGF, Guarantee Section operations: 15 956,2	Total available in the Member States: 15 954,9 Expenditure committed directly: 0,5 Total: 15 955,4 Decommitment of balance available in the Member States at 31. 12. 1983: — 35,7 Total commitments: 15 919,7	Total: 15 919,2	Total: 15 919,2 Expenditure paid directly: 0,4
Appropriations to be recovered under 1976/77 clearances of the accounts: — 108,1 Net total: 15 848,1 Cancellations of appropriations: — 36,5 Appropriations used: 15 811,6			Total payments: 15 919,6 Clearance of accounts 1976/77: — 108,1 Total charged: 15 811,5 Automatic carry-overs to 1984: 0,1 Total: 15 811,6

(1) This represents 108,1 Mio ECU to be recovered of which 2,8 Mio ECU had already been recovered in advance as from 1977, cf. annual report for the financial year 1977, paragraph 2.56.

Development of implementation nomenclature

4.6. The Commission has continued to refine the implementation nomenclature in the manner desired by the Court, which allows for more detailed accounting information to be available without, however, creating additional constraints with regard to budgetary procedures. In order to be totally satisfactory, however, this development requires a uniform approach by the Member States, something which does not always seem to be forthcoming (cf. paragraph 4.20).

Inadequacies in the balance sheet

4.7. The balance sheet of the Communities which, under the terms of Article 76 of the Financial Regulation, should show the assets and liabilities of the Communities as at 31 December of the preceding financial year and which, according to well-established accounting principles, should also provide information on those elements which are already known and which are likely to affect the assets or liabilities of the Communities in the future, still does not mention:

- (a) the potential losses (2 800 million ECU: cf. paragraph 4.35 (b)) arising from the need to dispose in the future of a large quantity of Community intervention stocks with a total value at 30 November 1983 of 7 036 million ECU;
- (b) the existence of potential Community debts *vis-à-vis* the Member States or, alternatively, potential Community claims on the Member States:
 - (i) under the clearance of the accounts, particularly where reservations on amounts already cleared have been expressly stated in the clearance decisions (cf. paragraph 4.41: potential claim of 600 million ECU and potential debt of 165 million ECU);
 - (ii) or under the recovery of amounts unduly paid to private individuals (potential claim of 91,7 million ECU).

Fixing the level of appropriations

4.8. The appropriations initially provided to cover the expenditure of the EAGGF, Guarantee Section (14 087,1 million ECU) rapidly turned out to be insufficient both at global level (which necessitated

the adoption of a supplementary and/or amending budget) and at the level of specific allocations of appropriations (which necessitated the implementation of transfer procedures) (cf. Table 4.2).

Amending and supplementary budget inadequate and late

4.9. At the end of April, on the basis of the rate of expenditure established and of estimates by the Member States, certain preparatory work pointed to the probability of the appropriations necessary for management for the financial year 1983 having to be increased by at least 2 000 million ECU. In the preliminary draft of amending and supplementary budget No 2 introduced on 1 July, the Commission requested the granting of only 1 811,3 million ECU. At the time of the final adoption of the budget, on 24 October 1983, the budgetary authority reduced this amount to 1 761 million ECU (1 869,1 million ECU to cover the EAGGF, Guarantee Section measures, minus 108,1 million ECU to be recovered under the 1976/77 clearances of accounts). The appropriations available turned out, in any case, to be insufficient to bear the charges of the financial year, with 675 million ECU having to be carried over for payment in the financial year 1984 (cf. paragraph 4.63 (a)).

Late transfers of appropriations

4.10. The Commission had to carry out, or have adopted by the Council, 11 series of transfers within the appropriations of the EAGGF, Guarantee Section: transfers from item to item and from article to article, which are its responsibility, involved 1 659,85 million ECU and those from chapter to chapter, which are the responsibility of the Council, 623,8 million ECU. As regards the procedures followed, the Court found that the majority of transfers were adopted (and often even prepared) very late. Over half the transfers were effected after the adoption of the amending and supplementary budget.

Consequences of delays in the procedures

4.11. The delays in implementing the different procedures governing global or specific adjustment of appropriations:

Table 4.2 — Evolution and utilisation of appropriations

(Mio ECU)

Budget heading	Appropriations 1983				Expenditure 1983 ⁽¹⁾					Expenditure 1982	Variation in expenditure 1982/83 (%)
	Initial appropriations	Amending and supplementary budget No 2	Transfers	Final appropriations	Refunds	1st category measures	2nd category measures	Miscellaneous	Total 1983		
(1)	(2)	(3)	(4)	(5) = (2) + (3) + (4)	(6)	(7)	(8)	(9)	(10) = (6) + (7) + (8) + (9)	(11)	(12)
A. Markets:											
— Cereals and rice	2 255,0	292,8	-9,7	2 538,1	1 592,9	464,5	476,7	—	2 534,1	1 874,8	35,2
— Sugar	1 536,0	-102,0	-117,7	1 316,3	758,1	558,1	—	—	1 316,2	1 241,8	6,0
— Olive oil	742,0	-66,0	2,1	678,1	9,7	653,4	12,2	—	675,3	493,1	36,9
— Oil seeds and protein plants	768,0	301,6	19,4	1 089,0	3,7	1 087,8	-3,6	—	1 087,9	803,5	35,4
— Textile plants and silk-worms	145,0	20,5	-5,2	160,3	—	160,0	—	—	160,0	116,4	37,5
— Fruit and vegetables	932,0	153,2	111,3	1 196,5	58,1	1 138,0	—	—	1 196,1	914,3	30,8
— Wine	469,0	164,9	25,4	659,3	20,2	639,0	—	—	659,2	570,6	15,5
— Tobacco	668,0	—	3,6	671,6	27,9	614,8	28,6	—	671,3	622,6	7,8
— Other agricultural sectors or products	56,0	6,8	-7,1	55,7	—	55,6	—	—	55,6	53,4	4,1
— Milk and milk products	4 113,0	595,3	-294,1	4 414,2	1 326,8	2 124,7	944,6	—	4 396,1	3 327,7	32,1
— Beef and veal	1 283,0	191,3	267,3	1 741,6	828,2	290,0	618,3	—	1 736,5	1 158,6	49,9
— Sheepmeat and goatmeat	237,0	120,0	-51,4	305,6	—	305,6	—	—	305,6	251,7	21,4
— Pigmeat	180,0	—	-34,9	145,1	120,2	24,8	—	—	145,0	111,7	29,8
— Eggs and poultrymeat	125,0	—	—	125,0	123,3	—	—	—	123,3	103,9	18,7
— Non-Annex II products	300,0	19,5	25,0	344,5	343,2	—	—	—	343,2	414,4	-17,2
Total A	13 809,0	1 697,9	-66,0	15 440,9	5 212,3	8 116,3	2 076,8		15 405,4	12 058,5	27,8
B. Monetary measures:											
— Accession CA	1,0	-0,6	—	0,4	—	—	—	0,3	0,3	0,4	-25,0
— MCA	240,0	171,8	77,2	489,0	—	—	—	488,3	488,3	312,7	56,2
Total B	241,0	171,2	77,2	489,4	—	—	—	488,6	488,6	313,1	56,1
Sub total A + B	14 050,0	1 869,1	11,2	15 930,3	5 212,3	8 116,3	2 076,8	488,6	15 894,0	12 371,6	28,5
C. Fisheries	37,1	—	-11,2	25,9	8,2	17,5	—	—	25,7	34,0	-24,4
Total A + B + C	14 087,1	1 869,1	0,0	15 956,2	5 220,5	8 133,8	2 076,8	488,6	15 919,7	12 405,6	28,3
Clearance 1976/77	—	-108,1	—	-108,1	—	—	—	-108,1	-108,1	—	—
Net total A + B + C	14 087,1	1 761,0	0,0	15 848,1	5 220,5	8 133,8	2 076,8	380,5	15 811,6	12 405,6	27,5

(¹) Expenditure: amounts committed and charged in detail to the financial year concerned, including direct commitments by the Commission, which have given rise to automatic carry-overs to the following financial year.

(a) helped to prevent the rapid detection of those situations where appropriations were lacking, thus contributing to the failure to manage agricultural expenditure (cf. paragraphs 4.51-4.62);

(b) prevented the commitment and charging within the specified time-limits of the majority of the expenditure declared by the Member States, or a

total amount of 11 703,7 million ECU (cf. paragraph 4.19);

(c) hindered the communication to the Court of accounting and supporting documents in good time for the external control to be effected satisfactorily (the supporting documents concerning operations in December, which are the most

important because they relate to the closure of the financial year, arrived at the Court in May 1984).

Adjustments due to inadequate estimates

4.12. The obligation to adjust appropriations in sometimes large proportions depends on a certain number of unknown factors which are inevitable when making agricultural estimates. However, the blockages due to insufficient appropriations, at the stage of charging to the budget from April onwards, gradually affected the majority of the expenditure chapters in 1983, i.e. each of the different markets. This shows that an improvement in the information system relating to actual commitments of expenditure is necessary. Whether these latter result from decisions on prices by the Council or from management decisions, they should be integrated into the system for making forecasts and budgetary adjustments. This should be done without waiting until the monthly estimates by the Member States, or a fortiori their statements of expenditure, make such adjustments inevitable and sometimes difficult or even impossible. From this point of view, the analyses made by the Court in paragraphs 4.51 - 4.62 give rise to doubts as to the reliability of the existing systems.

Global implementation of the budget

Cautious management of the monthly advances

4.13. The rate at which appropriations were made available in the form of monthly advances was disrupted from the beginning of the financial year due to the high rate of utilisation of the appropriations which, being faster than the receipt of own resources, led the Commission, from February onwards, to adopt a policy of more cautious management of the advances, sometimes by reducing the amount and often by paying in instalments (in two or three payments). In June, the Commission, in conjunction with other needs, was even obliged to request advance payment of one month's own resources. This rhythm was disrupted once again at the end of the year, partly because of the late adoption of the amending and supplementary budget in October and partly due to the risk of general over-spending in December, which led the Commission to abolish the system of advances on payments to

private individuals and thus to transfer a charge of 675 million ECU to the financial year 1984.

4.14. Whilst aware of the constraints which weighed on the management of advances, particularly in 1983, the Court must point out that the option of making part payments of advances has not yet been provided for and that, on the contrary, Regulation No 3184/83, which in 1983 amended Commission Regulation (EEC) No 380/78 ⁽¹⁾ of 30 January 1978, continues to impose payment of advances within five working days of the decision to grant them.

Uncertainty concerning recoveries in respect of the clearance of the 1976/77 accounts

4.15. The Member States concerned informed the Commission that they had effected the transfers back to the EAGGF, Guarantee Section account of the amounts resulting from the clearance decisions taken on 14 January 1983.

4.16. Nevertheless, two Member States stated that they had effected the transfer in two instalments and two other Member States believed that they could themselves correct the amounts to be transferred in order to take account of disputes pending in respect of previous years DM 1 286 612,44 (0,6 million ECU) and LIT 1 993 953 811 (1,5 million ECU)). The Court considers that it is difficult to justify this state of affairs, given the present situation regarding the Commission's registration systems.

4.17. Furthermore, the Commission did not check the actual movements between the national accounts and the EAGGF, Guarantee Section accounts in the Member States. It is therefore not in a position to ascertain whether the recoveries have actually taken place, following its clearance decisions.

Detailed budgetary management

Disruptions in the entering in the accounts of operations managed by the Member States

4.18. The expenditure effected by the Member States out of advances received from the Commis-

⁽¹⁾ OJ No L 56, 27. 2. 1978, p. 1.

sion is entered in the accounts by the Commission on the basis of declarations made by the Member States. The Commission makes a detailed commitment and then charges the corresponding amounts as payments according to the budgetary nomenclature.

4.19. This procedure was subject to a number of disruptions in 1983:

- (a) it was subject to delays, as compared with the statutory two-month time-limit, of up to five months for expenditure for the month of April;
- (b) it had to be effected in parts while awaiting adjustments in appropriations.

4.20. Moreover, the implementation nomenclature referred to in paragraph 4.6 has not always been used in a standardised manner by all the Member States: some, for example, did not make separate declarations for amounts recovered or adjustments in respect of previous years.

Unsuitability of the EAGGF, Guarantee Section rules for the management of multiannual operations financed from deductions

4.21. The Court has already highlighted⁽¹⁾ the accounting problems posed by the financing of measures (studies, promotion) in the olive oil sector or that of fibre flax by means of deductions from subsidies themselves financed in accordance with the normal mechanisms of the EAGGF, Guarantee Section (about 8,4 million ECU in 1983). In the context of the discharge procedure for the financial year 1982, the Commission said that it possessed a system which could be used for the purpose of accurate monitoring of the collection and the use of deductions. The Court, however, found that:

- (a) with regard to the collection of deductions, only a system of statistical evaluation can provide the necessary data, as far as the olive oil sector is concerned, for an approximate calculation of the yield from the deductions, from which the appropriations that may themselves be allocated to expenditure financed by the deductions may be deducted. This system, therefore, does not make it possible to arrive at an accurate calculation of the level of deductions made and to deduct from it the level of expenditure which is permissible within the framework of budgetary authorisations;

- (b) with regard to the use made of appropriations, it appeared from a reconciliation between the estimated deductions and the expenditure incurred using these deductions, that management by the Commission is carried out on a multiannual basis, and that the 'deductions' could remain partially unused for several years and thus make it possible to effect expenditure in excess of the deductions for the year in question (for the olive cultivation register in 1983: 13,8 million ECU of expenditure, 6,6 million ECU in excess of the deductions). This amounts to extra-budgetary management with no possibility of accounting control, whereas there are normal rules for multiannual management (differentiated appropriations) which clearly define the budgetary authorisations and the special nature of the measures financed.

4.22. The abnormal situation thus created once again illustrates the fact that the EAGGF, Guarantee Section, mechanisms, which are designed for financing short-term guarantee expenditure, are not adapted to the management of measures which extend over several financial years.

Management of cash position

Differences in cash position between Member States

4.23. In principle, the Member States receive appropriations from the EAGGF in the form of advances and when they have made payments from these advances they normally have available, at the end of the month, unused appropriations which represent their cash position.

- (a) An initial approach to the management of these cash resources (cf. *Table 4.3* and *4.4*) shows that some Member States obtain from the Commission monthly advances which, overall, leave them at the end of the month with large cash balances, whereas at the same time some Member States have a negative balance, the size of which could lead one to expect possible recourse to national funds to cover the expenditure to be borne by the Community.
- (b) A more detailed analysis shows that the appropriations available at the end of the month fluctuate, in the case of all the Member States bar

⁽¹⁾ cf. Annual report for the financial year 1982, paragraph 4.6 (c), OJ No C 357, 31. 12. 1983.

Table 4.3 — Appropriations available at the end of the month in the Member States*(Mio ECU)*

Recipient Member State	Balances during 1983											
	31. 1. 83	28. 2. 83	31. 3. 83	30. 4. 83	31. 5. 83	30. 6. 83	31. 7. 83	31. 8. 83	30. 9. 83	31. 10. 83	30. 11. 83	31. 12. 83
Belgium	13,8	6,2	20,0	0,7	1,3	-4,0	-4,0	-5,4	9,7	27,1	13,2	0,4
Denmark	9,0	20,3	-3,7	6,2	3,9	-12,3	9,5	16,1	15,7	-3,6	-30,2	-8,4
FR of Germany	90,0	42,1	34,4	28,5	53,0	-22,2	-64,6	-17,3	-75,1	12,5	-88,0	5,1
Greece	-9,1	13,7	31,6	-17,5	-7,6	-8,7	-26,2	-18,1	-64,1	-2,7	30,5	1,6
France	65,0	50,1	73,8	73,0	90,9	88,2	5,0	64,7	78,0	47,9	97,5	31,3
Ireland	10,4	14,1	5,5	-7,7	13,8	-0,7	20,2	7,7	-16,2	3,5	-1,9	0,1
Italy	-26,9	-133,1	-10,4	84,0	181,7	127,0	57,8	181,9	177,0	-3,0	-74,7	0,7
Luxembourg	1,0	0,5	0,4	-0,1	-0,2	0,2	0,3	0,2	-0,03	0,2	0,3	0,0
Netherlands	60,6	34,0	3,5	6,8	14,3	-39,2	-41,6	2,9	-0,1	12,5	20,3	9,3
United Kingdom	-5,6	-42,4	-75,2	24,1	50,7	61,2	75,3	26,0	17,2	48,6	-51,5	-4,3
Total	208,2	5,5	79,9	198,0	401,8	189,5	31,7	258,7	142,0	143,0	-84,50	35,8

Table 4.4 — Rate of utilisation of the financial resources made available to the Member States*(Mio ECU)*

Recipient Member State	Annual rate			Average monthly rate		
	Total available in the Member States	Declared expenditure	Rate of utilisation as at 31. 12. 1983	Average of the Community funds available in the Member States for one month's expenditure	Average of the balances available after the month's expenditure	Average rate of utilisation
(1)	(2)	(3)	(4) = % $\frac{(3)}{(2)}$	(5)	(6)	(7) = % $\frac{(5)-(6)}{(5)}$
Belgium	617,6	617,3	99,95 %	58,2	6,7	88,5 %
Denmark	673,0	681,4	101,25 %	59,4	2,0	96,6 %
FR of Germany	3 081,7	3 076,6	99,83 %	260,8	1,7	99,3 %
Greece	1 009,0	1 007,4	99,84 %	77,6	-6,4	108,2 %
France	3 666,3	3 635,0	99,15 %	367,6	64,3	82,5 %
Ireland	615,7	615,6	99,98 %	55,5	4,1	92,6 %
Italy	2 872,3	2 871,6	99,98 %	286,1	46,8	83,6 %
Luxembourg	4,6	4,6	100,00 %	0,5	0,1	80,0 %
Netherlands	1 726,3	1 717,0	99,46 %	150,6	7,2	95,2 %
United Kingdom	1 688,4	1 692,7	100,25 %	152,6	10,7	93,0 %
Total	15 954,9	15 919,2	99,78 %	1 468,9	137,2	90,7 %

one, between large excess balances and large deficit balances to such an extent that the same questions may be raised as in paragraph 4.23 (a)

having recourse to a new decision to grant advances, but by blocking part of the amounts available in other Member States.

4.24. Moreover, at the end of 1983, two Member States were once more in the position of having to spend more than the total amount of the advances received in respect of the financial year. This led the Commission to authorise this overspending, not by

Weaknesses in the system of cash management

4.25. The reasons for such discrepancies can be found in the nature of the information available to

the Commission at the moment it takes the decision to grant advances to the Member States:

- (a) The Commission establishes the amount of advances to be paid, at the request of the Member States, on the basis of a system in force since 1970⁽¹⁾ which is such that it is possible to correct an over-estimation of requirements only after a delay of up to two months. In fact, the calculation for the advance for a given month is based on the difference between:
 - (i) on the one hand, the cumulative advances paid and,
 - (ii) on the other hand, the sum:
 - of estimates of expenditure for the month in question, the current month and the previous month,
 - and of declarations of expenditure for the previous months.
- (b) The Member States draw up statements of their cash position at the end of the month or at the end of the financial year, according to differing methods of calculation:
 - (i) with regard to the statements of cash position at the end of the month, the majority of Member States establish an actual cash statement by referring to advances received *during* the month, whereas one Member State refers to advances received *for* the month;
 - (ii) with regard to the statements of cash position at 31 December, the majority of the Member States rightly do not take account of the advances received for January of the following financial year, whereas two Member States have referred to these amounts too.
- (c) The Commission, moreover, does not undertake systematic checks of the actual movements and statements of cash position by means of a direct audit of the EAGGF accounts of the Member States and the paying agencies — either in the course of its management or afterwards, under the clearance of accounts procedure (cf. paragraph 4.44 (d)).

4.26. This situation, which is particularly serious at a time of global shortages of appropriations, led the Commission, as from the end of 1983, to implement

partial solutions to the problem of monitoring more closely the Member States' statements. These solutions do not dispense with the need for a direct check on cash movements on the Member States' EAGGF accounts each time it appears necessary. Over and above this management measure, which is merely a matter of common sense, it is clear that if the paying agencies were directly accountable to the Community rather than passing via the national treasuries — an innovation suggested by the Court in its report in response to the conclusions of the European Council of 18 June 1983⁽²⁾ — it would represent a considerable improvement in the conditions under which the Commission exercises its responsibilities in this field.

Public storage

Developments in respect of public storage

Doubling of charges for public storage

4.27. The charges arising from public storage doubled in relation to 1982 (from 1 031 million ECU in 1982 to 2 007 million ECU in 1983). They are shown in detail in *Table 4.5*. This doubling in charges results essentially from the increase in the volume of milk products — which are products with the highest value — placed in intervention.

Considerable increase in stocks at the end of the financial year

4.28. The increase in stocks, particularly of milk products and beef and veal, resulted in a virtual doubling of the global value at the end of the financial year (from 4 011 million ECU at the end of 1982 to 7 036 million ECU at the end of 1983). This information is shown in detail in *Table 4.6*.

⁽¹⁾ Commission Regulations Nos 1697/70, 1823/73, 380/78, 3184/83.

⁽²⁾ OJ No C 287, 24. 10. 1983.

Table 4.5 — Breakdown of costs of public storage

(Mio ECU)

Product	Costs of public storage in 1982				Costs of public storage in 1983			
	Technical costs	Financial costs	Others ⁽¹⁾	Total	Technical costs	Financial costs	Others ⁽¹⁾	Total
Cereals	135	90	155	380	212	140	125	477
Fats	35	26	— 5	56	24	21	— 37	8
Tobacco	9	4	17	30	11	3	15	29
Milk products	26	56	156	238	95	200	⁽²⁾ 580	875
Beef and veal	57	28	242	327	94	56	468	618
Total	262 (25 %)	204 (20 %)	565 (55 %)	1 031 (100 %)	436 (22 %)	420 (21 %)	1 151 (57 %)	2 007 (100 %)

⁽¹⁾ The other costs of public storage comprise, in contracted form, all the results on sales of public stocks (profits and losses) (cf. paragraph 4.34).

⁽²⁾ This amount does not include the charges resulting from special measures in respect of butter from private stocks (69,5 Mio ECU) charged together with the operations on public stocks (cf. paragraph 4.34).

Source: Thirteenth EAGGF Financial Report 1983, doc. COM(84) 485 final.

Table 4.6 — Quantity and value of products in public storage

Product	Position at 31. 12. 1982		Position at 30. 11. 1983 ⁽¹⁾ ⁽²⁾	
	Quantity (1 000 tonnes)	Value ⁽³⁾ (Mio ECU)	Quantity (1 000 tonnes)	Value ⁽⁴⁾ (Mio ECU)
Cereals:				
— Common wheat	6 864	1 274	6 806	1 279
— Common wheat unsuitable for making bread	23	4	14	3
— Barley	1 681	305	1 673	323
— Rye	298	58	312	63
— Durum wheat	801	199	737	187
Total cereals	9 649	1 840	9 542	1 855
Fats:				
— Olive oil	181	288	121	175
— Colza	39	15	—	—
Total fats	220	303	121	175
Tobacco:				
— Leaf tobacco	4	4	4	3
— Processed tobacco	4	4	11	9
— Baled tobacco	29	35	15	19
Total tobacco	37	43	30	31
Milk products:				
— Skimmed-milk powder	605	854	957	1 458
— Butter	139	467	686	2 475
Total milk products	744	1 321	1 643	3 933
Beef and veal:				
— Beef and veal carcasses	156	337	301	762
— Boned beef and veal	61	166	89	280
Total beef and veal	217	503	390	1 042
Grand total	—	4 011	—	7 036

⁽¹⁾ Under the new Regulation (EEC) No 3184/83 the exact position of stocks is only known at 30 November (cf. paragraph 4.31).

⁽²⁾ At the end of December 1983, the main differences with these figures concern quantities, of common wheat suitable for making bread which increased by 7,6% and the global value of stocks increased by 2%.

⁽³⁾ According to the method applied by the Commission to exchange rates, the value in ECU was obtained by applying the daily rates of the ECU at 20 October 1982 to the values in national currencies.

⁽⁴⁾ According to the same method, the value in ECU was obtained by applying the daily rates of the ECU at 20 September 1983 to the values in national currencies.

Analysis of information on storage

Imbalance in relation to other measures

4.29. If this information is compared, on the one hand, with that concerning private storage, expenditure on which has remained the same as in 1982 (900 million ECU), and on the other with the specific adjustments of appropriations by transfer, it can be seen that the increase in the volume of products placed in intervention and in the resulting costs essentially amounts to a financing of Community exports which is below that planned. In a period of surpluses of agricultural products and shortages of appropriations, accumulating public stocks rather than disposing of them outside the Community has the effect of minimising the immediate burden. However, the final burden may, in the long term, turn out to be heavier for the Community, due to high technical and financial costs in the event of prolonged storage and particularly high disposal costs in the event of an abundance of stocks.

Location of intervention stocks

4.30. The intervention stocks are unequally distributed within the territory of the Community. In value terms, 40 % of the stocks of beef and veal carcasses were to be found in Italy at the end of 1983 and an average of 35 % of all stocks were to be found in the Federal Republic of Germany, during the same year.

- (a) These differences are related to the intervention mechanisms. In the case of beef and veal, for example, the fact that the procedures for classifying carcasses are not harmonised resulted in the price of the best-quality product placed in intervention being 20 % higher in Italy than in the Federal Republic of Germany.
- (b) In any event, the situation observed by the Court has financial implications:
 - (i) thus, for example, the system of standard rate reimbursement of financial costs, even taking account of the reduction in the rate from 9 % to 8 % from 1 November 1983, allowed the Federal Republic of Germany, to the detriment of the other Member States, to obtain an additional 42,5 million ECU as compared with the reimbursement which it would have received on the basis of the actual rate of 6,5 % which resulted from the declarations made by the German authorities to the Commission;

- (ii) consideration should also be given to the effects of transfers between Member States of products in intervention. These transfers are regarded as being made 'at nil price' since they are entered in the accounts at the outset as a sale at nil price by the dispatching Member State (which is consequently reimbursed by the Community at the average purchase price of the year) and, after receipt by the beneficiary Member State, at the value of the carry-over price at 1 January of the financial year. In 1983, they involved 10 000 tonnes of skimmed-milk powder from the Federal Republic of Germany to Italy and 550 000 tonnes of common wheat suitable for making bread from France and the Federal Republic of Germany to Italy, Ireland and the United Kingdom. The need for all these transfers, whose transport costs are borne by the Community (about 15 million ECU in 1983), is not clear. The transfer of 450 000 tonnes of common wheat to Italy in July and August 1983, which was said to be needed for animal feed during the year, is particularly questionable, considering that 410 000 tonnes had still not been sold at the end of the year.

Incomplete presentation in the accounts of information on public storage

Effect on the revenue and expenditure account of Regulation (EEC) No 3184/83

4.31. The information on second-category expenditure given in the revenue and expenditure account relates to only 11 months of 1983, due to the introduction of new accounting rules arising from Regulation No 3184/83:

- (a) From 1 December 1983, this Commission Regulation replaced the former Regulation, No 380/78, concerning the operation of the system of advances in respect of expenditure financed by the Guarantee Section of the EAGGF. Its main effect is that of changing:
 - (i) from a system where the costs arising from public storage operations (balance of a 'purchase-storage-sale' account) were charged to the month during which the operations in question had taken place;

- (ii) to a system where this expenditure is charged to the month following that in which the storage operations take place.
- (b) These new rules put back by one month the charging to the accounts of the amounts concerned. When implemented they gave rise to the charging to 1984 of the expenditure arising from operations in December 1983; this involves about 150 million ECU.

4.32. In addition to this 'economy', which was introduced at an extremely opportune moment, the introduction of the regulation has as its main effect the fixing of 1 December to 30 November of the following year as the reference period for second-category accounts. This provision means that it is no longer possible to obtain exact information, i.e. after the inventory has been taken, on the position of stocks at 31 December, and thus departs from the principle of annuality.

4.33. According to the Commission, this amendment was intended to prevent global overspending at the end of the year resulting from the fact that in the former system the final costs of public storage were only known *ex post facto*;

- (a) The Commission considers that this objective has now been attained and that the entering in the accounts on the one hand of first-category expenditure (export refunds, various aids and subsidies paid to private individuals out of Community funds) and on the other of second-category expenditure (reimbursement to the Member State of costs arising from public storage), will henceforth be carried out according to one and the same system, eliminating any possibility of overspending.
- (b) The Court nevertheless considers that, whilst the amendment marks a step in the right direction, there is still a difference between these two systems of expenditure. Second-category expenditure is in fact financed in advance out of national funds. Any shortfall in advances at the end of the year would, if it were no longer possible to carry out an arbitrage — such as the one mentioned at paragraph 4.24 — prior to 31 December, have a different effect according to the type of expenditure:
 - (i) In the case of first-category expenditure, it would prevent any regular payment in respect of the financial year in question from Community funds to those entitled to subsi-

dies, this payment inevitably being carried over to the following financial year.

- (ii) In the case of second-category expenditure, it would normally postpone the repayment of costs borne by the Member State until the clearance of accounts of the financial year in question, but would not have the effect of suspending payment to the beneficiaries of public storage (products sent to intervention, provision of services, subsidies in the form of price reductions), since the money for this payment would in principle have been advanced out of national funds.
- (c) In all cases, appropriations would not have been overspent solely by virtue of the fact that the burden of costs had been shifted to a subsequent financial year.

Effect of insertion of net amounts on the revenue and expenditure account

4.34. The system of financing public storage (taking account solely of the balance of purchase costs, plus technical and financial costs, less sales) is designed in such a way that it is not possible to evaluate the actual financial volume of all the measures covered by this system. It is intended to highlight the charges which result therefrom for the Community budget. However, as a result of the budgetary nomenclature, the entry in the accounts in a contracted form of certain elements of these costs does not make it possible to identify directly:

- (a) all the profits on sales, which the Court evaluated at some 90 million ECU in 1983, including an amount of 13 million ECU of purely book profits made by the EAGGF when the Community buys stocks from itself for the purpose of food aid operations;
- (b) certain technical and financial costs which, for some products (oilseeds), are charged to the same heading as the losses on sales;
- (c) the exact amount of losses made on sales at reduced prices, showing the cost to the budget of disposal measures on markets where there is a structural surplus;
- (d) some expenditure of a different nature, lumped together with losses on sales such as, for example, most of the aid in the butter market for products from private stocks or from the open

market, whereas the Commission has detailed information on this expenditure as part of its implementation nomenclature.

Lack of information in the balance sheet on future costs

4.35. As far as the balance sheet is concerned, the future costs committed by reason of intervention measures are not mentioned anywhere, either in the form of an indication of the volume of stocks in the Member States, or in the form of an indication as to the foreseeable risk of losses on sales in the event of disposal of the products stored (cf. paragraph 4.7 (a)):

- (a) Notes attached to the balance sheet should, in the first instance, have shown the total value of the intervention stocks (7 036 million ECU).
- (b) Furthermore, the losses recorded on sales of public stocks during 1983 were considerable, particularly as regards skimmed-milk powder (84 % of the purchase value), butter (30 %), beef and veal carcasses (12 %, which must be added to an initial technical depreciation of 20 %) and baled tobacco (87 %). If an evaluation is made of the stocks at the end of the financial year, in this case at 30 November 1983, on this basis they represent a potential loss of 2 800 million ECU, or 40 % of their nominal value. If the application of the rules governing anticipated financial depreciation laid down in Council Regulation (EEC) No 1883/78 of 2 August 1978⁽¹⁾ were compulsory, the Commission would have had to bear up to half of this value in 1983, i.e. 1 400 million ECU. At the very least, the budgetary authority should have been informed of these amounts, for example, by means of notes attached to the annual accounts.

Observations on the various levels of control

4.36. Community legislation has set up different types of overlapping checks.

- (a) The Member States are primarily responsible for checking the conformity of the operations car-

ried out by private individuals, beneficiaries or debtors in the light of the rules for the organisation of markets and the decisions on the implementation of those rules.

- (b) The Commission, within the framework of its audits for the purposes of the clearance of the accounts of the Member States, must ensure the conformity of these accounts and underlying operations in the light of these same rules and, moreover, the financial regulations and budgetary authorisations.
- (c) The Financial Controller must ensure that the central budgetary or accounting operations conform to the rules.
- (d) The Court should ensure that there is overall conformity.

Control of frauds and irregularities

No common concept of irregularities

4.37. In general, all the anomalies relating to the operations of private individuals, as mentioned in paragraph 4.36 (a), are considered to come under the heading 'frauds and irregularities'. They may or may not be intentional, have developed financial effects or have been detected by the national authorities. These various factors, together with the fact that the Member States, which do not always have a common conception of fraud and irregularity, report cases of irregularity above 1 000 u.a. ⁽²⁾ to the Commission in terms which are sometimes very sketchy, mean that the 167 cases declared by the Member States in 1983 for a total amount of 11,0 million ECU should be considered with some circumspection. These figures are given in detail by the Commission in its 13th financial report on the EAGGF (Doc. COM(84) 485 final).

Commission's activity in 1983

4.38. In examining the Commission's activity in respect of the prevention of frauds and irregularities,

⁽¹⁾ OJ No L 216, 5. 8. 1978, p. 1.

⁽²⁾ 1 208 ECU.

a field in which its responsibility is essentially to motivate, coordinate and supervise, the Court noted that:

- (a) with regard to the follow-up to the recovery of sums wrongly paid to private individuals, the Commission, in response to comments by the Court, has started to implement procedures designed to share responsibility between the Community and the Member States in the case of irrecoverable amounts, and has sometimes used the clearance of accounts procedure to charge to the Member States amounts lost due to their negligence;
- (b) it has undertaken the large-scale computerisation of its information relating to cases of fraud in order to improve its methods of supervision and particularly of following up recoveries. However, this arrangement can only work efficiently if the Commission has ensured beforehand that the information which it receives from the Member States is fully comparable and exhaustive (problems of concepts, referred to in paragraph 4.37, amounts less than 1 000 u.a. which are not declarable, failure to adapt Council Regulation (EEC) No 283/72 of 7 February 1972 ⁽¹⁾ to possible irregularities of difficulties of recovery in relation to 'negative expenditure', etc.), which is far from being the case;
- (c) it abandoned the task of monitoring the application of Council Directive 77/435/EEC of 27 June 1977 ⁽²⁾ obliging the Member States to perform a minimum number of accounting checks on EAGGF beneficiary or debtor undertakings, as the Court has, moreover, noted in a special report on the application of this directive;
- (d) the Commission merely monitored one by one some ten specific cases of fraud and irregularity in the Member States and tried to take appropriate remedial action by amending regulations or making recoveries within the framework of the clearance procedure.

4.39. The fact is that the Commission has not given the requisite degree of priority to exercising its supervisory responsibilities with regard to the prevention of frauds and irregularities to the extent that

it has not attempted to improve the organisation of its information and has not subjected control systems in the Member States to serious scrutiny with regard to their efficiency.

Controls related to the clearance of the accounts

Financial effect of the clearance decisions

4.40. The decisions taken in respect of clearance during the financial year 1983 relate to the accounts of the Member States for 1976 and 1977 ⁽³⁾. These decisions gave rise to a net recovery of 108,1 million ECU and bring to 333,7 million ECU the amounts recovered since 1971, the year in which the financing system of the EAGGF, Guarantee Section was implemented. At the end of 1983, out of the 97 543 million ECU financed by the EAGGF, Guarantee Section, of which 81 630,8 million ECU should have been cleared on a regular basis, 27 336 million ECU were thus accounted for in a way which should be considered final, but which is not absolutely final because of a large number of reservations.

4.41. Following the 1976 and 1977 clearances, these reservations, together with the previous ones, can be divided into:

- (a) provisional acceptances of expenditure in the fruit and vegetables sector and milk products sector in three Member States (about 600 million ECU of which 242 million under the 1976/77 clearances);
- (b) provisional refusals for certain expenditure in several Member States in the wine, milk products, pigmeat and beef and veal and cereals sectors (about 165 million ECU of which 90 million under the 1976/77 clearances).

4.42. Finally, it should be noted that the Commission adopted the clearance decision in respect of Belgium's accounts for the financial year 1977 by overruling the Financial Controller's refusal to give

⁽¹⁾ OJ No L 36, 10. 2. 1972, p. 1.

⁽²⁾ OJ No L 172, 12. 7. 1977, p. 17.

⁽³⁾ In its reply to the previous annual report, the Commission announced that in 1983 clearance decisions would be taken in respect of the 1978/1979 accounts. In fact, these decisions were not taken until 8 February 1984. Their effect on the budget was therefore carried over to the financial year 1984.

his approval, relating to the taking into account of BFR 802 745 000 (17,5 million ECU) paid as export refunds for skimmed-milk powder. This decision to overrule the Financial Controller is analysed in paragraph 4.49.

Content of clearance decisions

4.43. The Court examined the 1976/77 decisions in order to see whether the content of these decisions was such that the first objective of the clearance procedure, which is the closing by the Commission of the accounts for these financial years, could be considered to have been achieved.

Scope of inspections unequal

4.44. The Court found that the Commission was attempting to check all the measures financed.

- (a) However, it appears that within the framework of the selection criteria adopted by the departments responsible for clearance, some sectors, such as sugar, receive little attention, for the reason that the basic aspects of their financing are already covered by controls on own resources.
- (b) It would appear that, for reasons of administrative organisation or geographical dispersal of the department involved in the management of the various measures, the Commission sometimes has difficulty, when carrying out on-the-spot checks, in obtaining the supporting documents it needs. None of these reasons, however, can validly be invoked against the requirements of the Community rules governing clearance. These rules state that the documents should be kept and made available to the Community auditors under conditions which are such as not to hinder their work in any way.
- (c) Furthermore, it was found that, over and above the simple checking of global data appearing in the national accounts, the actual task of establishing whether accounts tally concerns about 10 % of the operations entered in the accounts and the detailed audit of files covers about 1 % of individual operations, without recourse to a general method based on sampling techniques.

- (d) Despite the implementation as an experiment of inspection techniques based on the analysis of national management and control systems, the checks are still confined far too much to a conformity check of the documentary type. Moreover, the checks are rarely extended to financial movements (checking that payments to individuals actually took place, cash positions, establishing that transfers were actually made from purely national cash accounts to cash accounts out of which Community measures are supported).

Difficulties in applying the results of the verifications to the original financial year

4.45. The clearance procedure as it is implemented does not provide a true and definitive picture of the management of a financial year. The clearance decisions are too brief and the information contained in them can only be understood after simultaneous consultation of the summary report drawn up prior to the decision and various addenda.

- (a) The corrections decided upon within the clearance procedure are set out with reference to the summary annual accounts which the Member States provide for the purpose of clearance. This makes it impossible to identify clearly the real scope of these decisions *in relation to the revenue and expenditure account* of the year cleared, particularly within the framework of the exercise of the powers of discharge. In fact the revenue and expenditure account takes account of the expenditure charged as it results from all the monthly statements of the Member States, which are often different from those entered in the summary annual accounts used for corrective purposes.
- (b) In addition, this presentation makes it impossible to identify any overspending which could result from a subsequent admission of supplementary expenditure, in relation on the one hand to advances received from the Commission and, on the other hand, to budget authorisations of the financial year cleared. The Court wishes to point out that, in its opinion on the Financial Regulation (¹), it proposed a system of

(¹) OJ No C 232, 11. 9. 1981.

presentation whereby, as an annex to the revenue and expenditure account, details would be given by Member State of the effects in ECU of the clearance decisions, broken down according to the nomenclature of the financial year of origin.

- (c) Provisional acceptances of expenditure (generally not quantified) or provisional refusals (always quantified) help to explain why it is never possible to know the real position for a given financial year, particularly because no clear indication is given of the decision that will be taken with regard to such acceptances and refusals.

4.46. Overall, the Court fears that the maintenance and accumulation of reservations on a given subject may have the effect of increasing the weight of the financial implications of the decision to be taken, to the point of making it increasingly difficult. The Commission would then be inclined to confine itself to making limited corrections, taking account of the guarantees offered by the Member States concerned with regard to a subsequent improvement of the situation. Such a development, which tends to limit the clearance process to an evaluation carried out concomitantly with the management and only producing results in the future, is all the more unacceptable as the clearance continues to be carried out late.

Checks by the Financial Controller

4.47. As regards the checks by the Financial Controller on the 1983 management, the main aspects of note are those connected with clearance.

Attitude to reservations

4.48. In 1983, the Financial Controller initially opposed decisions accompanied by reservations and he had, in particular, envisaged refusing to give his approval to decisions repeating previous reservations which the Commission had expressly undertaken to remove on the occasion of the 1976 clearance. In the end he accepted this practice, the result of which has been to increase the amounts concerned (cf. paragraph 4.46).

Overruling the refusal of approval by the Financial Controller

4.49. Commission Regulation (EEC) No 2054/76 of 19 August 1976⁽¹⁾ organised the sales of skimmed-milk powder in public storage with a view to export and, to this end, provided both for a reduction in the sales price and an export refund. The Belgian authorities had agreed to exact payment of the reduced price only at the end of the operation, without charging any interest. Apart from the fact that this practice does not comply with the provisions of the Regulation, it amounted to a national aid, since the Belgian authorities had effected from national funds an advance of funds due to the Community. The Commission department responsible for the matter suggested refusing the financing of the price reduction, but not that of the refund. The Financial Controller considered that the operation in question formed a whole and refused to approve a proposal which did not also call into question the export refund aspect, which was also financed by national aid. The Commission decided to overrule this refusal of approval on the grounds that the operation in fact constituted two separate operations linked solely for reasons of administrative convenience and that, at the time, the aim of the measure was to dispose of the surplus stocks.

4.50. The Court cannot accept any of these arguments:

- (a) A sales operation with a view to export does indeed form a whole and the commercial operator who carries it out takes into account all the factors which determine the residual profit (reduction in price, export refunds, the possibility of national aid). Clearly, a delay in payment for the purchase accompanied by immediate payment of the refund benefits the export itself and could eventually result in the financing of an export without any of the operator's own funds being committed, which is certainly not the aim of the Regulation.
- (b) The Regulation refers, in its recitals, to the organisation of a single export operation and makes no provision at all for the possibility of carrying out only one of the two stages of the disposal operation.
- (c) Finally, the Commission's final argument, that the fact of attaining a measure's objective should prevail over the irregular nature of the way in which the objective was attained, cannot be accepted.

⁽¹⁾ OJ No L 228, 20. 8. 1976, p. 17.

Conclusions

Unsuitability of the present budgetary and legislative framework for the control of commitments

4.51. With regard to agricultural expenditure, as for the other types of expenditure, Article 205 of the Treaty states that 'the Commission shall implement the budget... on its own responsibility and within the limits of the appropriations'. The above observations, which all, to varying degrees, reveal considerable inertia in the management and control systems of the EAGGF, Guarantee Section, raise the question of whether the Commission really was able, during 1983, to fulfil the responsibilities thus conferred on it by the Treaty and which imply that it must exercise proper control over agricultural expenditure.

4.52. Regarding agricultural market expenditure, the measures which involve obligatory expenditure or are such as to give rise to expenditure in fact correspond to the Council's annual decisions on prices and to the Commission's management decisions, particularly with regard to export and public storage. It is at this level that rigorous supervision, together with close liaison with the estimating, adoption and utilisation of appropriations, could help to ensure that the management is effected within the limit of the appropriations allocated.

4.53. According to the definitions set out in the specific provisions of the Financial Regulation relating to the EAGGF, Guarantee Section, a commitment is in a global form when the appropriations are made available to the Member States by means of an advance and in detailed form when the expenditure declared by the Member States is recorded. In the second case, but also very often in the first, the events which govern the agricultural expenditure took place beforehand. There is therefore no direct link between a decision with financial impact and the accounting commitment.

4.54. In such a system, it is clear that the Commission cannot effectively exercise its responsibility for implementing the budget unless it uses all the means at its disposal to take the necessary action at the stage of actual commitment of expenditure.

Expenditure linked with Council decisions

4.55. As soon as a decision on prices is adopted by the Council, it is abnormal, as was the case in 1983, not to draw immediate conclusions concerning the volume of appropriations necessary to cover expenditure implicitly committed. Moreover, when a guarantee threshold is fixed by the Council, close and coherent supervision of its observance, *in conjunction* with the budgetary procedure, should be set up. This was not the case, for example, in the cereals sector for 1982/83 where it had been laid down that for production over and above 119,5 million tonnes, prices would be reduced by 1 % for each million additional tonnes. However, whereas within the framework of the budget estimates for 1984, the Commission had noted production for the 1982/83 marketing year of 2,1 million tonnes in excess of this limit, which would logically give rise to a reduction of 2 % in guaranteed prices, it had just proposed within the framework of the 1983/84 prices a reduction of 1 % calculated on the basis of an excess production of 1,4 million tonnes for the same 1982/83 marketing year.

4.56. The Court wishes moreover to point out that, in its report in response to the conclusions of the European Council of 18 June 1983, it has already indicated several of the ways in which, in its view, the monitoring of the management of markets could be improved (restrictive nature of authorisations per market, special accounts per market, close link between agricultural decisions and budgetary decisions, etc.).

Expenditure committed by the Commission

4.57. The Commission, for its part, commits expenditure when it uses the power of management conferred upon it by the Council and decides, either alone or in the management committee, upon a contract, a refund level, a threshold for tenders, etc. In this case, it should take the necessary steps to ensure that the effects of those of its decisions that give rise to expenditure may immediately be seen in relation to the management of appropriations. Apparently, this is not possible.

Management of exports

4.58. Export refunds, which represented 33 % of EAGGF expenditure in 1983, are paid by the Mem-

ber States to exporters on the basis of rates fixed by the Commission. At present, however, the Commission does not possess the means to carry out *permanent and parallel* monitoring of:

- (a) the volumes of export authorisations resulting from the issue of certificates;
- (b) the actual volumes of exports;
- (c) the expenditure incurred and the state of utilisation of the appropriations authorised for this purpose.

4.59. The result of this, in 1983, was a volume of export certificates which the Commission could only take into account by delaying their financial consequences through suspension of the systems of anticipated payments or advances to exporters (170 million ECU transferred to 1984).

Disposal of public stocks

4.60. By fixing under the tendering procedure the minimum prices for the disposal of public stocks, the Commission determines directly the quantities which will be disposed of and the losses on sales which will result therefrom. The management decisions on intervention stocks thus constitute real commitments of expenditure.

4.61. In addition, if the market is subject to considerable pressure because of an increased supply of products, the Commission may, by releasing the products in storage onto the market, give rise to a reduction in prices and contribute to new products being placed in intervention, with necessarily higher costs. This was the case in 1983, when the reintroduction of the subsidy to incorporate butter in public storage in ice-cream and cakes competed with similar aid granted to butter from the open market.

Management decisions

4.62. It is therefore important for each management decision to be taken with full awareness of all its foreseeable financial consequences so that it either remains subject to the corresponding availability of appropriations or gives rise systematically, and in good time, to a procedure of revision of these same appropriations.

Growth of expenditure which had been artificially restrained in 1983

4.63. The evidence set out in the preceding pages shows that the Commission is not in a position fully to control the commitments of agricultural expenditure and that if, in 1983, it succeeded in implementing the EAGGF, Guarantee Section budget within the limit of the authorisations fixed by the budgetary authority after adoption of an amending and supplementary budget, this was only because it introduced a number of measures intended to carry over these charges to subsequent financial years. This result was obtained by:

- (a) a limitation of the global advances paid to the Member States at the end of the financial year, made possible by the abolition of the systems of advances against payment to private individuals including exporters (675 million ECU transferred to 1984: cf. paragraph 4.13);
- (b) the introduction, as of 1 December 1983, of a regulation originally meant to come into force on 1 January 1984, which provides for the staggering by one month of the entering of public storage expenditure into the accounts (150 million ECU transferred to 1984: cf. paragraph 4.31 (b)).

4.64. In addition, the accumulation of stocks, taking into account the potential losses of around 2 800 million ECU which it implies (cf. paragraph 4.35 (b)), amounts to transferring this charge to subsequent years, whereas half could have been borne in 1983 if financial depreciation had been allowed for.

4.65. It was therefore by transferring to 1984 a global charge evaluated at a minimum of 2 000 million ECU that the Commission restrained agricultural expenditure in 1983. As a result, although it is already considerable, the growth of expenditure entered in the accounts in 1983 (28 %) does not bear any relation to the actual upward trend in costs resulting from the management of the common agricultural policy. The Court's estimates (*Table 4.7*) show that the rise in costs is in the region of 41 %. In any case, the increase in the value of public stocks by 4 000 to 7 000 million ECU during 11 months of 1983 implies considerable commitments for the future, and such an increase may not be treated as if it were a regular annual event, which is how the Commission treats it in its reply to paragraphs 4.63 to 4.65.

Table 4.7 — Assessment of actual expenditure of the EAGGF, Guarantee Section for the financial years 1979 to 1983

(Mio ECU)

	1979	1980		1981		1982		1983	
	Amount	Amount	Variation 1979/80 (%)	Amount	Variation 1980/81 (%)	Amount	Variation 1981/82 (%)	Amount	Variation 1982/83 (%)
Payments according to the revenue and expenditure account (1)	10 434,5	11 314,9	+ 8,4 %	10 979,4	- 3,0 %	12 402,9	+ 13,0 %	15 811,5	+ 27,5 %
Actual expenditure of the financial year (after corrections)	11 046,5	11 609,9	+ 5,1 %	12 130,6	+ 4,5 %	13 856,2	+ 14,2 %	19 492,5	+ 40,7 %
Corrections:									
a) Negative appropriations:									
— milk co-responsibility levy	+ 94,2	+ 222,9		+ 478,5		+ 537,3		+ 527,4	
— monetary compensatory amounts	+ 278,2	+ 337,6		+ 453,0		+ 740,5		+ 854,1	
— olive oil deductions	—	+ 3,6		+ 3,4		+ 2,6		+ 7,2	
— flax and hemp deductions	—	+ 0,1		+ 0,2		+ 1,1		+ 1,2	
— profits on sales of public stocks	—	—		—		—		+ 90,0	
— recoveries	—	—		+ 7,5		+ 12,7		+ 9,0	
— clearance of accounts	+ 36,1	—		+ 161,0		—		+ 108,1	
Total	+ 408,5	+ 564,2		+ 1 103,6		+ 1 294,2		+ 1 597,0	
b) Transfers of expenditure:									
— reduction in value of stocks:									
• financial (2)	—	—		—		+ 141,0		- 141,0	
	—	—		—		—		+ 1 400,0	
• Poland	—	- 65,7		+ 65,7		—		—	
	—	—		- 18,1		+ 18,1		—	
— effect of Regulation No 3184/83	—	—		—		—		+ 150,0	
— effect of suspending advances	—	—		—		—		+ 675,0	
— excess of expenditure over appropriations	+ 203,5	- 203,5		—		—		—	
Total	+ 203,5	- 269,2		+ 47,6		+ 159,1		+ 2 084,0	
Total corrections	+ 612,0	+ 295,0		+ 1 151,2		+ 1 453,3		+ 3 681,0	

(1) This is expenditure made against appropriations available during the financial year concerned, i. e. payments against appropriations of the financial year, and payments against non-automatic carry-overs from the previous year.

(2) Assessment of financial reductions in value such as would have resulted from the constant application of the methods of calculation adopted by the Commission.

CHAPTER 5

European Agricultural Guidance and Guarantee Fund, Guidance Section, and specific agricultural measures

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Introduction

5.1. The EAGGF, Guidance Section, which was created by Council Regulations (EEC) No 25/62 of 4 April 1962 ⁽¹⁾ and No 17/64 of 5 February 1964 ⁽²⁾, finances common measures adopted in order to attain the objectives set out in Article 39 (1)(a) of the EEC Treaty, including the structural modifications required for the proper working of the common market. It also finances 'project' measures — aid to individual beneficiaries for specific investments —

and 'reimbursement' measures, whereby Member States can be reimbursed part of their expenditure for certain operations complying with the conditions laid down by Community provisions. The following observations concern the management of aid to individual projects for the improvement of agricultural structures (budget Articles 300 and 301) and aid towards the following measures of a regional nature: agricultural infrastructure in the Federal Republic of Germany (budget Article 328), collective irrigation works in the Mezzogiorno and Corsica (budget Items 3221 and 3231), agricultural advisory services in Italy (budget Item 3220) and agricultural development in the West of Ireland (budget Item 3242).

⁽¹⁾ OJ No 30, 20. 4. 1962, p. 991.

⁽²⁾ OJ No 34, 27. 2. 1964, p. 586.

5.2. The specific agricultural provisions mainly cover veterinary measures, research activities in agriculture and a certain number of individual measures in the field of agriculture.

Summary of financial information

5.3. All the decisions for aid are denominated in the currency of the beneficiary country and expressed in ECU in the Commission's accounts.

5.4. The commitments and payments of the financial year are summarised in *Table 5.1*, which also shows the amount of appropriations available. The appropriations are, for the most part, differentiated except for those of Chapter 38 concerning specific agricultural measures, the majority of which are non-differentiated.

5.5. Council Regulation (EEC) No 929/79 of 8 May 1979⁽¹⁾ earmarked a sum of 3 600 million ECU for the operations of the EAGGF, Guidance Section, in the period 1980-84, which was raised to 3 755 million ECU by Council Regulation (EEC) No 3509/80 of 22 December 1980⁽²⁾, due to the accession of Greece to the Community. At 31 December 1983, the overall amount of commitments from the Fund came to 2 822,4 million ECU.

5.6. Commitments for Title 3 as a whole amounted to 899,3 million ECU in 1983, i.e. 86,3 % of the funds available. The corresponding figures for 1982 were 745,7 million ECU and 83,4 % respectively.

5.7. Total payments made in 1983 amounted to 749,6 million ECU i.e. 70,3 % of the funds available. The corresponding figures for 1982 were 644,1 million ECU, representing 60,8 % of the funds.

Observations arising from the financial information

Aid towards the reconstitution of agricultural areas damaged by hurricanes

5.8. On 30 October 1979 the Council adopted Regulation (EEC) No 2395/79⁽³⁾ for the purpose of

reconstituting the agricultural areas of the French Overseas Departments damaged by hurricanes 'David' and 'Frederick'. The Regulation instituted a common measure designed to contribute towards restoring banana plantations, fruit orchards, areas used for flower cultivation and rural infrastructures in Martinique and Guadeloupe.

5.9. A commitment of 12,1 million ECU was entered in the accounts in 1979 to cover this aid. Total payments amounted to 8,5 million ECU and the balance was decommitted during the financial year 1983.

5.10. An examination of the files revealed a delay of almost two years in the transmission to the Commission of the report on the execution of the work and considerable gaps in accounting for how the aid allocated was used. The information was in no way systematic, and under certain headings (fruit orchards and flower cultivation in Guadeloupe) there was no description of the work or its geographical location. For the banana plantations in Martinique, only the communes were specified, with no description whatsoever of the work.

5.11. The incomplete nature of the information, accepted by the Commission as justification for expenditure cannot fail to affect any assessment of the management of this aid.

Observations on the system of granting and management of aid at national and Community level

Regulation No 17/64 relating to individual projects: Settlement of commitments

5.12. *Table 5.2* summarises the settlement of commitments relating to the individual projects granted within the framework of Regulation No 17/64, in respect of which the latest granting decisions date back to 1979. Three main observations result from an examination of the settlement operations:

(a) Despite the efforts of the Commission departments in 1983 — which should have been

⁽¹⁾ OJ No L 117, 12. 5. 1979, p. 4.

⁽²⁾ OJ No L 367, 31. 12. 1980, p. 87.

⁽³⁾ OJ No L 275, 1. 11. 1979, p. 1.

Table 5.1 — Expenditure in the agricultural structures sector (Title 3): Appropriations available in 1983 and their utilisation

(Mio ECU)

Budget heading	Commitments		Payments	
	Appropriations for commitment available in 1983 ⁽¹⁾	Commitments entered into in 1983	Appropriations for payment available in 1983 ⁽²⁾	Payments made in 1983
Chapter 30:				
Projects for the improvement of agricultural structures ⁽³⁾	246,3	226,9	180,1	154,7
— 300 Individual projects	1,2	—	39,1	33,5
— 301 Marketing	245,1	226,9	141,0	121,2
Chapter 31:				
General socio-structural measures	159,6	156,3	159,6	156,3
— 310 Modernisation	152,5	149,8	152,5	149,8
— 311 Cessation	1,5	1,0	1,5	1,0
— 312 Training	5,6	5,5	5,6	5,5
Chapter 32:				
Measures to assist less-favoured areas	441,8	375,9	415,6	257,6
— 320 Mountain and hill farming	167,4	135,8	177,8	135,8
— 321 Specific regions — Mediterranean	88,8	83,5	67,3	24,4
— 322 Specific regions — Italy	70,4	62,6	60,2	16,2
— 323 Specific regions — France	30,3	24,9	29,5	24,9
— 324 Specific regions — Ireland	46,4	36,0	46,5	36,0
— 325 Specific regions — Denmark	1,0	0,1	1,0	0,1
— 326 Specific regions — United Kingdom	15,2	12,9	15,0	11,9
— 327 Specific regions — Belgium	2,0	—	0,6	—
— 328 Specific regions — FR of Germany	12,9	12,9	10,3	1,1
— 329 Specific regions — Greece	7,4	7,2	7,4	7,2
Chapter 33:				
Structural measures connected with the common organisation of markets	137,4	106,9	128,1	92,3
— 330 Producer organisations	3,3	1,3	3,3	1,3
— 331 Milk and meat	67,7	61,3	67,7	61,3
— 332 Wine	62,6	42,3	53,3	27,7
— 333 Fruit	3,8	2,0	3,8	2,0
Chapter 80 ⁽⁴⁾ :				
Projects for the improvement of agricultural structures	—	—	120,1	58,6
EAGGF-Guidance — Total ⁽⁵⁾	985,1	866,0	1 003,5	719,5
Chapter 38:				
Expenditure in the agricultural sector	57,3	33,3	62,4	30,1
— 380 Campaigns against epidemics-livestock	4,8	3,8	6,8	3,0
— 381 Veterinary measures	39,5	17,2	39,6	17,1
— 382 Seeds and propagating material	0,2	0,2	0,2	0,2
— 383 Farm accountancy data network	3,8	3,3	4,4	4,4
— 384 Agricultural research	5,9	5,8	8,2	5,3
— 386 Vocational training of farmers	0,2	0,2	0,2	0,1
— 387 Supervision of agricultural rules	0,1	0,0	0,1	—
— 389 Specific measures — regions	2,8	2,8	2,9	—
Title 3 — Grand total	1 042,4	899,3	1 065,9	749,6

⁽¹⁾ Taking into account transfers, decommitments, adjustments and appropriations remaining from 1982.⁽²⁾ Taking into account transfers and carry-overs from 1982.⁽³⁾ In 1983, 20,0 Mio ECU were decommitted and re-utilised in accordance with Regulation (EEC) No 3171/75. These recommitments and payments are entered in the accounts against non-differentiated appropriations.⁽⁴⁾ Chapter 80 of the old budgetary nomenclature — Non-differentiated appropriations prior to 1977.⁽⁵⁾ Except for Chapter 46 which is included in Chapter 6 of this report (Fisheries).

Table 5.2 — EAGGF — Guidance: Evolution of settlement of commitments for operations under Regulation No 17/64/EEC since 1980

(Mio ECU)

Type of appropriation	Commitments outstanding			
	at 31. 12. 1980	at 31. 12. 1981	at 31. 12. 1982	at 31. 12. 1983
Non-differentiated appropriations				
— Original projects	230,5	140,0	72,6	24,3
— Application of Regulation (EEC) No 3171/75	74,6	69,4	47,6	31,4
Differentiated appropriations	201,3	153,8	109,1	72,9
Total	506,40	363,20	229,30	128,60

employed earlier — there are still many files of projects to be completed. The amounts remaining thus committed lost much of their value over the years, especially where weak currencies were concerned.

- (b) The settlement of recommitted appropriations, in accordance with Article 22 of Regulation No 17/64, could have been effected more quickly and easily. The Commission's practice of reserving, too strictly, the appropriations released for the same Member State is not consistent with the Community nature of the measure. The presentation of this situation in the accounts shows how much the management of recommitted appropriations is proving to be complicated and delayed.

- (c) The provisions of Article 108 (3)(a) of the Financial Regulation of 21 December 1977 imply a normal settlement of aid within a maximum period of five years after having been granted. Beyond this period, Article 108 (3)(b) provides for carry-overs of appropriations with the approval of the budgetary authority. The Commission's practice has been to apply this procedure in a manner which is not such as to encourage the Member States and the beneficiaries to make the effort required in order to ensure that commitments are settled more quickly.

Regulation No 355/77 concerning the financing of projects to improve the conditions under which agricultural products are processed and marketed

5.13. Instituted by Council Regulation (EEC) No 355/77 of 15 February 1977 ⁽¹⁾, as amended ⁽²⁾, the common measures concerning the improvement

of the conditions under which agricultural products are processed and marketed, take the form of financial contributions by the EAGGF, Guidance Section, towards investment projects which are included in specific programmes, the demand for which has only been established gradually.

5.14. The duration of the common measures was initially for five years (from 1 January 1978 to 31 December 1982) and it was subsequently extended by Council Regulation (EEC) No 3164/82 of 27 November 1982 until the end of 1984.

5.15. The estimated cost of the measures charged to the Fund amounted to 958 million ECU, broken down as follows:

period 1978-80: 366 Mio ECU i.e. 122 Mio/year

period 1981-82: 280 Mio ECU i.e. 140 Mio/year

period 1983-84: 312 Mio ECU i.e. 156 Mio/year

total: 958 Mio ECU

⁽¹⁾ OJ No L 51, 23. 2. 1977, p. 1.

⁽²⁾ Regulation No 219/78,
OJ No L 35, 4. 2. 1978, p. 10;
Regulation No 1361/78,
OJ No L 166, 23. 6. 1978, p. 9;
Regulation No 1685/78,
OJ No L 197, 22. 7. 1978, p. 1;
Regulation No 3509/80,
OJ No L 367, 31. 12. 1980, p. 87;
Regulation No 1096/81,
OJ No L 114, 25. 4. 1981, p. 1;
Regulation No 3073/82,
OJ No L 325, 20. 11. 1982, p. 1;
Regulation No 3164/82,
OJ No L 332, 27. 11. 1982, p. 1;
Regulation No 3397/82,
OJ No L 357, 18. 12. 1982, p. 10;
Act concerning the conditions of accession of the Hellenic Republic and the adjustments to the Treaties, OJ No L 291, 19. 11. 1979.

The contribution by the EAGGF takes the form of a subsidy representing a maximum of 50 % of the eligible cost of the projects proposed by each Member State and approved by the Commission.

5.16. The observations made by the Court of Auditors are based on an examination of all the files in respect of which a financial report was drawn up on 1 January 1983, and on findings made during independent audit visits effected in 1983 in five Member States ⁽¹⁾.

Absence of adequate guarantees as to the profitability of the projects subsidised

5.17. Article 10 of Regulation No 355/77 stipulates, amongst other things, that 'projects must offer adequate guarantees that they will be profitable'. The projects audited by the Court revealed, however, that in certain countries, the operating accounts and balance sheets of almost half of the assisted undertakings, did not show a favourable trend between the moment that the aid was granted and the time of audit. It even appears that after the aid has been granted and new investments effected, the financial condition of certain beneficiaries is adversely affected by a lack of working capital and an increase in fixed charges which raise their production costs.

5.18. Without ignoring the various reasons given by the beneficiaries, in particular the poor economic climate, it would appear necessary that the aid from the EAGGF should contribute not only to an improvement in technical production structures but also to setting up industrial or cooperative undertakings which are better organised and managed and, by the same token, capable of transforming the assistance of the Fund into real economic benefits that are sufficiently significant in terms of the Community objective pursued, which has not always been the case.

Lack of consistency in the data provided by the beneficiaries and no 'ex post' appraisal of the application of the common measures

5.19. Article 20 of Regulation No 355/77 and Article 1 of Commission Regulation (EEC) No

1096/81 of 9 April 1981 ⁽²⁾ stipulate that each beneficiary should forward to the Commission, through his Member State, a report on the financial results of the project subsidised within a period of two years after the effective payment of the last instalment of the aid granted. This report should contain certain details and in particular six tables (B1 to B6) ⁽³⁾ on the economic state of the undertaking similar to the tables required by Commission Regulation (EEC) No 219/78 of 13 January 1978 ⁽⁴⁾ at the point when aid applications are examined.

5.20. A comparison of the above data revealed, in a considerable number of cases and in various countries, some substantial differences between the estimates which accompany the applications and the reports on the financial results of the investments made. Moreover, these differences are rarely supported by evidence, as required by Regulation No 1096/81.

5.21. Moreover, during the on-the-spot visits in France, it was established that the above data had not been used in any way by the national authorities responsible. Similarly, these authorities had not studied the impact of the measure on national agricultural structures. For its part, the Commission apparently did not carry out a detailed study of this information until very recently. Such an 'ex post' appraisal of the results obtained by the Community measures should, however, play a decisive role in assessing the effectiveness of the structural Funds.

Shortage of information on financing arrangements

5.22. Under Articles 15 and 17 of Regulation No 355/77, when an application for aid is being examined, the Member State concerned should provide the Commission with all information concerning national aid to the projects.

⁽²⁾ OJ No L 114, 25. 4. 1981, p. 1.

⁽³⁾ B1: Summarised balance sheet,
B2: Summarised operating and profits and losses account,
B3: Products used before and after investment,
B4: Processed/marketed products before and after investment,
B5: Prices paid to the producers over the last three years,
B6: Operating and profits and losses account by place of investment.

⁽⁴⁾ OJ No L 35, 4. 2. 1978, p. 10.

⁽¹⁾ Belgium, Greece, France, Luxembourg, Netherlands.

5.23. It was found, however, that for certain projects, supplementary aid to which no reference was made in the financing plan, had been given by the Member State. This was the case in the Netherlands where for agricultural projects the government granted a supplementary premium for large-scale projects (WIR-GPT).

5.24. Such subsidies, granted by the Member States for various reasons, do not appear to be of a different nature to those taken into account under Regulation No 355/77, which does not lay down any additional criteria concerning national aid. By modifying in this way the data contained in the project's financing plan, the determination of the amount of Community aid is thus affected.

Interaction of structural aid and objectives of market policies

5.25. The chronic imbalance that characterises certain markets for agricultural products, has led the Commission, each year, to enact criteria for selecting those projects to be financed as common measures, in order to avoid increasing and, at best, to try and reduce existing imbalances. This is particularly a problem for milk products, despite the existence of quite restrictive criteria for choosing projects and in respect of which the need for urgent reform has been stressed many times.

5.26. For example, in the milk sector, the beneficiary of a cheese factory project in France recorded an increase in its overall production of milk powder in 1981 and 1982 although it was precisely the opposite effect which was sought by the subsidised project. The same applied to another project for a cheese factory which sells a part of the milk which it treats, in concentrated form, to undertakings manufacturing milk powder intended for intervention.

5.27. Moreover, in the same country, the beneficiaries of certain projects declared during on-the-spot visits, that they delivered regularly a part of the meat of animals that they slaughtered (beef cattle in particular) to the intervention agencies. It appears that nobody had enquired whether the extensions to slaughtering capacities that were financed would be used to treat, in part, products brought to intervention.

5.28. From these findings it may be concluded that at the stage of examining applications, the criteria laid down by the Commission are not sufficient to exclude projects whose implementation could involve secondary effects that are incompatible with a market policy aimed at the management of surpluses.

Inclusion of several investments which are economically and technically independent under one project

5.29. It was noted during the audit visits that several investments that are technically and economically independent are often included under one project covered by a single financing plan. This is the case in France for wine-growing projects and in Greece for each of two cereal storage projects which provide for the construction of 43 silos, 23 stores and 11 grain-drying plants throughout the country.

5.30. Without denying the need for a system of planning which provides a general framework for specific action in the form of individual projects, it is desirable from a management point of view that the Commission should return more strictly to the concept of projects which each represent a functional unit. The above groupings of investments require a considerable period for their implementation, entail management problems and raise uncertainty as to the total investment to be ultimately effected.

Delay in the submission of requests for payment for work completed and overstepping of initial costs

5.31. On-the-spot checks carried out in Greece revealed, amongst other things, the following findings:

- (a) In respect of a considerable number of projects, the work for which had already been completed or was sufficiently advanced, no request for payment had been sent to the Commission at the time of the audit (October 1983). Despite the national authorities' wish to carry out with due care the controls stipulated in the Community legislation, considerable delays were established in the submission of files. Such delays involve a supplementary financial charge for the cooperatives — and thus for the farmers — on account of the interest on 'bridging loans' during the delay period. Moreover, these delays have the

additional disadvantage of leading to possible disputes regarding the assessment of the work carried out and its financial estimation at the checking stage which is inevitably carried out *a posteriori*.

- (b) The real cost of the projects often exceeded the cost initially set. Besides the technical difficulties which may increase the cost of the projects, one of the main causes of underestimating costs is that they are calculated on the basis of the prices prevailing at the time of examining the files. Thus the cost of the programme for cereals (GR/004) was established on the basis of 1979 prices. The Community contribution is therefore indirectly reduced by reason of the delay in the implementation of the projects and the high inflation rate, which was in the region of 20 to 25 % per year for Greece, while the Commission's practice limits the allowed inflation margins to 5 % only.

General comment

5.32. In view of the expiry of Regulation No 355/77 at the end of 1984, it would be advisable for the Commission to establish, for the system to be set up in later years, those provisions required both to make the best use of its measure — taking into account the requirements of the agricultural markets — and to organise a stricter management of the aid, including its follow-up.

Financing of projects aiming to speed up improvement of agricultural infrastructure in certain less-favoured areas of the Federal Republic of Germany

5.33. In order to improve agricultural production and working conditions in certain less-favoured areas of the Federal Republic of Germany, Council Regulation (EEC) No 1938/81 of 30 June 1981 ⁽¹⁾ introduced a common measure to improve public amenities more quickly, at an estimated cost of 45 million ECU for a period of five years.

5.34. An aid, equivalent to 30 % of the investment made was granted to projects included in the outline programme drawn up by the Member State and submitted to the Commission for approval. The projects should deal with water engineering in agriculture or the construction and improvement of roads mainly used for agriculture and forestry.

5.35. Amongst the particulars to be given in the outline programme, Article 3 of Regulation No 1938/81 requires, in addition to a description of the measures planned, a description of 'how they can help to expedite work' i.e. normally, their effect on the time taken to carry out such work.

5.36. An examination of the outline programme does not, however, identify any details concerning this aspect. The document includes a description of the types of measure planned but no information is supplied as to how these measures can help expedite work. It is somehow presumed, contrary to the aforementioned provisions of Article 3, that the existence of Community financing is an adequate guarantee that the work is expedited.

5.37. Article 3 of Regulation No 1938/81 also stipulates that the outline programme should contain provisions for coordination with any other programmes or measures for the balanced development of agriculture and public amenities in the areas covered by the programme and for giving priority to projects which are complementary to these programmes or measures.

5.38. From an examination of the investments subsidised such a coordination may be questioned. Of the total commitments of DM 50 million, charged to the Community budget until the end of 1983 for this common measure, DM 19,9 million concerned water engineering and DM 30,1 million, road works. In the Member State, however, the improvement of the agricultural road network is not always considered a priority task, since the appropriations earmarked for this purpose in the Federal and 'Länder' budgets, have fallen steadily from 1980 to 1983. The expenditure effected dropped from DM 142,5 million in 1980 to DM 71,7 million in 1981, DM 59,3 million in 1982 and the estimated amount for 1983 was DM 67,8 million.

5.39. Moreover, the national outline plan and more particularly the 'Common measure for improv-

⁽¹⁾ OJ No L 197, 20. 7. 1981, p. 1.

ing agricultural structures and coastal protection' fixed a rate of 40 % for the granting of subsidies in respect of rural roads by the Federal budget and the 'Länder' budgets which was clearly lower than the rate of 70 % usually applied for agricultural infrastructures. On the other hand, rural roads may be subsidised solely in the rural communes whose road network is less than 1,2 km per 100 ha of agricultural area and will not be over 1,5 km per 100 ha of agriculture area after the investment since these limits may only be exceeded in the event of an intervention under Regulation No 1938/81. Amongst the projects for rural roads having benefited from the assistance of the Fund, approximately 40 % of those examined by the Court exceeded such limits, which illustrates that the aid allocated was used, to a great extent for non-priority investments in the Member State. A more detailed examination by the Commission would have made it possible to coordinate better the use of national and Community funds and so achieve a better utilisation of the resources available.

5.40. The water engineering measures involve an amount of DM 11,6 million for the construction of a reservoir which should protect approximately 750 ha of agricultural land against floods caused by the river Itz. Several national documents state, however, that the protection work against floods in the Member State is no longer directed towards agricultural objectives. It has thus proved that the importance of the project to regulate the water of the river Itz by far outweighs its agricultural aspect. Such a situation does not seem to comply fully with the objective of the Regulation.

Measures for the acceleration and guidance of collective irrigation works

5.41. In order to accelerate and orient the collective irrigation works in the Mezzogiorno and in Corsica, financial support from the Guidance Section of the EAGGF was provided by Council Regulation (EEC) No 1362/78 of 19 June 1978 ⁽¹⁾ and by Council Directive 79/173/EEC of 6 February 1979 ⁽²⁾. This took the form of, in the first case, a 'project' measure, and, in the second, a 'reimbursement' measure.

The programmes

5.42. The estimated cost of the measure for the Mezzogiorno to be charged to the Fund was 260 million ECU for a period of five years and the maximum area to be irrigated was 200 000 ha. The cost for Corsica, also for five years, was 12 million ECU with a maximum area of 12 000 ha.

5.43. The operations intended to benefit from Community aid should be included under programmes which specify the work to be carried out and the measures taken to further their impact on the agricultural development of the regions concerned. The programmes consisted mainly of operations already being implemented at national or local level in a different framework. They were submitted to the Commission for the Mezzogiorno on 28 August 1979 and for Corsica on 9 August 1979 and approved by the Commission on 29 November 1979 and 30 November 1979.

Implementation of the measures

5.44. Despite the time taken to prepare them, the programmes have hardly proved viable. In respect of Italy an amendment was approved in 1983 in order to replace the 80 000 ha included in the programme by 80 000 other ha, which were not included in the programme, but in respect of which it was estimated that the work could be completed within the statutory period of five years, having been begun in the meantime. The replacement was made because it was impossible to start the work on the initial 80 000 ha in the absence of executive projects, or the necessary appropriations or, in certain cases, adequate water supplies.

5.45. Due to the time taken to make national funds available in Corsica, the measure did not get off the ground until 1981 and, moreover, some concern was evident in the south east about the estimated availability of water supplies for agricultural purposes. The administrative body considered that it would only be possible to complete a third of the envisaged programme within the prescribed period.

5.46. Up to the end of 1983, budgetary implementation at Community level in respect of Regulation No 1362/78, represented total commitments of 212,3 million ECU, and payments, including

⁽¹⁾ OJ No L 166, 23. 6. 1978, p. 11.

⁽²⁾ OJ No L 38, 14. 2. 1979, p. 15.

advances, of 60,4 million ECU. Commitments and payments totalled 2,7 million ECU for Directive 79/173.

5.47. It would be premature to attempt to assess the impact of the measures designed to orient production mainly towards fodder crops and to promote livestock raising, since the information on the allocation of the areas irrigated is still very incomplete. In Corsica, however, it appears that the expected extension of fodder production runs counter to the fact that such production is not always likely to have rapid and lasting effects on agricultural incomes.

5.48. Both Regulation No 1362/78 and Directive 79/173 stipulate that the areas devoted to vines for wine-making should be excluded from the irrigation operations benefiting from Community financing. The checks made by the Court of Auditors in Sardinia revealed the existence of vineyards in the irrigated agricultural areas and the absence of provisions to prevent the use of the equipment for irrigating the vines. In Corsica, this exclusion was brought to the attention of the users who had entered into a commitment not to use the water supplied to water the vineyards. The departments responsible recognise that it is difficult to ensure compliance with such a commitment and to penalise any breaches thereof.

5.49. Under Article 11 of Regulation No 1362/78 and subject to other conditions prescribed elsewhere, aid from the Fund should cover 50 % of the cost of implementing the work. For one of the five Decisions adopted by the Commission at an amount of 28,2 million ECU, the aid granted represented only 36,8 % instead of 50 % of the eligible costs on account of the insufficiency of the appropriations remaining available at the time of the decision to grant the aid.

The development of agricultural advisory services

5.50. One of the main provisions of Regulation No 1362/78 relates to the appointment in the irrigation areas, of advisory officers with certain educational qualifications and professional experience. Responsibility for the advisory services lies with the regions who have not always defined the rules for their organisation and management and, at the end of the financial year 1983, small groups of advisory

officers were still being appointed in the irrigated basins.

5.51. At the more general level of the development of agricultural advisory services in Italy, it should be remembered that a common measure of the 'reimbursement' type, of which the estimated time required for implementation is 12 years and whose estimated share of the cost to be borne by the Fund is 66 million ECU, was instituted by Council Regulation (EEC) No 270/79 of 6 February 1979 ⁽¹⁾.

5.52. Unlike Council Directive 72/161/EEC of 17 April 1972 ⁽²⁾, based on the provision of socio-economic guidance for farmers and whose provisions have hardly been applied in Italy, the Regulation of 6 February 1979 is especially directed towards the training of advisory officers and their employment for the promotion of agriculture.

5.53. Five years after the adoption of this Regulation, the implementation of the common measure proves disappointing. Appropriations amounting to 150 000 ECU, 570 000 ECU and 500 000 ECU, made available in the Communities' budgets from the financial years 1980 to 1982, remained practically unutilised, only one advance of 90 788 ECU having been paid to Italy on 26 November 1982.

5.54. Moreover, the provisions of Article 13 of the Regulation which lay down that before 1 August of each year, the Commission shall submit to the European Parliament and the Council a report on the implementation of the common measure, were not applied.

The stimulation of agricultural development in the less-favoured areas of the West of Ireland

5.55. The common measure instituted by Council Regulation (EEC) No 1820/80 of 24 June 1980 ⁽³⁾ provides for the granting of aid to assist seven types of action intended to improve agricultural structures and the opportunities for farm production in the less-favoured areas of the West of Ireland.

5.56. This aid is charged to Item 3012 of the budget, for those projects to improve processing and marketing facilities and to Item 3242, for the six

⁽¹⁾ OJ No L 38, 14. 2. 1979, p. 6.

⁽²⁾ OJ No L 96, 23. 4. 1972, p. 15.

⁽³⁾ OJ No L 180, 14. 7. 1980, p. 1.

other 'reimbursement' measures provided for by the Regulation and with which the following comments deal. For these six types of measure whose implementation should be included within the framework of a programme, the envisaged duration of the common measure is ten years and the overall contribution of the Fund is estimated at 200 million ECU. The total committed and paid up to 31 December 1983 amounted to 27,7 million ECU, including 3,9 in 1981, 12,4 in 1982 and 11,4 in 1983. For each of the financial years from 1981 to 1983, commitments and payments corresponded to 72 %, 58 % and 39 % of the appropriations available.

Land improvement

5.57. In order to stimulate land improvement, Regulation No 1820/80 made provision for an aid towards the subdivision of land held in common ownership and the fencing and improvement of pasture on such land. The programme estimated that 60 000 ha would be affected by this work.

5.58. In fact, the need to obtain the agreement of various co-owners, both for the decision and for the improvement of land, has considerably restricted the application of the measure and the national expenditure in the field has constantly dropped, falling from IRL 90 000 in 1976 to IRL 20 000 in 1981. While the subdivided common land has covered 3 346 ha, since the implementation of Regulation No 1820/80, only 284 ha had been granted an aid for land improvement by the end of 1983, which shows that the achievement of the anticipated results has to a large extent been jeopardised.

Orientation of production

5.59. With regard to the orientation of agricultural production, Regulation No 1820/80 and the programme provided mainly for aid intended to encourage production and farming practices that are best suited to the physical, economic and structural situation of agriculture in the region, with a particular emphasis on meat production. It was estimated that 25 000 farmers, i.e. approximately 27 % of the farming population of the regions under consideration, would be interested in the measure and

would submit plans to improve their farms in accordance with the guidelines set. This was regarded as an essential part of the anticipated development process.

5.60. There was no application of the measure in 1981 and 1982 although the programme stipulated for every year from 1981 to 1990, a uniform expenditure of 3,8 million ECU. From January to November 1983, a total of 289 plans were approved, making provision for an overall aid of IRL 407 000, approximately 20 % of which was paid during the financial year. A real effort still has to be made to achieve the anticipated results and it is hardly likely that, in its present form, the measure which may have appeared as a prerequisite for the success of all the others, will arouse sufficient interest to make any impact on the increase in agricultural incomes in the area.

Farm roads

5.61. The system in force in various counties (Cavan, Donegal, Galway, Kerry, Mayo) in respect of farm roads, makes provision for the granting, by beneficiary, of an aid whose maximum amount is not related to the length of the road network and, at the time of the visit, corresponded to the cost of repairing approximately 200 metres of road. For works of a larger scale, the beneficiary has the possibility of obtaining a new instalment of aid after a period of some years.

5.62. Such a system results in fragmented stretches of road which deteriorate before the road is finished. The Irish authorities, while recognising that this situation is unsatisfactory, consider, however, that it has become difficult to change the procedure followed. The recognition of such a situation should, on the contrary, result in the system being changed in order to create better conditions for the utilisation of the funds available.

5.63. In general, the difficulties encountered on the implementation of this measure should prompt a review of the system in force in order to improve its chances of success.

General comment

5.64. A number of observations formulated under the preceding paragraphs highlight the difficulties in

implementing the measures as envisaged, due to numerous constraints applied by the differing environments in which they operate. Community measures, despite their regional nature, often prove to be inadequately suited to local conditions, from both the socio-economic and the administrative viewpoints. These specific problems should be given more consideration at the time of the consultations

between the Member States concerned and the Commission prior to the approval of the programmes. This is particularly necessary in the case of the 'reimbursement' measures where any subsequent Commission intervention as often as not takes the form of a mere examination of requests for payment.

CHAPTER 6

Common fisheries policy

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Introduction

6.1. Article 38 of the Treaty of Rome made provision for the establishment of a common fisheries policy within the framework of the common agricultural policy. The first measures were taken in 1970 under Council Regulation (EEC) No 2142/70 of 20 October 1970 ⁽¹⁾. The basic provisions relating to the organisation of the market in fishery products were revised by Council Regulation (EEC) No 3796/81 of 29 December 1981 ⁽²⁾. It was not until 1983, however, that a true common fisheries policy was established by Council Regulations (EEC) No 170/83 ⁽³⁾ and No 171/83 ⁽⁴⁾ of 25 January 1983 relating to access to Community waters and the conservation and management of fishery resources. Moreover, an 'interim' structural policy was implemented from 1978 to 1982 which covered the construction or modernisation of vessels, aquaculture and the processing and marketing of fishery products. A Council Resolution of 25 January 1983 on measures to adjust capacity and improve productivity in the fisheries sector was followed by the adoption of Council Regulations (EEC) No 2908/83 ⁽⁵⁾ and No 2909/83 ⁽⁶⁾ and Council Directive 83/515/EEC of 4 October 1983 ⁽⁷⁾.

6.2. The common fisheries policy henceforth comprises six parts:

- (a) measures for the conservation of resources,
- (b) the right of access of fishermen to fishing zones,
- (c) total allowable catches (TACs) and their division into national quotas,
- (d) the common organisation of the market,
- (e) structural policy,
- (f) fisheries agreements with non-Member States.

Summary of financial information

6.3. Budgetary management is effected within the framework of the appropriations entered under Title 4 of the budget. Chapter 40, devoted to the organisation of the market, is managed by the Directorate-General for Agriculture (DG VI), EAGGF, Guarantee Section, Directorate, and Chapter 46, relating to common measures is managed by the Guidance Section of the same Directorate. The other chapters concern the Directorate-General for Fisheries (DG XIV). In respect of the financial year 1983, the Court's attention focused on expenditure relating solely to the Guarantee Section.

6.4. The situation concerning commitments and payments for the financial year is summarised in *Table 6.1* which also indicates the amount of appropriations available. The appropriations are, for the most part, non-differentiated although certain

⁽¹⁾ OJ No L 236, 27. 10. 1970, p. 5.

⁽²⁾ OJ No L 379, 31. 12. 1981, p. 5.

⁽³⁾ OJ No L 24, 27. 1. 1983, p. 1.

⁽⁴⁾ OJ No L 24, 27. 1. 1983, p. 14.

⁽⁵⁾ OJ No L 290, 22. 10. 1983, p. 1.

⁽⁶⁾ OJ No L 290, 22. 10. 1983, p. 9.

⁽⁷⁾ OJ No L 290, 22. 10. 1983, p. 15.

Table 6.1 — Fisheries (Title 4): Appropriations available in 1983 and their utilisation

(Mio ECU)

Budget heading	Commitments		Payments	
	Appropriations for commitment available for 1983 ⁽¹⁾	Commitments entered into in 1983	Appropriations for payment in 1983 ⁽²⁾	Payments made in 1983
Chapter 40:				
Common organisation of the market in fishery products	25,9	25,7	25,9	25,7
— 400 Refunds	8,3	8,2	8,3	8,2
— 401 Intervention	17,6	17,5	17,6	17,5
Chapter 41:				
Specific measures	19,7	18,2	20,5	17,9
— 410 Surveillance in maritime waters	18,7	17,5	19,2	17,5
— 411 Research	0,2	—	0,2	—
— 412 Biological studies	0,7	0,6	1,0	0,4
— 413 Coordination of surveillance operations	0,1	0,1	0,1	—
— 416 Mediterranean programme	p.m.	—	p.m.	—
Chapter 42:				
Agreements on fishing rights in non-Community waters	6,3	5,3	6,5	2,9
— 420 Adriatic	0,5	0,5	0,5	0,5
— 421 Baltic	0,1	0,1	0,1	0,1
— 422 Developing countries	5,7	4,7	5,9	2,3
Chapter 43:				
Social measures	0,0	—	0,0	—
— 430 Education and training	0,0	—	0,0	—
Chapter 45:				
Adjustment and redeployment of capacity	1,5	—	1,5	—
— 450 Adjustment of capacity	1,0	—	1,0	—
— 451 Redeployment of capacity	0,5	—	0,5	—
Chapter 46:				
Improvement of structures — Common measures	52,2	38,6	21,9	8,3
— 460 Common measures, projects	51,9	38,6	21,6	8,3
— 461 Producer groups	0,3	0,0	0,3	0,0
Title 4 — Grand total	105,6	87,8	76,3	54,8

⁽¹⁾ Taking into account transfers, decommitments, adjustments and appropriations remaining from 1982.⁽²⁾ Taking into account transfers and carry-overs from 1982.

appropriations under Chapters 41 and 46 are differentiated.

(a) Appropriations for commitment available in 1983 consisted of:

	(Mio ECU)
appropriations entered in the 1983 budget	50,5
appropriations entered in supplementary budget No 2	15,5
appropriations remaining from 1982	41,2
appropriations transferred	— 1,6
Total	105,6

(b) Commitments for the whole of Title 4 amounted to 87,8 million ECU in 1983, i.e. 83,1 % of the appropriations available. The corresponding figures for 1982 were 68,8 million ECU and 62,1 % respectively.

(c) Appropriations for payment available in 1983 arose from

	(Mio ECU)
appropriations entered in the 1983 budget	70,1
appropriations carried over from 1982	30,5
appropriations transferred	— 24,3
Total	76,3

- (d) Total payments made in 1983 amounted to 54,8 million ECU, i.e. 71,8 % of the appropriations available. The corresponding figure for 1982 was 50,7 million ECU, representing 62,2 % of the appropriations.

Observation on the system of managing EAGGF, Guarantee Section, appropriations

6.5. In accordance with Articles 1 to 3 of Council Regulation (EEC) No 729/70 of 21 April 1970 ⁽¹⁾, the EAGGF, Guarantee Section, finances refunds on exports and intervention provided that these have been granted in accordance with the Community rules within the framework of the common organisation of agricultural markets. With regard to the common organisation of the market for fish, the Community rules concern, amongst other things, the conservation of resources. The Member States must observe maximum catches allocated to them in respect of certain species of fish.

6.6. It would appear that during the financial years 1981 to 1983 the Netherlands paid refunds for

quantities of frozen mackerel which very greatly exceeded the limits allocated to it. For 1981 the quantity was exceeded by something in the region of 450 % representing approximately 6 million ECU. The corresponding figures for 1982 and 1983 were 290 % and 260 % respectively, but the financial consequences have still not been definitely determined. The Commission continued to pay monthly advances to the Netherlands for this purpose, as is borne out by the budgetary allocation, disregarding the obvious breach of quotas. Yet it would have been very easy, in this case, to monitor the evolution of expenditure by regularly examining the monthly statements of expenditure and estimates of financial requirements provided for under Article 3 (2) (b) of Commission Regulation (EEC) No 380/78 ⁽²⁾ of 30 January 1978, replaced by Commission Regulation (EEC) No 3184/83 ⁽³⁾ of 31 October 1983 as from 1 December 1983, especially since this expenditure only concerns a single category of fish. To defer all decisions on the matter until the time of clearance — given the considerably long periods required for this procedure ⁽⁴⁾ — is tantamount to leaving advances at the disposal of a Member State over a very long period, which it may use without due entitlement.

⁽¹⁾ OJ No L 94, 28. 4. 1970, p. 13.

⁽²⁾ OJ No L 56, 27. 2. 1978, p. 1.

⁽³⁾ OJ No L 320, 17. 11. 1983, p. 1.

⁽⁴⁾ See Chapter 4 of this report.

CHAPTER 7

Regional aid expenditure

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Introduction

7.1. The European Regional Development Fund (ERDF) was established by Council Regulation (EEC) No 724/75 of 18 March 1975 ⁽¹⁾ (subsequently amended by Council Regulations (EEC) No 214/79 of 6 February 1979 ⁽²⁾ and No 3325/80 of 16 December 1980 ⁽³⁾) in order to correct the principal regional imbalances resulting in particular from agricultural preponderance, industrial change and structural underemployment. The Fund comprises:

- (a) Community support for regional policy measures adopted by the Member States, which accounts for 95 % of its resources and is divided between the countries by quota;

- (b) specific non-quota Community regional development measures, which account for the remaining 5 %.

7.2. Article 22 of the Fund Regulation required the Regulation to be re-examined by the Council, on a proposal from the Commission, before 1 January 1982.

7.3. The proposals which the Commission submitted in October 1981 ⁽⁴⁾ and November 1983 ⁽⁵⁾ did not however result in the adoption of a new Council regulation until 19 June 1984 ⁽⁶⁾. The Fund has

⁽¹⁾ OJ No L 73, 21. 3. 1975, p. 1.

⁽²⁾ OJ No L 35, 9. 2. 1979, p. 1.

⁽³⁾ OJ No L 349, 23. 12. 1980, p. 10.

⁽⁴⁾ OJ No C 336, 23. 12. 1981, p. 60.

⁽⁵⁾ OJ No C 360, 31. 12. 1983, p. 1.

⁽⁶⁾ Council Regulation (EEC) No 1787/84 of 19. 6. 1984, OJ No L 169, 28. 6. 1984, p. 1.

therefore continued to be managed in 1983 according to the old provisions and, as regards the distribution of the aid between the Member States, the Commission based itself on the arrangements in force for 1981, the last financial year for which quotas had been fixed.

7.4. In addition to the comments on the European Regional Development Fund, this chapter also contains some observations on the supplementary measures in favour of the United Kingdom, established by Council Regulations (EEC) No 2744/80 of 27 October 1980⁽¹⁾ and No 624/83 of 15 March 1983⁽²⁾.

Summary of financial information

7.5. Table 7.1 traces the utilisation in 1983 of the Fund appropriations (Chapters 50 and 51 of the budget).

7.6. For both these chapters, the rate of utilisation of the commitment appropriations was 93,7 %, as against 95,6 % in 1982. Commitments entered into in 1983 amounted to 2 127,4 million ECU, an

increase of 282,5 million ECU over 1982. Total payments amounted in 1983 to 1 255,9 million ECU, i.e. an 89,9 % rate of utilisation of the appropriations. In 1982, payments amounted to 973 million ECU, which corresponded to a utilisation of 87,6 % of the appropriations.

7.7. For the quota measures (Chapter 50), 2 121,6 million ECU or 98 % of the commitment appropriations were used, as opposed to 99,7 % in 1982. Aid from the Fund was granted in 1983 for 3 683 projects, of which 27 were study projects; they relate to capital investments in the industrial and service sectors (11 %) and in the infrastructure sector (89 %). For the distribution of commitments and payments by Member State, refer to § 13 of Annex III to this report.

7.8. For the non-quota measures (Chapter 51), commitment appropriations of 100,5 million ECU were granted in the 1983 budget and had not been used by the end of the financial year. Of the 79,1 million ECU of commitment appropriations remaining at the close of the previous financial year, 5,8 million ECU were committed and the balance was transferred to the quota measures. Since the introduction of the non-quota section in 1979, total commitments have amounted to 79,1 million ECU (40,6 million in 1981; 32,7 million in 1982 and 5,8 million in 1983) as against 39,0 million ECU for total payments (7,3 million in 1981; 22,4 million in 1982 and 9,3 million in 1983).

⁽¹⁾ OJ No L 284, 29. 10. 1980, p. 4.

⁽²⁾ OJ No L 73, 19. 3. 1983, p. 6.

Table 7.1 — ERDF: commitments and payments in 1983

(Mio ECU)

Chapter	Commitments		Payments	
	Commitment appropriations available in 1983 ⁽¹⁾	Commitments entered into in 1983	Payment appropriations available in 1983 ⁽²⁾	Payments made in 1983
Chapter 50: Quota measures	2 164,3	2 121,6	1 278,0	1 246,6
Chapter 51: Non-quota measures	106,3	5,8	118,8	9,3
Total	2 270,6	2 127,4	1 396,8	1 255,9

⁽¹⁾ 1983 budget appropriations and appropriations remaining from 1982 after transfers, decommitments and adjustments for variations in the ECU rate.

⁽²⁾ 1983 budget appropriations and appropriations carried over from 1982 after transfers.

Observations arising from the financial information

Excessive concentration of commitment and payment operations at the close of the financial year

7.9. The aid decisions relating to the quota section were adopted in four instalments. The last of these (adopted on 20 December 1983) represented on its own over 70 % of the commitments of the financial year, i.e. aid worth 1 536 million ECU spread over 2 732 projects. Also, almost 50 % of the year's payments were made during November and December.

7.10. This accumulation of commitment and payment operations at the end of the year is excessive and can have a detrimental effect both on the smooth organisation of management and auditing work and on the work of examining requests for assistance and for payment of aid ⁽¹⁾.

Commitments outstanding at year-end

7.11. At 31 December 1983, 3 718 million ECU of aid still had to be paid. Allowing for decommitments and adjustments in the exchange rate, this represents 42,6 % of the total commitments entered into since the Fund's establishment in 1975, as opposed to about 44,5 % at the end of the previous financial year.

7.12. Of these amounts outstanding, 33,2 million ECU relate to 126 aid decisions, which have not yet been closed, concerning the financial years 1975 to 1977. In most of these cases, the projects should have been finished several years ago and partial or accelerated payments going back some years and covering 85 % or even 95 % of the planned expenditure have been made. This applies particularly where the projects were included in global aid decisions.

7.13. The departments responsible for the Fund's management undertook an exercise in the Member

States to close these projects dating back to 1975-77; this should make it possible in the near future to cut the amount of 33,2 million ECU by about one third.

7.14. For Italy, the percentage of commitments paid at 31 December 1983, since the Fund was established, amounted to 45,3 %, i.e. a rate markedly lower than the Community average of 57,4 %. This Member State's share accounted for about 48 % of the total commitments still to be paid at the end of 1983 for the quota section.

7.15. The checks carried out by the Court in 1983 revealed some of the reasons for this situation:

- (a) many infrastructure projects undergo alterations during their implementation, which involve the suspension of work for long periods;
- (b) the time taken at regional level to make financing decisions sometimes delays the project's start;
- (c) the time taken in administrative procedures, especially for projects managed by the regions, further delays the payment of the aid.

7.16. Moreover, it should be pointed out that in the case of a considerable or abnormal overrun in the time taken for implementation, the Commission could have invoked the provisions of Article 9 (1) of the Fund Regulation — as already suggested by the Court in its annual reports for the financial years 1980 (paragraph 7.21) and 1982 (paragraph 6.47) — which make it possible to reduce or cancel aid if the investment is not made as planned.

Observations on the system of granting and managing the aid at Community and national level

7.17. On several occasions in its previous reports, the Court has drawn attention to factors of a general nature which affect the effectiveness of Fund aid operations. The regional development programmes submitted by the Member States are too vague to allow priority operations to be defined. The statutory conditions which the projects must fulfil in order to be eligible for Fund aid obviously cannot take the place of selection criteria for determining the types of investment which are to be assisted.

⁽¹⁾ See also the observation made in the annual report for the financial year 1980, paragraphs 7.13 ff, OJ No C 344, 31. 12. 1981, p. 90.

These criteria have still not been adopted by the Commission. Moreover, the projects which are carried out are not always used to a satisfactory extent. The following observations show how this state of affairs continued throughout 1983.

Regional development programmes and statistical summaries

7.18. According to Article 6 (1) of the Fund Regulation, investments may benefit from the Fund's assistance only if they fall within the framework of a regional development programme, drawn up by a Member State, the implementation of which will contribute to the correction of the main regional imbalances within the Community.

7.19. In paragraphs 6.21 ff of its annual report for the financial year 1982 ⁽¹⁾, the Court mentioned several problems arising from the regional development programmes and said that the Commission's examination of the 'second generation' programmes was still in progress for several countries.

7.20. During the financial year 1983, the Commission completed its examination of these programmes for Belgium (Wallonia), France, Luxembourg, the Netherlands, the United Kingdom and West Berlin. The other countries' programmes had been examined previously.

7.21. The examination of the general content of the Member States' programmes did not result in the Court's detection of any improvements making it possible to regard these documents as effective instruments for determining the priority areas for Fund aid, and for selecting projects.

7.22. Article 6 (6) of the Fund Regulation lays down that 'before 1 October each year, Member States shall provide the Commission with an overall statistical summary indicating by region for the previous year:

- (a) the results achieved in the region in terms of investment and employment;
- (b) the financial means employed;
- (c) the actual use made of the resources of the Fund'.

7.23. At the end of 1983, the statistical summary for Luxembourg for 1981 had still not been forwarded to the Commission. In respect of 1982, only the summaries for Denmark, Greenland, Ireland and the Netherlands had been received. For the general observations arising from the contents of these statistical summaries, refer to the Court's comments in paragraph 7.27 of its annual report for the financial year 1980 ⁽²⁾, which are still valid.

Assessment of the contribution made by the investments to the region's development

Lack of information or documentation on the evaluation of projects in terms of their Community interest or their impact on the region's development

7.24. Under Article 5 (1) of Regulation No 724/75, the Commission shall examine requests for assistance taking special account of the investment's contribution to the economic development of the region, the consistency of the investment with the Community's programmes or objectives, the situation of the economic sector concerned, the profitability of the investment, whether the latter falls within a frontier area, and other contributions made by Community institutions. Article 7 (1) of the same Regulation states that Member States shall submit requests for assistance from the Fund to the Commission, and shall indicate any factors which will allow the Commission to assess the value of the investments proposed in the light of the above-mentioned criteria.

7.25. No criteria have been laid down by the Commission for implementing the above provisions and for determining which specific eligible investments are to be assisted by the Fund (cf. annual report for the financial year 1980, paragraphs 7.14 to 7.18 and the Commission's reply ⁽³⁾). A shortcoming of this kind increases the risk of rather unselective aid operations, thus limiting the impact of Fund assistance, and does not help to clarify the assessment of the Community interest of the projects.

⁽¹⁾ OJ No C 357, 31. 12. 1983, p. 64.

⁽²⁾ OJ No C 344, 31. 12. 1981, p. 95.

⁽³⁾ OJ No C 344, 31. 12. 1981, pp. 91, 92 and 232.

7.26. At the port of Nantes-St. Nazaire, Fund aid was granted to develop the channel of the River Loire in order to allow ships of 125 000 m³ capacity access to the LNG terminal at Montoire. The solutions chosen, especially regarding the siting and nature of the installations at the terminal and the technical processes for transporting the gas, have an impact on a range of questions relating to energy supply problems. However, during the checks carried out at both Community and national level, no documents or other information could be obtained evaluating these solutions from a 'cost-benefit' point of view nor, more generally, in terms of Community action in the energy field, and it was not even possible to ensure that an evaluation of this kind had actually been made.

7.27. From 1975 to 1983, the Fund granted aid in the order of UKL 15 million to about one hundred projects relating to port installations in Scotland, representing, in total, approximately 10 % of the Fund aid granted to the region. About a third of the investments are intended to improve communications with the islands off Scotland by modernising loading and unloading facilities, whilst the other projects concern new port developments for more general purposes.

7.28. Some of the organisations whose investments have been financed by the ERDF compete with each other and the growth in traffic necessary to make these installations profitable can in practice take place at each port only at the expense of the others. A study by the Grampian Regional Council on a port project in Buckie notes that, for various categories of goods, traffic could be increased by attracting business from other ports, such as Inverness and Montrose, whereas for other goods, expansion is possible providing there are no significant developments elsewhere. A report by the Peterhead Harbour Trustees states moreover that, for cereal products, only one large-scale project is economically viable on the east coast of Scotland. The situation is similar for various container-transport projects.

7.29. There is fierce competition between the ports to attract the oil industry and, given the present surplus capacity, the rate of utilisation of the facilities is around 50 %. Where agricultural products are concerned, one port's gain is likely to be another port's loss, and the fishing industry, which is declining, faces the same problems. The question then arises as to the overall contribution made to the region's development by port projects of this kind.

Difficulties relating to the division or the grouping of certain operations financed

7.30. The characteristics of the operations which are regarded as projects can, moreover, make it difficult to examine investments in terms of the provisions of Article 5 of the Fund Regulation.

7.31. For road-construction works in France, the requests for Fund assistance are based on the amounts authorised under the national system of budgeting and programming. These amounts usually correspond to a stage or a part of the works; the resultant fragmentation and the preparatory nature of certain stages, such as the technical studies or the purchase of land, virtually rule out a comparative examination of the projects at a level making it possible to select, in full knowledge of the facts, those which contribute most to the region's economic development.

7.32. In the United Kingdom, infrastructure investments are divided into successive 'tranches', each of which is the subject of a grant decision by the Fund. This division into 'tranches' does not correspond to technically separate parts of the investment. It is a purely financial division on the basis of expenditure planned for a given period, usually a year; there are no precise specifications for the jobs of work to be done in each of these 'tranches' and their use will depend on the completion of the later stages.

7.33. A division along these lines does of course make it possible to speed up the payment of aid and to incorporate in the calculation of the aid for the successive 'tranches' any cost variations relating to the earlier stages, even if these had not been foreseen initially. It has the effect, however, of distorting the idea of a capital investment project and reducing Fund aid to a financial mechanism for reimbursing public expenditure. The aid relating to each grant decision considered is paid for a certain amount of expenditure and without any real guarantee of the proper completion of the investment, since, in the absence of a specific plan for the work to be carried out, it is not possible to establish whether the projects have been executed in accordance with the plans.

7.34. In respect of four grant decisions examined by the Court in Greece, which, according to their wording, were supposed to concern 34 projects, it was found that the real number of projects was 244, thirteen of which were for an amount less than the

50 000 ECU minimum per investment, laid down in Article 4 of the Fund Regulation.

7.35. These decisions usually concern work of a modest scale, intended to supplement or improve the roads, the water or electricity supply, the sewers, etc. Such projects, which are generally at the initiative of the local council, can in practice be appraised and selected only at local level, under conditions which offer little guarantee of an overall view of development problems, despite the fact that the pursuit of the Fund's objectives necessitates continuous and careful selection of investments.

The use and sale of investments in advance factories

7.36. The audit of infrastructure projects, in the form of advance factories, financed by the Fund in Ireland, has revealed various difficulties in the use of these investments. From information supplied by the national authorities it is clear that about one third of the space built was vacant in 1983 and this proportion is significantly higher in the western regions where larger buildings (over 20 000 square feet) have been constructed. In the West and in Donegal, 66 % and 52 % respectively of the space built remains vacant. In two cases noted by the Court, new buildings were still constructed, in 1981 and 1982, despite the existence in the same town of similar facilities standing empty.

7.37. The financial and maintenance costs of the unoccupied buildings result in a substantial burden of expenditure for the Irish Development Agency and, in order to increase its resources, it is obliged to encourage firms to purchase the buildings they occupy or intend to occupy. Nineteen such acquisitions of projects financed by the Fund have been noted. The purchase price is usually equivalent to the cost of the construction plus the replacement cost of the site.

7.38. In a situation of this kind, the Member State no longer has to bear the capital expenditure, since the costs of the site and the construction have been recovered by the sale. It follows that the investment is not financed by the public authorities, as required

by Article 4 (1) (b) of Regulation No 724/75 as a precondition for the granting of Fund aid.

7.39. The question therefore arises as to the justification of the practice of not recovering aid granted by the Fund to investments of this kind, especially since no reports on the operations in question are made to the Commission as regards either re-use of the proceeds of the sale or the effect of the sale on the project's contribution to the development of the region.

Checks on job creation or maintenance

7.40. The checks on industrial projects carried out by the Court during the financial year 1983 have revealed some cases which support the conclusions expressed in the Court's special report ⁽¹⁾ on job creation or maintenance in the granting of aid to regional investments, especially as regards the difficulty of ensuring that forecasts have been complied with.

7.41. During an audit visit in Scotland it was found that, out of 22 firms in receipt of Fund aid totalling over UKL 21 million, only one had fulfilled the planned objectives regarding jobs. Some of the projects financed were, moreover, carried out by firms which, in global terms, were making sizeable reductions in their workforce as part of their rationalisation plans. Successive grants have been allocated to firms which could not meet their job targets. For example, one firm received three grants of aid from the Fund in 1975, 1979 and 1982 respectively; the 1979 decision estimated that the firm's staff would number 5 200, whereas at the time of the aid application granted in 1982, there were 3 800 staff and further cutbacks were being envisaged.

7.42. The checks carried out in the Saarland revealed the case of a firm which in 1977, 1978 and 1981 received grants of aid totalling over DM 8,5 million for investments which were supposed to result in the creation of 300, 230 and 190 jobs respectively. The workforce employed by the firm decreased from 843 persons at the time of the aid

⁽¹⁾ OJ No C 345, 31. 12. 1982, p. 1.

request in 1977, to 799 persons at the time of the aid request in 1981 and indeed it was virtually the same job-creation forecasts, not fulfilled in the first projects, that were used to back up the subsequent applications for assistance.

Supplementary measures in favour of the United Kingdom

Summary of financial information

7.43. The financial compensation to be paid to the United Kingdom for 1982 ⁽¹⁾ was fixed at 850 million ECU by Regulation No 624/83 ⁽²⁾. This is a net sum, which was grossed up to 1 092 million ECU in order to take account of the fact that the United Kingdom also contributes to the financing of this compensation. The necessary appropriations were granted by amending and supplementary budget No 1 of 10 February 1983 ⁽³⁾. Of these appropriations, 692 million ECU were entered under Chapter 53 'Supplementary measures in favour of the United Kingdom' (SMUK), and these form the particular subject of the following comments.

7.44. In the course of the year, it became clear that the United Kingdom contribution to the financing of the Community budget was exceeding the initial estimate. An adjustment of 307,5 million ECU was made by means of amending and supplementary budget No 2 of 24 October 1983 ⁽⁴⁾, of which 195,6 million ECU related to Chapter 53, bringing the appropriations for that chapter up to 887,6 million ECU.

7.45. A first series of decisions were taken on 23 March 1983 ⁽⁵⁾, involving a total of 692 million ECU. These were modified on 8 December 1983 by a single decision ⁽⁶⁾ which increased the Community's financial contribution by 195,6 million ECU in order to take account of the extra allocations.

7.46. In accordance with the provisions of Article 5 (3) of Regulation No 2744/80 ⁽⁷⁾, 90 % of the

amount granted in March, i.e. 622,8 million ECU, was paid at the time of the decision. Of the remaining 69,2 million ECU, 36,1 million ECU were paid in July, upon presentation of the certificate stating that the contribution already paid had been exhausted. The balance of 33,1 million ECU, payment of which was deferred until supplementary information was received, was disbursed in December 1983, together with the extra contribution of 195,6 million ECU decided in the meantime.

Comments on the system of granting and managing the aid at Community and national level

7.47. As in previous years, it is necessary to take into account that the system of planning applied to the supplementary measures in favour of the United Kingdom is concerned only with financial allocations between functional categories of expenditure, and not with specifying the precise investments or the results to be achieved.

7.48. Article 4 (3) of Regulation No 2744/80 lays down that the amount of the Community's financial contribution to a sub-programme corresponding to a category of investments may not exceed 70 % of the annual expenditure estimated for its execution.

7.49. The examination of the decisions to grant financial assistance has shown that certain programmes in receipt of aid under the supplementary measures have also received sizeable amounts of aid in the form of ERDF subsidies or European Investment Bank (EIB) loans, and that it is only by omitting the EIB finance that the 70 % ceiling is not breached. This is the case for various decisions, relating to the 'water and sewerage', 'roads' and 'telecommunications' sub-programmes, taken in the period 1980-81 to 1982-83. In two cases, the level reached by the total Community contribution is confirmed by the report drawn up by the United Kingdom authorities on the implementation of the supplementary measures, as shown in *Table 7.2* relating to the 1981-82 expenditure on the 'water and sewerage' sub-programmes for the South-west and North regions.

7.50. In the first report ⁽⁸⁾ drawn up pursuant to Article 10 of the same Regulation, the Commission referred to its checks intended to ensure that unwar-

⁽¹⁾ In the annual report of the Court for the financial year 1982, this subject was dealt with in Chapters 6 and 9, OJ No C 357, 31. 12. 1983, pp. 68 and 88.

⁽²⁾ OJ No L 73, 19. 3. 1983, p. 6.

⁽³⁾ OJ No L 60, 7. 3. 1983, p. 1.

⁽⁴⁾ OJ No L 331, 28. 11. 1983, p. 1.

⁽⁵⁾ OJ No L 98, 16. 4. 1983, p. 18.

⁽⁶⁾ OJ No L 375, 31. 12. 1983, p. 1.

⁽⁷⁾ OJ No L 284, 29. 10. 1980, p. 4.

⁽⁸⁾ Commission document No SEC (81) 1140, paragraph 9.

Table 7.2 — Financial contribution of the Community

'Water and sewerage' sub-programme for the region	Community financial contribution %							
	According to the decision of 14. 12. 1982				According to the annex to the report submitted by the UK authorities for their financial year 1982/83			
	SMUK	ERDF	EIB	Total	SMUK	ERDF	EIB	Total
South-west	40	15	22	77	40	15	24	79
North	30	19	45	94	29	19	45	93

ranted rates of support for the same sub-programme had not been obtained by combining SMUK aid with other financial investments, in particular ERDF grants and EIB finance. The same concern was highlighted in several subsequent Commission reports. Following a recent request by the Court for an explanation, the Commission replied that, on the basis of what had been agreed when the regulations were adopted, the ceiling stipulated was supposed to apply only to grants paid by the Commission, thereby excluding EIB loans.

7.51. Without making too hasty a judgement about the validity of this latter viewpoint, no sign of which has however been found by the Court in the documents sent to it, it is regrettable that the six-monthly reports drawn up by the Commission do not give full information on all the Community finance for the implementation of the various sub-programmes.

7.52. The public expenditure declared by the national authorities as a basis for calculating the Community contributions under the supplementary measures in favour of the United Kingdom, is a gross amount which does not take account of revenue paid by third parties (for purchases of assets or for the assumption of certain investment costs) nor even, in most cases, other aid paid by the Communities.

7.53. The examination of four series of programmes revealed that, in Wales, the 'water and sewerage' sub-programmes for the three financial years 1980-81 to 1982-83 included in the total declared expenditure of UKL 99,8 million, a portion equivalent to UKL 5,4 million which had been paid for by the consumers. For the same region and the same financial years, the 'roads' sub-programmes costing a total of UKL 290,5 million, included UKL 1,35 million of expenditure covered by capital revenue from the sale of land and equipment, a sum which had not been deducted.

7.54. Neither was such a deduction made in the case of the 'electricity' sub-programmes and, in particular for the 1981-82 North-west region programme, in respect of the capital contributions collected from the consumers. For the same region and also for other regions of England, the calculation of the expenditure for the 'roads' sub-programmes includes an estimate of indirect costs calculated at a flat rate on gross figures, without deduction for the part covered by capital revenue.

7.55. Steps should therefore be taken to ensure that the part of capital expenditure which is covered by revenue from other sources, is clearly identified in the certificates sent to the Commission for the application of supplementary measures.

CHAPTER 8

Social sector

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Introduction

8.1. In the general budget, Title 6 of Part B of Section III 'Commission' covers Community expenditure in the social sector. This expenditure relates to the European Social Fund (Chapters 60, 61 and 62), education and vocational training (Chapter 63), employment, social protection and health (Chapter 64), the contribution to the European Coal and Steel Community for social measures in connection with the restructuring of the steel industry (Chapter 65), protection of the environment and consumers (Chapter 66), cultural action and the European Foundation (Chapter 67) and aid to disaster victims in the Community (Chapter 69).

8.3. During the financial year 1983, five series of Commission decisions were taken on European Social Fund measures to finance projects submitted by Member States; these decisions were dated 10 May, 30 May, 30 September, 23 November and 21 December respectively.

8.4. Three countries benefited from nearly three quarters of the commitments entered into in 1983 (France, Italy and the United Kingdom). Payments

Table 8.1 — Social Fund: evolution of commitment appropriations and payment appropriations

(Mio ECU)

Type of appropriation	Commitment appropriations	Payment appropriations
Initial budget 1983	1 696,5	1 285,5
Appropriations remaining from 1982	67,6	—
Carry-overs from 1982	—	183,3
Appropriations arising from decommitments of 1982 commitments	146,3	—
Appropriations arising from the revaluation of outstanding commitments	38,8	—
Total of final appropriations	1 949,2	1 468,8

European Social Fund

*Summary of financial information***Implementation of the budget**

8.2. Tables 8.1 and 8.2 show details of the appropriations available and their utilisation.

Table 8.2 — Social Fund: appropriations available in 1983 and their utilisation

(Mio ECU)

Budget heading	Commitments		Payments	
	Commitment appropriations available in 1983	Commitments entered into in 1983	Payment appropriations available in 1983	Payments made in 1983
Chapter 60:	1 052,9	1 018,9	747,6	437,7
Agriculture and textile 600	38,7	34,4	22,3	18,5
Young people — training 6010	714,1	694,1	433,8	272,4
Young people — employment promotion 6011	209,3	201,2	231,0	89,5
Young people — job creation programme 6012	1,0	1,0	1,0	0,1
Migrant workers 603	54,1	53,3	40,5	38,9
Women 605	35,7	34,9	19,0	18,3
Chapter 61:	891,1	854,7	714,2	450,4
Improvement of the employment situation 610	721,4	687,1	606,9	386,8
Handicapped persons 611	169,7	167,6	107,3	63,6
Industrial conversion 612	—	—	—	—
Chapter 62:				
Pilot schemes and preparatory studies	5,2	4,1	7,0	2,8
Total	1 949,2	1 877,7	1 468,8	890,9

averaged 12 % of the total commitments (28 % in 1982), with a minimum of 1 % (Luxembourg) and a maximum of 48 % (Ireland). (See Annex III, § 13).

8.5. Commitments outstanding at the beginning of 1983 totalled 1 785,7 million ECU; 656,6 million ECU (36 %) were paid and 91,5 million ECU (13 %) were decommitted. The latter amount relates to commitments outstanding from financial years prior to 1982.

8.6. The balance outstanding at 31 December 1983 was 2 493,8 million ECU. Of this amount, 35 % concerned Italy, 25 % the United Kingdom and 17 % France.

Observation on an overruling of the Financial Controller's refusal to grant approval

8.7. The Court was informed that the Financial Controller had refused approval for the granting of the European Social Fund's fifth series of approvals, on the grounds that Council Decision 71/66/EEC of 1 February 1971, Article 9 (2), stipulates that

the appropriations for improving employment in 'priority' regions, as defined by the regional policy regulations, shall not in any year be less than 50 % of the total appropriations available.

8.8. The Commission overruled this refusal, arguing that the budgetary authority had not paid due heed to the balance stipulated by the above-mentioned provision in the apportionment of appropriations, and that the Council had identified new priorities for young people in the course of its review of the European Social Fund.

8.9. The Court considers that in the case in point, only a new Council decision could amend the above-mentioned one, which the Commission has not applied strictly.

Observations on the management of aid

General points

8.10. The management procedure comprises the following stages: examination, proposal, approval

decisions and their implementation, payments of advances, final payments, refunds and decommitments. With a view to ensuring that the decisions to grant aid and make payment are well-founded, the Court mainly examined on the one hand the Commission's examination of applications for assistance resulting in approval decisions, and on the other, the Commission's examination of final requests resulting in final payments and recoveries. The problems surrounding recoveries were also analysed from other points of view.

Accumulation of operations at the close of the financial year

8.11. Two of the five series of approval decisions⁽¹⁾ were taken on 23 November 1983 (338,0 million ECU) and 21 December 1983 (725,3 million ECU) respectively. For the last two series of approvals, the Commission was therefore able to make only a few payments in respect of the applications submitted by the recipients.

8.12. The Court notes that during December:

- (a) over 37 % of the commitments were entered into,
- (b) over 90 % of the refunds of reusable appropriations were made,
- (c) 19 % of the payments were effected.

8.13. This accumulation of operations at the end of the year is excessive and can have a detrimental effect on both the smooth organisation of the accounting management and internal control on the one hand, and the work of examining applications for assistance and requests for payment of aid on the other.

Inadequate examination by the Commission of applications for assistance leading to approval decisions

8.14. This examination was analysed by scrutinising 27 files relating to 90 approval decisions (out of a total of 752 files and 1 673 approval decisions) and constituting a representative sample of the work in the Commission departments.

8.15. In the questionnaires relating to most of the applications for assistance which had been approved, and which were examined by the Court of Auditors, it was found that the information supplied was inadequate with regard to one or more of the following aspects: the unsatisfactory social situations which the operations will help to remedy, the objectives being pursued and the expected effects, the content of the operations, the categories of expenditure and methods of estimating it, public and private financing, and national checks in force.

8.16. The result is that:

- (a) the eligibility of applications is not examined in a sufficiently thorough way. There are cases of questionable eligibility and even some cases of patent ineligibility, such as the inclusion of bank charges and interest;
- (b) efficiency and effectiveness are not examined in a convincing manner.

8.17. Also, the possibility of managing and checking each approval according to the principles of management by objectives has not been made use of in all cases. These principles are dictated by a concern for sound financial management and yet do not have to follow expressly from the rules in force. Thus, on several occasions, a single approval decision has related to one application for assistance bringing together heterogeneous social situations, target groups, recipient bodies, objectives and operations, insofar as they reflected the same level of priority defined in the annual guidelines, the same general type of operations and the same category of bodies (private or public). On the same basis, regroupings are made by the Fund departments; some of these have made the initial groupings suggested by the promoting bodies and Member States less coherent.

Weaknesses in the procedures for final payments and recoveries

Inadequate examination by the Commission of final requests

8.18. Some 110 decisions of final payment or recovery (out of 745 requests for final payment) were examined on the basis of a series of criteria in

⁽¹⁾ Term in accordance with Article 3 of Commission Decision 78/706/EEC of 27. 7. 1978, OJ No L 238, 30. 8. 1978.

order to determine indirectly the scope of the Commission's examination since this leads to a final payment or a recovery. It is also based on the same type of information (general statement of expenditure, implementation report, other data required by the Fund form, certification) if a partial recovery of the advances paid is foreseeable. The conclusions of this examination are given below.

8.19. The Commission's examination of requests for payment of outstanding amounts is made mainly by examining files — given the very few on-the-spot visits — and is based only on the results of a national system of collecting data, and establishing and checking expenditure. With regard to this system, the Commission asks to look only at the methods of calculating expenditure and the description of the checks made by independent bodies during the operations.

8.20. The admissibility of these requests is not always examined by the Commission or is interpreted loosely; about 10 such requests were thus accepted despite the lack of an implementation report and/or a general statement of expenditure.

8.21. The Commission's check on compliance with approvals (objectives initially pursued, planned activities) is relatively superficial. The Court found four cases where disparities between approvals and their implementation or uncertainties as to the compliance with approvals, did not prompt the Commission to make enquiries or prevent it from approving the request for the balance. For about twenty other files, it was difficult to compare the approvals and their implementation because of the lack of relevant details in the application for assistance.

8.22. The Commission's examination of the eligibility of expenditure is somewhat sketchy.

(a) Frequently (40 examples were noted), it is based merely on the certification provided by the Member State of the factual and accounting accuracy of the expenditure. This is the case when the ESF payments are made either in the absence of detailed expenditure headings and/or details of the methods of calculation, or in the total absence of supporting documents (e.g. agreements, official documents relating to the

part played by public bodies, etc.), or where there is no sign of checks by independent bodies.

(b) Again at this stage, the Court found five cases of definite ineligibility, such as the inclusion of bank charges and interest, and some fifteen cases of questionable eligibility.

(c) For about 15 of the files examined by the Court, the expenditure on non-teaching staff was more than 50 % of that on teaching staff. It was found that the Commission has not issued any official guidelines in this sphere, even though it has encouraged several Member States to curb their administrative spending. Moreover, the Court noted that about 10 files contain no statistics making it possible to establish the ratio between these two types of expenditure, even though the Fund form requires them. This shows a lack of interest in this matter on the part of the Commission.

8.23. In about 15 of the files examined, the disparities between the estimated expenditure stated in the application for assistance and the actual expenditure have not given rise to any requests for an explanation.

8.24. The information given in the files examined by the Court does not enable it — any more than for the applications for assistance — to check whether the Commission really does assess the projects in terms of effectiveness or efficiency. The balances are paid, even if there is no specific information on the material results of the operations, or on the attainment of objectives such as retraining, placements, maintenance of staff numbers in the event of prior recruitment, stable employment, transition to vocational training (some 30 examples). Six cases were also found where the balance had been paid even though the period of the training was far shorter than that laid down by the approval decision.

8.25. The Court's specific audit of Fund grants to schemes to help the handicapped in Northern Ireland — grants totalling UKL 2,2 million for the financial years 1978, 1979 and 1980 — revealed a fairly important problem concerning the eligibility of similar files closed in 1983 or during the previous years. These grants primarily covered social security benefits and medical expenses incurred for functional rehabilitation by the Medical Rehabilitation Service, despite the fact that such expenditure is not eligible, pursuant to Council Regulation (EEC)

No 2893/77 of 20 December 1977, Article 3 (2) (a) and (b) ⁽¹⁾. The Court therefore considers that excessive payments have been made.

Problems regarding recoveries

8.26. During the financial year 1983, 131 recoveries (of which 54 were French, 2 Belgian, 42 Italian, 8 British, 10 German, 2 Dutch, 10 Irish, 2 Danish and 1 Greek) were made as a result of the payment of advances which were too high in comparison with the total claims for payment approved by the European Social Fund. These recoveries, identified on the basis of payment orders forwarded to the Court, represent 24,3 million ECU, of which 3,6 million was for France, 6,8 million for the Federal Republic of Germany and 11,8 million for Italy. They account for 2,7 % of the total amounts paid in 1983. Most of these recoveries are made — with the consent of the Member States — by compensating adjustments to new payments of advances or balances to the same promoters ⁽²⁾, thus avoiding lengthy and difficult financial recovery procedures.

8.27. A specific analysis was made of about thirty files, giving rise to the following observations.

8.28. Payments made under Chapters 60, 61 and 62 show gross amounts, since the way the payments are entered in the books does not take account of the sums paid in excess, recovery of which is recorded in revenue account 6150 for the repayment of unused aid from the European Social Fund, the European Regional Development Fund and the European Agricultural Guidance and Guarantee Fund.

8.29. The relatively high number of recoveries clearly demonstrates the need for a more reliable system of certification for advances. In about ten of the cases examined, it was evident that the promoter could not have been unaware, at the time of the claim for the second advance, that the actual expenditure would be much lower than the estimated expenditure, given the delays in starting the operations or an actual number of participants far lower than forecast, characteristics which were

found later in the files. The excess advances must in these cases be regarded as free loans for periods usually lasting more than a year.

8.30. It has also been found that in 13 cases the procedure for making excess commitment appropriations available for reuse had not been initiated, although this operation would have enabled the European Social Fund to use the appropriations during the financial year following that in which the programmes were implemented.

Main conclusions on the management of European Social Fund grants

8.31. In view of the limited number of on-the-spot visits made by the Commission departments and the brevity of the information contained in the files, a more thorough examination of the applications for assistance and claims for payment would be justified. Moreover, the recovery problems demonstrate the need for better monitoring in general and especially of the system of factual and accounting certification of the advances.

Miscellaneous activities in the social sector

Summary of financial information

Implementation of the budget

8.32. The appropriations concerned come under Chapters 63 to 69 of the Commission budget. *Table 8.3* shows the appropriations available and their utilisation in 1983.

Observations on the Commission's management of the appropriations of Articles 630 (implementation of the education programme) and 631 (preparation of young people for working life)

General points

8.33. The Article 630 appropriations (4,145 million ECU in 1983) are mainly to cover the financing of

⁽¹⁾ OJ No L 337, 27. 12. 1977.

⁽²⁾ Having financial responsibility for ESF resources.

Table 8.3 — Aid appropriations available in 1983 for the social sector (excluding the Social Fund) and their utilisation*(Mio ECU)*

Chapter	Commitments		Payments	
	Appropriations for commitment available in 1983	Commitments entered into in 1983	Appropriations for payment available in 1983	Payments made in 1983
Chapter 63: Education and vocational training	14,6	14,2	17,5	11,3
Chapter 64: Employment, social protection and health	16,8	14,6	21,4	13,3
Chapter 65: Contribution to the ECSC for social measures in connection with the restructuring of the steel industry	50,0	50,0	50,0	50,0
Chapter 66: Protection of the environment and consumers	13,2	10,8	21,9	11,5
Chapter 67: Cultural action and the European Foundation	1,9	1,9	2,1	1,6
Chapter 69: Aid to disaster victims in the Community	48,8	38,4	75,8	42,3
Total Chapters 63 – 69	145,3	129,9	188,7	130,0

various programmes of educational visits, the preparation of studies, the compilation of documentation, the promotion of various projects, and the financing of subsidies for pilot projects in the field of education.

8.34. The Article 631 appropriations 'Preparation of young people for working life' (5,355 million ECU in 1983) are mainly to cover the joint financing with the Member States of a series of pilot projects; the second programme of such projects, which aims to support the development of national policies in this field, began in 1983.

8.35. The Court's audit focused on the system used by the Commission for managing contracts (selected on the basis of payments made in 1983).

General observations

8.36. It was found that, on numerous occasions, the Commission made no clear distinction between a subsidy, the terms of which are determined by agreement with the recipients, and a contract for the

provision of services. The very nature of the contract and the procedure to be followed for carrying it out depend on this classification, as do the provisions applicable to the implementation stage, such as the existence and content of supporting documents, the rights and duties of the Commission as regards control and — where applicable — those of the Court.

8.37. The analysis of the contracts showed that in most cases they were contracts for the provision of services. It was found on several occasions that there was no precise description of the nature of the services to be provided and no sign of an invitation to tender or of an adjudication procedure; the costs of the contracts were simply fixed on the basis of an estimated statement. Moreover, as of 1983, several contracts no longer even require the contracting party to submit a detailed statement, the criterion for payment being solely the presentation of the report.

8.38. Quite apart from the distinction between subsidy and provision of services, the description of the services to be provided should always be clear and detailed, otherwise it is not possible to monitor their performance. In this respect, the succinct letters of

requisition normally used cannot adequately fulfil the task of describing the form and nature of the services to be provided under the contracts.

8.39. In several cases, without there having been any change in the workload laid down in the contract or any justification for a rise in the other cost elements, the Commission has without explanation considerably increased the amounts of the subsidies or the remuneration for the provision of services.

Observations on the contracts between the Commission and an institution governed by Dutch law in the context of Article 630

8.40. In 1983, 914 680 ECU were provided for subsidies for the promotion of European cooperation in higher education during the academic year 1983-84. This involved a programme of short study visits (197 250 ECU), joint study-programmes (572 000 ECU) and, as of 1983, preparatory visits (145 430 ECU).

8.41. Annual contracts for the provision of services concluded between the Commission and an institution governed by private law entrust the latter with the management of these subsidies and the preparation, production and distribution of a newsletter and information material. As of 1983, this institution has been made responsible, in addition, for transferring the subsidies to the recipients and carrying out the related checks. For carrying out all the tasks with which it was entrusted, it received a sum of 448 140 ECU.

8.42. With regard to the size of the sums paid as remuneration for these services, the Court notes that, in relative terms, they are very high, since they amount to over half the actual subsidies.

8.43. The Council Resolution of 9 February 1976⁽¹⁾ comprising an action programme in the field of education provides, *inter alia*, for the compilation of up-to-date documentation and statistics on education. To this end, the Commission set up an information network called Eurydice. Its central processor is located in Brussels and it is managed by the aforementioned institution.

8.44. In the context of the annual contract with the institution relating to the Eurydice network, the Commission also provides for the financing of

equipment and furniture. Their estimated value is BFR 6 million. This property is recorded in neither the Commission's inventory nor that of the institution. If, as the Court believes, the contract in question was supposed to be a contract for the provision of services — a fact which is confirmed by the institution's machinations — this property ought to remain in the ownership of the Commission and, under the Financial Regulation, appear in its inventory.

Observations on the contracts between the Commission and a profit-making company constituted under German law, in the context of Article 631

8.45. The tasks of evaluation, investigation and promotion of interactions for the pilot projects financed out of Article 631 appropriations, are entrusted to a profit-making company constituted under private law. The Commission's close collaboration with this company dates back to 1976 and it was in 1978 that the latter was made responsible for these tasks.

8.46. No adjudication procedure or tendering procedure took place for the contracts concluded. At regular intervals they have been submitted to the Advisory Committee on Procurements and Contracts, which considered that the contracts should be regarded as subsidies, since, in the Committee's opinion, the services could be performed only by a third party. In the Court's view, however, the Commission could have done this work itself. The lack of staff at the Commission is not adequate justification for regarding the payment for services as a subsidy.

8.47. Using 1982 appropriations, the Commission concluded three contracts worth a total of DM 4 543 256 (excluding VAT) for evaluation and information work on the first series of pilot projects for the period 1 January 1982 to 30 April 1983. The contractor was supposed to submit a statement of actual costs, most of which related to staff.

8.48. No statement of actual costs was drawn up for staff expenditure, even though it was required by the contract. It was the estimated amounts in the contract — lump sums — which were taken as the basis for the statements. As regards the general costs, more proof should be provided of both their amount and their breakdown, especially since the absence of any cost accounting at present does not

⁽¹⁾ OJ No C 38, 19. 2. 1976.

really make it possible to have a precise and full overview of the actual expenditure. As a result, factors exist which encourage the supposition that a not inconsiderable sum has been paid in excess. It is the responsibility of the Commission to clarify this situation by requesting the contracting party, if need be, to refund any sums paid in excess.

8.49. The situation has grown worse since 1983, because a statement of actual costs is no longer required.

Observations on the payment and control of aid to disaster victims in the Community (Article 690)

General points

8.50. Since 1977 the budget has included an appropriation for the granting of emergency assistance without delay to disaster victims in the Community.

8.51. This emergency Community aid, which is granted on the direct responsibility of the President of the Commission and managed by the Directorate-General for Employment, Social Affairs and Education, is intended to reach victims as directly as possible. It is reserved preferably for emergency work in connection with protecting human life and subsistence.

8.52. The 1982 and 1983 budgets each included appropriations of 6 million ECU, supplemented for 1982 by a transfer of 250 000 ECU. In 1982, 6 250 000 ECU were committed (nine cases) and in 1983, 3 825 000 ECU (10 cases). The payments followed the commitments. The Commission notifies the Permanent Representation of the Member State concerned of the aid decision. It is also stipulated that the use of the aid should be arranged on the spot in collaboration with Commission representatives and that a report on its utilisation must be presented within four months of the payment.

Time taken for decisions

8.53. Since this is emergency aid, the aid decision must be taken within a very short space of time. It is

usually taken during the month after the disaster. In two cases relating to 1983, however, the Commission took a decision of principle, whilst waiting for more information on the damage, thus delaying the decision by three months, whereas in other cases, it was satisfied with oral or sketchy information. In two other cases, for which payments were made in 1983, aid was not considered until several months after the events. It is doubtful, in these cases, whether such aid can still be regarded as emergency aid, as defined in the allocation of appropriations in the budget.

On-the-spot visits

8.54. In six cases, representing aid worth 2 950 000 ECU, the on-the-spot visit stipulated by the decision did not take place, despite the fact that it should have enabled the Commission to influence the way the aid was used.

Utilisation of the aid

8.55. Although the Commission requires a report to be submitted on the utilisation of the funds, it does not specify what form this report should take. This sometimes results in an inadequate basis for expenditure control. Moreover, the Court has found no sign of the Commission having made use of these reports.

8.56. For 1982, two reports (relating to a total of 1 600 000 ECU) are still lacking and two others are provisional or inadequate. For 1983, of the seven reports which were due at the time of the audit, only two had arrived. The Commission has sent neither reminders nor instructions to the Member States to rectify these defects.

8.57. Two files show that the Community's emergency aid was used to reimburse in full or in part aid already granted by the Member State. The Court thus notes that the aid did not reach the disaster victims directly. It therefore wonders whether the Commission should not react by perhaps considering the recovery of the aid (DM 156 663 and 234 500 ECU).

CHAPTER 9

Research, energy, etc.

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General introduction

9.1. This chapter is concerned with expenditure on

research, energy and miscellaneous allied activities for which appropriations for commitment and payment are contained in Chapters 70 to 78 of Part B of the Commission section of the budget.

Table 9.1 — Research, energy, etc.: commitments and payments in 1983

(Mio ECU)

Expenditure area (chapter of budget)	Commitments		Payments	
	Appropriations for commitment avail- able in 1983 ⁽¹⁾	Commitments en- tered into in 1983	Appropriations for payment available in 1983 ⁽²⁾	Payments made in 1983
Energy:				
— Energy policy (70 excluding 707)	167,4	149,5	128,7	45,3
— Specific Community measures (707)	784,4	784,4	784,4	782,6
Research and investment: (73)				
— Direct action research	216,6	203,3	215,3	178,6 ⁽⁵⁾
— Indirect action research ⁽³⁾	318,9	286,3	271,8	244,8 ⁽⁶⁾
Industry, transport:				
— Industry (77)	92,3	84,9	76,8	41,0
— Transport (78)	26,5	11,2	15,5	3,7
Other activities:				
— Nuclear safeguards (71)	2,3	2,3	3,3	2,1
— Information market and innovation (75)	19,0	12,5	16,2	7,6
— Miscellaneous (72)	3,3	3,0	4,7	2,0
Total	1 630,7	1 537,4	1 516,7	1 307,7
Note: Comparable figures for JET ⁽⁴⁾	129,0	90,3	149,1	112,5

⁽¹⁾ Appropriations in the 1983 budget, plus appropriations remaining at the end of 1982, after transfers.⁽²⁾ Appropriations in the 1983 budget, plus carry-overs from 1982, after transfers.⁽³⁾ Including contribution to JET.⁽⁴⁾ Based on JET's budget (i.e. including Commission contribution).⁽⁵⁾ Of which 108,4 Mio ECU are shown as research personnel expenditure.⁽⁶⁾ Of which 17,7 Mio ECU are shown as research personnel expenditure.

Summary of financial information

9.2. Table 9.1 summarises the use of appropriations in 1983.

to fields of activity for which payments are unlikely to take place within the budgetary year.

Table 9.2 — Use of appropriations for payment in the 1983 budget

(Mio ECU)

Budget heading (chapter)		Appropriations in 1983 budget	Payments made against 1983 appro- priations	
			Amount	% ⁽³⁾ (2)
(1)	(2)	(3)	(4)	
Energy ⁽¹⁾ (70)	98,4	23,9	24,3 %	
Industry (77)	51,6	25,6	49,6 %	
Transport (78)	14,5	2,6	18,2 %	
Safeguards (71)	2,3	1,3	59,0 %	
Information (75)	10,5	4,3	41,1 %	
Miscellaneous (72)	3,3	0,7	21,3 %	

⁽¹⁾ Excluding specific Community measures in favour of United Kingdom and FR of Germany.

Budgetary preparation

9.3. In its report for the financial year 1982 ⁽¹⁾, the Court criticised the budgetary preparation of Chapters 70 to 78 with the exception of Chapter 73. During that year the use of appropriations for payment in the budget year for which they were intended varied from 15 % to 50 % according to chapter. Overall the situation for these chapters, as set out in Table 9.2, did not improve during 1983. This continuing problem means that, in a period of budgetary difficulty, funds continue to be allocated

⁽¹⁾ OJ No C 357, 31. 12. 1983, paragraph 8.5.

General observations

Observations on commitments shown in the accounts

9.4. The Court's audit revealed differences in the Commission's treatment of commitments during 1983. To the extent that they arise from differing interpretations of the existing rules (apparently acceptable to the Financial Controller), they raise the question of whether those rules are sufficiently comprehensive and detailed to deal with the varied and often complex situations faced by authorising officers. Examples of these are as follows:

- (a) Fusion technology commitments (indirect action research), totalling some 9 million ECU, in respect of work started and authorised by the fusion steering committees in 1983, were delayed until 1984 due to budgetary constraints. Although the contractual documents for this work were not signed until 1984, the Court considers that the liability arose in 1983 and therefore should have been reflected in that year's accounts.
- (b) Commitments totalling 3,9 million ECU for energy, 1,5 million ECU for indirect action research and 5,3 million ECU for the Joint Research Centre (JRC) remained outstanding at the end of the year with insufficient evidence that genuine liabilities existed in connection with them. This contravenes Article 32 (3) of the Financial Regulation⁽¹⁾, which requires an exact account to be kept of actual needs. This was particularly important for the JRC as 31 December 1983 represented the end of a multiannual programme.
- (c) Although the value of multiannual contracts in the research and energy fields is normally committed in total prior to contract signature, a different approach was noted for indirect action research — fusion general support. Included in the current programme (1982-86) are nine contracts, signed by the Commission in 1982, totalling 169 million ECU. There is no break clause,

though there is a revision clause and 102 million ECU is stated as a ceiling for the first three years. The commitments recorded by the Commission in 1982 for these contracts totalled 79 million ECU. The difference of 90 million ECU is represented by:

- (i) 23 million ECU paid in 1982 but covered by pre-1982 commitments (in respect of previous contracts with the same contractors), and
- (ii) 67 million ECU for the years 1985 and 1986 which has not yet been committed.

The explanation given by the Commission for (ii) above, which appears to be in breach of Article 32 (1) of the Financial Regulation, is that the current fusion programme will probably be replaced as of 1 January 1985.

- (d) In the JRC the Court noted commitments amounting to 1,4 million ECU which, in order to use available appropriations, were recorded in 1983 although the new multiannual research programme under which the expenditure was planned runs from 1984 to 1987. In the Court's view this is an infringement of the annuality principle as stated in Article 5 of the Financial Regulation. It also weakens the whole principle of multiannual programming.
- (e) Under existing rules the figures for commitments in the accounts can represent very different stages of development in different expenditure programmes or projects having similar financial characteristics. For example, in the energy field commitments are recorded once there is a Council or Commission decision authorising negotiations with potential contractors⁽²⁾, whereas for research such authorisation only results in a blocking of appropriations which has no effect on the accounts, the commitment itself not being recorded until the contract is ready for signature, some times several months later.
- (f) In the JRC an inconsistency was noted in comparison with the previous practice of committing phased contracts as the phases are released. In 1983 a number of these contracts were committed in full in order to re-utilise appropriations released from the Super-Sara project. This change of practice, which was not mentioned in the explanatory notes of Volume V of the revenue and expenditure account, had the effect

(1) OJ No L 356, 31. 12. 1977.

(2) Article 32 (2) of the Financial Regulation.

of increasing 1983 commitments by 8,6 million ECU.

- (g) Also in the JRC there were cases of commitments being recorded at the end of 1983 for amounts higher than those in the contracts, in order to build in contingency margins (overstatements of 1983 commitments: 0,8 million ECU), whereas in other similar cases the amounts committed match the prices mentioned in the contracts.

9.5. The Court considers that there is a need for more consistency in the treatment of such transactions in the future; this would lead to a fairer and more meaningful presentation in the financial statements of the utilisation of appropriations and the amounts remaining unused.

Observations on coordination between the services of the Commission

9.6. The greater part of the Court's audit of 1983 expenditure was concerned with weaknesses in the Commission's practice with regard to the award, monitoring and follow-up of contracts ⁽¹⁾. A general question arising from the Court's findings concerns the extent to which the principal Commission services within the fields of research, energy and related activities have coordinated their policies and procedures for managing contracts. For example, the procedures vary for payment validation and documentation, separate computer systems have been developed and there is no exchange of information about contractors. Sound financial management demands that unnecessary duplication of time and resources be avoided and that relevant information available throughout the Commission be exploited by services carrying out similar management tasks. The Court considers that coordination in this area should be improved.

⁽¹⁾ See paragraphs 9.7-9.8, 9.11-9.14, 9.20-9.26 and 9.34-9.38 below.

Energy

Follow-up of observations made in the Court's annual report on the financial year 1982 ⁽²⁾

Management of contracts

9.7. The Court repeats its previous recommendations that:

- (a) the terms of each Council Decision or Regulation governing technical development and demonstration projects should contain a covering authority for contracts which extend beyond the time specified in the Decision or Regulation;
- (b) given the continuing lack of information from many contractors, particularly on the composition and basis of indirect overheads, the Commission should standardise the form of the financial annexes to contracts and expenditure reports from contractors, defining precisely the minimum detail required.

Reimbursements

9.8. Following an observation of the Court on the undercharging of interest on advances repayable by contractors, all energy contracts signed in 1983, of which there were 69, provide that advances will be deposited by contractors on interest bearing accounts and that the interest so earned will be deducted from the final subvention payment. However, the Commission has informed contractors that it intends to calculate the total interest to be deducted on the basis that contractors may use these advances to finance all their initial costs on the project concerned rather than that portion of the costs to be borne by the Commission. The Court recommends that the Commission reconsiders its choice of this method of calculation, which could have the effect of substantially reducing the interest arising from the advances and increasing the net subventions which the Commission will have to pay.

⁽²⁾ OJ No C 357, 31. 12. 1983, paragraphs 8.46 to 8.60.

Direct action research — Joint Research Centre (JRC)

Follow-up of previous observations

Activity sheets

9.9. In its response to the observation of the Court in paragraph 8.16 of its annual report for the financial year 1982, the Commission indicated that it was satisfied with the existing activity sheets, but that it would nevertheless ask its departments to look into possible ways of improving them. On undertaking a financial analysis of an important reactor-safety project, the Court found that the information provided by the activity sheets did not enable it to ascertain the total cost. Indirect expenditures (personnel, administrative and technical expenses) are not attributed at project level. The functional budget system therefore fails to identify the exact cost of individual projects and impedes normal financial monitoring. The JRC should ensure that its new system of computerised budgetary management will in future facilitate a better determination of individual project costs. The Court understands that the JRC has been given instructions accordingly.

Reports on the financial implementation of multiannual programmes

9.10. In paragraphs 4.3 and 4.6 of its special report on the financial management of multiannual programmes of the Joint Research Centre ⁽¹⁾, the Court criticised the absence of comparisons between the estimates and the actual costs of each multiannual programme. There is neither a legislative nor an administrative requirement on the JRC to publish a report for the budgetary authority on its scientific and financial management within the terms of the programme. Since the 1983 financial year is the final one in the 1980-83 programme, it would be desirable for the JRC to present a report on its activities during that four-year period as soon as possible. This is particularly important in view of the fact that research commitment appropriations remain valid until cancelled under the budgetary procedure ⁽²⁾.

Observations arising from examination of the accounts

Research contracts

9.11. The JRC entrusts the execution of a number of tasks to third parties by means of research contracts. For the 1983 financial year, commitments for research contracts represented about 24,1 million ECU. An examination of a sample of 47 contracts representing 15,3 million ECU identified two major weaknesses in the procedures leading to the award of such contracts:

- (a) the use of competitive tendering was rare, and
- (b) there was no systematic price basis.

Competitive tendering

9.12. In the field of indirect action research contracts are normally awarded by public tendering procedure. On the other hand, in the field of direct action research contracts, the authorising officers frequently resort to private treaty justified, in most cases, by simple declarations. So far the Financial Controller has not questioned this practice. During its audit the Court found 46 research contract files concerning 15,1 million ECU in which the justification for private treaty was either non-existent or inadequate.

9.13. Even accepting that tendering can be burdensome, experience in other areas of the work of the JRC shows, nevertheless, that there are often important differences between contractors' quotations when they are invited by competitive tender. The application of this principle protects the Community purse and is an instrument of sound financial management. It would therefore be desirable to establish a tendering procedure for research contracts in line with the Financial Regulation in order to ensure that departures from the normal procedure are properly documented.

Price fixing of contracts

9.14. In research contracts the price bases are rarely set out in detail. Of the 47 contracts looked at

⁽¹⁾ Doc. No RS 8/82 (available from the Court of Auditors).

⁽²⁾ OJ No L 356, 31. 12. 1977, Article 88(3).

by the Court, there were 38 cases, representing 13 million ECU, in which it was impossible to know how the prices had been arrived at. Very often the authorising officer justified his price by stating that it was a question of a fixed price without giving any kind of breakdown which could be audited. Since competitive tendering was particularly rare in this area, this practice creates an additional risk of excessive expenditure. If the work involves research workers who can be categorised and whose time can be measured, it must be possible to establish rates which would allow the JRC to be satisfied that its charges were reasonable. Further, a more systematic use of financial annexes to the contracts similar to those used in indirect action contracts, should make it easier to see the price of the work. These measures, applied together with a stricter use of competitive tendering, would more effectively safeguard Community finances.

Observations arising from examination of the accounting and internal control systems

Organisation of budgetary management

9.15. During the audits of the accounts of both 1982 and 1983, a number of weaknesses in the organisation of budgetary management were identified at the Ispra establishment of the JRC. These mainly concern the division of responsibilities for the management of appropriations between the scientific divisions and the finance division. On this subject the Court is in correspondence with the Commission.

Observations concerning the cancellation of the Super-Sara project

9.16. The Super-Sara project, included in the 1980-83 JRC programme, involved the carrying out of experiments in the ESR reactor, designed to study the behaviour of combustible materials in a light water reactor in various accident situations caused by loss of refrigerant. Following lengthy debates the Council took note, on 10 March 1983, 'that JRC resources will no longer be used for the Super-Sara project' ⁽¹⁾.

9.17. Following the cancellation of the Super-Sara programme, the Council decided that the 'resources' thus made available would be used for a series of operations, a list of which would be subsequently agreed by the Council's Working Party on Atomic and Research Questions. The list was approved at the end of April 1983. The term 'resources' not having been defined it must be considered to include payment appropriations as well as commitment appropriations. Most of these resources had come from transfers Nos 30/82 and 43/82. These transfers totalled 17,5 million ECU and were granted by the European Parliament exclusively to reinforce the Super-Sara project. The payment appropriations having been carried over from the 1982 financial year should have been cancelled at the end of 1983 if unused by that date. The Commission, not being able to use all these appropriations either for the operations included in the list approved by the Working Party on Atomic and Research Questions or for the Super-Sara project, used 15,8 million ECU for other research objectives, for which payment appropriations were inadequate.

9.18. The Court considers that in view of the precise nature of these allocations, the alteration of their allocation should have been subject to an *a priori* and explicit authorisation by the budgetary authority.

Italian contribution

9.19. In paragraphs 8.28 to 8.32 of its annual report for the financial year 1982 the Court pointed out that the Italian Government had not made special payments in the first three years of the 1980-83 programme towards the cost of the Super-Sara project. For 1983, 1,5 million ECU were entered in budget line 6090 under 'receipts' representing the fourth contribution but this was not received.

Indirect action research

Follow-up of previous observations

Management procedures

9.20. In its annual report on the financial year 1981 ⁽²⁾ the Court commented on the existence of

⁽¹⁾ PV/CONS 14, RECH 29, 5685/83 of 28. 4. 1983, p. 3.

⁽²⁾ Paragraphs 8.22-8.29 and 8.32.

shortcomings in the management procedures applied by the Commission for indirect action. Although improvements have been made in areas such as the follow-up of reports due from contractors and the extent of on-the-spot financial audit by the Commission, important weaknesses remain. In particular, the internal instructions for the execution of research programmes have not been revised since 1 January 1981.

9.21. As a result, widely differing procedures have continued to be employed by the various scientific divisions in selecting contractors and monitoring contracts. Similarly, there was no sign of adequate guidance having been issued on the use of management information systems. Moreover the Court has found room for improvement in the documentation filed in support of payments and the reporting of validation checks. Although action has been promised in these areas, the Court stresses that a comprehensive manual detailing all financial and contract management procedures and responsibilities for indirect action is necessary, and that its implementation by all levels of management, both administrative and scientific, needs to be monitored vigorously by the Commission.

Legal basis

9.22. In paragraph 8.18 of its annual report for the financial year 1981, the Court drew attention to the considerable delays which existed between the effective starting date of the research work and the signature of the related contracts. Although there appears to have been some improvement in the situation, the problem still remains with distorting effects on contractual liability and the timing of commitments (see paragraph 9.4), budgetary management and reporting timetables.

Observations arising from examination of the accounts

Association contract payments

9.23. Association contracts are used by the Commission where it participates in the cost of a long-

term research activity executed in association with Member States or third parties (but only in the fields of biology and thermonuclear fusion).

9.24. For association contracts, the control exercised by the Commission over its contributions differs from the normal procedure in that it makes payments throughout the period of the contracts (usually three years) on the basis of calls for funds, without requiring the submission of documentation as evidence of the actual costs incurred by the contractors. The contracts provide for periodic accounts, summarising costs incurred to be submitted to the Commission together with estimates of future costs but no procedure exists to ensure that these are reconciled with the calls for funds.

9.25. The control exercised by the Commission over its financing of these contracts is based, firstly, on the presence of Commission representatives on steering committees which authorise the calls for funds and, secondly, on reports by private audit firms on the accounts prepared for the completed contracts, at the end of the three-year periods. For fusion research, out of the last set of 11 completed contracts, eight have been the subject of verification by private firms. In 1982 and 1983, 115,9 million ECU has been paid by the Commission under this programme.

9.26. In the Court's view the control exercised by the Commission is inadequate. Verifications of the completed contracts at the end of a three-year period are not a sufficient safeguard. Due to the inadequacy of the records maintained by the Commission the Court has been unable to satisfy itself that the results of these audits have been properly followed-up. The Court therefore recommends that the Commission introduces the following internal control procedures:

- (a) a check that the bases of calculation of all future calls for funds are in accordance with the terms of the contracts, taking into account previous amounts paid, accounts submitted and estimates of future costs;
- (b) an improved system for the follow-up of on-the-spot verifications.

Observations arising from examination of the functional accounting system

9.27. In paragraphs 8.8 to 8.16 of its annual report for the financial year 1982 the Court commented on the functional accounting system as it is used by the Joint Research Centre (JRC). The special provisions of the Financial Regulation (Title VII) which give rise to this system apply equally to indirect action research. The stated purposes of the system are similar in both cases: to provide a management tool which will determine and monitor the real cost by research objective and to produce a sound basis for selecting the best means of achieving the objectives. These two aims are not being met by the current indirect action system. The real cost by research objective is distorted, particularly by the way in which personnel expenditure is treated. In paragraph 6.5 of its annual report for the financial year 1978 the Court commented that the JRC allocated all its expenditure on personnel to research objectives whereas, for indirect action, only the costs of the scientific divisions were so allocated, the rest being charged to administrative appropriations in the general budget. This inconsistency remains. Moreover even the allocation of the scientific divisions' costs is adjusted to fit financial and manpower ceilings.

9.28. One of the features of a framework programme for Community research⁽¹⁾ is that once research objectives have been defined it is left to management to select the best means of action: direct, indirect or concerted. The Court also feels that the criteria to be used by the Commission for this selection should include not only scientific but also financial data. This is impossible at present because the research costs for direct and indirect action are not accounted for on a comparable basis.

9.29. The functional accounting system is maintained by the Directorate-General for Budgets and it therefore operates as a sub-system of the Commission's official accounting records, while at the same time providing information to management on budgetary utilisation and the financial status of con-

tracts. The system is computerised but management of indirect action has found that the output it yields is often not in the right form or is not sufficiently timely to be useful. Management has therefore found it necessary to develop a small separate computer application for budgetary management and another, much more substantial, for contract management. These partially duplicate but also complement the information already held by the official accounting system. In terms of both hardware and software, neither system is compatible with the accounting system.

9.30. The Court recommends that within the decision-making process being established for the framework programme the Commission examines how the indirect action functional accounting system might be adapted to meet management needs for reliable and comparable financial data, and how its underlying computer system might be rendered more compatible and complementary to the other management information systems in existence.

JET Joint Undertaking

9.31. The JET financial statements show that payments in 1983 amounted to 112,5 million ECU of which 80 % was financed by the Commission. The Court adopted its report on these statements on 19 June 1984. In the opinion of the Court the financial statements presented fairly the Joint Undertaking's year-end financial position and income and expenditure for the year, except that changes in accounting practice have resulted in:

- (a) 1983 commitments being understated by some 3,0 million ECU and
- (b) transfers to 1983 reserve account being overstated and unused payment appropriations carried to the balance sheet at 31 December 1983 understated by at least 2,0 million ECU in each case.

9.32. In addition the Court has raised other important matters in its report, such as JET's method of presenting liabilities in its accounts. It has also recommended that JET, in consultation with its

⁽¹⁾ Council Resolution of 25.7. 1983, OJ No C 208, 4. 8. 1983.

members, and particularly the Commission, should take steps to reduce its high level of bank balances to the lowest possible level necessary to meet its working capital needs. Other matters relating to financial management have been raised separately with JET management.

Information market and innovation

Introduction

9.33. In 1983, 19,0 million ECU were available for commitment compared with 7,5 million in 1981. This considerable increase is partly due to additional programmes, but also to an increasing amount of unutilised commitment appropriations from previous years (in 1983 only 66 % of the available commitment appropriations were committed).

Observations arising from an examination of the management of contracts

Consultative machinery

9.34. The Council decisions on pluriannual programmes in this area provide for regular consultation with the Member States: In 1983, 38 scientific and technical committees, including working and expert groups, were involved in the administrative procedures leading to the conclusion of contracts. This was in addition to internal Commission committees such as the 'Advisory Committee on Purchases and Contracts', 'Advisory Committee on Commissioned Studies' and 'Interservice Group on Coordination'. On examining the contracts of the third action plan (1981-83), the Court found that there was an average consultative period of nine months and in almost one third of cases a delay of more than one year until the Commission could start negotiations with contract partners. This has to be viewed against the background of a delayed Council decision⁽¹⁾ which left only 29 months of the 36-month period available for contract execution.

9.35. Contracts can of course only be signed after such procedures are completed. So it is clear that the

duration of the consultative process is a major contributory factor in the build-up of unused budgetary appropriations. The Court recommends therefore that the consultative procedures be reviewed as a matter of urgency.

Award of contracts

9.36. In the case of more than 50 % of the contracts audited, the contract had been awarded by private treaty and the associated documentation failed to provide sufficient justification for not using the public tendering procedure. Where public tendering had been used, a small number of instances was found where there was insufficient information about the selection criteria applied.

Execution of contracts

9.37. The contractual conditions are normally laid down clearly and include provision for evaluation. However, the management system has not prevented the following procedural weaknesses:

- (a) Frequently the duration of contracts is extended without any formal amendment of the contractual provisions.
- (b) There is considerable delay in the presentation of interim and final reports and results.
- (c) Although the determination of costs is normally based on estimating, the existence of detailed cost verifications derived from personnel and material cost elements is exceptional.
- (d) The Commission services carry out no control visits to contractors for the purposes of financial verification and although a limited number of scientific or technical visits do take place, there is a lack of written evidence about their planning and outcome.
- (e) Often payments rely entirely on formal internal certification that affairs are in order without sufficient supporting evidence in the form of bills, inspection reports or evaluation reports.

9.38. This field of activity has grown substantially during the last years (commitment appropriations have increased by 410 % from 1977 to 1983 compared with an 8 % increase in staff numbers during the same period). For this reason the Court attaches importance to the resolution of the weaknesses in contract management.

⁽¹⁾ Council Decision 81/599/EEC, OJ No L 220, 6. 8. 1981.

CHAPTER 10

Cooperation with developing and other non-member countries

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Introduction

10.1. Title 9 of the general budget contains the appropriations intended to finance the cooperation measures with developing and other non-member countries. The subsidy for the European Association for Cooperation (EAC) and the appropriations to finance the running of the Commission delegations in the southern Mediterranean countries and in the ACP States are also included.

10.2. The following observations result from an analysis of the Commission's files and, where applicable, of the on-the-spot findings of the Court's

audit visits to Algeria, Botswana, Mali, Morocco, Senegal, Sri Lanka, Tunisia and Zambia.

Summary of financial information

10.3. In 1983, the appropriations available under 'Cooperation with developing and other non-member countries' and the commitments and payments made against these appropriations were as shown in *Table 10.1*.

Table 10.1 — Title 9: Appropriations available and their utilisation in 1983

(Mio ECU)

Chapter of the budget	Commitments		Payments	
	Appropriations for commitment available in 1983	Commitments entered into in 1983	Appropriations for payment available in 1983	Payments made in 1983
Chapter 92: Food aid	542,0	541,2	614,3	388,5
Chapter 93: Cooperation with non-associated developing countries	369,4	240,9	239,8	138,1
Chapter 94: Specific measures for cooperation with developing countries	38,1	29,4	42,7	22,7
Chapter 95: Exceptional measures to assist developing and other non-member countries	107,5	105,3	147,9	66,6
Chapter 96: Cooperation with Mediterranean countries	183,2	92,4	232,2	143,3
Chapter 98: Operation of Commission delegations in developing countries	49,0	49,0	49,0	49,0
Chapter 99: Cooperation with non-member countries	2,4	2,4	3,9	2,5
Total	1 291,6	1 060,6	1 329,8	810,7

Implementation of the budget

10.4. In 1983, the allocation of 1 329,8 million ECU of appropriations for payment available under Title 9 of the budget was insufficiently utilised, as in previous years. There has been a further decrease in overall utilisation with a rate of 62,6 % in 1983, as opposed to 65,3 % in 1982 and 71,6 % in 1981. The reduction in the rate of utilisation was particularly marked for:

- (a) Chapter 92 (food aid — see paragraphs 10.15 to 10.17): in 1982, 87,9 % of the 614,27 million ECU of appropriations available were used; in 1983, 63,2 % of the 614,332 million ECU available were used;
- (b) Chapter 94 (specific measures for cooperation with developing countries): in 1982, 65,3 % of the 30,3 million ECU of appropriations available were used; in 1983, the 42,7 million ECU available were used at a rate of 53,2 %;

- (c) Chapter 95 (exceptional measures to assist developing and other non-member countries): in 1982, the 76,9 million ECU of appropriations available were used at a rate of 46,9 %; in 1983, 45,0 % of the 147,9 million ECU available were used.

10.5. The appropriations, totalling some 300 million ECU, necessary for mobilising all the food aid still outstanding at 31 December 1983, are not included in the commitments entered into in 1983 for food aid (541,2 million ECU, see Chapter 92, column 3 of *Table 10.1*). Given that these 300 million ECU, as well as some 200 million ECU corresponding to the fraction of the total cost of the mobilisations charged to the EAGGF Guarantee Section appropriations, are not covered by appropriations carried over, they should be shown amongst the commitments not included in the balance sheet in the financial situation of the Communities drawn up at 31 December 1983.

10.6. With regard to Chapter 95, it should also be noted that:

- (a) for Article 950 (aid to disaster victims in developing and other non-member countries), a sum of 9,9 million ECU of aid to Poland has not been used out of the 14 million ECU reserved for this measure, because the supplementary budget relating to the aid programme for this country was not approved by the Council until 24 October 1983;
- (b) in the case of Article 952 (special aid for Lebanon), the non-utilisation of the appropriations available is connected with the political situation of the recipient country. In order to credit this Article, which has a token entry in the 1983 budget, 20 million ECU of commitment and payment appropriations were taken from Chapter 93. If this sum is not used during the 1984 financial year, the majority of it is likely to be cancelled at the end of that financial year;
- (c) for Article 958 (special scheme to combat hunger in the world), 49,6 million ECU of the 50 million ECU entered in the original budget were not committed until 31 December 1983, on the one hand because of the late adoption during the financial year of the regulations relating to the scheme, and on the other because of the slowness in identifying projects to be financed as part of this scheme. The projects planned are mainly concerned with the safeguarding of natural resources and cattle, the production and storage of cereals and with village water engineering. Of these projects, only a few studies have given rise to payments, amounting to 70 585 ECU.

10.7. In the case of two chapters, there has been a marked improvement in the degree of utilisation of the appropriations for payment:

- (a) Chapter 93 (cooperation with non-associated developing countries): 57,6 % of appropriations used in 1983 as against 38,9 % in 1982;
- (b) Chapter 96 (cooperation with Mediterranean countries): 61,7 % of appropriations used in 1983 compared with 29,5 % in 1982.

10.8. The commitments and payments made under Chapter 96 appropriations do not, however, wholly correspond to the transfers actually made to recipients. It sometimes happens that indirect taxes (such as VAT collected by the Member States) or advances, paid to the EIB for special loans or interest-rate subsidies, remain recorded in the accounts as final expenditure paid to recipient States. This expenditure is therefore deducted from the recipients' allocations, even though it may later

be repaid to the Community. Thus, 4,6 million ECU have already been entered against the Protocols and aid for the Mediterranean countries, even though this amount was subsequently recovered and entered as miscellaneous revenue in the Community budget. A sum of 5,2 million ECU may well be treated likewise, if it is not re-employed during the financial year 1984.

Supporting documents and follow-up of operations

10.9. Article 79 of the Financial Regulation lays down that the institutions must forward the documents supporting the accounts to the Court every three months. A random sample examination has however shown that, in about 15 % of the cases, the supporting documents for the corresponding expenditure either did not accompany the payment order sent to the Court, or were inadequate to support the existence of the creditor's claim, the reality and amount of the debt and the terms for its repayment.

10.10. For example, a payment order for 20 million ECU made out for an international organisation was not accompanied by any supporting documents. Similarly, another organisation has received a payment of 1,1 million ECU as emergency aid, but neither the amount nor the terms of payment of this sum are mentioned in the documents attached to the payment order examined.

10.11. Also, in the course of the preparation of the Court's audit visit to Sri Lanka, it was found that the Commission paid an advance of 7,7 million ECU for a capital investment project, despite the fact that the corresponding financing agreement provided for payment of a maximum advance of 3,1 million ECU. Subsequently, other advances continued to be paid, without the earlier surplus having been cleared.

10.12. There are shortcomings in the Commission's procedures for following up the advances it pays to the European Investment Bank (EIB). Thus, on 1 March 1982, the Commission paid the EIB over one million ECU as the interest-rate subsidy on a loan which the Bank had been holding at Algeria's disposal since 30 December 1981. On 31 December 1983, the Commission had not yet requested the reimbursement of this subsidy, even though the corresponding loan had still not been disbursed.

10.13. Despite several reminders, the Commission has not been able to make available to the Court the administrative management files relating to about 130 trade promotion projects (3,8 million ECU).

Food aid (Chapter 92)

Budgetary position

10.14. As in previous years, the Commission made very substantial transfers within Chapter 92. 242,8 million ECU, representing 44,8 % of the appropriations intended for the 1983 programme, were transferred to the budget headings relating to previous years' programmes. The repetition of such estimation errors indicates, once again, a failure to improve the present, inadequate system of decision-making and implementation.

10.15. The payments concerning food aid decrease markedly every year: 388,5 million ECU in 1983, as against 540,2 million ECU in 1982 and 601,6 million ECU in 1981. The delay in the implementation of the 1983 programme is however partly attributable to the time taken by the Council and the Parliament to approve the detailed arrangements for carrying out this programme.

The execution in volume terms of food aid programmes

10.16. In its annual report for the financial year 1982⁽¹⁾, the Court criticised the marked increase, as compared with the previous year, of the quantities of food aid still to be delivered at 31 December 1982. The Commission replied to the Court that this situation should have been remedied by the implementation of the basic Regulation — Regulation (EEC) No 3331/82 — adopted by the Council on 3 December 1982⁽²⁾. In fact, as Table 10.2 shows, the situation at 31 December 1983 had seriously deteriorated as compared with 1982. Of the quantities provided for under the 1983 programme, only 42 % of the cereals (as against 67 % in

1982), 36 % of the milk powder (as against 61 % in 1982) and 26 % of the butteroil (49 % in 1982) had been delivered (see Table 10.3).

10.17. At the end of 1983, quantities equivalent to more than half of an annual programme in cereals, to more than two thirds of an annual programme in milk products and to virtually the whole of an annual programme in butteroil, had still not been delivered (see Table 10.2). Under these circumstances, the Court requests the Commission to review the entire management system for food aid and then to propose both rules and administrative procedures for at last rectifying the defects, which keep recurring and even worsening, at the expense of the poorest countries of all.

Certain aid deliveries

Planning and coordination

10.18. As the Court has pointed out on several occasions, Community aid frequently arrives late or at the wrong time. Certain countries which have the most urgent or the greatest need of aid (Sri Lanka, Tanzania, Zambia, Ghana, Somalia and Madagascar — see Table 10.3) had by 31 December 1983 still not received any of the aid which was supposed to have been delivered to them under the 1983 programme. In practice, Zambia and Somalia received nothing because their respective allocations for 1982 had been used up, whereas the other four countries mentioned above merely received the balance of the deliveries promised to them under the 1982 programme.

Quality of the products

10.19. As in the financial year 1982, the appropriations available (1,5 million ECU) for the quality control of the food aid supplied by the Community were hardly used (0,1 million ECU). The examination of the Commission's files revealed serious shortcomings concerning the quality of several deliveries made in 1982 and 1983, which points to weaknesses, at the level of both the intervention agencies responsible for mobilising the deliveries and the competent Commission departments, in the control which should be carried out. For example:

⁽¹⁾ OJ No C 357, 31. 12. 1983.

⁽²⁾ OJ No L 352, 14. 12. 1982.

Table 10.2 — State of implementation of the cereals, milk powder and butteroil food aid programmes

<i>(in tonnes)</i>			
State of implementation	Cereals	Milk powder	Butteroil
a) Remaining to be implemented at end 1981	182 232	39 821	17 057
b) Remaining to be implemented at end 1982	339 185	65 673	25 092
c) 1983 programmes	1 043 369	150 000	36 500
d) Total available in 1983 (b + c)	1 382 554	215 673	61 592
e) Cancelled during the financial year ⁽¹⁾	—	—	3 238
f) Implemented, or in process of implementation, at end 1983	759 633	111 210	22 636
g) Remaining to be implemented at 31.12. 1983 (d – (e + f))	622 921	104 463	35 718

⁽¹⁾ Cancellation of quantities not implemented under the 1982 programme.

Table 10.3 — 1983 programmes and their state of implementation at 31 December 1983, by recipient

Recipient	Cereals		Milk powder		Butteroil	
	Programme	Quantities mobilised	Programme	Quantities mobilised	Programme	Quantities mobilised
Bangladesh	140 000	140 000	—	—	2 000	2 000
Egypt	135 000	135 000	10 000	4 000	2 500	0
Sri Lanka	45 000	0	—	—	—	—
Ethiopia	40 000	20 000	2 000	2 000	500	500
Mozambique	40 000	40 000	1 200	1 200	200	200
Tanzania	24 000	0	1 800	0	400	0
Zambia	24 000	0	500	0	400	0
Ghana	23 000	0	2 200	0	400	0
Somalia	23 000	0	—	—	610	0
Angola	20 000	20 000	—	—	—	—
Madagascar	20 000	0	500	0	—	—
India	—	—	35 000	12 500	11 200	0
ACP countries in Sahel	81 000	7 000	4 250	1 600	1 400	1 100
Other ACP countries	80 500	8 000	8 100	1 200	1 225	125
Associated Mediterranean countries	10 000	10 000	5 300	800	1 500	0
Other non-associated countries	40 500	4 000	7 200	2 000	1 300	300
Organisations:						
— international	184 600	47 992	37 418	6 418	8 839	2 272
— non-governmental	43 000	10 448	30 250	22 259	3 650	2 815
Reserve available	69 769	0	4 282	0	376	0
Total 1983 programmes	1 043 369 (100 %)	442 440 (42,0 %)	150 000 (100 %)	53 977 (36,0 %)	36 500 (100 %)	9 312 (26,0 %)

Table 10.4 — Average period required to mobilise certain food aids shipped in 1983, and decided under the 1983 and earlier programmes ⁽¹⁾

Period	Average period (in days)		
	Cereals	Milk powder	Butteroil
Period between:			
a) the beginning of the financial year and the decision to allocate the aid	195	127	131
b) the decision and the mobilisation request	122	225	307
c) the request and the last publication of the mobilisation regulation	12	87	62
d) the publication and the shipping	65	62	53
Sub total	394	501	553
Sea transport (average)	25	25	25
Total time required to the port of unloading	419	526	578

⁽¹⁾ The sample examined concerned eight countries which in 1983 had received cereals and milk powder, and six countries which had received butteroil.

- (a) having been loaded onto one ship in March 1982, then transhipped to another in August of the same year, 974 tonnes of wheat flour mobilised by the Belgian intervention agency and delivered cif, finally arrived off Djibouti (the recipient country) on 30 October 1982. On 10 November, this delivery was declared unfit for human consumption by the local public health department, although on 6 November 1982, two Belgian laboratories had, on the strength of samples sent to them a few days previously, declared it to comply with standards. Eventually, after a number of incidents, this aid was off-loaded in Mombasa (Kenya) in March 1983. It remained there in store until the end of the year, when it was finally dispatched and sold to Zaïre by the carrier. Since then, the Belgian intervention agency has been taking legal proceedings against the latter in order to obtain compensation;
- (b) the Djibouti authorities also challenged the bread-making quality of 2 920 tonnes of wheat flour, which the Greek agency responsible for their mobilisation had declared to comply with the criteria of the regulation on putting out to tender;
- (c) following the delivery to Mozambique of 15 000 tonnes of maize mobilised by the French agency, a report drawn up after an on-the-spot visit made by the Commission delegate in Swaziland, states, in substance, that: 'The sacks contain at best old maize full of broken grains (15 % to 36 %) or mixed with equally old wheat of

mediocre quality or, at worst, with black chunks of mould (20 % to 28 %)'.

Time taken to deliver food aid

10.20. Similarly as in its special report on food aid ⁽¹⁾ and in its annual report for the financial year 1982 ⁽²⁾, the Court has analysed the time taken in 1983 to deliver a number of food aid consignments (see *Table 10.4*). This analysis shows that, regardless of the product or the destination, the time taken to deliver this aid is still abnormally long.

Cooperation with non-associated developing countries (Chapter 93)

Delays in financial implementation

10.21. The total payments connected with the implementation of the programmes of cooperation

⁽¹⁾ Adopted by the Court on 30. 10. 1980 (not published in the OJ).

⁽²⁾ OJ No C 357, 31. 12. 1983, p. 97.

with non-associated developing countries reached 138,1 million ECU in 1983, virtually double those of the previous year (74,6 million ECU). Nevertheless, because of the delays in implementing certain financial and technical cooperation programmes, the full amount of the allocation granted could not be used: 128,4 million ECU of appropriations for commitment (out of 246,6 million ECU entered initially) and 86,2 million ECU of appropriations for payment (out of 142,6 million ECU entered initially) had to be carried over to the financial year 1984, whilst 20,0 million ECU of commitment and payment appropriations were transferred to Chapter 95 of the budget in the course of the year.

10.22. Sixteen projects representing a total of 63,5 million ECU of grants have either not progressed at all, or only minimally, in financial terms, since their commencement between 1977 and 1981. This concerns particularly four projects in Pakistan (25,0 million ECU), two projects in Bangladesh (10,7 million ECU) and one project of the Central American Bank for Economic Integration (2,0 million ECU).

Technical assistance

10.23. Out of the 25 non-associated countries in which the Community finances projects, the Commission is represented in only four. Because of this, the identification, appraisal and follow-up of projects — much of which is financed jointly — are most often carried out by consultants or experts expressly recruited for this purpose; during the 1983 financial year, 45 contracts representing 3,1 million ECU of commitments were thus concluded by the Commission. The lack of uniform supervision by the numerous outside experts does not always facilitate the implementation of a consistent Community management policy.

10.24. In 1981 a 0,9 million ECU contract was concluded with a consultant who was made responsible for recruiting and paying other consultants. Coordination and secretarial costs account for approximately 20 % of the amount of the contract in question. In at least eight cases out of 24, the consultant's role involved no more than negotiating with consultancy bureaux which had already worked directly for the Commission in the past. In December 1983 another contract worth one million ECU was once again concluded with the same consultant.

10.25. During an audit visit to Sri Lanka in October 1983, no assessment of the state of progress of a project as compared with the set objectives was available for the Court, despite the fact that for four years the Community had been financing two experts on the spot, each costing 7 000 ECU per month.

Granting of aid in the form of commodities

10.26. Under an agreement signed between India and the Community, 54,1 million ECU, i.e. 42 % of the total payments entered under Article 930, were used in 1983 to purchase fertilisers for India. The analysis of this operation gives rise to the following observations:

- (a) A consignment of 1,7 million ECU was wrongly awarded to a tenderer whose registered place of business was not in the European Community. This situation can be explained only by failure on the part of the Commission to check tenders.
- (b) The sea transport of the fertiliser supplied to India, 16 % of the financing, was fully borne by the Community. This transport was not put out for tender. Certain deliveries, moreover, were made by ships flying the flag of Yugoslavia, Liberia, Panama, Taiwan and Korea. In this connection, the Court has already raised the question of the transport of Community aid by ships not flying the flag of either the Member States or the recipient country, in its annual report for the financial year 1979 ⁽¹⁾.
- (c) A sum of 0,7 million ECU, representing part of the sea transport costs, was paid in the absence of conclusive supporting documents.
- (d) When the tenders for the delivery of the fertilisers in question were being examined, it was found that ten of the fourteen bids received were exactly the same, and moreover, the least expensive tenders for the delivery of partial consignments were lower than these amounts by only 1,5 % and 0,4 % respectively.

⁽¹⁾ OJ No C 342, 31. 12. 1980, p. 146.

Table 10.5 — Position of the commitments and payments at 31. 12. 1983

(Mio ECU)

Country	Amount of the Protocols ⁽¹⁾		Commitments			Payments		
	1st Protocol	2nd Protocol	1st Protocol		2nd Protocol	1st Protocol		2nd Protocol
			1978 to 1982	1983	1983	1978 to 1982	1983	1983
Algeria	44,0	44,0	35,7	1,9	0,0	4,8	2,7	0,0
Morocco	74,0	109,0	74,0	0,0	37,4	42,8	24,9	23,4
Tunisia	54,0	61,0	53,3	0,5	0,0	18,2	14,9	0,0

⁽¹⁾ Excluding EIB resources.

Cooperation with the Maghreb countries (Chapter 96)

Rate of utilisation of appropriations and state of implementation of protocols

10.27. The First Protocols were each drawn up for five years. In the event, the time taken up for the ratification by the Member States and the period necessary for setting up a procedure — which is nevertheless still only provisional — for managing the appropriations granted for the Mediterranean countries, delayed by two years the date on which the First Protocols came into effect, thus postponing by almost the same period the date on which the Second Protocols came into effect, as shown by the timetable set out below:

- (a) Entry into force of the First Protocols
 - (i) according to the Protocols 1. 11. 76
 - (ii) actual date 1. 11. 78
- (b) Official date of expiry of the First Protocols 31. 10. 81
- (c) Entry into force of the Second Protocols
 - (i) theoretical date 1. 11. 81
 - (ii) actual date — in Algeria and in Morocco 1. 1. 81
 - (iii) actual date — in Tunisia 1. 6. 83
- (d) Official date of expiry of the Second Protocols 31. 10. 86

10.28. Tables 10.5 and 10.6 show that the rate of implementation of both commitments and pay-

ments for budgetary aid granted under the First Protocols, has varied considerably from one country to another: swift for Morocco, average for Tunisia and slow for Algeria.

10.29. For the years 1979 to 1983, the running costs of the Commission delegations in the three Maghreb countries have been compared with the operating appropriations actually disbursed to these countries during the same period. Excluding the remuneration of the delegate, they represent 1,7 % in Morocco and 5,4 % in Tunisia, whereas in Algeria they account for 25,9 %.

Overestimated budget forecasts

10.30. The budget forecasts on which the budgets for 1978 and the following years were based proved much higher than the actual utilisation of appropriations. As Table 10.6 shows, the initial appropriations were adjusted to real needs by means of a wide range of budgetary manipulations: carry-overs, transfers and, lastly, cancellations. It should moreover be noted that:

- (a) except for the payment appropriations for Morocco, over half the appropriations were used after their carry-over;
- (b) except for Morocco, where they were positive, the transfers were on the whole made to the detriment of the budget headings reserved for the Maghreb countries;

Table 10.6 — Management of the 1978 to 1983 appropriations of the first and second Protocols

(in % of the initial appropriations)

Budgetary operations	Commitment appropriations			Payment appropriations		
	Algeria	Morocco	Tunisia	Algeria	Morocco	Tunisia
Allocated in the initial budgets (total 1978 to 1983)	100,0	100,0	100,0	100,0	100,0	100,0
Transfers	- 23,7	+ 9,4	- 15,7	- 33,9	+ 14,0	- 10,2
Total appropriations available	76,3	109,4	84,3	66,1	114,0	89,8
Management of the appropriations available:						
— used in the financial year	21,9	43,6	13,0	0,0	56,0	18,7
— used after carry-over	30,1	54,7	50,5	12,8	39,9	38,2
— to be used before 31. 12. 1984 to avoid cancellation	0,4	6,2	8,0	5,1	0,6	8,7
— cancelled	23,9	4,9	12,8	48,2	17,5	24,2

(c) in all cases, despite carry-overs and transfers, it was necessary finally to cancel a substantial portion of the payment appropriations available: 48,2 % of those for Algeria, 24,2 % for Tunisia and 17,5 % for Morocco.

10.31. The Court once again notes ⁽¹⁾ the Commission's repeated recourse to the practice of transfers from appropriations of the previous financial year. This practice applied to all the transfers made from payment appropriations and to almost two thirds of the amount of the transfers made from commitment appropriations.

Aid of limited usefulness for the recipient countries

10.32. The Moroccan administration was able swiftly to submit large-scale projects (1980: development of the central Haouz region for 16 million ECU; 1983: dams and hydro-electric power plant at Ait-Chouarit for 35 million ECU under the Second Protocol), whereas this was not the case to the same extent for Tunisia, still less for Algeria. This is perhaps because of the unequal share that Community aid represents in the total aid received by these countries (in 1981, 5,3 % for Morocco, 7,6 % for Tunisia, 3 % for Algeria). But above all, the somewhat muted interest that these three countries

show for the Community aid is attributable to the modest proportion of their investment budget which it represents. For example, the total budgetary allocation of the First Protocol signed with Algeria represents only 0,11 % of the investments which that country intends to make during the period covered by this Protocol. Besides, the authorities of the three countries in question have not tried to hide from the Court's representatives the fact that the trade aspect of the cooperation agreements is far more important for them than the projects attached to the Financial Protocols.

Incomplete legal framework

10.33. The reserved attitude of the Maghreb countries towards the Community aid can also be explained by their very understandable reluctance to derogate — for an advantage which, all things considered, is quite small — from their own legal system for the sake of a range of provisions which the Community would like to impose, when a large proportion of the provisions in question (Financial Regulation, tax and customs arrangements and general conditions of contract) have not yet even been adopted. The Court has already drawn attention to this shortcoming in its report in response to the conclusions of the European Council of 18 June 1983 ⁽²⁾.

⁽¹⁾ OJ No C 344, 31. 12. 1981, p. 15.

⁽²⁾ OJ No C 287, 22. 10. 1983, p. 16.

10.34. The failure to adopt standard general conditions of contract has forced the Commission delegations on the spot to enter into lengthy talks with the authorities of the recipient countries in order to persuade them to accept, for each project, the Community rules applicable to the European Development Funds. In many cases, the ensuing difficulties encountered in coming to an agreement have led to considerable delays in implementing projects.

Other observations

Content of certain contracts

10.35. During the audit of certain projects financed by the Community in the Maghreb countries, it became clear that some contracts contained clauses which were far too generous and lax as regards consultants. For example, the contract concluded with one consultancy bureau for making an expert available to the Moroccan Export Promotion Centre, provided for a remuneration based on the declarations of salary and allowances made by the consultants. In fact, this bureau declared amounts more than twice those actually received by its expert. As a result of this abuse, as well as of comments made by the Commission delegation on the spot, the bureau's contract was not renewed, a technical assistance contract being later concluded between the EAC and the expert in question.

10.36. Because of their vagueness, certain contracts lead to disputes or to abuses during their implementation. The contract concluded with a Community firm for installing a thermodynamic solar generator in Tunisia is the subject of a dispute between the Tunisian authorities and the firm, a dispute not unconnected with loopholes in the contract. In this, the formula for reviewing prices and the timetable of services were not laid down but merely left to be determined later by the joint contracting parties.

Observance of obligations entered into by the contractors

10.37. At the fishermen's training centre in El Kala in Algeria, where the Community paid for the teaching materials, some of the equipment (for example, motors, drills or anvils) came not from Algeria nor from the Community, but from various other non-member countries. Article 2 of the 'general conditions' of invitation to tender lays down that: 'the supplies tendered must originate in the EEC or in the recipient country'. By not being present when the equipment was received, the delegation deprived itself of the usual means of detecting that the European contractor was not abiding by the obligations he had entered into. Furthermore, the delegation could and should have noticed this during any subsequent inspection of the project.

10.38. Supplies (in particular, photocopiers, boxes of tools, hydraulic motors and drills), representing 2 % to 3 % of the equipment contracts of the Moroccan institutes of applied technology financed by the Community, were also neither of Moroccan nor Community origin.

10.39. The implementation of the training scheme for agricultural engineering technicians, financed in Algeria by the Community at a cost of 1,8 million ECU, is not monitored very closely by the Commission delegation on the spot. On several occasions the Commission has had to ask it for information on the scheme's progress. The information supplied by the delegation on the number of trainees does not tally with the data kept by the teaching establishment concerned. Furthermore, many difficulties occurred during the implementation of the project, which could easily have been avoided if the Commission had been stricter beforehand when selecting certain technical assistants or checking their qualifications.

CHAPTER 11

Staff expenditure

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Introduction

11.1. In the general budget of the European Communities the appropriations to cover staff expenditure appear under Title 1 of each section and for the Commission (Section III) under Title 1 of Part A and Title 7 of Part B (research and investment). This expenditure is effected under the provisions of the Staff Regulations of Officials of the European Communities and annexes and the Conditions of Employment of Other Servants.

11.2. The Court of Auditor's examination centred on certain aspects of staff expenditure at the Parliament, Commission, Court of Justice and Court of Auditors for the financial year 1983.

Summary of financial information*Utilisation of appropriations*

11.3. Table 11.1 shows the distribution by budget chapter and by institution of the staff appropriations and expenditure under Titles 1 of the budget. Total payments under these titles amounted to 751,3 million ECU.

11.4. Added to this was staff expenditure out of the appropriations for research and investment

Table 11.1 — Utilisation of staff appropriations — by budget chapter and institution

(Mio ECU)

Budget chapter and institution	1983 budget					Carry-overs from 1982		
	Final appropriations	Commitments	Payments	Carry-overs to 1984	Cancellations	Appropriations carried over from 1982	Payments	Cancellations
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
A. By budget chapter								
10 Members of the institutions ⁽¹⁾	46,6	44,8	37,8	7,0	1,8	4,6	3,9	0,7
11 Staff	676,9	666,2	662,6	3,6	10,7	3,5	2,9	0,6
12 Allowances and expenses on entering and leaving the service and on transfer	20,9	19,2	17,6	1,6	1,7	1,5	1,2	0,3
13 Expenditure relating to missions and duty travel	22,2	21,9	14,3	7,6	0,3	4,2	4,1	0,1
14 Socio-medical infrastructure	2,3	2,1	1,5	0,6	0,2	0,8	0,6	0,2
15 Graduate traineeships and further training of staff ⁽²⁾	3,7	3,6	3,1	0,5	0,1	0,6	0,4	0,2
16 Expenditure on social welfare	1,8	1,6	1,2	0,4	0,2	0,1	0,1	—
Total	774,4	759,4	738,1	21,3	15,0	15,3	13,2	2,1
B. By institution								
Parliament	153,0	146,7	132,9	13,8	6,3	8,0	6,9	1,1
Council	66,3	63,7	63,3	0,4	2,6	0,3	0,3	—
Commission ⁽³⁾	504,0	500,2	493,4	6,8	3,8	6,5	5,5	1,0
Court of Justice	21,7	20,9	20,8	0,1	0,8	0,1	0,1	—
Court of Auditors	14,3	13,1	13,0	0,1	1,2	0,3	0,3	—
Economic and Social Committee	15,1	14,8	14,7	0,1	0,3	0,1	0,1	—
Total	774,4	759,4	738,1	21,3	15,0	15,3	13,2	2,1

⁽¹⁾ Parliament, Commission, Court of Justice, Court of Auditors, Economic and Social Committee.⁽²⁾ The amount shown for the Commission in the French version of OJ No L 19, 24. I. 1983, p. 236 is incorrect.⁽³⁾ Including Office for Official Publications.

(Part B, Chapter 73 of Section III, Commission) which comprised 117,5 million ECU. Total staff expenditure in 1983 thus amounted to 868,8 million ECU.

Staff

11.5. Table 11.2 shows the distribution among the various institutions of posts authorised in the gen-

eral budget and of officials and temporary staff employed at the end of the financial year. This year has seen a further reduction in the differences existing in each institution between posts authorised and staff actually employed.

11.6. In addition to staff in posts provided for in the budget, auxiliary and local staff and special advisers were also employed as at 31 December 1983, divided among the institutions as shown in Table 11.3.

Table 11.2 — Officials and temporary staff

Institution	1982			1983		
	Posts authorised	Staff at 31. 12. 1982	Difference (2) – (3)	Posts authorised	Staff at 31. 12. 1983	Difference (5) – (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Parliament	2 931	2 697	234	2 941	2 790	151
Council	1 755	1 640	115	1 798	1 702	96
Commission:						
a) Administration, excluding Office for Official Publications	9 565	8 906	659	9 840	9 357	483
b) Office for Official Publications	288	237	51	292	254	38
c) Research and investment:						
— Direct action	2 260	2 224	36	2 279	2 188	91
— Indirect action	487	448	39	500	454	46
Court of Justice	474	424	50	478	441	37
Court of Auditors	294	240	54	303	275	28
Economic and Social Committee	378	377	1	391	391	—
Total	18 432⁽¹⁾	17 193	1 239	18 822⁽¹⁾	17 852	970

(¹) This total does not include the 40 employees of the European Centre for the Development of Vocational Training and the 39 employees of the European Foundation for the Improvement of Living and Working Conditions.

Table 11.3 — Auxiliary staff, local staff and special advisers

Institution	31. 12. 1982				31. 12. 1983			
	Auxiliary staff	Local staff (¹)	Special advisers	Total	Auxiliary staff	Local staff (¹)	Special advisers	Total
Parliament	57	—	—	57	72 ⁽²⁾	—	—	72
Council	3	22	—	25	18 ⁽³⁾	—	—	18
Commission:								
— Administration	125	489	41	655	138	492	47	677
— Research and investment	44	—	—	44	55	—	—	55
Court of Justice	8	8	—	16	19	11	—	30
Court of Auditors	8	5	—	13	8	6	—	14
Economic and Social Committee	16	12	—	28	20 ⁽⁴⁾	6	—	26
Total	261	536	41	838	330	515	47	892

(¹) This total does not include local staff paid by extra-budgetary bodies (restaurants, crèches, etc.).

(²) 72 at 31 December 1983 but 264 during the financial year.

(³) 18 at 31 December 1983 but 38 during the financial year.

(⁴) 20 at 31 December 1983 but 58 during the financial year.

Parliament

11.7. An examination of the budgetary implementation of Title I expenditure at the Parliament revealed two cases of irregularity concerning the travel and subsistence allowances of the members of the institution and the expenditure relating to freelance interpreters.

Observations on appropriations for travel and subsistence allowances

11.8. The appropriations available under Item 1004 'Travel and subsistence allowances; attendance at meetings and associated expenditure' of the Members of Parliament amounted to 18,8 million ECU, 14,7 million ECU of which was the allocation for the financial year and 4,1 million ECU of which were appropriations carried over from 1982 to 1983. The appropriations carried over were fully utilised. Only 7,6 million ECU of the allocation for the financial year were spent. An amount of 7,0 million ECU was carried over to the financial year 1984.

11.9. Item 1004, as presented in Section I of the general budget, should be considered as a subdivision of Article 100 'Salaries, allowances and payments related to salaries' of the members of the institution. According to Article 6(1)(a) of the Financial Regulation relating thereto, such appropriations may not be carried over. The Parliament itself confirmed this rule in Article 47 of the implementing rules that it adopted in 1983 ⁽¹⁾.

11.10. The automatic carry-over thus effected was therefore irregular, although the nature of this expenditure is comparable to that of Item 1301 'Mission expenses for staff' in respect of which the appropriations may be carried over. The size of the carry-over illustrates that a more logical approach is required if the principle of annuality ⁽²⁾ is to be strictly observed.

Observations on appropriations for freelance interpreters

11.11. The initial appropriations of Item 1170 'Freelance interpreters and conference technicians'

amounting to 4,1 million ECU were increased during the financial year by a transfer of 1,5 million ECU. This operation had to be effected in order to meet expenditure arising from obligations entered into in respect of third parties in 1982 and not entered in the accounts during that financial year.

11.12. The Court is of the view that this expenditure runs counter to Article 5 of the Financial Regulation which lays down the principle of annuality and to Article 32 whereunder all measures which may give rise to expenditure chargeable to the budget must be preceded by a proposal for commitment of expenditure.

11.13. Such a practice, moreover, tends to place the Financial Controller in a difficult position. In 1982 the omission of a commitment proposal made it impossible for him to effect his control, being unaware of the existence of obligations. In 1983, he was faced with a situation whereby expenditure had become compulsory since services had been rendered and there were adequate appropriations on account of a transfer. He granted his approval. The Court considers that he should have refused for the above-mentioned reasons in order that the underlying problem of management be highlighted, even if it resulted in an overruling by the institution.

Commission

11.14. The budgetary allocation in terms of operational staff at the Commission amounted to 9 840 posts in 1983 ⁽³⁾. The corresponding expenditure represented some 480 million ECU. The Court's audit concerned that part of staff management corresponding to the management of posts and staff, the determination of financial entitlements, and the monitoring of absences and leave.

Observations on the management of posts and staff

Distribution of budgetary posts

11.15. An explanation based on duties performed, regarding the total number of posts and their distri-

⁽¹⁾ Document PE 83-848/BUR/Ann.

⁽²⁾ Cf. Special report on the members' cash office of the European Parliament, OJ No C 202, 5. 8. 1982.

⁽³⁾ Excluding those of the Office for Official Publications and those related to research activities.

bution between departments was not directly available at the Commission. It was only possible to refer to a fragmentary set of documentation and, in particular, the documents submitted in support of the successive draft budgets and a concise descriptive organisation chart. In order to obtain a realistic overall view, it would be desirable, both for the Commission and for the budgetary authority to have a more complete method for assessing work loads and more operational criteria for determining the posts required.

Absence of information on staff mobility

11.16. Since both the nature and volume of the Commission's work progress with time, staff mobility is both necessary and desirable. A working party on the rationalisation and reorganisation of departments made recommendations (cf. 'Ortoli report') with a view to achieving an optimum utilisation of staff abilities. While staff mobility exists at the Commission, there is no means of constantly assessing its extent or effects.

Observations relating to the determination of individual entitlements

Shortcomings in the keeping of personal files

11.17. The examination carried out for the financial year 1983 involved an appraisal of the system of managing personal files. A sample of 100 files selected at random, but in proportion to grade, was used as a basis for the check. These audits revealed that since the previous observations of the Court ⁽¹⁾, the keeping of personal files has not improved, except with regard to the files opened after 1 January 1981. The requirements of the second paragraph of Article 26 of the Staff Regulations are not observed (registering, numbering, filing in serial order). Many documents are unnecessary, while others, required for the granting of financial entitlements, are lacking (document attesting to nationality, marriage certificate or divorce papers, birth certificate, extract from 'judicial records', diplomas, etc.). Often mere photocopies, not certified as being true copies, are accepted as documentary evidence. Considerable delays in the filing of supporting

documents, representing several months' work, were also found.

11.18. The personal files may be consulted by a great many people simply by contacting a liaison officer authorised by each Directorate-General. In order to guarantee the confidential nature of certain information, it would be preferable if the application form requesting consultation contained express mention of the reasons for the request and the name and grade of the final recipient of the file. Moreover, the fact that the personal files may be moved from one office to another within the institution proves incompatible with the provisions of the last subparagraph of Article 26 of the Staff Regulations.

Principal allowances

11.19. The Court audited the procedure for determining the entitlements relating to installation, resettlement and expatriation allowances ⁽²⁾ as well as those relating to removal expenses.

11.20. It was generally found that these various allowances were granted in accordance with the provisions of the Staff Regulations and the Financial Regulation. However, a considerable number of long-standing officials benefit from entitlements allocated either on the basis of supporting documents that are manifestly inadequate or in the absence of any supporting document. Given their financial implications, such situations should be rectified.

Administrative monitoring of absences and leave

Monitoring of absences on account of sickness

11.21. The administrative monitoring of absences on account of sickness is carried out by a specialised Commission department. This area alone was examined by the Court and did not include checking up on individual cases covered by medical certificate. The average period of absence on account of sick-

⁽¹⁾ Annual report for the financial year 1980, paragraph 10.11, OJ No C 344, 31. 12. 1981.

⁽²⁾ This particular paragraph follows on from the special report on expatriation and foreign residence allowances of 4. 2. 1982.

ness amounts to approximately 12 days per year, per official, 11 of which are covered by medical certificate. The resultant financial burden represents approximately 10 million ECU.

11.22. Absences not covered by medical certificate, absences for long illnesses and absences which have occurred during annual leave are recorded on manual index files. No subsequent control, even by sampling, is made on the keeping of these files. The ensuing risks of error or omission should be reduced, by computerisation, for example.

11.23. Certain fixed allowances (drivers', teleprinter operators', etc.) should be suspended in the event of an absence on account of sickness which exceeds 30 consecutive days. No systematic link has been established between the office which determines the new recruits' entitlements to allowances, and the department responsible for recording absences. There is therefore a risk that certain allowances are granted in error.

Monitoring of leave

11.24. At the Commission, the recording and monitoring of leave is effected by computer. A department responsible for leave, distinct from the above-mentioned department responsible for recording absences, monitors all absences for reasons other than sickness. This separation of responsibilities constitutes, in itself, a weakness in management given the close and numerous links existing between leave and absence. Special leave for professional training is governed, unlike the other types of leave, on the basis of an independent manual system. The link with annual leave is thus not made and it is difficult to check whether the provisions of the Staff Regulations have been correctly applied in this area.

11.25. Furthermore it should be noted that entitlement to leave is calculated for the whole year, even if the contract of the member of staff concerned expires in the course of that year. This practice runs counter to Article 1 of Annex V of the Staff Regulations which stipulates that leave should be allocated in accordance with the periods of service completed.

Court of Justice

11.26. In 1983 the remunerations paid by the Court of Justice concerned approximately 430 officials

and temporary staff. The corresponding expenditure represented some 21 million ECU. The Court's audit covered the system of remuneration in general and certain specific questions, such as the classification of translators and the procedures for transferring from one institution to another.

Observations on certain recruitment procedures

Classification of translators

11.27. According to Article 31 of the Staff Regulations, officials of the Language Service should be classified in the starting grade of their service on recruitment. Exceptions are granted within very strict limits. Translators at the Court of Justice are directly classified in grade 6 of the LA service. The purported reason is this institution's need to take account of the two-fold qualification that it requires of its translators in the legal and linguistic fields. Since the Staff Regulations do not provide for any general exemption from the rule of classification in the starting grade, even to take account of special qualifications, such a practice should be considered as irregular.

Transfer between institutions

11.28. Save in the event of resignation, the transfer of staff from one institution to another is governed by Article 29 and Annex III of the Staff Regulations. Whether it be a case of transfer or of appointment following a competition, this transition always involves assignment to a post in a new institution and termination of affinities with the parent institution.

11.29. Two cases were revealed where officials of other institutions were recruited by the Court of Justice as probationary officials. One member of staff had taken leave on personal grounds from the parent institution for a period equivalent to that of the probationary period. The other remained in active employment but regularised his position by handing in his resignation which had retroactive effect. Throughout their probationary periods these members of staff were therefore assigned (*de jure* and *de facto* respectively) two administrative statuses which, under Articles 4, 34 and 35 of the Staff Regulations, are mutually incompatible.

Observations on the system of remuneration

Procedure for budgetary implementation

11.30. An examination of the system of remuneration showed that the successive stages of budgetary implementation are monitored and organised satisfactorily. Weaknesses were revealed, however, in respect of three points:

- (a) There is no Financial Controller at the Court of Justice⁽¹⁾. The responsibilities relating to this post are exercised *de facto* by the financial division of the accounting department which is, moreover, subordinate to the director of administration who is authorising officer for staff expenditure. This situation runs strictly counter to the Financial Regulation which defines the responsibilities of authorising officer, Financial Controller and accounting officer and stipulates their incompatibility.
- (b) Procedures relating to the calculation and payment of salaries do not provide, at any time, for the return flow of information to the departments initiating operations. The latter are thus unable to check whether their instructions have been carried out correctly.
- (c) It is illogical to confer the management of family allowances to two different departments, between which there is no liaison.

Keeping of personal files

11.31. Personal files are kept in compliance with Article 26 of the Staff Regulations whereunder it is stipulated that the documents contained in such files shall be registered, numbered and filed in serial order. However, the information to be found therein is generally inadequate. Documents relating to the requirements of Article 28 of the Staff Regulations (qualifications and diplomas, document attesting to nationality, statement regarding military obligations, etc.) are missing in a considerable number of files.

⁽¹⁾ cf. paragraph 9.3 of the annual report for the financial year 1978, OJ No C 326, 31. 12. 1979. cf. paragraph 1.26(p) of the annual report for the financial year 1980, OJ No C 344, 31. 12. 1981. cf. paragraph 12.54 of the annual report for the financial year 1982, OJ No C 357, 31. 12. 1983.

Installation allowance

11.32. According to Article 5 of Annex VII of the Staff Regulations, the installation allowance paid to an official on recruitment should be calculated by reference to the official's salary on the effective date of his establishment. In six cases where the effective date of establishment in the recruiting grade (LA 6) coincided with the date of appointment to a higher grade (LA 5), the installation allowance was calculated on the basis of the higher salary. Given that this allowance is intended to cover the expenses incurred on entry into service, and thus under the conditions of grade offered on establishment, it should have, in fact, been paid on the basis of the LA 6 salary.

11.33. In these cases an installation allowance corresponding to two months' salary was granted without it having been established that the family had settled in at the place of employment nor that the member of staff concerned received no other payments of the same nature, as required by the Staff Regulations.

Court of Auditors

11.34. An examination of certain aspects of staff expenditure at the Court of Auditors has revealed some shortcomings in the area of budgetary implementation and in the management of work sent out for typing.

Observations on budgetary implementation

11.35. The budgetary implementation of expenditure under Title 1 is characterised throughout by a high rate of cancellations involving a total of 1,2 million ECU, i.e. 8,4 % of the final appropriations of Title 1. These cancellations are spread over many budget headings but mainly concern salaries and the other components of remuneration, family and other allowances. In respect of staff, such cancellations arise largely on account of the difficulty of calculating in advance how long the recruitment periods will last.

11.36. The appropriations carried over from the financial year 1982 to the financial year 1983 amounting to 269 134 ECU had to be cancelled by 41 % which demonstrates that the need for commitments was not always manifest.

Work sent out for typing

11.37. Of the final appropriations under Item 1172, 51 681 ECU were utilised. The major part of the payments was to cover work sent out for typing by outside firms. Two observations may be made as a result of an examination thereof:

- (a) One of these firms receives the major share of the payments although its prices are higher than those charged by the other two firms.
- (b) There is no specific rule governing the authorisation of such services or certification of the hours actually worked.

CHAPTER 12

Operational expenditure

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Introduction

12.1. Operational expenditure covers the appropriations under Title 2 of each section of the general budget and, in the case of the Commission, (Section III), Title 2 Part A.

12.2. Title 2 of the budget contains all expenditure necessary for the day-to-day operation of the Community institutions other than staff expenditure, which comes under Title 1 (see Chapter 11 of this report). Title 2 also includes the cost of meetings, studies, publications and information, and certain subsidies, including those to external bodies (see Chapter 13 of this report).

12.3. In addition, Title 3 of the budget of the European Parliament also covers operational expenditure (expenditure for inter-parliamentary institutions and committees provided for within the framework of conventions or associations, contributions to the secretarial expenses of the political groups, other political activities, contacts with members of the parliaments of third countries). In the case of the Court of Justice, some operational expenditure is also included in Title 3.

12.4. The operational expenditure of the Economic and Social Committee, which is included under Title 3 of the budget of the Council, is dealt with in this chapter, separately from the Council, in the same way as the other institutions.

12.5. The Court's audit of operational expenditure included a comparative examination of the use of appropriations under Article 202 (Water, gas, electricity and heating), and, more particularly, heating costs, throughout the institutions. In addition, it carried out an audit of the costs of Statistical Office studies and surveys and examined expenditure on information visits and the procedures for purchasing data-processing equipment at the Commission.

Summary of financial information

12.6. *Table 12.1* summarises the appropriations available for operational expenditure during the 1983 financial year and their utilisation by chapter and by institution.

Table 12.1 — Administrative expenditure: utilisation of appropriations — by budget chapter and institution

(Mio ECU)

Budget chapter and institution	1983 budget					Carry-overs from 1982		
	Final appropriations	Commitments	Payments made	Carry-overs to 1984	Cancellations	Appropriations carried over from 1982	Payments made	Cancellations
(1)	(2)	(3)	(4)	(5)	(6) = (2) - (4) - (5)	(7)	(8)	(9) = (7) - (8)
A. By budget chapter								
20 Investments in immovable property, rental of buildings and associated costs	118,2	113,0	95,1	17,9	5,2	19,1	15,5	3,6
21 Expenditure on data-processing	28,0	28,0	20,3	7,7	0,0	4,9	4,8	0,1
22 Movable property and associated costs	24,1	22,0	13,6	9,1	1,4	5,9	5,2	0,7
23 Current administrative expenditure	42,6	39,6	29,1	10,6	2,9	7,9	6,7	1,2
24 Entertainment and representation expenses	1,4	1,2	1,0	0,3	0,1	0,3	0,2	0,1
25 Expenditure on formal and other meetings	25,8	23,3	20,3	3,0	2,5	2,2	1,1	1,1
26 Expenditure on studies, surveys and consultations	13,3	13,0	5,3	7,6	0,4	6,9 ⁽²⁾	6,5	0,4
27 Expenditure on publishing and information	61,8	55,3	34,6	20,7	6,5	19,4	13,8	5,6
28 Subsidies for balancing budgets ⁽¹⁾	45,4	44,2	43,2	1,0	1,2	0,7	0,6	0,1
29 Subsidies and financial contributions	6,2	5,5	4,6	0,9	0,7	0,7	0,6	0,1
37 Expenditure relating to certain institutions and bodies	14,7	14,4	13,9	0,5	0,3	17,9	17,7	0,2
Total	381,5	359,5	281,0	79,3	21,2	85,9	72,7	13,2
B. By institution								
Parliament	71,1	64,8	49,4	15,8	5,9	28,9	25,6	3,3
Council	40,2	35,5	24,3	11,6	4,3	7,4	6,3	1,1
Commission ⁽¹⁾	251,7	243,0	193,5	49,5	8,7	46,8 ⁽²⁾	38,4	8,4
Court of Justice	7,1	6,6	5,0	1,6	0,5	1,4	1,3	0,1
Court of Auditors	2,8	2,2	1,8	0,4	0,6	0,7	0,5	0,2
Economic and Social Committee	8,6	7,4	7,0	0,4	1,2	0,7	0,6	0,1
Total	381,5	359,5	281,0	79,3	21,2	85,9	72,7	13,2

⁽¹⁾ Including administrative expenditure for the Office for Official Publications.⁽²⁾ This amount allows for the change of budgetary nomenclature in 1983.

Heating costs

General

12.7. In 1983 the appropriations available under Article 202 (Water, gas, electricity and heating) of the budgets of the various institutions amounted to approximately 10,5 million ECU. Heating costs account for approximately half of the appropriations provided for.

Control of temperature in offices

12.8. During recent years the cost of fuel has risen much faster than prices in general. Heating systems installed more than ten years ago were not designed to cope with such a change in the price of energy. Consequently, each institution should review its heating system and, where possible, improve it, having regard to the results of any cost-benefit studies which may be carried out for this purpose.

12.9. The Court has examined expenditure on the heating of various buildings used by the institutions and has established that there is room for further saving. By way of example, the following cases demonstrate the scope for further savings:

- (a) The European Parliament makes no use of the facility for reducing the temperature at night provided in the Schuman building's heating system. In the Parliament's Remorqueur, Boulevard de l'Empereur and St Jean buildings in Brussels, several offices which are not regularly occupied are kept permanently heated.
- (b) As regards the Commission's Berlaymont building in Brussels, notwithstanding the efforts which the Commission has made, the heating system cannot be adjusted to heat only those rooms which are in use.
- (c) In the Jean Monnet building in Luxembourg, which is occupied by the Commission, it is not possible, with the present system, to turn down the heating at night and during weekends and public holidays if a suitable temperature is to be ensured for when staff return to work.
- (d) In a large number of offices in the Court of Auditors' rue Aldringen building the tempera-

ture has been allowed to rise considerably higher than the normal level. This is because the heating system has not been properly adjusted.

12.10. Except as regards the Commission departments in Brussels, there are no recent directives or instructions on energy saving for staff use. Such directives should be issued or updated and should be communicated to the staff in due course.

12.11. In the case of the Court of Auditors' rue Aldringen building, moreover, there is no regular maintenance of the heating system. It would, therefore, be advisable to have the heating system regularly maintained by a specialised firm.

Commission

Statistical Office (SOEC) studies and surveys

12.12. Expenditure by the Statistical Office of the European Communities (SOEC) on the commissioning of statistical studies and surveys (appropriations available under Article 263 of the budget: 8 275 000 ECU in 1983) is governed by an expenditure system set up by the Commission to cover all types of study ⁽¹⁾. The Court looked at a large number of contracts, the average value of which was approximately 30 000 ECU.

12.13. The financial statements which have to be prepared for each study and survey must contain an estimate of the costs. For studies, the equivalent in 'man-months' — the time which the contractor expects to take to complete the work — must also be indicated. In this respect, the Court has detected the following weaknesses:

- (a) there is often no indication of the equivalent in 'man-months' of the cost of the study (in 40 % of the cases which the Court looked at);
- (b) in some cases it was observed that the number of 'man-months' specified in the study contracts differed considerably from the figure given in the financial statement.

⁽¹⁾ Coordinated directives for the management of study appropriations, Directorate-General for Budgets — May 1978.

12.14. It would seem that the SOEC and the Advisory Committee on Commissioned Studies, the body responsible, amongst other things, for ensuring that study appropriations entered in the budget are used to the best advantage, should endeavour to see that the costs of the various kinds of study and survey, and particularly their equivalent in 'man-months', are to some extent standardised.

12.15. The task of selecting experts from whom studies are to be commissioned is left almost entirely to the initiative of the officials responsible for the work. The financial statements which the Court examined did not always (in 45 % of the cases) give the name of the expert/institute involved. Moreover, it was noted that some persons and companies had signed several study contracts with the SOEC during recent years. In order to ensure the best prices for these studies and surveys, the pool from which suitable experts are selected should be enlarged in all the Member States. In addition, and bearing in mind the type of work which is to be carried out, properly organised invitations to tender should be issued whenever possible.

12.16. When the commissioned studies are submitted, the departments are supposed to draw up implementation programmes and, twelve months later, final assessments. There is no evidence to show that these rules are applied. The lack of information on the implementation of the results means that this way of checking the efficiency of the expenditure is practically worthless.

12.17. Approximately half of the work commissioned from outside experts concerns data-processing applications. In order to ensure that any possible savings on such work are made, efficient coordination between the various departments within the Statistical Office who use this material seems called for. For the same purpose, moreover, the SOEC should collaborate closely with the Commission's Directorate for Informatics before commissioning studies from outside bodies.

12.18. A large amount of analytical work on surveys is commissioned from outside experts. Although this type of work comes within the purview of the SOEC, it seems to prefer such work to be done by persons outside the Commission: it ought to be done by the SOEC itself.

Information visits

12.19. The Commission organises information visits to its headquarters in Brussels. The number of

visits (993 in 1983) and visitors (25 702 in 1983) is considerable and the total cost in 1983 was approximately 938 000 ECU, to which other sizable expenses should be added (staff expenses, meeting rooms, conferences, etc.).

12.20. In spite of the number of visits and the scale of expenditure, there are no precise criteria regarding the reimbursement of expenses nor is there any policy with regard to visits. The Commission should establish more specific rules for the reimbursement of visitors' expenses. In addition, an overall programme for visits should be prepared jointly by the Commission departments concerned and the Commission's press and information offices in the Member States.

12.21. Approximately 20 % of the appropriations available for visits are used to pay for the services of a number of hostesses (as many as 10 during 1983), particularly for the purpose of receiving and welcoming visitors. These hostesses were made available to the Commission by a body which is controlled by the City of Brussels, without any prior tendering procedure.

Purchase of data-processing equipment

12.22. The Court continued its work in the data-processing field and looked at the procedures for the purchase of equipment.

12.23. The internal rules approved by the Commission ⁽¹⁾ with regard to the purchase, hiring and leasing of data-processing equipment require a prior assessment of possible improvements and an estimate of the savings to be made. Consequently, before taking any decision, the Commission calculates very precisely all the possible expenses and potential savings. It should pay particular attention to any conversion costs.

12.24. Prior estimates subsequently provide a basis for a more accurate evaluation of the results of the use of equipment which has been recently installed. In future the Commission should ensure that all the equipment it purchases is subjected, after installation, to a complete analysis of results. It should then check whether, and to what extent, the forecast savings and other improvements have actually been achieved and whether the actual cost remained within the limits which were originally established. An obligation to carry out such an analysis would have a positive effect on any future purchase decisions.

⁽¹⁾ See the 'Data-processing Guide'.

CHAPTER 13

External bodies

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Introduction

13.1. The Court is charged with the audit of the accounts of all bodies set up by the European Communities, insofar as the relevant constituent instrument does not preclude this audit. In addition the Financial Regulations governing a number of such bodies specifically provide for audit by the Court. Accordingly annual audits are carried out in the following organisations:

- (a) Euratom Supply Agency;
- (b) European Centre for the Development of Vocational Training (Berlin Centre);
- (c) European Foundation for the Improvement of Living and Working Conditions (Dublin Foundation);
- (d) European Schools and the Office of the Board of Governors of the European Schools.

13.2. A separate report is prepared by the Court on each of these four bodies, which is sent to the appropriate governing and discharge authority but is not published by the Court. The present chapter contains a summary of the most important points arising from these reports.

13.3. On 29 March 1982 the Conference of Government Representatives of the Member States

adopted an Agreement establishing the European Foundation in Paris. The Agreement includes provision for audit by the Court and, subject to notification by the Conference that the Agreement is effective, this will be undertaken in due course.

Euratom Supply Agency

13.4. In 1983 the appropriations available were 1,2 million ECU, of which 1,1 million ECU were spent and 0,1 million ECU were carried over to 1984.

13.5. Previous reports on the Agency have drawn attention to a number of matters connected with its financial structure and management, particularly the use and balance sheet presentation of the paid-up capital and also the extent to which the financial autonomy required by the Agency's statutes was a reality. A resolution of these problems must await action by the Council on the Commission's proposal to it ⁽¹⁾ to amend Chapter VI of the Euratom Treaty. In the meantime the Court is pleased to note that its earlier recommendations on accounting presentation have been incorporated in the 1983 Accounts of the Agency.

⁽¹⁾ Doc. COM (82) 732 final; 3. 12. 1982.

Berlin Centre and Dublin Foundation

13.6. For 1983 available appropriations totalled 4,8 million ECU for the Berlin Centre and 4,9 million ECU for the Dublin Foundation. Payments were 3,6 and 3,5 million ECU respectively, 0,8 and 1,0 million ECU were carried over to 1984 and 0,4 million ECU were cancelled in each case.

13.7. The Court approved its report on the 1983 accounts of the Centre and Foundation on 24 October 1984. The Court considers that the accounts of the two bodies contain the following weaknesses:

- (a) they did not include explanatory notes on accounting policies as recommended by the Court in its annual reports concerning the financial year 1979 ⁽¹⁾;
- (b) recoverable value-added tax was included as expenditure in the 1983 budgets rather than being shown as amounts due in the balance sheets at 31 December 1983;
- (c) revenue and expenditure for 1983 were distorted by the use of inappropriate exchange rates for conversions into ECU.

European Schools

13.8. Total budgetary appropriations for the Schools ⁽²⁾ for 1982 were BFR 2 400 million. The Commission contribution came to BFR 1 600 million. Unspent appropriations of BFR 41 million (1,8 %) were cancelled and BFR 9 million (0,4 %) were carried forward to 1983. This expenditure was audited by the Court and the report was issued to the Board of Governors (and copied to the Commission, Council and Parliament) in March 1984.

Follow-up of earlier observations

13.9. The Court noted that the computerisation of the payroll was continuing but urged that more effective checking procedures be incorporated in the new system. The Court also re-emphasised the need for a more informative and consistent presentation of the accounts.

Observations on the 1982 accounts

13.10. In response to the Court's observations about certain budgetary and accounting procedures, the Board of Governors has indicated that remedial steps will be taken, mainly by application of an internal accounting manual which is being prepared by the internal auditor.

13.11. The Court also carried out a detailed examination of the complex salary system for detached teachers ⁽³⁾ which entails the payment (and often taxation) of national salaries by national authorities and the payment *inter alia* of various 'topping up' elements (less certain deductions) by the Schools. It found deficiencies in the system for determining starting pay, difficulties and delays in the supply of information about national salaries and deductions, and confused taxation arrangements which are open to abuse and which result in some teachers paying less tax than might reasonably be expected. As a result the salary element of the Schools' budget which accounts for more than 90 % of expenditure, is greater than it need be and significant inequalities exist between teachers of different nationalities. The Court concluded that although the Board of Governors had taken steps over the years to rectify the worst anomalies, many of the problems were an inevitable consequence of a system which ought to be replaced by a more manageable one, and it recommended to the Board that it should carry out the fullest possible assessment of alternatives.

⁽¹⁾ OJ No C 342, 31. 12. 1980, pp. 26 and 27.

⁽²⁾ The nine European Schools are: Bergen, Brussels I, Brussels II, Culham, Karlsruhe, Luxembourg, Mol, Munich and Varese.

⁽³⁾ Except for a few recruited locally, the teachers at the European Schools are detached from their national administrations.

CHAPTER 14

Loans, borrowings and interest-rate subsidies

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Introduction

14.1. This chapter deals with three Community loan mechanisms ⁽¹⁾, namely:

- (a) New Community Instrument (NCI) loans,
- (b) European Atomic Energy Community (Euratom) loans,
- (c) Balance of Payments (BP) loans.

The Court's observations on loans made by the European Development Fund are set out in the second part of this report. Each year the Court also prepares a separate report on all the ECSC's operations, including borrowing and loan operations.

14.2. This chapter also deals with the Community borrowings which were used to finance the loans, as well as with interest rate subsidies ⁽²⁾, which are

granted for the purpose of reducing the cost of certain loans, e.g.:

- (a) European Monetary System (EMS) loans and the related interest rate subsidies, which are granted on NCI loans and financed by the European Investment Bank (EIB) from its own resources;
- (b) loans granted for the purpose of financing the reconstruction of areas of Italy and Greece

14.3. The three loan mechanisms and the related borrowings are administered on an extra-budgetary basis ⁽³⁾, whereas the interest rate subsidies are entered under Chapters 52 (Measures under the European Monetary System to reduce the economic disparities in the Community) and 69 (Aid to disaster victims in the Community) of the general budget. The 'Commission' section of the general budget includes token entries which represent the budgetary guarantees for Community borrowings contracted via the NCI, Euratom and BP mechanisms. The loans and borrowings are entered in the Communities' consolidated balance sheet.

⁽¹⁾ The Court has prepared a special report on these three loan mechanisms. See OJ No C 319, 6. 12. 1982.

⁽²⁾ For interest rate subsidies which are granted from the operating budget of the ECSC for ECSC loans, see the separate report by the Court for the ECSC's financial year 1983.

⁽³⁾ OJ No L 19, 24. 1. 1983.

Table 14.1 — Evolution of loans and borrowings during 1983

(Mio ECU)

Mechanism	Outstanding at 31. 12. 1982		Operations carried out in 1983			Outstanding at 31. 12. 1983 ⁽¹⁾
	At the ECU exchange rate of 31. 12. 1982	At the ECU exchange rate of 31. 12. 1983	New loan or new borrowing ⁽¹⁾	Volume of swap transactions ⁽¹⁾	Repayment or amortisation ⁽¹⁾	
	(1)	(2)	(3)	(4)	(5)	(6) = (2) + (3) + (4) - (5)
Loans:						
NCI	1 590,3	1 725,2	964,0	—	1,6	2 687,6
Euratom	1 261,8	1 299,9	366,6	7,7	5,5	1 668,7
Balance of payments	527,4	584,1	4 247,3	—	221,5	4 609,9
Total	3 379,5	3 609,2	5 577,9	7,7	228,6	8 966,2
Borrowings:						
NCI	1 741,4	1 888,5	1 381,9	—	1,6	3 268,8
Euratom	1 272,4	1 318,2	368,8	—	7,1	1 679,9
Balance of payments	527,4	584,1	4 247,3	—	221,5	4 609,9
Total	3 541,2	3 790,8	5 998,0	—	230,2	9 558,6

⁽¹⁾ At the ECU exchange rate of 31. 12. 1983.

14.4. Under the cooperation agreements made between the EIB and the Commission, the EIB is responsible for administering the Euratom and NCI loans and for short-listing projects which may be eligible for interest-rate subsidies. Short-listed projects are then submitted to the Commission for a decision. The Court has already had occasion to comment on these cooperation agreements in its special report.

14.5. The main financial data set out in the following tables are followed by observations based on an audit of the accounts for the areas mentioned.

Summary of financial information

14.6. Tables 14.1-14.4, give a summary of the main financial information, e.g. the trend of lending and borrowing operations during the 1983 financial year, the expenditure and revenue account and the financial statement for NCI and Euratom loans.

Observations on the financial statement and the expenditure and revenue account for the NCI and Euratom mechanisms

14.7. The Directorate-General 'Credit and Investments' (DG XVIII) at the Commission is responsible for keeping the accounts of the NCI and Euratom borrowing and lending operations and for drawing up the financial statement as at 31 December and the expenditure and revenue account for the financial year in question. This information is then forwarded to the Directorate-General 'Budgets' (DG XIX) at the Commission for the preparation of the Community balance sheet.

14.8. As weaknesses had been detected in the accounting procedures during the examination of the accounts for the financial year 1982 ⁽¹⁾, the Court, during its audit of the 1983 accounts for the NCI and Euratom mechanisms, paid particular

⁽¹⁾ . OJ No C 357, 31. 12. 1983.

Table 14.2 — Expenditure and revenue account of NCI and Euratom operations

(Mio ECU)

	NCI		Euratom	
	1983	1982	1983	1982
A. Revenue				
Interest on credit balances	29,9	6,9	0,6	0,9
Interest on loans	235,5	246,6	166,9	237,5
Other revenue	—	1,3	2,4	0,4
Exchange rate adjustment	1,8	1,9	—	—
Total revenue	267,2	256,7	169,9	238,8
B. Expenditure				
Interest on debit balances	0,2	—	—	0,4
Interest on credit lines	1,2	0,9	—	—
Interest on borrowings	264,0	243,5	163,0	229,2
Commissions	2,9	2,9	2,0	3,5
Issue costs	4,7	—	3,9	—
Other expenditure	—	—	—	0,3
Exchange rate adjustment	—	—	—	0,4
Total expenditure	273,0	247,3	168,9	233,8
C. Surplus (or deficit) of revenue over expenditure (A – B)	– 5,8⁽¹⁾	9,4⁽²⁾	1,0⁽¹⁾	5,0⁽²⁾

(¹) Changes of method introduced in 1983 reduced the 1983 results by 5,1 Mio ECU in the case of the NCI operations and 1,6 Mio ECU in the case of the Euratom operations. The reasons for these changes of method are set out in detail in paragraph 2.22 of Chapter 2 of this report.

(²) The retroactive implementation of the changes of method reduced the surplus of the previous financial years by 3,4 Mio ECU in the case of the NCI operations and 1,6 Mio ECU in the case of the Euratom operations. In addition, the surplus on Euratom operations from previous financial years was increased by 1,7 Mio ECU as a result of the correction of the errors pointed out by the Court in its annual report on the financial year 1982 (paragraph 14.10). The reasons for the changes of method are set out in detail in paragraph 2.22 of Chapter 2 of this report.

attention to the following accounts: 'Borrowings', 'Loans', 'Banks', 'Securities portfolio', 'Borrowing costs' and 'Interest on loans'. The checks that were carried out confirmed that there were still some weaknesses, particularly in the NCI accounts, so that numerous corrections had to be made during the preparation of the annual accounts. This resulted in several successive versions, each time producing a difference of several million ECU in the results of the expenditure and revenue account for the NCI (see paragraph 14.18 below).

14.9. In particular, the Court's checks showed that 7,2 million ECU had been wrongly entered in the accounts as accrued interest because the accounts department had not been provided in good time with data prepared by the EIB on amortisation tables and interest rates for 146 loans.

14.10. In the case of NCI borrowing No 24 (USD 65 million), DG XVIII established that there was a

potential loss of 1,9 million ECU, which was attributable to a mistake in the calculation of the interest rate on the loan. This loss was not included in the deficit for the 1983 financial year because DG XVIII had decided to enter it in the accounts in instalments during the financial years in which the interest payable on this borrowing exceeded interest received from the related loan. This error calls for the following comments:

- (a) prudence should have led the Commission to make a provision equal in amount to the potential loss;
- (b) DG XVIII should have checked that no other errors of this kind had been committed.

14.11. Numerous other entries under wrong accounts, though without effect on the results for the financial year, nevertheless make it impossible to make any direct analysis on the basis of the accounts as they stand. The Commission should

Table 14.3 — Balance sheet of NCI and Euratom operations

(Mio ECU)

Assets	NCI		Euratom		Liabilities	NCI		Euratom	
	1983	1982	1983	1982		1983	1982	1983	1982
Bank current accounts	0,3	1,1	0,8	0,8	Coupons and bonds due but not yet presented for payment	92,5	31,9	86,3	40,2
Bank deposit accounts	22,1	15,1	5,9	4,1	Medium- and long-term debt	3 268,8	1 540,3	1 679,9	1 272,3
Portfolio	0,4	0,3	1,3	0,8	Credit lines	—	201,1	—	0,1
EIB-financing reserve	546,7	120,9	—	—	Other liabilities	—	—	—	—
Loans outstanding	2 687,6	1 590,3	1 649,6	1 250,2	Accrued expenses	143,3	56,3	71,4	48,2
Value adjustment connected with swap transactions	—	—	19,2	11,5					
Issue costs to be amortised	13,6	10,4	8,1	8,4	Total liabilities towards third parties	3 504,6	1 829,6	1 837,6	1 360,8
EIB issuing premiums	47,2	15,1	—	—					
Bank deposits to meet payment of coupons and bonds due but not yet presented for payment	92,5	31,9	86,3	40,2	Surplus from previous years	6,0 ⁽¹⁾	—	5,1 ⁽¹⁾	—
Other assets	—	0,8	0,3	0,4	Surplus (or deficit) for the year	(5,8)	9,4 ⁽¹⁾	1,0	5,0 ⁽¹⁾
Prepaid expenses	94,4	53,1	72,2	49,4					
Total assets	3 504,8	1 839,0	1 843,7	1 365,8	Total liabilities	3 504,8	1 839,0	1 843,7	1 365,8
Commitments received:									
Borrowings contracted but not received	111,4	206,7	—	—	Commitments granted:				
					Loans granted but not disbursed	634,4	371,4	—	—
Bonds redeemed at maturity:									
— Nominal value	21,6	18,4	—	3,1	Bonds redeemed at maturity:				
					— Redemption price	17,8	15,2	—	2,9
					— Deferred profit receivable	3,8	3,2	—	0,2

(1) The amendments made in 1983 regarding the surpluses on NCI and Euratom operations for the financial year 1982 are explained in note (2) to Table 14.2.

endeavour to check the accounts in order to detect any errors of this kind and make the necessary adjustments as soon as possible so as to restore to the accounting system its full potential as a management tool.

14.12. The above-mentioned errors are all attributable to:

- (a) the large number and the high degree of complexity of the NCI operations (see paragraphs 14.19 to 14.22);
- (b) the lack of information and the lack of supervision of the accounts department (see paragraph 14.9);
- (c) the inadequacy of the data-processing system: the absence of check codes increases the risk of

Table 14.4 — Distribution of interest-rate subsidies paid in 1983

(Mio ECU)

Article of the budget	A. Appropriations of the 1983 budget								B. Appropriations carried over from 1982		
	Budget	Final appropriations	Payments			Carry-overs to 1984		Cancellations	Appropriations carried over	Payments	
			Recipient Member State	EIB loans	NCI loans	EIB loans	NCI loans			EIB loans	NCI loans
Article 520	200,0	200,0	Ireland	37,2	23,6	—	—	—	—	—	—
			Italy	101,4	37,8	—	—	—	—	19,8	15,8
			Total	138,6	61,4	—	—	—	35,6	19,8	15,8
Article 691	20,0	20,0	Italy	9,5	3,1	—	—	7,4	—	—	—
Article 692	2,4	2,4	Greece	—	1,8	—	—	0,6	—	—	—

data acquisition errors. In addition, the lack of interfaces between the various sub-systems increases the number of data acquisition operations.

14.13. The Court was, however, pleased to observe that the Commission has recently made an effort to improve the efficiency of the accounts department at DG XVIII. This effort must be continued in order to ensure that the available resources are allocated in line with the needs of the NCI accounts.

Observations on legality and sound financial management

Monitoring of ceilings for loans and borrowings

14.14. The Council has established ceilings for the three Community loan instruments which are the subject of this chapter. Table 14.5 summarises the main features of these loan mechanisms and shows how the funds allocated to them have been used.

14.15. The Court found that the information needed for the purpose of monitoring loan ceilings was not centralised by any Commission department,

which made it difficult to draw up Table 14.5 and delayed completion of the work. In the Court's view, the task of centralising all the information needed for the purpose of monitoring loan and borrowing ceilings must be entrusted without fail to a special department at the Commission. This would ensure that in future all the departments at the Commission and the EIB which are concerned with these matters would be working with the same figures. Moreover, the method used this year for the purpose of evaluating loans in terms of their equivalent in borrowings shows in Table 14.5 that the ceiling for 'earthquake loans' to Greece was exceeded by 0,9 million ECU. Though this incident was, in itself, minimal, it nevertheless points up the need for a precise definition of the valuation principles used in monitoring the ceilings for loans and borrowings.

14.16. The Council has also fixed a ceiling for certain loans granted under the EMS at subsidised interest rates ⁽¹⁾. These are loans which are granted both under the terms of the NCI and from the EIB's own resources. The ceiling for these loans amounts to 5 000 million ECU for a period of five years, in annual instalments of 1 000 million ECU. For the same period, the sum to be entered in the budget for interest subsidies, resulting from a calculation of the present value of these subsidies, is 1 000 million

⁽¹⁾ Council Regulation (EEC) No 1736/79 of 3. 8. 1979; see OJ No L 200, 8. 8. 1979.

Table 14.5 — Main characteristics and ceilings of the various mechanisms at 31 December 1983

(Mio ECU)

Mechanism	Objective	Borrowing ceiling	Loans granted within this limit ⁽¹⁾		Balance available
			Disbursed	Not disbursed	
		(1)	(2)	(3)	(4) = (1) - (2) - (3)
NCI	* NCI I: Council Decision 78/870/EEC of 16. 10. 1978 To promote investment in the infrastructure, energy and industrial sectors	1 000	984,5	—	15,5
	NCI II: Council Decision 82/169/EEC of 15. 3. 1982 To finance projects in the fields of energy, infrastructure and the development of small and medium-sized enterprises	1 000	779,6	137,8	82,6
	NCI III: Council Decision 83/200/EEC of 19. 4. 1983 To finance projects in the fields of energy, infrastructure and the development of small and medium-sized enterprises	3 000 ⁽²⁾			
		1 500 ⁽²⁾	83,8	370,5	1 045,7
	* NCI Italian earthquake: Council Decision 81/19/EEC of 20. 1. 1981 To reconstruct the means of production and the economic and social infrastructure in the areas affected by the 1980 earthquake	1 000 ⁽³⁾	458,3	126,1	415,6
	NCI Greek earthquake: Council Decision 81/1013/EEC of 14. 12. 1981 To reconstruct the means of production and the economic and social infrastructure in the areas affected by the 1981 earthquake	80	80,9	—	-0,9
Euratom	* Council Decision 77/270/Euratom of 29. 3. 1977 and 82/170/Euratom of 15. 3. 1982 To promote the production of electricity by nuclear power stations	2 000	1 594,0	—	406,0
Balance of payments	Council Regulations Nos (EEC) 397/75 of 17. 2. 1975 and (EEC) 682/81 of 16. 3. 1981 To alleviate balance of payments difficulties in the Member States	3 000 Mio USD ⁽⁴⁾	2 547,8 Mio USD ⁽⁴⁾	—	— ⁽⁵⁾
		6 000 Mio ECU	3 997,2 Mio ECU	—	2 002,8 Mio ECU

* Sources: DG XVIII, Commission, from information supplied by the EIB.

⁽¹⁾ Loans converted into their equivalent in terms of borrowings, i.e. including the issue costs of the related borrowing operations, at the ECU conversion rate at the date on which the loan was signed.

⁽²⁾ One tranche only (1 500 Mio ECU) authorised on 31. 12. 1983.

⁽³⁾ Including EIB loans for the same purpose.

⁽⁴⁾ Principal and interest.

⁽⁵⁾ Balance not available (measure expired).

ECU, in annual instalments of 200 million ECU. The Court must point out that the loans granted in 1983 exceeded the overall loan ceiling for the five-year period by 38 million ECU. As a result, the Commission's Financial Controller refused to approve the proposal for a commitment relating to the interest rate subsidy for loans granted by the EIB. The Commission, however, overruled this refusal on the grounds that complying with the requirement regarding loan ceilings would have prevented it from making full use of the sums entered in the 1983 budget for interest-rate subsidies.

14.17. Given that the Regulation lays down specific ceilings to which no exceptions are permitted, the Court takes the view that the loan operation which resulted in the ceiling being breached, slight though that breach was, constituted a formal infringement of the Council Regulation.

Mechanism for maintaining the liquidity of the New Community Instrument

14.18. After a surplus of approximately 6 million ECU in connection with the 'back-to-back' transactions which had been regularly carried out up to 1982, the expenditure and revenue account of the NCI mechanism showed a deficit for the first time of 5,8 million ECU in 1983. The Court investigated the causes of this deficit. An analysis of expenditure and revenue led to the conclusion that the deficit had been caused mainly by the mechanism for maintaining the liquidity of the NCI (see paragraph 14.23).

14.19. At this point, some brief explanation of the functioning of the mechanism for maintaining the liquidity of the NCI is appropriate. Originally, the NCI mechanism consisted of contracting borrowings only in proportion to the loan applications that had been received. This meant that for a given borrowing there was only one corresponding loan, or a small number of loans, in the same currency.

14.20. In accordance with the relevant Council Decisions⁽¹⁾, the conditions for the loans were established by the EIB, as the body responsible for disbursing the funds and administering the loans, in such a way that costs and expenses incurred for the purpose of entering into and carrying out related borrowing and lending operations balanced out.

With the introduction of NCI II and III⁽²⁾, the number of potential borrowers was enlarged to include small and medium-sized companies. In the case of back-to-back operations, the result of that would have been either that the loans to be raised would have become smaller and smaller or the borrowers would have had to wait longer and longer for payment of their loans, until such time as a sufficient number of loan applications had been received to justify floating a reasonably-sized loan.

14.21. Since 1982, therefore, the Commission has abandoned the practice of back-to-back funding in order to be able to respond more flexibly to loan applications. This has necessitated the introduction of a kind of reserve-financing system, namely, the mechanism for maintaining NCI liquidity. The Commission contracts borrowings which it then makes available to the EIB, and the latter then passes the funds on in the form of loans according to the demand for loans, in accordance with the Council Decision and in agreement with the Commission. In contrast with NCI I, each borrowing operation now covers many different corresponding loan operations (in 1983 20 borrowings were contracted and the proceeds of these borrowings were used to fund 223 loans); in addition, a loan in one currency or in a mix of currencies may be funded from the proceeds of a variety of borrowing operations.

14.22. All loan and borrowing operations pass through a current account held by the Commission at the EIB. The EIB pays interest on credit balances on this account, whilst the Commission pays interest to the EIB on any debit balances.

14.23. This mechanism for maintaining liquidity calls for the following observations:

- (a) The deficit referred to in paragraph 14.18 was caused by the fact that there were, in general, lengthy time lags between related borrowing and loan operations whilst the interest paid by the EIB to the Commission on credit balances during these periods was, on average, 2 % lower than the interest that the Commission had to pay on its borrowings⁽³⁾.
- (b) The Court is of the opinion that the NCI liquidity reserve, which amounted to an average of 413 million ECU in 1983 and is tending to increase, should be reduced in order to keep the above-mentioned interest-rate losses as low as possible.

⁽¹⁾ Council Decision 78/870/EEC of 16.10.1978 (NCI I), OJ No L 298, 25.10.1978.

⁽²⁾ Council Decision 82/169/EEC of 15.3.1982 (NCI II), OJ No L 78, 24.3.1982; Council Decision 83/200/EEC of 19.4.1983 (NCI III), OJ No L 112, 28.4.1983.

⁽³⁾ In this connection, see the Court's special report on the administration of Community development aid by the EIB.

- (c) The maturities of some of the loans are longer than the maturities of the corresponding borrowings, which results in additional risks.

14.24. In this connection, the Court wishes to refer, in particular, to Article 3 of Council Decision 83/200/EEC which expressly lays down that the conditions on which loans are made should be such that, overall, they cover the costs and the expenses incurred in contracting and carrying out both borrowing and lending operations. The Court invites the Commission to ensure that these conditions are satisfied, since it is the Commission itself which bears all the risk of loss.

14.25 In the Court's opinion, regular checks should be made on the payment flows for the borrowing and lending operations and the results should be set out in a summary table which should be kept constantly up to date; the information obtained from this table could then be used at any moment to assess whether the lending and borrowing operations are in overall balance. This is all the more necessary as the loans are granted by the EIB whilst the borrowings are contracted by the Commission.

Interest-rate subsidies

14.26. Regarding the conditions attaching to the various types of interest rate subsidy and the areas

to which they apply, the Court has detected discrepancies which may result in a degree of 'competition' between the different Community loan mechanisms, which are all likely, in varying degrees, to be eligible for these subsidies.

14.27. For example, the Court noted that in Italy a nuclear power station had been financed with an EIB loan at a subsidised interest rate, whereas a comparable Euratom loan would not have been eligible for interest-rate subsidy.

14.28. In the case of a coal-fired power station which was being built in Ireland, an application was initially made for an ECSC loan, which was granted, in accordance with normal Community practice, on the condition that a specific quantity of Community coal should be used to power the station. As this loan was not eligible for interest-rate subsidy, it has not so far been taken up. Instead, NCI and EIB loans with interest-rate subsidies were granted, without, moreover, any requirement to use Community coal.

14.29. In order to ensure optimum efficiency of all the Community loan mechanisms, the Commission should examine the existing mechanisms for interest rate subsidies in order to arrive at some harmonisation of the area of application, the criteria for eligibility, the maturities, the methods of calculation and other conditions for granting the loans.

PART II

European Development Funds

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Introduction

15.1. The Court's appraisal of the European Development Funds' aid operations is based on the findings resulting from scrutiny of records and files and on the audit visits it carried out, for the first time, in the Central African Republic (CAR), Bot-

swana and Zambia. In addition, in order to assess the extent to which certain projects already inspected have progressed, a Court audit team was again sent, in December 1983, to some countries which had been visited previously, namely Mali in 1979, Senegal in 1981 and Mauritania in 1982. In all, the Court thus audited 51 projects representing a total value of 375,6 million ECU.

15.2. The observations on the projects inspected reflect their situation at 31 December 1983 or at the time of the Court's on-the-spot visits.

Financial aspects of the European Development Funds

Observations on the preparation and presentation of the accounts

15.3. In accordance with the provisions of the Financial Regulations applicable to the European Development Funds, the revenue and expenditure account and the balance sheet should be drawn up by 31 March (first four EDF) or by 15 April (fifth EDF) of the year following that to be closed. The accounts of the financial year 1982, however, were not adopted until 20 July 1983. For the financial year 1983, the following observations are based on the provisional accounts, forwarded to the Court unofficially on 23 March 1984, since the final documents were not sent until 25 May 1984.

Observations on the second and third EDF

15.4. Of the 730,1 million ECU allocated to the second EDF — governed by the First Yaoundé Convention, which expired in 1970 — 0,8 million ECU remained unused at 31 December 1983, as against 2,9 million ECU at 31 December 1982. Only the Garoua hospital project in Cameroon still had to be closed at 31 December 1983, as compared with 18 projects financed in various countries, still to be closed at 31 December 1982. As it has already done in its report for the financial year 1979 ⁽¹⁾, the Court recommends that projects under the second EDF be closed as soon as possible.

15.5. Of the 915,8 million ECU allocated to the third EDF — governed by the Second Yaoundé Convention, which expired in 1976 — 48,4 million ECU (of which 13,6 million were still not earmarked for any specific purpose) remained unused at 31 December 1983, as opposed to 60,7 million ECU at 31 December 1982. Three decisions, to finance

projects totalling 7,7 million ECU, were made during 1983 in favour of Suriname. In this context, the Court also recommends that further financing decisions be stopped and that funds not yet allocated be transferred to the fifth EDF.

15.6. About 120 projects financed out of the third EDF were completed but not closed; in the case of 45 of them, no financial operation had been recorded for several years. Closing these projects would release unused and at present unproductive balances (about 5 million ECU), such as a sum of 155 191 ECU remaining since the financial year 1977 on a road project in Cameroon.

15.7. An amount of 4,5 million ECU, representing the balance on a repayable advance of 5,4 million ECU granted on 1 April 1975 out of the third EDF's resources, has still not been repaid by Somalia, despite the fact that the due date for repayment of this debt was 31 March 1978.

Observations on the fourth and fifth EDF

15.8. The financial information relating to the fourth and fifth EDF, based on the provisional accounts drawn up on 31 December 1983, is shown in the annex III to this report.

Balance sheet of the fourth EDF

15.9. As a result of certain delays on the part of the Member States in forwarding their bank statements or on the part of the Commission in recording financial transactions, certain payments of contributions, credited to the special accounts of the Member States, do not appear in the accounts of the fourth (13,4 million ECU) and fifth EDF (21,3 million ECU). Consequently, the 'available assets: banks' shown on the balance sheet of the fourth EDF are undervalued by 34,7 million ECU.

15.10. There are still substantial disparities between the EDF accounts and those of the organisations which received the EDF advances. The bodies involved are the European Association for Cooperation (EAC) and the agencies responsible for managing the programmes of scholarships and in-service training. These discrepancies, which the Court had valued at 31 December 1982 at 0,7 million ECU, are not attributable to time-lags in the

⁽¹⁾ OJ No C 342, 31. 12. 1980, p. 206.

entry in the accounts but rather to a failure to reconcile their books with those of the other party. The result is that any differences between the amounts reported by the bodies concerned and those entered in the accounts of the EDF are not identified and not cleared. The failure to clear the advances granted to the EAC is all the more difficult to accept in that the Commission departments are directly involved in the financial management and the control of this body's operations.

Member States' contributions and cash at bank

15.11. There has been no improvement in the time taken by certain Member States to pay their quarterly contributions, compared to the delays mentioned by the Court in its previous report ⁽¹⁾. The Commission has still not proposed suitable legal provisions for rectifying the financial consequences of the late payment of certain contributions. In particular, the delay in the payment of contributions by Italy and Ireland was on average 44 days, by Luxembourg on average 34 days, and by Belgium on average 29 days.

15.12. In its note to the Council of 4 November 1982, the Commission had estimated its cash requirements at the end of the financial year 1983 at 130 million ECU. Because of the overestimation - already pointed out by the Court in its annual report for the financial year 1982 ⁽¹⁾ - of the disbursements expected in 1983 (830 million ECU estimated, but only 718,9 million ECU actually disbursed), the bank balances at 31 December 1983 amounted to 313,2 million ECU (278,5 million ECU entered on the balance sheet plus 34,7 million ECU of revenue not recorded, see paragraph 15.9 above). In practice, one of the four instalments of contributions called up in 1983 proved superfluous.

Observations on the supporting documents

15.13. The Court performed, in the financial and administrative departments of the Directorate-General for Development, an in-depth examination of a representative sample of the EDF's financial operations in 1983. This examination revealed the following:

- (a) About 20 % of the payments are not accompanied by suitable supporting documents; thus, for example, the photocopies submitted in place

of the original documents are sometimes illegible or bear alterations to the data which has been photocopied. Furthermore, contrary to the provisions of Article 24 of the Financial Regulation applicable to the fifth EDF, the photocopies examined by the Court were only in rare cases certified as true copies by the authorising officer responsible.

- (b) Five bank guarantees relating to advances granted to suppliers were valid for a period shorter than the maximum time-limit for delivery laid down in the contracts. Consequently, it might prove impossible to recover the advances paid (usually 60 % of the contract) if these suppliers make a faulty delivery after the period covered by the bank guarantee on the advances.
- (c) Contrary to the provisions of the contract for the construction of a road in Botswana, the Commission made payments in foreign currencies and in the national currency in proportions other than those initially specified. For one of the payments scrutinised, this alteration (payment in Botswana pula instead of pounds sterling) resulted in extra expenditure of 22 000 ECU due to the rise in value of the pula against the pound sterling.
- (d) Very substantial amounts which are not supported by any documents, were paid out of the resources of the fifth EDF, to a consultancy bureau which has been awarded a 4,5 million ECU contract for the promotion of tourism in the Caribbean. This contract did not provide for any Community checks on the expenditure connected with the purchase of promotion material (2 million ECU), and it specified that the consultant's travel expenses would be reimbursed on a flat-rate basis (0,4 million ECU). Moreover, two professional bodies have, under another contract, received 0,5 million ECU from the EDF to cover their travel and management expenses, without there being any mention in the contract of Community checks on this expenditure.

Observations on the financial management of special loans

15.14. The Court has found that the EDF accounts record only the total amount of each of the special loans granted and not each individual contract concluded within the framework of these special loans. Because of this, the Commission paid different

⁽¹⁾ OJ No C 357, 31. 12. 1983, p. 134.

amounts in error. The Court has identified two such amounts representing a sum of 102 702 ECU: in one case, an advance intended to settle the same debt was transferred twice to Zambia; in another case, a supplier was paid directly by the Commission, despite the fact that the latter had previously paid the same State an advance for settling sums owing to the supplier in question.

15.15. Between 1978 and 1983 the Commission, under special loans financed out of the fourth EDF, also granted Zambia 20,2 million ECU worth of advances (19,4 million ECU of which were disbursed prior to 31 December 1981). In December 1983, when the Court examined the Commission's files, only 9,8 million ECU of the 20,2 million ECU in question had been cleared, despite the fact that the greater part of the operations linked with the utilisation of these funds had been completed for several years. In this context, it should be pointed out that there is no regulation making it compulsory for the clearing of the advances on contracts to be approved by the Financial Controller, whether the contracts involved are financed by means of special loans or not.

Observations on the time taken to implement financial operations

15.16. On the basis of a representative sample, the Court analysed the average period of time required for implementing the EDF's financial operations in 1983. The maximum time-limit for payment laid down in most of the contracts financed by the EDF is 60 days after the receipt of the invoices. For want of any indication of this date on the invoices exam-

ined, the Court analysed the time taken on the basis of the date stated on the creditor's admissible claim and, so as not to distort the results, it also excluded from its analysis the sole case, present in the sample, for which the time-limit for payment had been fixed contractually at over 60 days. The results of this analysis are given in *Tables 15.1* and *15.2*. This analysis shows that in over half the cases, over 60 days elapses between the issue of a payment order in an ACP country and its execution in Brussels, and that on average over five months elapses between the issuing and execution in an ACP country of a payment order and its final entry in the accounts by the Commission departments.

Table 15.2 — Average periods noted for the various EDF payment procedures in 1983

(in days)

Stages	Average period according to the places of issue and of execution of payment orders		
	issued and executed in an ACP	issued in an ACP and executed in Brussels	issued and executed in Brussels
1. Approval of the National Authorising Officer ⁽¹⁾	32	34	—
2. Approval of the delegate	9	8	—
3. Execution by the bank (ACP)	7	—	—
4. Forwarding of the file to the authorising department	35	—	—
5. Approval of the Principal Authorising Officer ⁽²⁾	46	19	22
6. Approval of the Financial Controller	—	2	2
7. Issue of the payment order	—	8	6
8. Execution by the bank (Brussels)	—	8	8
9. Recording of the transaction on the project account	27	12	17
Total	156	91	55

(1) Representative of the recipient country for all transactions financed from EDF resources.

(2) Commission official responsible for the management of the EDF resources.

Table 15.1 — Analysis of the time required in 1983 for payment from the EDF

Period between the issue of the admissible request and the making of the corresponding payment	% of the payment orders according to the places of issue and of execution		
	issued and executed in an ACP	issued in an ACP and executed in Brussels	issued and executed in Brussels
up to 30 days	32	0	40
from 31 to 60 days	35	33	27
from 61 to 90 days	15	52	20
over 90 days	18	15	13
Total	100	100	100

Financial and technical cooperation: projects examined for the second time

15.17. The Court re-examined 20 projects for which the Community provided 202,5 million ECU in finance:

- (a) 12 projects in the fields of agriculture, fisheries and stockfarming, financed for 136,9 million ECU;
- (b) two dams financed for 38,2 million ECU;
- (c) six projects involving various types of infrastructure, financed for 27,4 million ECU.

15.18. In this context, the Court looked only at those projects which, a few years previously, had been facing serious difficulties. The Court scrutinised any measures which had been taken to improve the future prospects of these projects or to help carry through their implementation. Of the 20 projects examined, seven showed a marked improvement, two did not show sufficient improvement, four had not progressed and seven had deteriorated since they were first visited by the Court.

Evolution of projects since the Court's first visit

Agriculture, fisheries and stockfarming

15.19. Not one of the 12 agricultural projects examined is profitable and none can survive without financial or technical assistance. Six of them, representing an investment of 54,4 million ECU⁽¹⁾, continue to have financial problems but they are nevertheless improving and, in certain cases, are progressing slowly towards a degree of financial independence. The other six projects, however — which represent a total investment of 82,5 million ECU — could be made viable only after a radical reform of their design or their management. The following examples are in this respect significant.

15.20. Traditionally, in Senegal, Mali and Mauritania, some crops are grown on areas which have

previously been flooded by the river. In general, the yields here are low and, furthermore, the production is to a large extent dependent on the volume of the floodwaters. For this reason, the aim of the finance provided by the EDF and various other parties putting up capital has been to carry out schemes involving the total or partial control of water: small areas irrigated by pumping, the Gorgol polder, the paddy fields under controlled submersion in the Ségou rice operation (which are theoretically intended to be flooded no matter what the volume of the river floodwaters), or large areas designed to be irrigated from dams such as that at Fom Gleita or at Mantali-Diama.

15.21. The schemes of this type which the Court has visited in Mauritania and in Mali are not profitable, in particular because the recurring costs (inclusive of depreciation) entailed by the management of these complexes, are higher than the proceeds derived from the farming carried out there. Whilst profitability is not necessarily the sole or chief criterion to be taken into consideration as regards agricultural projects, especially in the Sahel developing countries, it must nevertheless be noted that the unprofitability of the projects in question is due largely to the overstaffing and the inefficient management of the local bodies responsible for them. Be that as it may, there are only two possibilities: either the project must put up with this unprofitability, by making the local farmers shoulder the burden (policy regarding the prices paid to them and fees which they have to pay) or else by using up investments which are maintained and paid off only to a limited extent, if at all. In both cases, the penalty comes quickly: there is a decline in the areas under cultivation and in the yields — in short, a fall in production. Alternatively, the State has to cover the deficit — unless a party putting up capital keeps the project running by providing an uninterrupted flow of finance —, by subsidies which put a permanent strain on a budget that is already all too slender.

15.22. For example, the Community has provided finance totalling 6,3 million ECU for various small irrigated areas along the Senegal river in Mauritania. As regards the Kaedi areas, which recently received Community aid (2,730 million ECU), the number of cooperative workers involved in the project during the main farming season, the winter, has dropped from 1 244 in 1980 to 1 037 in 1981, and then down further to 632 in 1982. The high costs which the farmers have to bear reduces their average monthly income to 43 ECU. The irrigation, which was supposed to enable two crops per year to be grown on all the area under development (360 ha at the end of 1983), is used on only 53 ha. As a result of non-recovery of debts from cooperative workers, the

⁽¹⁾ In Mali: cotton growing and stockfarming. In Senegal: groundnuts for human consumption, cotton, market gardening and rice.

absence of a credit policy and the lack of coordination between its headquarters and its regional branches, the management of the project by the national rural development company, Sonader, has deteriorated to such an extent that the company is unable to supply the farmers in good time with the fertilisers, seeds and motor-pump spare parts which they need. In view of this situation, the Community must use fifth EDF resources to finance not just the works and equipment, costing 1,1 million ECU, but also the technical assistance costs (560 000 ECU), support for Sonader (120 000 ECU), training (110 000 ECU) as well as the day-to-day running costs (330 000 ECU) for items such as fertilisers and fuel.

15.23. Despite the considerable finance (48,3 million ECU) it has received, the Sgou rice project (ORS) in Mali has recorded only poor results. The harvested areas in the 1981-82 year represented 42,9 % of the objective of 44 500 ha. The 1980-81 yield of 1,5 tonne per hectare had dropped to only one tonne by 1982-83. Production, which stood at 29 000 tonnes in 1978-79, had fallen to 23 000 tonnes by 1982-83. The reasons for these poor results are complex, and include natural vicissitudes, especially drought, bad technical running of the project by the ORS and the failings of certain holders of plots of the land. As for the farmer, he is financially overburdened on all sides by the system which has been set up under this project: fees per paddy-field for the compulsory threshing ordered by the ORS, compulsory marketing through the ORS channels at low prices, fees charged for water and payment for ploughing and harrowing. The local farmer has every reason to sell his rice on the unofficial market where the prices paid (MF 262/kg) are more than double those offered by the ORS (MF 120/kg).

15.24. Consequently, the Dioro rice mill, which was set up as part of the project and which can process 21 000 tonnes per year, is underutilised; for the last year, 1982-83, only 6 123 tonnes of rice were delivered to the mill. Its lack of profitability (loss of around 80 million Malian francs per year, i.e. 115 000 ECU) is aggravated by the fact that the boiler, fired by rice-husks, has been replaced by a diesel-oil-fired unit. This solution, which costs considerably more to run, was chosen because the extra finance (250 000 ECU, i.e. 7 % of the total cost of the rice mill) required by the cooling system of the boiler initially planned, could not be provided in 1980.

15.25. From 1977 to 1982, the accumulated deficit of the Sgou rice project amounted to 390,9 million Malian francs (570 000 ECU); the operating subsidies granted by the EDF to the ORS represented

nearly 6 million ECU over four financial years (from 1979 to 1982) and covered 14 % of the running costs of these years; without these subsidies, the losses would have been four times as high. Whilst the objectives as to the areas to be cultivated have remained the same, the staff of the ORS has increased from 200 to 470 persons, 149 of whom work at its headquarters.

15.26. The current reorientation of the Ségou rice project, for which financing began in 1968, would no doubt have been more beneficial to this operation if the evaluation it followed had been made sooner. The Commission delegation on the spot had not evaluated the results of the ORS since 1972. Over fifteen years, substantial amounts of finance have been poured into the ORS, without its being realised that the money for this project was just being poured down the drain.

15.27. A scheme to exploit fishing in the central Delta region of the River Niger has been financed in Mopti in Mali at a total cost of 7,2 million ECU. The initial financing from the EDF dates back to the 1960s and the Commission has for years granted aid to this scheme without evaluating the results of these aid operations. In December 1983, the introduction of cost accounting and, at the same time, the appraisal of this scheme (finally requested by the Commission) showed that the project's only chance of survival would be to give up all its trading and to restrict its activities to managing the port and training the staff. All the project's operational activities are running at a loss.

Dams

15.28. The progress of the two dam projects, on which the EDF has spent a total of 38,2 million ECU and which, when the Court visited them, were completed or nearly so, gives little more cause for satisfaction. The recurring costs arising from their construction or financing pose a particularly serious problem.

15.29. The finance (68,4 million ECU in total, of which 9,6 million ECU were provided by the EDF) devoted to the Fouta Djallon dam project in Mauritania has proven insufficient to carry out all the work planned, in particular the primary and secondary irrigation channels, the drainage system and the development of 3 600 ha of fields for rice-growing downstream of the dam. The most recent esti-

mates made by the Commission departments in November 1982 state that the annual recurring costs of this irrigated area will amount to 1 600 ECU per hectare, i.e. the value of the total expected annual production of a paddy-field of the same area.

15.30. The Sélingué dam in Mali (28,6 million ECU), the total cost of which was around 124 million ECU, was completed in 1981 but since that time has been used at only 35 % of its potential capacity. With its capacity of 200 million kWh per year, it could in fact meet the country's entire energy needs until the year 2000. Until now, Mali has managed to repay the interest on the loans granted to it, but is about 5,8 million ECU in arrears in repaying the principal. The Malian State would like to shift this burden onto the project's managing company, but in view of the underutilisation of the dam's turbine capacity and the price at which the electricity produced is sold, the latter could not support it.

Various infrastructures

15.31. For certain projects, no remedy has been applied; for others, the steps taken have only partially remedied the situation which is causing concern. The following observations relate to three various infrastructure projects (22,0 million ECU) out of the six examined.

15.32. Since the observations made after the Court's first visit⁽¹⁾, the extension to the Nouakchott hospital in Mauritania (3,0 million ECU) is now being used; there are still serious financial problems, however, because of the high operating costs of the hospital complex which continue to absorb one third of the Mauritanian health budget. The lack of Mauritanian technicians who are able to maintain the equipment properly is still having a serious impact: eight of the nine radiology machines owned by the hospital were out of order at the time of the Court's second audit visit in December 1983.

15.33. Under the Mopti water-supply project in Mali (3,1 million ECU), 27 of the 30 drinking fountains intended to supply the majority of the popula-

tion, are still shut off, because the town council does not have enough money to pay for the water. Most of the inhabitants of Mopti still have to buy their water from private vendors whose prices are higher than that charged at the three public fountains in operation.

15.34. Within the framework of the sanitation improvement project for the town of Dakar in Senegal (4,0 million ECU), the sewage plant at the university has been operating since August 1981, whereas that at Soumbédioune has been out of order again for over a year.

The Commission's replies to the Court's earlier observations

15.35. In certain cases, the replies given by the Commission to the Court's earlier observations proved unsatisfactory.

15.36. Thus, after its first visit in February 1982, the Court, which had become aware of the size of the recurring costs entailed by the pumping equipment on the small irrigated areas in Mauritania, had asked the Commission if it had at its disposal a study of the number and characteristics (purchase price, power, durability, brand, maintenance cost) of the motor-driven pumps financed by the EDF. On 28 October 1982 the Commission replied: 'The Commission departments do not have a study which summarises the number and the characteristics of the motor-driven pumps used in the small irrigated areas projects. Nevertheless, when future supplies of pumping equipment are ordered, it is planned that a comparison will be made of the various methods currently in use and that consideration will be given to this when examining tenders and choosing contractors.' On 30 April 1983, a contract was concluded for the supply of 35 motor-driven pumps, financed by the EDF at a cost of about 400 000 ECU, without this study having been made by the Commission. It is clear, however, from a study made by the World Bank after the Court's visit in 1982, that the equipment used by Sonader (equipment still being financed by the Commission) is ill-suited to local conditions because it generates excessively high running costs (40 % overconsumption of fuel).

15.37. Although the problems related to the diversity of the motor-driven pumps in use on the irrigated areas have been known for many years, the Commission has continued to provide the project with motor pumps by means of invitations to tender

⁽¹⁾ Annual report for the financial year 1981, OJ No C 344, 31. 12. 1982, p. 127.

issued as and when a need arises. In so doing, the Commission has increased the problems of acquiring supplies of spare parts which arise because of the diversity of the types of motor-driven pumps supplied by the tenderers for EDF contracts. In this instance, the World Bank decided to take a different approach: a single invitation to tender was issued for the supply, staggered over several years, of the total number of motor-driven pumps required during this period. This procedure relieves the management company of the task of issuing numerous invitations to tender and nevertheless makes it possible to obtain a fair price through competition between potential suppliers. It moreover ensures that the equipment supplied is all of the same type and thus guarantees an easier supply of spare parts, especially if this supply is provided for in the initial contract, together with review and safeguard clauses.

15.38. For irrigating the small areas, the Senegalese authorities used motor-driven pump units (MPU) mounted on rafts, which adjust easily to the level of the floodwaters, whereas Sonader on the Mauritanian side of the river used only MPUs mounted on trolleys, which are not very manoeuvrable and require considerable physical effort on the part of the farmers: these units, which weigh about 500 kg, have to be moved five or six times during the 'winter season/cold off-season' cycle, along rather unstable banks and up slopes which are sometimes very steep. Following these findings in February 1982, the Court had asked the Commission why floating motor pumps had not been financed in Mauritania. The Commission had replied that the pumps on the Mauritanian bank, unlike those on the Senegalese side of the river, had 'to pump directly from the main river, not from side channels, and thus had to cope with a much stronger current, so the use of pumps on rafts is not advisable'. Of the 35 MPUs ordered out of EDF resources on 30 April 1983, however, 15 were of the floating type.

15.39. In the case of the N'Gorel Guidal thermodynamic solar station in Mauritania (cost: 402 590 ECU), which has never worked since 1980 but whose condition has steadily deteriorated, the Court had found that the Commission had not called into play, or sometimes not even stipulated, the usual contractual guarantees. The Commission had replied to the Court ⁽¹⁾ that, as the reservations had not been withdrawn by the time payment was made, the guarantee of FF 714 000 (about 100 000 ECU) originally deposited had not been released and, moreover, the supplier had been formally requested to take all possible steps to fulfil his contractual obligations. The Commission's files, which the Court examined in November 1983, contain no formal request to the supplier, no calling in of the

deposit, nor indeed any proof that this deposit could still be called.

15.40. In order to ensure two crops per year on the Gorgol pilot area in Mauritania, the local farmers have to thresh the rice on the project at the time of year when they are normally busy with the traditional crops on seasonally-flooded land. In order to prevent this bottleneck, six rice threshers had been bought for the project. On the Court's first visit in February 1982, it was found that the six threshers financed by the EDF were not being used. The Commission had replied: 'there is not at present any rice thresher which is suited to the local rice in Africa; the Commission is following with interest the tests being carried out to adapt this equipment to African rice'. The documents and information collected later by the Court show that, on the contrary, at least five different models of thresher, adapted to local rice, are being used successfully in Cameroon, the Ivory Coast, Madagascar, Mali, Upper Volta and Senegal.

Financial and technical cooperation: capital investment projects audited for the first time

15.41. For those countries which the Court was visiting for the first time, a representative range of projects in the different sectors of aid (agriculture and the agricultural processing industry, water supplies, communications infrastructures and buildings) were chosen and scrutinised, as in previous years, to see whether they were being carried out in a lawful, regular manner and with sound financial management. For each of the countries under consideration, the projects examined cover in total at least 50 % of the aid operations financed out of several successive Funds or, if not, out of the most recent Funds (the fourth and fifth EDF).

15.42. In 1983 the Court analysed 31 projects representing total financing of 173,1 million ECU, namely:

- (a) ten projects in the spheres of agriculture and the agricultural processing industry amounting to 67,0 million ECU;
- (b) eight communications infrastructure projects worth a total of 72,9 million ECU;
- (c) nine infrastructure projects in the spheres of education and health for a total of 18,8 million ECU;
- (d) four sanitation improvement projects (water supplies) amounting to 14,4 million ECU.

⁽¹⁾ OJ No C 344, 31. 12. 1982, p. 215.

Compliance with the Lomé Convention

Appraisal of projects and studies

15.43. Article 108 (4) of the Second Lomé Convention ⁽¹⁾ states that the ACP States and the Community shall bear joint responsibility for appraising projects and programmes, and examining the extent to which they fit the objectives and priorities and comply with the provisions of the Convention. In particular, Articles 121 (2) and 123 (2) ⁽²⁾ stipulate that invitation-to-tender dossiers must be approved by the Commission before they are issued.

15.44. In the case of 35 % of the projects (11 out of 31), these provisions do not appear to have been applied in an effective manner, at least as regards certain essential aspects: the preliminary studies recommended either unsuitable sites for the location of the projects, or else implementing methods which were inadequate in terms of both quality and quantity.

15.45. For example, in the context of the development project for a stockfarming area in the Central African Republic, attention should be drawn to the case of the Goubali community centre (a town hall, a clinic and a covered market) and that of the cattle tick dips constructed out of the project's funds. Because it is situated 5 km away from the village it is supposed to serve, this centre has not been used at all since it was built in 1981. As regards the two new dips, constructed out of fourth EDF resources, they are too wide and are not fitted with a drainage system allowing the dipping fluid to be recovered and used again. Apart from the risk of injury to the animals when they jump into the dip at the same time, the unnecessarily large size of these dips leads to rare and expensive chemical products being wasted.

15.46. The 'Ecole nationale supérieure' in Bangui in the Central African Republic is for its part characterised by material errors of design or implementation. Since the school's opening in March 1982, the kitchen-refectory block has not been used, except occasionally as a conference room. This building has no ventilation, whether natural or mechanical. The roofing, which is made from asphalted shingles (roofing felt), is particularly unsuited to the climatic conditions. Forty-three lights were fitted in the refectory whereas about ten would have sufficed. The bars protecting the windows of the administrative offices were for some inexplicable reason fitted on the inside: these windows are thus not any better protected but it is now,

however, impossible to open them. No means of blacking out the projection room has been provided, and access to the technical booth is via a vertical ladder, fixed into the outside wall of the building, which can be used only by an operator who has both hands free.

Taxation

15.47. Article 1 of Protocol No 6 annexed to the Second Lomé Convention stipulates that there shall be applied to contracts financed by the Community the tax and customs arrangements applied to the most favoured State or most favoured international organisation. The World Bank systematically stipulates that the contracts it finances should be exempt from tax. Consequently, this exemption should also have applied to the contracts financed by the Community.

15.48. A study undertaken by the Commission departments amongst 52 delegates in the ACP States puts the cost of the taxes which will ultimately be applied to the development projects financed out of fifth EDF resources at 88,7 million ECU, i.e. 3,9 % of the total amount of the indicative programmes (2 300 million ECU) of the 52 States in question. This study also reveals that the most-favoured-nation clause is not applied in 30 of these 52 countries. Through the failure to apply this clause strictly, 44 million ECU had by 31 December 1983 already been devoted to paying taxes to ACP States, a sum which represents the equivalent of the total subsidies granted by the EDF under the Second Lomé Convention to countries such as Mauritania or Togo.

15.49. For its part, the Court noted that, within the framework of the repairing of the Damara-Sibut road in the CAR, about 1,3 million ECU, or 15 % of the funds allocated for carrying out this project, will be spent on paying the import taxes due, in particular the 40 % tax on asphalt. Paying these taxes is equivalent to not constructing 20 km of road.

Payment of service contracts

15.50. Annex XIV of the Second Lomé Convention, which recapitulates the main provisions of the First Lomé Convention regarding service contracts, stipulates that the Commission and the ACP States shall establish by mutual agreement the general con-

⁽¹⁾ OJ No L 347, 22. 12. 1980, p. 37.

⁽²⁾ OJ No L 347, 22. 12. 1980, pp. 43 and 44.

ditions of payment applicable to service contracts. Since 1976, these conditions have not yet been established. In many cases the payments made to certain consultants are criticised by the ACP States which consider that their indicative programmes are being curtailed by the sometimes excessively high technical assistance costs.

15.51. This was the case for three of the 31 projects examined by the Court. For example, within the framework of the tea project in Zambia, the local authorities called the payments made to one consultancy bureau 'absurdly excessive': the consultants were being paid 90 000 ECU per annum for providing a project manager, this fee being exclusive of travel expenses and rent, which were reimbursed separately. Again in Zambia, the fees paid for supervising the work on the 'Feeder Roads' programme amounted to 17 % of the total cost (4,3 million ECU) of the project.

Origin of supplies

15.52. Article 2 of the 'General conditions of invitation to tender for supply contracts financed by the Community' lays down that 'the supplies tendered must originate in the EEC or in an ACP State'. In the case of at least two of the projects examined by the Court, these provisions were not observed: the compressors and pumps financed as part of the water-supply project in Mpika in Zambia and also part of the equipment (pumps and engines) supplied to the Bangui slaughterhouse in the CAR were of origins not complying with the rules.

Evaluation of completed projects

15.53. Article 118 (2) of the Second Lomé Convention lays down that completed projects must be the subject of an 'evaluation (which) shall concern the results, by comparison with the objectives, and also the administration, operation and maintenance of the schemes... The relevant authorities... shall each take the appropriate measures called for by the results of the evaluation work.' Chapter 9 of the 'Manual of instructions for Commission delegates' states that 'The Commission determines for each project or type of project the necessity and timetable for subsequent evaluation reports (...). If the delegate finds that a project is being utilised in conditions which reduce its effectiveness, he draws the matter to the attention of the administrative authorities responsible and seeks with them to find remedies for the situation: provision of the necessary personnel, other administrative measures

(...). Should serious difficulties arise as regards functioning or utilisation, a solution might be found in the form of additional investment, technical assistance or other additional aid. The delegate advises the Commission and indicates the most appropriate means, backed up by an estimate of whatever action is considered necessary'.

15.54. For 10 projects, the final or subsequent evaluation has either not been carried out or has been done in an incomplete manner. The following examples are in this respect significant.

15.55. The files relating to the water-supply project in Bouar (41 000 inhabitants) in the CAR omit to mention a good many problems, which the Court, however, had no difficulty in discerning during its on-the-spot audit visit. The reports do admittedly describe a difficult situation but are silent on the fact that virtually all the local people, for whom the scheme is intended as a matter of priority, are without drinking water and have no other option but to draw water from a few backwaters: not one of the 33 drinking fountains nor any of the 10 wash-houses installed is at present in working order; in June 1983, the facilities supplied water to 262 'solvent' users for about 10 hours per day, but this supply was entirely dependent both on equipment which threatened to break down for good at any moment and on the on-the-spot presence of the technical assistant, whose term of office was normally due to end in April 1984.

15.56. The Botswana delegation did not draw up any evaluation report at the time of the provisional and the final acceptances of the Lobatse-Ramatlabama road, which has been open to traffic since November 1981. The same is true for the livestock management centre in Ramatlabama which was completed as long ago as July 1979 and for which no evaluation report exists. There is likewise no report after the final acceptance of the University of Botswana, finished in March 1982; and the same applies to the Broadhurst water-supply project in Botswana, which was put into service in August 1982.

The recipient countries' observance of their obligations

15.57. Article 108 (2)(f) of the Second Lomé Convention provides that the ACP States shall be responsible for 'managing and maintaining operations carried out in the context of financial and technical cooperation'.

15.58. In the case of four of the six road projects examined, this maintenance had not been carried

out. For example, in the CAR the Damara-Sibut link was constructed, within the framework of the first EDF, as an earth road costing 2,1 million ECU, then in the context of the third EDF, improved and asphalted at a cost of 5,0 million ECU and finally repaired under the fifth EDF at a cost of approximately 9,0 million ECU.

15.59. In respect of two projects, the special conditions of the finance agreements were not observed by the recipient government. For example, the Zambian Government neither set up the body responsible for the management of the Mpongwe development scheme nor appointed Zambian counterparts to be trained in the context of the project. Consequently, the project cannot be managed independently and its viability cannot be ensured after the departure of the technical assistance.

Attainment of objectives

15.60. The aim of the examination regarding sound financial management is to ascertain the extent to which the objectives of the projects have in fact been attained, whilst at the same time maintaining a healthy relationship between the 'cost' and 'advantages' elements of the projects financed. By means of a few examples, the Court will enlarge below (paragraphs 15.61 to 15.67) on the findings which it made on the spot and which, for a whole series of projects, lead it to have serious doubts as to the conformity of the objectives attained or as to the 'cost-advantages' relationship mentioned above. Out of 17 infrastructure projects, four must be considered to be failing. In the fields of agriculture and the agriculture processing industry, the rate of failure is higher, for out of the 10 projects analysed, four prompted criticisms. Lastly, in respect of the water-supply projects, whose paramount importance for public health no longer has to be proved, the rate of failure is particularly high, for out of the four projects looked at, three fulfilled their function only very partially.

Agriculture and the agricultural processing industry

15.61. The cotton-growing development project in the CAR (17,3 million ECU), which the EDF has been assisting for 20 years, has not resulted in any improvement in cotton growing; on the contrary, the number of planters, the area under cotton and the total production showed a pronounced decrease between 1972 and 1982. The scheme is not profitable for the local farmer; in order to assure him an income comparable to that obtained from tradi-

tional farming methods, the combined use of fertilisers and insecticides, on which the project is based, had to result in a minimum yield of 850 kg per hectare, which was never achieved. The total deficit of the management company in question was estimated at 9,1 million ECU at the end of the 1982-83 marketing year, i.e. over half the EDF subsidies granted since the scheme's commencement.

15.62 The Bangui slaughterhouse in the CAR (5,9 million ECU) is operating at only 25 % of its potential capacity and the number of animals slaughtered fell from 50 000 in 1980 to 30 000 in 1982. Because of this and in view of the very high operating costs of the slaughterhouse, the latter constitutes a burden which the recipient country is not able to bear. The management company of the slaughterhouse is showing a growing deficit (+330 % in four years), which can only be worsened by operating conditions of this kind.

15.63 During the 1982-83 financial year, the Zambian Government had to pay a 2,7 million ECU subsidy to the management company of the cotton project financed by the EDF, in order to compensate for the disparity between domestic prices and the prices charged on the world market. Thus, almost all the EDF resources (8,1 million ECU) devoted to implementing this project merely offset the payment by the Zambian Government of export subsidies for three successive years.

Communications and buildings

15.64. The repairs, completed in May 1979, to the Bangui-Damara road in the CAR (3,7 million ECU) cost 2,5 times the initial amount paid for its construction in 1968. Nevertheless, this road still has defects which make the whole project somewhat unsatisfactory.

15.65. As a result of the underestimating of costs in the finance proposal, not all of the agricultural warehouses project in Zambia (2,2 million ECU) could be carried out: two of the 13 warehouses were not built and the total surface-area constructed was reduced from 9 000 m² to 6 000 m². Also, the warehouses were not connected to the power supply; the same applied to the managers' housing, which was moreover not supplied with water.

Water supplies

15.66. In Bambari (population: 43 000) in the CAR, only 200 individual connections (out of the

500 requests for connection recorded at the time of the submission of the financing in 1966) and 12 drinking fountains (out of the 60 which were supposed to be installed) were supplying water to the town's inhabitants when the Court made its audit visit in June 1983. The plan for supplying water has proved illogical: public fountains were placed in uninhabited scrubland areas, whilst the scheme to connect the town centre to the mains was not carried out and could now be done only at great expense. Similarly, it has never been mentioned that the decontamination of water by means of activated charcoal generates, apart from difficulties in obtaining supplies, unnecessarily high running costs, whereas the use of sand filters would have ensured a comparable result at a considerably lower cost, since sand is available locally.

15.67. Several items of equipment of the Mpika water-supply project in Zambia are faulty, especially those which are supposed to make the water drinkable: instead of the project resulting in improved hygiene conditions for the local people, it is exposing them to health risks.

Financial and technical cooperation: main findings concerning projects visited for the first and second time

15.68. The causes of the defects or difficulties which certain projects may experience are numerous and it is sometimes difficult to discover their origin and hence to lay the blame for them with one or other of the parties involved in the projects' implementation. The fact remains that the faults which the Court has been pointing out for years recur with disconcerting regularity, whether it is at the stage of the preparatory studies or at the supervision of the works, or, in particular, at the stage of the evaluation and the follow-up of completed projects. The agricultural projects must be appraised with great caution, given the long period of time necessary to implement them and their considerable dependence on climatic, political and human factors. On the other hand, the essentially technical projects, such as roads, buildings and water supplies, can be designed and implemented with greater accuracy and their results must therefore be judged more strictly.

15.69. One of the most regrettable aspects of Community aid operations is the lack of follow-up of

projects, a lack which verges on complete uninterest for completed projects. The Commission and the delegations on the spot seem to concern themselves chiefly with projects which have been recently implemented or with supplementary finance granted to such projects without, in the latter case, drawing any lessons from the difficulties encountered previously in these same projects. The finished projects, on the other hand, are hardly ever followed up even if they are in jeopardy or do not fulfil their vocation. Evidently, the Commission should concentrate more on finding ways of repairing these projects, of ensuring that they are functioning or, if need be, even recommending that they be abandoned.

15.70. The result of the inadequate monitoring of projects which are in progress or completed is that no lessons are learnt from past experience, whether good or bad. In this respect, the Court draws attention, as it has already done on numerous occasions⁽¹⁾, to the urgent need for the Commission to participate in creating a data bank which would help to avoid the repetition of certain design or management errors, whose consequences are often very expensive.

Stabilisation of export earnings (Stabex)

Financial situation

15.71. By way of compensation for the losses of earnings on exports in the course of 1982 (see detailed figures in Annex III), a sum of 102,5 million ECU concerning 12 products was transferred in 1983 and, in part, in 1984 to 23 ACP States. The main recipient countries of these transfers were Ghana (31,2 million ECU for cocoa) and Papua New Guinea (24,1 million ECU, of which 16,3 million ECU for coffee). By product, the largest transfers were recorded for cocoa (49,5 million ECU), coffee (20,2 million ECU), copra (10,8 million ECU), cotton (9,2 million ECU) and groundnuts (8,2 million ECU). The 1982 year of application (transfers made in 1983) is to be regarded as the first year of 'normal' operating of the Stabex system under the Second Lomé Convention, since the annual alloca-

⁽¹⁾ OJ No C 342, 31. 12. 1980, pp. 182 and 183;
OJ No C 344, 31. 12. 1981, pp. 148 and 149;
OJ No C 344, 31. 12. 1982, p. 118.

tion sufficed this time to meet all the transfer requests declared admissible by the Commission. During the 1980 year of application (transfers made in 1981), only 44,9 % of the Stabex transfer requests declared admissible were met and during the 1981 year of application (transfers made in 1982), only 40,5 %, despite extra finance (70,8 million ECU granted outside of the Convention) allocated by the Community during that financial year.

Observations on the calculation basis for transfer rights

15.72. Broadly speaking, the Stabex system makes it possible to offset a decrease in earnings on exports to the Community of certain agricultural products originating in the ACP States. Under certain circumstances, a country can call on this system when its export earnings on a product are lower than the average earnings over the four years preceding that in which a decrease was recorded.

15.73. In order to avoid the results of one exceptionally bad year having too much influence on the average of the four preceding years and thus sharply lowering the threshold as of which a country may be compensated, the Commission, acting in the spirit and in accordance with the detailed arrangements of the decision taken at the meeting of the ACP-EEC Council held in Fiji on 14 April 1977, has tried to replace the figures for an exceptionally bad year by those of an earlier year, whose results may be considered normal. No decision has however been taken to offset, under similar conditions, the opposite phenomenon. So the results of one exceptionally good year raise the average of the four preceding years in the same proportion and a country may thus, over the four subsequent years, be granted

compensation higher than that which it is normally due (refer to *Table 15.3* for a worked explanation of this observation).

15.74. Thus, for example, the taking into account of the exceptional earnings received by the Ivory Coast for its coffee exports in 1977 (480 million ECU as opposed to an average of 300 million ECU in other years), meant that each year between 1978 and 1981 that country was entitled to compensation which was 45 million ECU higher than that which it would have received if the exceptional earnings of 1977 had been cancelled out. It should moreover be emphasised that the exceptional earnings received in 1977 by the coffee-exporting ACP States, in particular the Ivory Coast, are directly related to the shortage of coffee on the world market caused by a very poor harvest in Brazil.

15.75. This state of affairs deserves to be examined all the more closely in that the overall lack of resources available under Stabex for the years 1981 and 1982 was, as the Commission itself emphasised in its report to the Council of 21 October 1981, mainly caused by the steep rise in commodity prices in 1976 and 1977.

Aid to the mining sectors (Sysmin)

15.76. Title III of the Second Lomé Convention lays down the conditions on which the ACP States, whose economies are largely dependent on the mining sectors, may have access to a special financing facility called Sysmin. An overall amount of 280 million ECU out of the fifth EDF is allocated for this purpose and, by 31 December 1983, two countries, namely Zaire and Zambia, had received loans under this scheme for 40 and 55 million ECU respectively.

15.77. During an audit carried out in Zambia in November 1983, the Court noted that some of the difficulties encountered in that country's mining sector are due to the fact that the authorities return to this sector only about 33 % of the foreign currency that it earns, whereas a percentage in the region of 60 % would be necessary to ensure the maintenance and renewal of the production plant. Under these circumstances, the question may arise as to whether the granting of the 55 million ECU loan to Zambia under Sysmin does in fact comply with the provisions of Article 49 of the Second Lomé Convention according to which the Community shall intervene only when the difficulties experienced by the mining sectors are beyond the control of the ACP States concerned.

Table 15.3 — Illustration of the effects of non-neutralisation on the results of an exceptionally good year (fictitious example)

Year	1977	1978	1979	1980	1981	1982	1983
Amount of exports	100	100	100	100	200	105	110
		average $500:4 = 125$					

Explanation: even though the receipts of the 1982 (105) and 1983 (110) years have returned to a level comparable with that of the 1977 to 1980 years, the exporting country will benefit, because of the non-neutralisation of the exceptional results of the 1981 year (200), from a compensation of $(125 - 105) = 20$ under the 1982 year, and from $(125 - 110) = 15$ under the 1983 year. If, however, the figures of the 1981 year had been neutralised, by being replaced by those of 1977, for example, no compensation would have been payable under the 1982 and 1983 years.

ANNEX I**Allocation of responsibilities among Members of the Court of Auditors at 30 November 1984**

- (a) Secretariat of the Court, staff management and administration of the Court, budget and accounting of the Court Marcel MART,
President
- (b) External relations (other institutions, national audit bodies and public relations)
- (c) Work programme of the Court, working methods, professional training, studies, technical preparation of annual and special reports

Audit of**Aldo ANGIOI****European Development Funds****Audit of****Keld BRIXTOFTE****Own resources****Audit of****Charles J. CAREY**

- (a) Research and investment, energy and industry expenditure
- (b) External bodies (including subsidies)

Audit of**Paul GAUDY**

- (a) European Social Fund and related expenditure
- (b) European Agricultural Guidance and Guarantee Fund, Guidance Section (operations other than regional measures)
- (c) Fisheries

Audit of

Lothar HAASE

- (a) Loans and borrowings
- (b) European Coal and Steel Community
- (c) General accounts
- (d) Accounting principles

Audit of

Pierre LELONG

Cooperation with developing countries and third countries, excluding the European Development Funds

Audit of

André J. MIDDELHOEK

- (a) European Regional Development Fund
- (b) European Agricultural Guidance and Guarantee Section (regional measures)

Audit of

Michael N. MURPHY

European Agricultural Guidance and Guarantee Fund (Guarantee Section)

Audit of

Stergios VALLAS

Staff and operational expenditure of institutions, including Publications Office, press and information offices

*ANNEX II***Reports and opinions of the Court of Auditors**

The Court of Auditors is required by the terms of the Treaties to produce an annual report. It is also required, by the Treaties and other regulations, to produce annual reports on certain Community bodies and activities. The Treaties further give the Court the power to submit observations on

specific questions and to deliver opinions at the request of one of the institutions. The reports and opinions adopted by the Court in the five-year period ending 30 November 1984 are listed below.

Title	Date of adoption	Publication
Report on the accounts of the European Schools for 1978.	24 January 1980	Not published
Opinion on a proposal for a Regulation to amend the Financial Regulation of 21 December 1977 and on proposals for amendments to, and a draft amendment of, related legislation.	21 February 1980	OJ No C 84, 3. 4. 1980, p. 7
Report on the 1979 JET financial statements.	30 April 1980	Not published
Special report on various measures affecting the management of the EAGGF Guarantee Section (financial year 1978).	30 April 1980	OJ No C 258, 6. 10. 1980
Report on the 1979 accounts of the Euratom Supply Agency.	30 April 1980	Not published
Opinion on the proposal for a Council Regulation on monetary compensatory amounts.	22 May 1980	OJ No C 165, 5. 7. 1980, p. 2
Opinion on the proposal for a Council Regulation on the value of the unit of account and the conversion rates to be applied for the purposes of the common agricultural policy.	22 May 1980	OJ No C 165, 5. 7. 1980, p. 9
Report on the 1979 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin).	5 June 1980	Not published
Report on the 1979 accounts of the European Centre for the Development of Vocational Training (Berlin).	19 June 1980	Not published
Opinion on the proposal for a Council Regulation amending Regulation (EEC) No 1172/76 of 17 May 1976 setting up a financial mechanism.	3 July 1980	OJ No C 233 11. 9. 1980, p. 6
Opinion on the proposal for a Council Regulation instituting supplementary measures in favour of the United Kingdom.	3 July 1980	OJ No C 233, 11. 9. 1980, p. 7

Title	Date of adoption	Publication
Special report of the Court of Auditors with its observations on acquisition and control over office supplies and equipment, etc. as applied by the institutions of the European Communities.	24. September 1980	OJ No C 326, 15. 12. 1980
ECSC annual report 1979 (Balance sheet and accounts).	24 September 1980	Not published
Opinion on the proposal for a Council Regulation laying down general rules for the supply as food aid of products other than cereals, skimmed-milk powder or butteroil to certain developing countries and specialised bodies.	2 October 1980	OJ No C 326, 15. 12. 1980, p. 22
Special report on the application of Council Directive 75/268/EEC on mountain and hill farming and farming in certain less-favoured areas.	30 October 1980	OJ No C 358, 31. 12. 1980
Special report on Community food aid.	30 October 1980	Not published
Observations arising from an initial financial review of the Computer Centre of the European Communities.	6 November 1980	Not published
Third annual report, concerning the financial year 1979.	12 November 1980	OJ No C 342, 31. 12. 1980
Opinion on the proposal for a Council Regulation compensating Greece for its contribution to the cost of the financial mechanism and the supplementary measures for the United Kingdom.	9 December 1980	OJ No C 30, 11. 2. 1981
Opinion on the draft financial regulation applicable to the fifth European Development Fund.	9 December 1980	OJ No C 45, 4. 3. 1981
Opinion on the proposal for a Council Regulation introducing a tax on catches of salmon in the Baltic Sea by Community vessels.	18 December 1980	OJ No C 358, 31. 12. 1980
Special report concerning publishing, printing and reproduction practices of the institutions of the European Communities.	8 January 1981	OJ No C 150, 19. 6. 1981
Observations on the proposal for a Council Regulation relating to the financing by the EAGGF, Guarantee Section of certain intervention measures, particularly those involving the buying-in, storage and sale of agricultural products by intervention agencies.	19 February 1981	Not published
Study on the European Centre for the Development of Vocational Training (Berlin).	5 March 1981	Not published
Study on the development of the European Foundation for the Improvement of Living and Working Conditions (Dublin).	5 March 1981	Not published
Report on the accounts of the European Schools for 1979.	9 April 1981	Not published

Title	Date of adoption	Publication
Report on the 1980 accounts of the Euratom Supply Agency.	30 April 1981	Not published
Report on the 1980 JET financial statements.	30 April 1981	Not published
Opinion on the proposal for a Financial Regulation on the application of the agreement in the form of an exchange of letters between the European Economic Community and the Portuguese Republic concerning the implementation of pre-accession aid for Portugal.	14 May 1981	OJ No C 156, 25. 6. 1981, p. 10
Observations on the management of the ECSC for 1979.	21 May 1981	Not published
Opinion on a proposal for a Council Regulation amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities.	21 May 1981	OJ No C 232, 11. 9. 1981
Observations on the farm accountancy network (FADN).	18 June 1981	Available from the Court of Auditors
Special report on the securities, deposits and guarantees furnished in respect of operations that give rise to expenditure from the EAGGF, Guarantee Section.	18 June 1981	OJ No C 249, 29. 9. 1981
Report on the financial statements of the European Coal and Steel Community for the financial year 1980.	26 June 1981	Not published
Report on the 1980 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin).	26 June 1981	Not published
Report on the 1980 accounts of the European Centre for the Development of Vocational Training (Berlin).	26 June 1981	Not published
Opinion on the proposal for a Council Regulation compensating Greece for its contribution to the cost of the financial mechanism and the supplementary measures for the United Kingdom.	10 September 1981	OJ No C 282, 5. 11. 1981, p. 15
Fourth annual report, concerning the financial year 1980.	26 November 1981	OJ No C 344, 31. 12. 1981
Study of the financial systems of the European Communities (1981).	26 November 1981	OJ No C 342, 31. 12. 1981
Special report on expatriation and foreign residence allowances.	4 February 1982	Available from the Court of Auditors
Opinion on a proposal for a Council Regulation amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities.	18 February 1982	OJ No C 122, 13. 5. 1982

Title	Date of adoption	Publication
Special report on sales of reduced-price butter within the Community.	18 March 1982	OJ No C 143, 7. 6. 1982
Report on the 1981 accounts of the Euratom Supply Agency.	29 April 1982	Not published
Report on the 1981 JET financial statements.	29 April 1982	Not published
Report on the financial statements of the European Coal and Steel Community for the financial year 1981 (Art. 78 f(5) ECSC).	27 May 1982	Not published
Special report (observations) on the Members' Cash Office of the European Parliament.	6 July 1982	OJ No C 202, 5. 8. 1982
Special report on loans and borrowings.	19 July 1982	OJ No C 319, 6. 12. 1982
Special report on job creation or maintenance in the granting of aid to regional investments.	30 July 1982	OJ No C 345 31. 12. 1982
Report on the accounts of the European Schools for 1980.	30 July 1982	Not published
Special report on the Community inward processing system.	16 September 1982	OJ No C 88 30. 3. 1983
Opinion on four proposals for Council Regulations amending certain provisions concerning the European Centre for the Development of Vocational Training and the European Foundation for the Improvement of Living and Working Conditions.	16 September 1982	OJ No C 324, 10. 12. 1982
Special report on the 'Como' frauds.	16 September 1982	Not published
Special report on the financial management of multiannual programmes of the Joint Research Centre.	7 October 1982	Available from the Court of Auditors
Report on the 1981 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin).	7 October 1982	Not published
Report on the 1981 accounts of the European Centre for the Development of Vocational Training (Berlin).	7 October 1982	Not published
Report (Annex to the annual report ECSC 1980) on loans — borrowings — interest rebates.	12 October 1982	Not published
Special report (observations) concerning clearance of the accounts of the EAGGF Guarantee Section — the structure and operation of the system.	12 October 1982	OJ No C 313, 29. 11. 1982

Title	Date of adoption	Publication
Opinion 2/82 on a proposal for a Council Regulation amending Regulation (EEC, Euratom, ECSC) No 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources.	16 November 1982	OJ No C 133, 20. 5. 1983
Opinion 3/82 on a proposal for a Council Regulation amending and extending the terms of validity of Regulation (EEC, Euratom, ECSC) No 2892/77 implementing in respect of own resources accruing from value-added tax the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources.	16 November 1982	OJ No C 151, 9. 6. 1983
Report (Annex to the annual report ECSC 1981) on loans for housing.	25 November 1982	Not published
Fifth annual report, concerning the financial year 1981.	25 November 1982	OJ No C 344, 31. 12. 1982
Opinion 4/82 on a draft Commission Regulation concerning financial provisions applicable to the European Agency for Cooperation and provisions relating to the Agency's relations with the Commission.	9 December 1982	Not published
Opinion 5/82 on a proposal for a Council Regulation amending Regulation (EEC) No 2744/80 establishing supplementary measures in favour of the United Kingdom.	16 December 1982	OJ No C 160, 18. 6. 1983
Opinion 6/82 on a proposal for a Council Regulation instituting a special energy development programme.	16 December 1982	OJ No C 199, 26. 7. 1983, p. 7
Opinion 7/82 on a proposal for a Council Regulation amending Regulation (EEC) No 2779/78 on the procedure for applying the ECU to legal acts adopted in the customs sphere.	2 February 1983	OJ No C 199, 26. 7. 1983, p. 8
Special report 1/83 on the expenditure of the European Parliament in connection with inter-parliamentary conferences.	10 March 1983	Available from the Court of Auditors
Special report 2/83 on the application of Regulations (EEC) No 1078/77 and (EEC) No 1041/78 introducing a system of premiums for the non-marketing of milk and milk products and for the conversion of dairy herds.	14 April 1983	OJ No C 278, 17. 10. 1983
Report on the accounts of the European Schools for 1981.	28 April 1983	Not published
Report on the 1982 JET financial statements.	28 April 1983	Not published
Special report 3/83 on the restaurants, canteens, cafeterias and staff shops.	18 May 1983	Not published
Report on the 1982 accounts of the Euratom Supply Agency.	26 May 1983	Not published

Title	Date of adoption	Publication
Special report 4/83 on the budgetary management of the programme for supplying agricultural products and foodstuffs to Poland.	9 June 1983	OJ No C 278, 17. 10. 1983
Special report 5/83 on aid to skimmed milk processed into casein and caseinates.	9 June 1983	OJ No C 41, 15. 2. 1984
Report on the financial statements of the European Coal and Steel Community for the financial year 1982 (Art. 78 f(5) ECSC).	22 June 1983	Not published
Report on the 1982 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin).	14 July 1983	Not published
Report on the 1982 accounts of the European Centre for the Development of Vocational Training (Berlin).	14 July 1983	Not published
Opinion 1/83 on a draft Commission Regulation (EEC) relating to the operation of the system of advances for expenditure financed under the Guarantee Section of the European Agricultural Guidance and Guarantee Fund (EAGGF).	21 July 1983	Not published
Report in response to the conclusions of the European Council of 18 June 1983.	6 October 1983	OJ No C 287, 24. 10. 1983
Sixth annual report, concerning the financial year 1982.	24 November 1983	OJ No C 357, 31. 12. 1983
Report (Annex to the Annual Report ECSC 1982) on the accounting and financial management.	7 December 1983	Not published
Special report 6/83 on the European Social Fund Computer System.	15 December 1983	Available from the Court of Auditors
Opinion 2/83 on the proposal for a Council Regulation on interest subsidies for certain loans granted under the European Monetary System.	12 January 1984	OJ No C 55, 28. 2. 1984
Report on the accounts of the European Schools for 1982.	23 February 1984	Not published
Opinion 4/83 on the second amendment to the proposal for a Council Regulation amending Regulation (EEC, Euratom, ECSC) No 2891/77 implementing the Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources.	14 March 1984	OJ No C 163, 23. 6. 1984
Special report 1/84 on the coordination of Community aid to third countries.	14 March 1984	OJ No C 224, 25. 8. 1984
Opinion 3/83 on the proposal for a Council Decision empowering the Commission to help finance innovation within the Community.	5 April 1984	OJ No C 163, 23. 6. 1984

Title	Date of adoption	Publication
Special report 2/84 on the management of Community development aid funds by the European Investment Bank.	10 May 1984	Available from the Court of Auditors
Opinion 1/84 on the proposal for a Council Regulation introducing measures to cover budgetary requirements in 1984 given the exhaustion of own resources.	7 June 1984	OJ No C 228, 30. 8. 1984
Report on the 1983 accounts of the Euratom Supply Agency.	19 June 1984	Not published
Report on the 1983 JET financial statements.	19 June 1984	Not published
Report on the financial statements of the European Coal and Steel Community for the financial year 1983.	26 June 1984	Not published
Special report 3/84 on the operation of the common organisation of the market in sheepmeat.	19 July 1984	OJ No C 234, 4. 9. 1984
Special report 4/84 on the implementation of Directive 77/435 of 27 June 1977 on scrutiny by the Member States of transactions forming part of the system of financing by the EAGGF (Guarantee Section).	11 October 1984	OJ No C 336 17. 12. 1984
Report on the 1983 accounts of the European Foundation for the Development of Vocational Training (Berlin).	24 October 1984	Not published
Report on the 1983 accounts of the European Foundation for the Improvement of Living and Working Conditions (Dublin).	24 October 1984	Not published
Seventh annual report concerning the financial year 1983.	22 November 1984	This edition

ANNEX III

**Financial information relating
to the general budget of the European Communities
and
to the European Development Funds
(1983)**

Preliminary remarks**1. Source of financial data**

The financial data in this Annex have been drawn from the revenue and expenditure accounts and the balance sheets of assets and liabilities of the European Communities ⁽¹⁾ and of the European Development Funds and from other financial records provided by the Commission.

2. Monetary unit

For the general budget the financial data are given in the monetary unit in force during the financial years covered, i.e. from 1979 to 1980 in European units of account (EUA) and from 1981 in ECU (see § 1 (1.5) for details).

For the European Development Funds all financial data are given in ECU.

The financial data are presented in millions (Mio) of monetary units, in Mio EUA or Mio ECU respectively, rounded to one decimal place.

3. Change in nomenclature of the general budget from 1982

In 1982 a new nomenclature was used for the general budget.

The Court has therefore used the budgetary nomenclature applicable as from the financial year 1982 for the presentation of all the historical data in this annual report and has adapted the financial data of the financial years 1979 to 1981 in accordance with this new budgetary nomenclature.

Thus the data given in § 14 to § 19 are comparable year by year.

⁽¹⁾ For the financial year 1983: revenue and expenditure account and balance sheet of assets and liabilities relating to operations under the 1983 budget (Doc. COM(84) 219, 220, 221).

4. Abbreviations and symbols

EC	European Community(ies)
ECSC	European Coal and Steel Community
EEC	European Economic Community
EAEC or Euratom	European Atomic Energy Community
EAGGF	European Agricultural Guidance and Guarantee Fund
GNP	Gross national product
VAT	Value-added tax
BFR	Belgian franc
DKR	Danish crown
DM	German mark
DR	Greek drachma
FF	French franc
IRL	Irish pound
LIT	Italian lira
LFR	Luxembourg franc
HFL	Dutch guilder
UKL	Pound sterling
u.a.	Unit of account (until 1977)
Mio u.a.	Millions of units of account
EUA	European unit of account (from 1978 to 1980)
Mio EUA	Millions of European units of account
ECU	European currency unit (as from 1 January 1981)
Mio ECU	Millions of European currency units
DA	Differentiated appropriations
NDA	Non-differentiated appropriations
CA	Commitment appropriations
PA	Payment appropriations
AFC	Appropriations for commitment
AFP	Appropriations for payment
B	Belgium
DK	Denmark
D	Federal Republic of Germany
GR	Greece
F	France
IRL	Ireland
I	Italy
L	Luxembourg
NL	The Netherlands
UK	United Kingdom
EUR 9/10	Total of the 9 or 10 Member States of the European Communities
EDF	European Development Fund
ACP	African, Caribbean and Pacific States
OCT	Overseas Countries and Territories
FOD	French Overseas Departments
Stabex	Stabilisation of export earnings
Sysmin	System of stabilisation of export earnings from mining products
FR	Financial Regulation of 21 December 1977
OJ	Official Journal of the European Communities
S	Budgetary section
T	Budgetary title
Ch	Budgetary chapter
—	Nil
0,0	Data between zero and 0,05
%	Percentage
§	Section referring within this annex to texts, diagrams and tables

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Part I: General budget of the European Communities

§ 1. Background information on the general budget

1.1. Origin of the general budget

The general budget was created by the Merger Treaty ⁽¹⁾ (Article 20). It replaced, on 1 January 1968, the three separate EC budgets which existed before then: the ECSC administrative budget, the EEC budget and the Euratom operating budget. The Euratom research and investment budget was incorporated in the general budget as from 1971 by the Treaty of Luxembourg ⁽²⁾ (Article 10).

1.2. Legal basis

The general budget is governed by the financial provisions of the Treaties of Paris ⁽³⁾ (Article 78 ECSC) and Rome ⁽⁴⁾ ⁽⁵⁾ (Articles 199 to 209 EEC and Articles 171 to 183 Euratom) and by amendments resulting from the Merger Treaty ⁽¹⁾, the Council Decision on own resources ⁽⁶⁾, the Treaty of Luxembourg ⁽²⁾, the Treaty of Accession ⁽⁷⁾ and the Treaty of Brussels ⁽⁸⁾. The Financial Regulation ⁽⁹⁾ governs the procedure for establishing and implementing the budget and for presenting and auditing the accounts. The Financial Regulation is supplemented by further specific enactments governing the details of budgetary implementation.

1.3. Main budgetary principles prescribed by the Treaties and the Financial Regulation

The budget is authorised for one financial year (annuality). The budget presented must be in balance. Budgetary revenue is to be used without distinction to finance all expenditure entered in the budget (non-assignment). All items of Community revenue and expenditure are to be included in the budget (unity). All items of revenue and expenditure are to be entered in full in the budget and in the accounts without any adjustment against each other (universality). There are some exceptions to these general principles.

1.4. Content and structure of the general budget

The general budget comprises the estimates of administrative expenditure of the ECSC and corresponding revenue, of revenue and expenditure of the EEC and of revenue and expenditure of Euratom.

The budget consists of five separate sections subdivided into statements of (estimated) revenue and expenditure: **(I) Parliament; (II) Council** (annexed: **Economic and Social Committee**); **(III) Commission; (IV) Court of Justice; (V) Court of Auditors**.

Within each section, revenue and expenditure are classified under budget headings (titles, chapters, articles and items) according to their type or the use to which they are to be applied.

1.5. Monetary unit of the general budget

Until 1977 the budget was established and implemented in **units of account (u.a.)**: 1 u.a. = 0,88867088 g gold (= 1 US dollar between 1934 and 1972).

From 1978 to 1980 the budget was established and implemented in **European units of account (EUA)**: 1 EUA corresponds to the total of the following amounts of the currencies of the EC Member States: DM 0,828 + UKL 0,0885 + FF 1,15 + LIT 109 + HFL 0,286 + BFR 3,66 + LFR 0,14 + DKR 0,217 + IRL 0,00759.

As from 1981 the budget has been established and implemented in **European currency units (ECU)**. Like the EUA, the ECU is a unit based on a basket of national currencies; for 1981, 1982 and 1983 the value and composition of the ECU basket is the same as that of the EUA (the Greek currency, the drachma, was not included in the ECU basket).

The rates of conversion at 31 December 1983 between the ECU and the national currencies were as follows: 1 ECU = BFR/LFR 46,0969 = DKR 8,18269 = DM 2,25748 = DR 81,7773 = FF 6,90358 = IRL 0,728961 = LIT 1 371,99 = HFL 2,53713 = UKL 0,57060.

1.6. Financing of the general budget (budgetary revenue)

The general budget is mainly financed by the **own resources of the Communities** ⁽⁶⁾: customs duties, agricultural levies, sugar and isoglucose levies and VAT up to a maximum of 10% of a uniform EC assessment basis ⁽¹⁰⁾; there are also other smaller sources of revenue.

As from 1 January 1971, pursuant to the Council Decision of 21 April 1970 ⁽⁶⁾, the system of own resources progressively replaced the former system of fixed percentage financial contributions by the Member States. Until it became possible to apply the uniform VAT basis, financial contributions continued to be paid by the Member States. As from 1975 these financial contributions were calculated on the basis of the gross national product (GNP) shares of Member States. In 1979 own resources included VAT for the first time. This was paid by Member States other than the Federal Republic of Germany, Ireland and Luxembourg, which continued to pay GNP-based financial contributions. In 1980 the VAT system was applied by all Member States. In 1981, 1982 and 1983 all the Member States paid VAT with the exception of Greece which paid a financial contribution based on the GNP.

⁽¹⁾ Merger Treaty (8 April 1965): Treaty establishing a Single Council and Single Commission of the European Communities.

⁽²⁾ Treaty of Luxembourg (22 April 1970): Treaty amending certain budgetary provisions of the Treaties establishing the European Communities and of the Merger Treaty.

⁽³⁾ Treaty of Paris (18 April 1951): Treaty establishing the European Coal and Steel Community (ECSC).

⁽⁴⁾ Treaty of Rome (25 March 1957): Treaty establishing the European Economic Community (EEC).

⁽⁵⁾ Treaty of Rome (25 March 1957): Treaty establishing the European Atomic Energy Community (Euratom).

⁽⁶⁾ Council Decision 70/243/ECSC, EEC, Euratom of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (OJ No L 94, 28. 4. 1970).

⁽⁷⁾ Treaty of Accession (22 January 1972): Act concerning the Conditions of Accession and the Adjustments to the Treaties.

⁽⁸⁾ Treaty of Brussels (22 July 1975): Treaty amending certain financial provisions of the Treaties establishing the European Communities and of the Merger Treaty.

⁽⁹⁾ Financial Regulation of 21 December 1977 (OJ No L 356, 31. 12. 1977).

⁽¹⁰⁾ See Sixth Council Directive of 17 May 1977, common system of VAT: uniform assessment basis (OJ No L 145, 13. 6. 1977).

1.7. Types of budget appropriations

To cover estimated expenditure, the following types of budget appropriations are distinguished in the general budget:

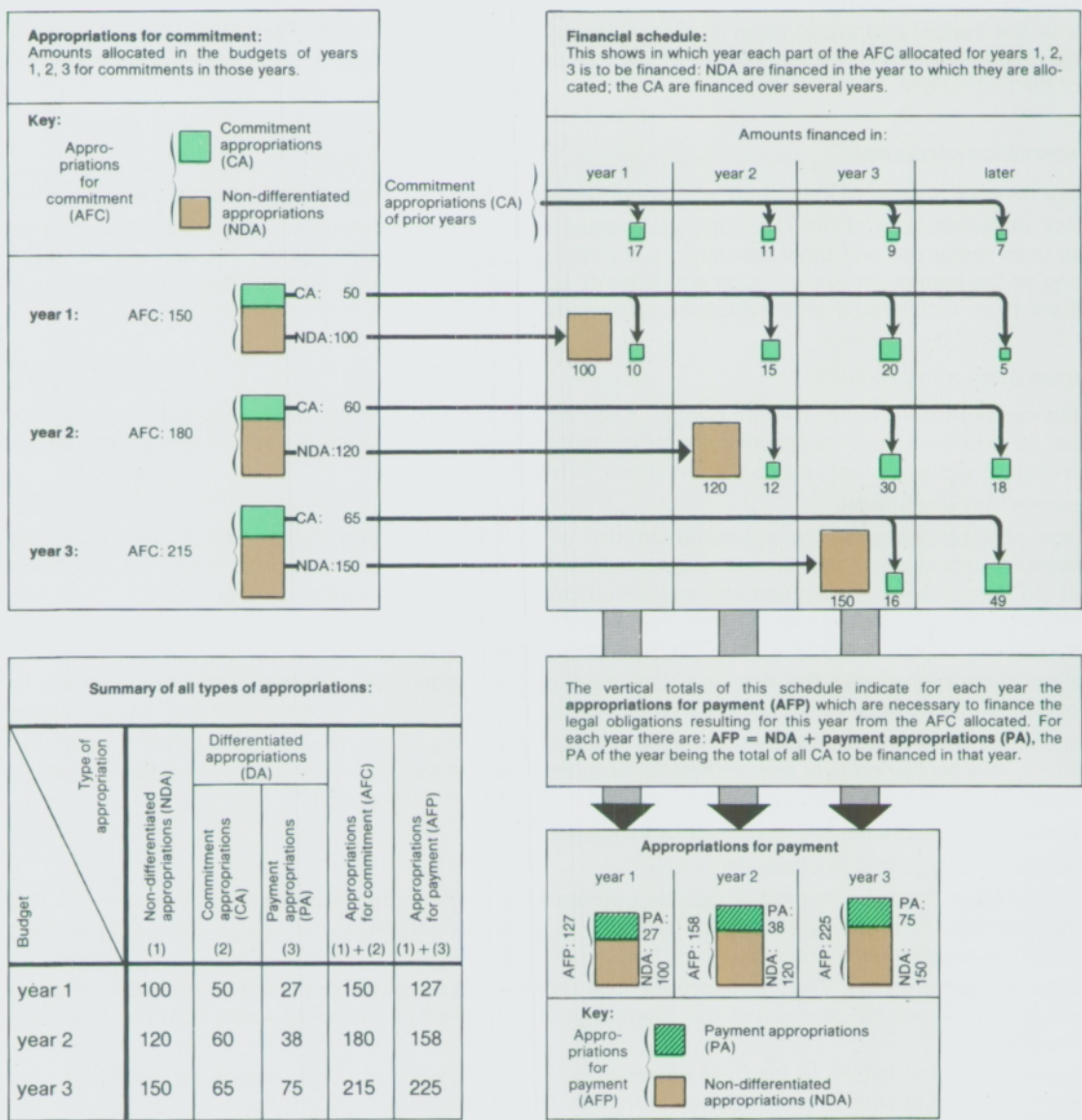
- a) **Differentiated appropriations (DA)** are used to finance multiannual activities in certain sectors. They comprise commitment appropriations and payment appropriations:
 - **commitment appropriations (CA)** cover, for the current financial year, the legal obligations to be entered into for activities whose implementation extends over several financial years;
 - **payment appropriations (PA)** cover expenditure arising from commitments entered into in the current financial year and/or preceding financial years.
- b) **Non-differentiated appropriations (NDA)** cover for annual activities both commitments and payments for the same financial year.

Thus it is possible to establish the following two totals for the same financial year:

- the total of **appropriations for commitment (AFC)** ⁽¹⁾ = non-differentiated appropriations (NDA) + commitment appropriations (CA) ⁽¹⁾;
- the total of **appropriations for payment (AFP)** ⁽¹⁾ = non-differentiated appropriations (NDA) + payment appropriations (PA) ⁽¹⁾.

Revenue raised in the budget is to cover the total appropriations for payment. Commitment appropriations are not financed until the corresponding payment appropriations have been entered in the budget.

The following simplified scheme (with illustrative amounts) shows the impact of these types of appropriations in each budget year:



(1) Note: It is important to note the differences between appropriations for commitment and commitment appropriations and between appropriations for payment and payment appropriations. The two terms commitment appropriations and payment appropriations are used exclusively in the context of differentiated appropriations.

1.8. Establishment of the general budget

Before 1 July of each year each institution draws up estimates of its expenditure for the following financial year (running from 1 January to 31 December). The Commission enters these estimates in a preliminary draft budget, and, not later than 1 September, places this before the Council, which with Parliament constitutes the budgetary authority. The Council establishes the draft budget and forwards it to Parliament not later than 5 October of the same year. Parliament can propose modifications to the draft budget for compulsory expenditure ⁽¹⁾ and make amendments for non-compulsory expenditure; these modifications and amendments are submitted to the Council. For compulsory expenditure the Council takes the final decision. For non-compulsory expenditure Parliament may, within the limits of a statistical maximum rate of increase, make amendments before taking the final decision. The President of Parliament declares that the budget has been finally adopted. However, Parliament may reject the draft budget and ask for a new draft to be submitted ⁽²⁾.

If at the beginning of a financial year the budget has not been voted, particular provisions of the Treaties and the Financial Regulation relating to the authorisation of expenditure are to be applied ⁽³⁾.

Amending budgets (which do not alter the total amount of the annual budget) or supplementary budgets (which alter the total amount) can be adopted by the budgetary authority ⁽⁴⁾.

The budgetary allocation to a specific budget heading can be modified by transfers ⁽⁵⁾ from other budget headings.

1.9. Implementation of the general budget

1.9.1. Responsibility for implementation

The Commission implements the budget on its own responsibility in accordance with the Financial Regulation and within the limits of the appropriations allotted; it also confers upon the other institutions the requisite powers for the implementation of the sections of the budget relating to them ⁽⁶⁾. The Financial Regulation lays down the implementation procedures and, in particular, the responsibilities of the authorising officers, accounting officers, administrators of advance funds and financial controllers of the institutions ⁽⁷⁾.

1.9.2. Implementation of revenue

The **estimated revenue** is entered in the budget subject to change by amending and supplementary budgets ⁽⁴⁾.

The budgetary implementation of revenue consists in establishing the entitlements and recovering the revenue due to the Communities (own resources and other revenue); it is governed by special provisions ⁽⁸⁾. The **actual revenue of a financial year** is defined as the sum of recoveries upon entitlements established during the current financial year and recoveries upon entitlements still to be recovered from previous financial years.

1.9.3. Implementation of expenditure

The **estimated expenditure** is entered in the budget. According to the nature of the legal obligation involved, it is covered by appropriations for commitment or appropriations for payment. The budgetary implementation of expenditure, i.e. the evolution and utilisation of appropriations, may be summarised as follows:

a) Appropriations for commitment.

- Evolution of appropriations: The appropriations for commitment allocated in the initial budget can undergo certain modifications until the final appropriations for commitment are obtained: final appropriations for commitment = initial budget (NDA and CA) ± amending and supplementary budgets ⁽⁴⁾ + supplementary receipts ⁽⁹⁾ ± transfers ⁽⁵⁾ + commitment appropriations remaining from the preceding financial year ⁽¹⁰⁾ + non-automatic carry-overs ⁽¹¹⁾ from the preceding financial year (uncommitted NDA) + released commitment appropriations from preceding financial years.
- Utilisation of appropriations: The final appropriations for commitment are available in the financial year for use in the form of commitments entered into (appropriations for commitment utilised = amount of commitments entered into).
- Appropriations remaining available for the next financial year: Non-differentiated appropriations which have not been committed, may be carried over non-automatically to the next financial year after approval by the Council ⁽¹¹⁾. Non-utilised commitment appropriations remain available for the next financial year ⁽¹⁰⁾.
- Cancellation of appropriations: The balance is cancelled.

b) Appropriations for payment of the financial year.

- Evolution of appropriations: Appropriations for payment may also undergo modifications leading to the final appropriations for payment: final appropriations for payment = initial budget (NDA and PA) ± amending and supplementary budgets ⁽⁴⁾ + supplementary receipts ⁽⁹⁾ ± transfers ⁽⁵⁾.
- Utilisation of appropriations: The final appropriations for payment are available in the financial year for use as payments (utilised appropriations for payment of the financial year = amount of payments made from the appropriations of the financial year).
- Carry-overs of appropriations to the next financial year: Appropriations not paid may be carried over to the next financial year in the form of automatic ⁽¹²⁾ or non-automatic ⁽¹¹⁾ carry-overs.
- Cancellation of appropriations: The balance is cancelled.

c) Appropriations for payment carried over from the preceding financial year (automatic and non-automatic carry-overs).

In each financial year these appropriations (after possible transfers) are also available for use as payments. Carry-overs which remain unused during the year are cancelled, except in certain cases where carry-overs can be repeated ⁽¹³⁾.

Amounts cancelled in this way are added to the result of the financial year in the consolidated revenue and expenditure account (see 1.9.4.).

With regard to actual expenditure, a distinction is made between:

- **actual expenditure during a financial year** = total payments during the financial year = payments against appropriations for payment of the financial year plus payments against appropriations for payment carried over from the preceding financial year.
- **actual expenditure charged to a financial year** = expenditure charged to the consolidated revenue and expenditure account (see 1.9.4.) = payments against appropriations for payment of the financial year plus appropriations for payment of the financial year carried over to the following financial year.

1.9.4. *The consolidated revenue and expenditure account and the balance of the financial year*

After the closure of each financial year the consolidated revenue and expenditure account is drawn up. **The balance of the year**, which is to be entered in the budget of the next financial year on the occasion of an amending budget, is determined therein ⁽¹⁴⁾ (see § 10).

1.10. **Presenting the accounts**

Not later than 1 June of the year following the closure of the financial year, the Commission forwards to Parliament, the Council and the Court of Auditors the accounts of that year: the accounts comprise a revenue and expenditure account and a balance sheet, together with an analysis of the financial management ⁽¹⁵⁾.

1.11. **External audit**

As from 1977 the external audit of the general budget has been carried out by the **Court of Auditors of the European Communities** ⁽¹⁶⁾. The Court of Auditors examines the accounts of all revenue and expenditure of the general budget, whether revenue has been received and expenditure incurred in a lawful and regular manner, and whether the financial management has been sound. The audits may be carried out before the closure of the financial year in question. The audits are performed on the basis of records and, where necessary, on the spot in the institutions of the Communities and in the Member States. The Court of Auditors draws up an annual report for each financial year and may also, at any time, submit observations on specific questions and deliver opinions at the request of one of the institutions of the Communities.

1.12. **Discharge and follow-up**

As from 1977 the following provisions are applicable ⁽¹⁷⁾: Parliament, on the recommendation of the Council, gives, before 30 April of the second year following the financial year in question, discharge to the Commission on the implementation of the budget. To this end the Council and Parliament in turn examine the accounts presented by the Commission and the annual report of the Court of Auditors.

The institutions must take appropriate action on the comments appearing in the decisions giving discharge and report on the measures taken ⁽¹⁸⁾.

(1) Compulsory expenditure is that resulting necessarily from the Treaties or from acts adopted in accordance with them.

(2) For details concerning the budgetary procedure see Articles 78 ECSC, 203 EEC and 177 Euratom.

(3) Article 8 of the Financial Regulation.

(4) Article 1 (5) of the Financial Regulation.

(5) Article 21 of the Financial Regulation.

(6) Articles 78d ECSC, 205 EEC, 179 Euratom and Article 18 (2) of the Financial Regulation.

(7) Articles 17 to 49 and 68 to 72 of the Financial Regulation.

(8) Articles 23 to 31 of the Financial Regulation; Council Regulations (EEC, Euratom, ECSC) Nos 2891/77 and 2892/77 of 19 December 1977 (OJ No L 336, 27. 12. 1977).

(9) Article 87 of the Financial Regulation and Article 91 (2) of the modified Financial Regulation.

(10) Articles 6 (2) (a) and 88 (3) of the Financial Regulation.

(11) Article 6 (1) (b) of the Financial Regulation.

(12) Articles 6 (1) (c), 6 (2) (b) and 88 (4) of the Financial Regulation.

(13) Articles 6 (4) and 108 (3) (a), (b) of the Financial Regulation.

(14) Article 27 of the Financial Regulation and Articles 15 and 16 of Council Regulation (EEC, Euratom, ECSC) No 2891/77 (OJ No L 336, 27. 12. 1977).

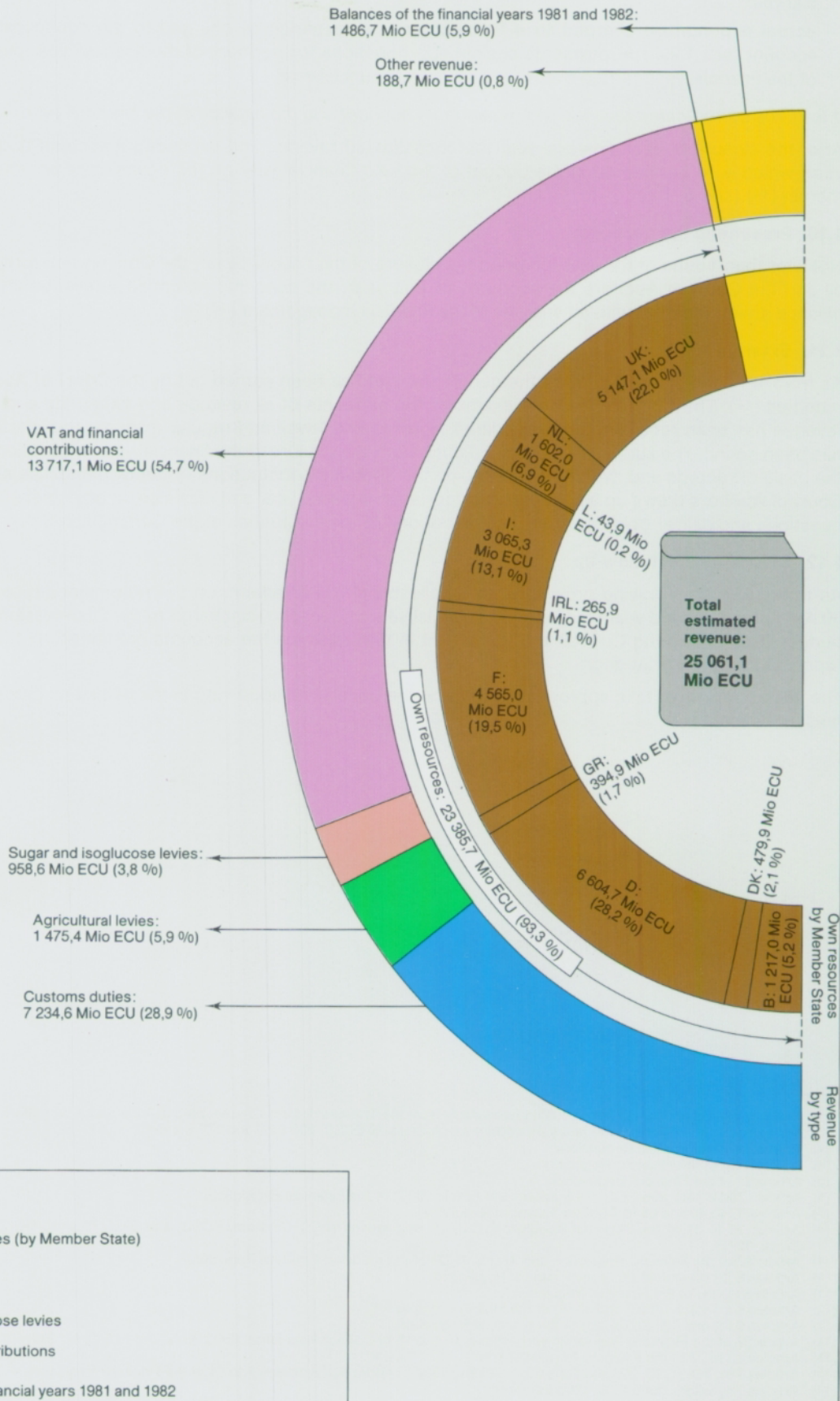
(15) Articles 73 to 77 of the Financial Regulation.

(16) Articles 78e, 78f ECSC, 206 and 206a EEC, 180 and 180a Euratom and Articles 78 to 84 of the Financial Regulation.

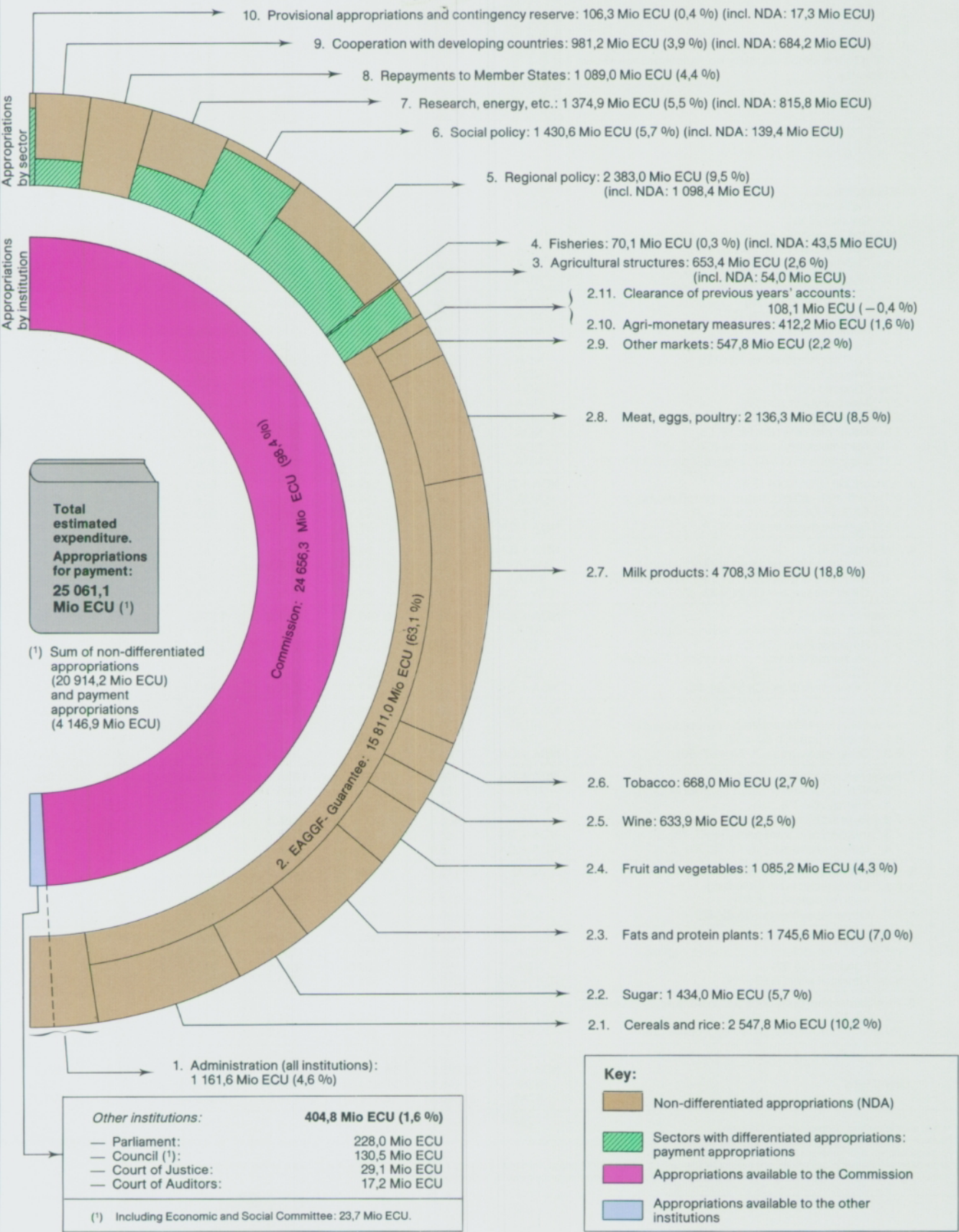
(17) Articles 78g ECSC, 206b EEC, 180b Euratom.

(18) Article 85 of the Financial Regulation.

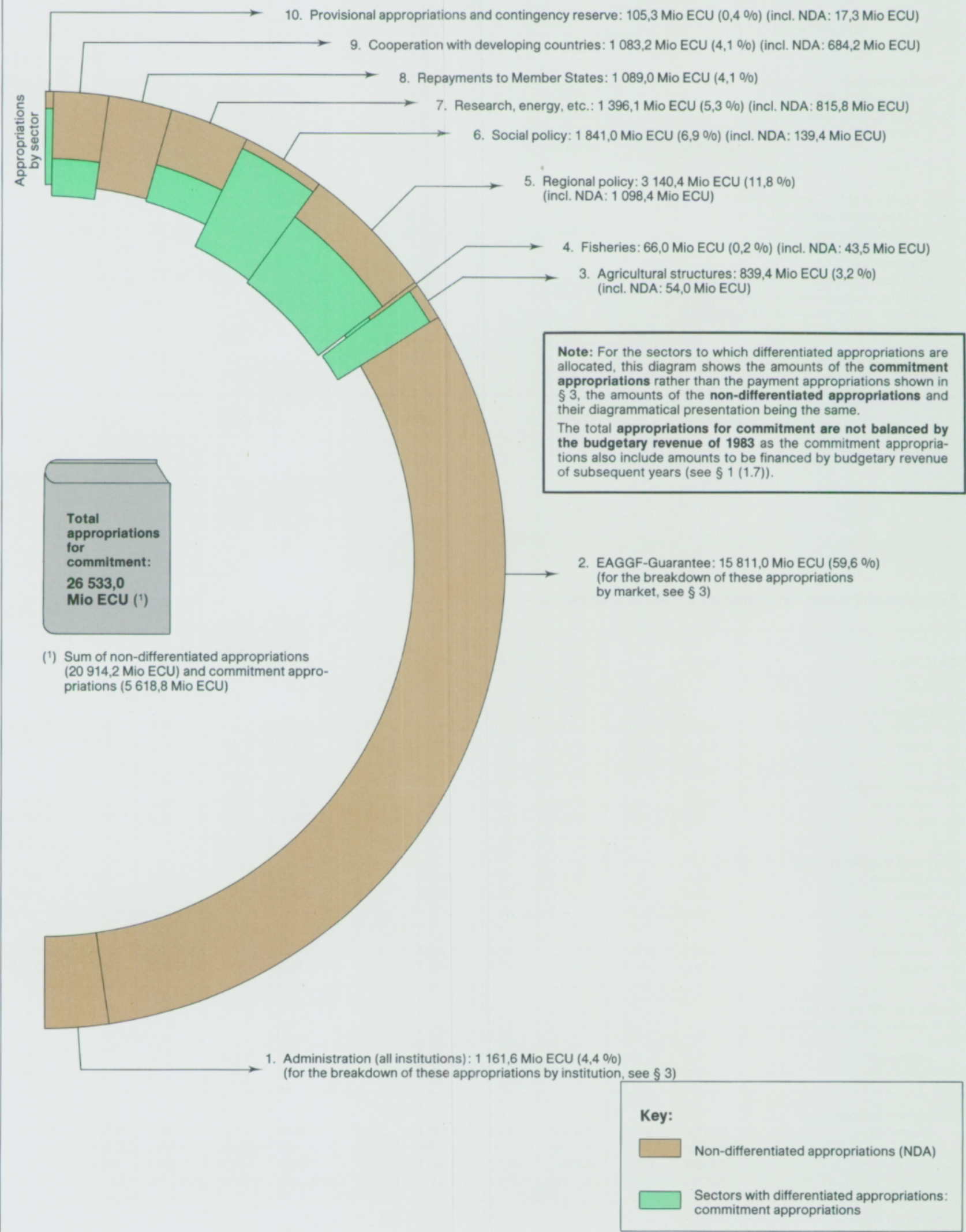
§ 2. General budget 1983: estimated revenue
(see also § 5)



§ 3. General budget 1983: estimated expenditure — appropriations for payment
(for more detailed figures see § 7, column 4)



§ 4. General budget 1983: appropriations for commitment
(for detailed figures see § 6, column 4)



§ 5. Estimated and actual revenue in 1983

A. Estimated and actual revenue in 1983:

Type of revenue	Estimated revenue of the 1983 budget (after amending and supplementary budget)		Actual revenue in 1983	
	Mio ECU	%	Mio ECU	%
1. Own resources:				
— Customs duties	7 234,6	28,9	6 988,7	28,2
— Agricultural levies	1 475,4	5,9	1 347,1	5,5
— Sugar and isoglucose levies	958,6	3,8	948,0	3,8
— VAT 1983	13 691,0	54,6	13 699,0	55,3
— Financial contribution (GNP) 1983				
Greece	217,0	0,9	217,7	0,9
— Balance of VAT and adjustments of financial contributions before 1983	— 190,9	— 0,8	— 186,9	— 0,8
Total own resources	23 385,7	93,3	23 013,6	92,9
2. Other revenue (ECSC contributions; Member States' contributions to supplementary Euratom programmes; deductions from staff remuneration; miscellaneous revenue)	188,7	0,8	265,2	1,1
3. Balances of the financial years 1981 and 1982	1 486,7	5,9	1 486,7	6,0
Total revenue	25 061,1	100	24 765,5	100

B. Estimated and actual own resources in 1983 by Member State:

(Mio ECU)

Type of resource	Belgium	Denmark	FR of Germany	Greece	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	EUR 10
Customs duties:											
— estimated	435,0	160,0	2 080,0	120,0	1 105,0	100,0	690,0	4,6	630,0	1 910,0	7 234,6
— actual	423,8	159,8	2 019,8	107,4	1 051,8	100,4	657,1	4,6	633,2	1 830,8	6 988,7
Agricultural levies:											
— estimated	283,8	7,0	214,0	43,3	77,3	7,0	351,1	0,1	174,3	317,5	1 475,4
— actual	293,9	6,9	143,0	38,0	78,9	7,0	323,2	0,1	135,8	320,3	1 347,1
Sugar and isoglucose levies:											
— estimated	65,4	38,6	271,8	16,7	294,6	11,9	100,1	—	82,9	76,6	958,6
— actual	65,8	38,9	270,5	16,7	293,7	11,6	95,0	—	82,2	73,6	948,0
VAT 1983 ⁽¹⁾ :											
— estimated	480,0	278,7	4 003,5	217,0	3 196,7	134,5	1 916,5	30,8	730,6	2 919,7	13 908,0
— actual	479,6	278,7	4 003,5	217,7	3 190,7	134,0	1 915,8	30,8	729,5	2 936,4	13 916,7
Balance of VAT and adjustments of financial contributions before 1983:											
— estimated	— 47,2	— 4,4	+ 35,4	— 2,1	— 108,6	+ 12,5	+ 7,6	+ 8,4	— 15,8	— 76,7	— 190,9
— actual	— 47,2	— 4,4	+ 35,3	— 2,1	— 108,6	+ 16,6	+ 7,6	+ 8,4	— 15,8	— 76,7	— 186,9
Total own resources:											
— estimated	1 217,0	479,9	6 604,7	394,9	4 565,0	265,9	3 065,3	43,9	1 602,0	5 147,1	23 385,7
	(5,2 %)	(2,1 %)	(28,2 %)	(1,7 %)	(19,5 %)	(1,1 %)	(13,1 %)	(0,2 %)	(6,9 %)	(22,0 %)	(100 %)
— actual	1 215,9	479,9	6 472,1	377,7	4 506,5	269,6	2 998,7	43,9	1 564,9	5 084,4	23 013,6
	(5,3 %)	(2,1 %)	(28,1 %)	(1,6 %)	(19,6 %)	(1,2 %)	(13,0 %)	(0,2 %)	(6,8 %)	(22,1 %)	(100 %)

⁽¹⁾ Greece paid a financial contribution based on its GNP.

§ 6. Appropriations for commitment available in 1983 and their utilisation

(Mio ECU)

Sector (the Sections (S), Titles (T) and Chapters (Ch) corresponding to the 1983 budgetary nomenclature are shown in brackets)		Type of appropriations: non-differentiated appropriations (NDA); commitment appropriations (CA)	Evolution of appropriations			Commitments entered into in 1983	Appropriations remaining available for 1984 ⁽²⁾	Cancellations
			Initial budget 1983	Final budget 1983 ⁽¹⁾	Final appropriations 1983 ⁽²⁾			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (5) - (6) - (7)	
All institutions	1. Administration 1.1. Parliament (S I) 1.2. Council (S II) (of which: Economic and Social Committee) 1.3. Commission (S III, Part A) ⁽⁴⁾ 1.4. Court of Justice (S IV) 1.5. Court of Auditors (S V)	NDA NDA NDA (NDA) NDA NDA NDA	1 153,4 228,0 130,5 (23,7) 748,6 29,1 17,2	1 161,6 228,0 130,5 (23,7) 756,8 29,1 17,2	1 162,9 228,0 130,5 (23,7) 758,1 29,1 17,2	1 118,9 211,5 121,4 (22,1) 743,2 27,5 15,3	0,8 0,4 0,4 (0,1) — — —	43,2 16,1 8,7 (1,5) 14,9 1,6 1,9
Commission (Section III, Part B)	2. EAGGF-Guarantee (T 1, 2) 2.1. Cereals and rice (Ch 10) 2.2. Sugar (Ch 11) 2.3. Fats and protein plants (Ch 12, 13) 2.4. Fruit and vegetables (Ch 15) 2.5. Wine (Ch 16) 2.6. Tobacco (Ch 17) 2.7. Milk products (Ch 20) 2.8. Meat, eggs, poultry (Ch 21 - 24) 2.9. Other markets (Ch 14, 18, 25) 2.10. Agri-monetary measures (Ch 27, 28) 2.11. Clearance of previous years' accounts (Ch 29)	NDA NDA NDA NDA NDA NDA NDA NDA NDA NDA NDA	14 050,0 2 255,0 1 536,0 1 510,0 932,0 469,0 668,0 4 113,0 1 825,0 501,0 241,0 —	15 811,0 2 547,8 1 434,0 1 745,6 1 085,2 633,9 668,0 4 708,3 2 136,3 547,8 412,2 - 108,1	15 822,2 2 538,1 1 316,3 1 767,1 1 196,5 659,3 671,6 4 414,2 2 317,3 560,5 489,4 - 108,1	15 785,8 2 534,1 1 316,2 1 763,2 1 196,1 659,2 671,3 4 396,1 2 310,3 558,8 488,6 - 108,1	— — — — — — — — — — — — —	36,4 4,0 0,1 3,9 0,4 0,1 0,3 18,1 7,0 1,7 0,8 —
	3. Agricultural structures (T 3) (of which: non-differentiated appropriations) 3.1. EAGGF-Guidance (Ch 30 - 33) 3.2. Specific measures (Ch 38)	NDA + CA (NDA) CA NDA + CA	814,5 (36,3) 774,9 39,6	839,4 (54,0) 782,1 57,3	1 042,3 (51,4) 985,0 57,3	899,3 (28,1) 865,9 33,4	98,7 (—) 98,1 0,6	44,3 (23,3) 21,0 23,3
	4. Fisheries (T 4) (of which: non-differentiated appropriations) 4.1. Common organisation of the market (Ch 40) 4.2. Other measures (Ch 41 - 43, 45 - 46)	NDA + CA (NDA) NDA NDA + CA	50,5 (43,5) 37,1 13,4	66,0 (43,5) 37,1 28,9	105,5 (32,9) 25,9 79,6	87,7 (31,6) 25,8 61,9	16,5 (—) — 16,5	1,3 (1,3) 0,1 1,2
	5. Regional policy (T 5) (of which: non-differentiated appropriations) 5.1. Regional Fund (Ch 50, 51) 5.2. Measures in favour of the United Kingdom (Ch 53) 5.3. Other measures (Ch 52, 54, 55)	NDA + CA (NDA) CA NDA NDA + CA	2 220,8 (210,8) 2 010,0 — 210,8	3 140,4 (1 098,4) 2 010,0 887,6 242,8	3 401,0 (1 098,4) 2 270,6 887,6 242,8	3 255,5 (1 096,1) 2 127,4 887,6 240,5	143,2 (—) 143,2 — —	2,3 (2,3) — — 2,3
	6. Social policy (T 6) (of which: non-differentiated appropriations) 6.1. Social Fund (Ch 60 - 62) 6.2. Other measures (Ch 63 - 67, 69)	NDA + CA (NDA) CA NDA + CA	1 821,0 (119,4) 1 696,5 124,5	1 841,0 (139,4) 1 696,5 144,5	2 094,5 (140,2) 1 949,2 145,3	2 007,6 (128,1) 1 877,7 129,9	74,8 (—) 71,5 3,3	12,1 (12,1) — 12,1
	7. Research, energy, etc. (T 7) (of which: non-differentiated appropriations) 7.1. Energy (Ch 70) 7.2. Research and investment (Ch 73) 7.3. Industry and transport (Ch 77, 78) 7.4. Other measures (Ch 71, 72, 75)	NDA + CA (NDA) NDA + CA CA NDA + CA NDA + CA	565,2 (25,0) 75,6 425,8 45,8 18,0	1 395,1 (815,8) 895,1 435,7 47,3 18,0	1 630,7 (825,9) 951,9 535,5 118,7 24,6	1 537,4 (818,4) 934,0 489,6 96,1 17,7	81,0 (—) 12,8 41,3 20,6 6,3	12,3 (7,5) 5,1 4,6 2,0 0,6
	8. Repayments to Member States (T 8) 8.1. Costs incurred in collecting own resources (Ch 80) 8.2. Other repayments (Ch 82, 86)	NDA NDA NDA	1 122,9 1 014,6 108,3	1 089,0 966,9 122,1	1 089,0 966,9 122,1	1 050,1 928,5 121,6	— — —	38,9 38,4 0,5
	9. Cooperation with developing countries (T 9) (of which: non-differentiated appropriations) 9.1. Food aid (Ch 92) 9.2. Financial aid (Ch 93 - 99)	NDA + CA (NDA) NDA NDA + CA	1 068,6 (669,5) 558,0 510,6	1 083,2 (684,2) 558,0 525,2	1 291,6 (705,6) 542,0 749,6	1 060,6 (701,9) 541,2 519,4	197,4 (—) — 197,4	33,6 (3,7) 0,8 32,8
	10. Provisional appropriations and contingency reserve (Ch 100, 101) (of which: non-differentiated appropriations)	CND + CA (CND)	121,3 (17,3)	105,3 (17,3)	41,3 (5,9)	— (—)	— (—)	41,3 (5,9)
Grand total		NDA + CA (NDA) (CA)	22 988,2 (17 448,1) (5 540,1)	26 533,0 (20 914,2) (5 618,8)	27 681,0 (20 934,4) (6 746,6)	26 802,9 (20 759,0) (6 043,9)	612,4 (0,8) (611,6)	265,7 (174,6) (91,1)

⁽¹⁾ After amending and supplementary budgets.⁽²⁾ Budget appropriations amended after taking account of commitment appropriations remaining from 1982, appropriations corresponding to receipts for services performed on behalf of outside bodies and transfers between budget headings.⁽³⁾ Non-differentiated appropriations not automatically carried over to 1984 and commitment appropriations remaining at the closure of the 1983 accounts.⁽⁴⁾ Including amounts corresponding to provisional appropriations and contingency reserve in Section III, Part A.

§ 7. Appropriations for payment available in 1983 and their utilisation

(Mio ECU)

Sector (for the corresponding terms and budget headings see § 6, column 1)	Type of appropriations: non-differentiated appropriations (NDA); payment appropriations (PA)	A. Appropriations of the financial year 1983						B. Carry-overs from 1982				C. Total pay- ments made in 1983
		Evolution of appropriations			Payments made in 1983	Carry-overs to 1984	Cancellations	Appropriations car- ried over from 1982 (after transfers)	Payments made in 1983	Carry-overs to 1984	Cancellations	
		Initial budget 1983	Final budget 1983 ⁽¹⁾	Final appro- priations 1983 ⁽²⁾								
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) = (5) - (6) - (7)	(9)	(10)	(11)	(12) = (9) - (10) - (11)	(13) = (6) + (10)
1. Administration	NDA	1 153,4	1 161,6	1 162,9	1 019,2	100,5	43,2	106,7	91,2	—	15,5	1 110,4
1.1. Parliament	NDA	228,0	228,0	228,0	182,3	29,6	16,1	36,8	32,5	—	4,3	214,8
1.2. Council	NDA	130,5	130,5	130,5	109,4	12,4	8,7	8,5	7,3	—	1,2	116,7
(of which: Economic and Social Committee)	(NDA)	(23,7)	(23,7)	(23,7)	(21,7)	(0,5)	(1,5)	(0,8)	(0,7)	(—)	(0,1)	(22,4)
1.3. Commission ⁽³⁾	NDA	748,6	756,8	758,1	686,9	56,3	14,9	58,9	49,4	—	9,5	736,3
1.4. Court of Justice	NDA	29,1	29,1	29,1	25,8	1,7	1,6	1,5	1,4	—	0,1	27,2
1.5. Court of Auditors	NDA	17,2	17,2	17,2	14,8	0,5	1,9	1,0	0,6	—	0,4	15,4
2. EAGGF-Guarantee	NDA	14 050,0	15 811,0	15 822,2	15 785,7	0,1	36,4	2,6	2,5	—	0,1	15 788,2
2.1. Cereals and rice	NDA	2 255,0	2 547,8	2 538,1	2 534,1	—	4,0	—	—	—	—	2 534,1
2.2. Sugar	NDA	1 536,0	1 434,0	1 316,3	1 316,2	—	0,1	—	—	—	—	1 316,2
2.3. Fats and protein plants	NDA	1 510,0	1 745,6	1 767,1	1 763,2	0,0	3,9	1,6	1,5	—	0,1	1 764,7
2.4. Fruit and vegetables	NDA	932,0	1 085,2	1 196,5	1 196,1	—	0,4	—	—	—	—	1 196,1
2.5. Wine	NDA	469,0	633,9	659,3	659,2	—	0,1	—	—	—	—	659,2
2.6. Tobacco	NDA	668,0	668,0	671,6	671,3	—	0,3	—	—	—	—	671,3
2.7. Milk products	NDA	4 113,0	4 708,3	4 414,2	4 396,1	—	18,1	—	—	—	—	4 396,1
2.8. Meat, eggs, poultry	NDA	1 825,0	2 136,3	2 317,3	2 310,3	—	7,0	—	—	—	—	2 310,3
2.9. Other markets	NDA	501,0	547,8	560,5	558,7	0,1	1,7	1,0	1,0	—	0,0	559,7
2.10. Agri-monetary measures	NDA	241,0	412,2	489,4	488,6	—	0,8	—	—	—	—	488,6
2.11. Clearance of previous years' accounts	NDA	—	— 108,1	— 108,1	— 108,1	—	—	—	—	—	—	— 108,1
3. Agricultural structures	NDA + PA	651,2	653,4	668,5	513,7	131,5	23,3	397,3	236,0	—	161,3	749,7
(of which: NDA)	(NDA)	(36,3)	(54,0)	(51,4)	(22,5)	(5,6)	(23,3)	(124,7)	(61,8)	(—)	(62,9)	(84,3)
3.1. EAGGF-Guidance	NDA + PA	612,7	597,2	612,3	488,5	123,8	—	391,2	231,2	—	160,0	719,7
(of which: NDA)	(NDA)	(—)	(—)	(—)	(—)	(—)	(—)	(120,2)	(58,6)	(—)	(61,6)	(58,6)
3.2. Specific measures	NDA + PA	38,5	56,2	56,2	25,2	7,7	23,3	6,1	4,8	—	1,3	30,0
4. Fisheries	NDA + PA	70,1	70,1	45,7	31,9	12,5	1,3	30,4	22,9	—	7,5	54,8
(of which: NDA)	(NDA)	(43,5)	(43,5)	(32,9)	(28,8)	(2,8)	(1,3)	(0,4)	(0,2)	(—)	(0,2)	(29,0)
4.1. Common organisation of the market	NDA	37,1	37,1	25,9	25,8	—	0,1	—	—	—	—	25,8
4.2. Other measures	NDA + PA	33,0	33,0	19,8	6,1	12,5	1,2	30,4	22,9	—	7,5	29,0
5. Regional policy	NDA + PA	1 469,8	2 383,0	2 383,0	2 265,5	115,2	2,3	174,4	140,3	—	34,1	2 405,8
(of which: NDA)	(NDA)	(210,8)	(1 098,4)	(1 098,4)	(1 088,2)	(7,9)	(2,3)	(36,6)	(36,1)	(—)	(0,5)	(1 124,3)
5.1. Regional Fund	PA	1 259,0	1 259,0	1 259,0	1 151,7	107,3	—	137,8	104,2	—	33,6	1 255,9
5.2. Measures for the UK	NDA	—	887,6	887,6	887,6	—	—	—	—	—	—	887,6
5.3. Other measures	NDA	210,8	236,4	236,4	226,2	7,9	2,3	36,6	36,1	—	0,5	262,3
6. Social policy	NDA + PA	1 410,6	1 430,6	1 430,7	801,0	617,7	12,0	226,8	219,9	—	6,9	1 020,9
(of which: NDA)	(NDA)	(119,4)	(139,4)	(140,2)	(90,4)	(37,8)	(12,0)	(41,5)	(37,0)	(—)	(4,5)	(127,4)
6.1. Social Fund	PA	1 285,5	1 285,5	1 285,5	709,6	575,9	—	183,3	181,3	—	2,0	890,9
6.2. Other measures	NDA + PA	125,1	145,1	145,2	91,4	41,8	12,0	43,5	38,6	—	4,9	130,0
7. Research, energy, etc.	NDA + PA	541,7	1 374,9	1 395,2	1 216,2	166,7	12,3	121,5	91,5	7,5	22,5	1 307,7
(of which: NDA)	(NDA)	(25,0)	(815,8)	(825,9)	(796,8)	(21,5)	(7,6)	(13,8)	(12,8)	(—)	(1,0)	(809,6)
7.1. Energy	NDA + PA	63,5	882,9	882,8	806,6	71,2	5,0	30,4	21,4	—	9,0	828,0
7.2. Research and investment	PA	409,3	421,6	430,4	375,3	50,3	4,8	56,7	48,0	7,5	1,2	423,3
7.3. Industry and transport	NDA + PA	52,0	53,5	66,0	28,2	35,8	2,0	26,3	16,5	—	9,8	44,7
7.4. Other measures	NDA + PA	16,9	16,9	16,0	6,1	9,4	0,5	8,1	5,6	—	2,5	11,7
8. Repayments to Member States	NDA	1 122,9	1 089,0	1 089,0	950,6	99,5	38,9	116,0	114,1	—	1,9	1 064,7
8.1. Costs incurred in collecting own resources	NDA	1 014,6	966,9	966,9	852,0	76,5	38,4	71,5	69,9	—	1,6	921,9
8.2. Other repayments	NDA	108,3	122,1	122,1	98,6	23,0	0,5	44,5	44,2	—	0,3	142,8
9. Cooperation with developing coun- tries	NDA + PA	966,5	981,2	984,6	517,8	463,1	3,7	345,3	293,0	—	52,3	810,8
(of which: NDA)	(NDA)	(669,5)	(684,2)	(705,6)	(403,8)	(298,1)	(3,7)	(116,5)	(106,7)	(—)	(9,8)	(510,5)
9.1. Food aid	NDA	558,0	558,0	542,0	324,6	216,6	0,8	72,3	64,1	—	8,2	388,7
9.2. Financial aid	NDA + PA	408,5	423,2	442,6	193,2	246,5	2,9	273,0	228,9	—	44,1	422,1
10. Provisional appropriations and con- tingency reserve	NDA + PA	122,3	106,3	87,0	—	—	87,0	—	—	—	—	—
(of which: NDA)	(NDA)	(17,3)	(17,3)	(5,9)	(—)	(—)	(5,9)	(—)	(—)	(—)	(—)	(—)
Grand total	NDA + PA (NDA) (PA)	21 558,5 (17 448,1) (4 110,4)	25 061,1 (20 914,2) (4 146,9)	25 068,8 (20 934,4) (4 134,4)	23 101,6 (20 186,0) (2 915,6)	1 706,8 (573,8) (1 133,0)	260,4 (174,6) (85,8)	1 521,0 (558,8) (962,2)	1 211,4 (462,4) (749,0)	7,5 (—) (7,5)	302,1 (96,4) (205,7)	24 313,0 (20 648,4) (3 664,6)

⁽¹⁾ After amending and supplementary budgets.⁽²⁾ Budget appropriations amended after taking account of transfers between budget headings and receipts for services performed on behalf of outside bodies.⁽³⁾ Including amounts corresponding to provisional appropriations and contingency reserve in Section III, Part A.

§ 8. Actual own resources in 1983
(for basic figures, see § 5)



§ 9. Rate of utilisation of appropriations available in 1983

I. Final appropriations for commitment in 1983
(see § 6, columns 5 to 8)

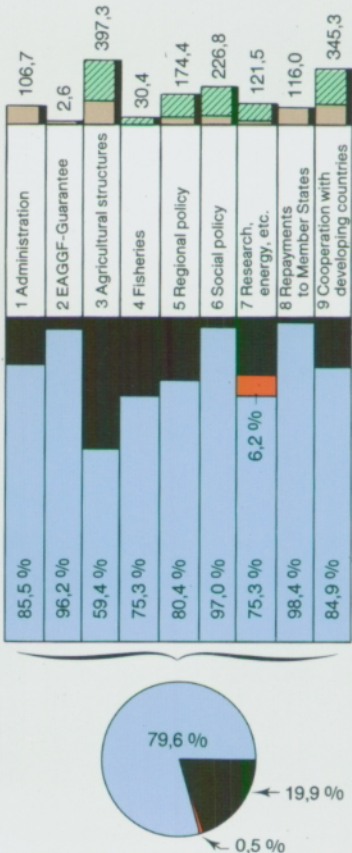
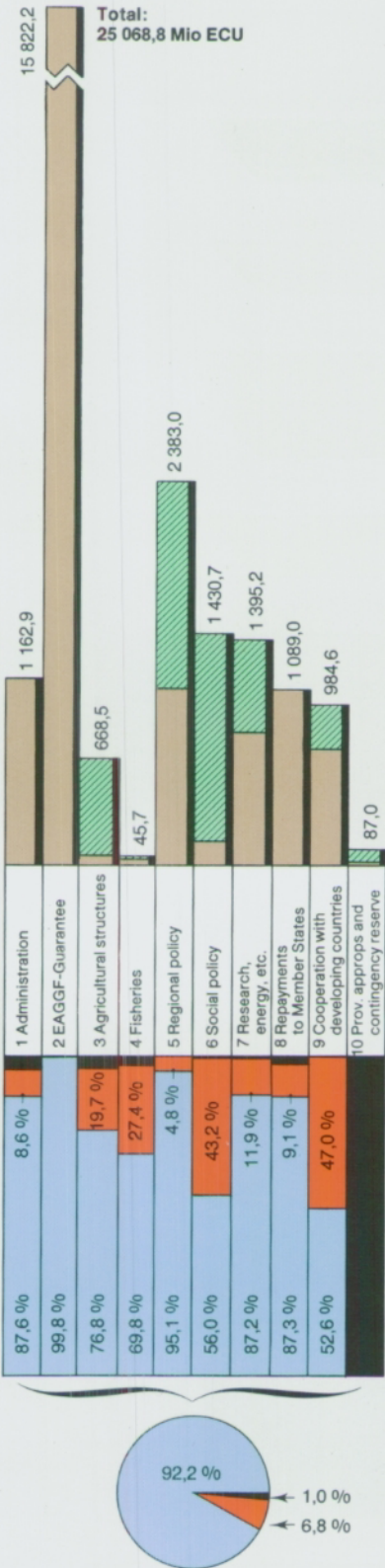
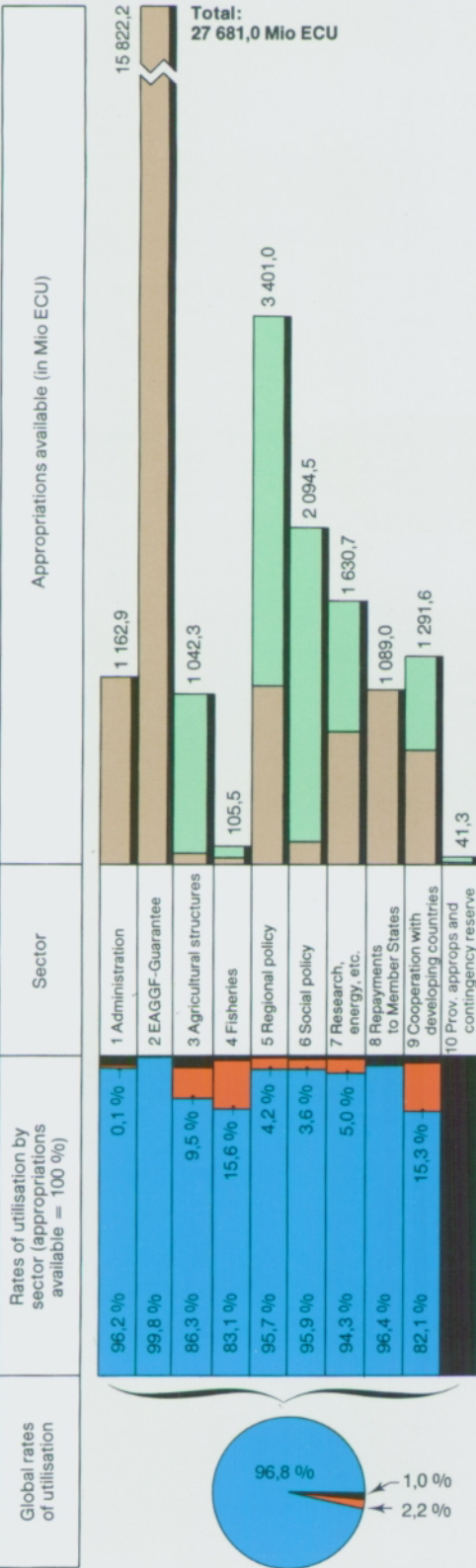
II. Final 1983 appropriations for payment
(see § 7, columns 5 to 8)

Key:

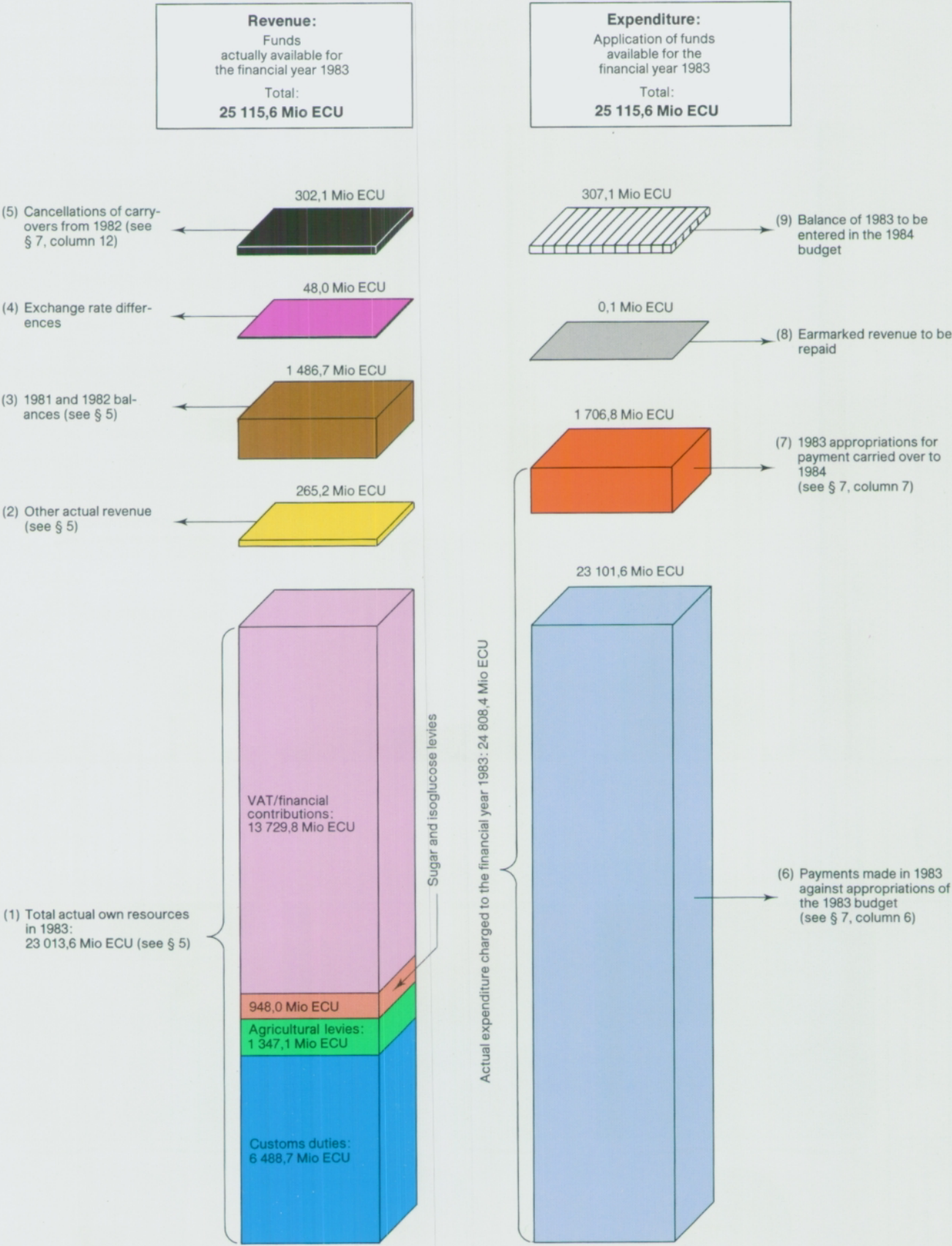
- Non-differentiated appropriations
- Commitment appropriations
- Payment appropriations
- Rate of commitment
- Rate of payment
- Rate of unused appropriations remaining available for 1984 (appropriations remaining and/or carried over)
- Cancellations

III. Appropriations for payment carried over from 1982
(see § 7, columns 9 to 12)

Total: 1 521,0 Mio ECU



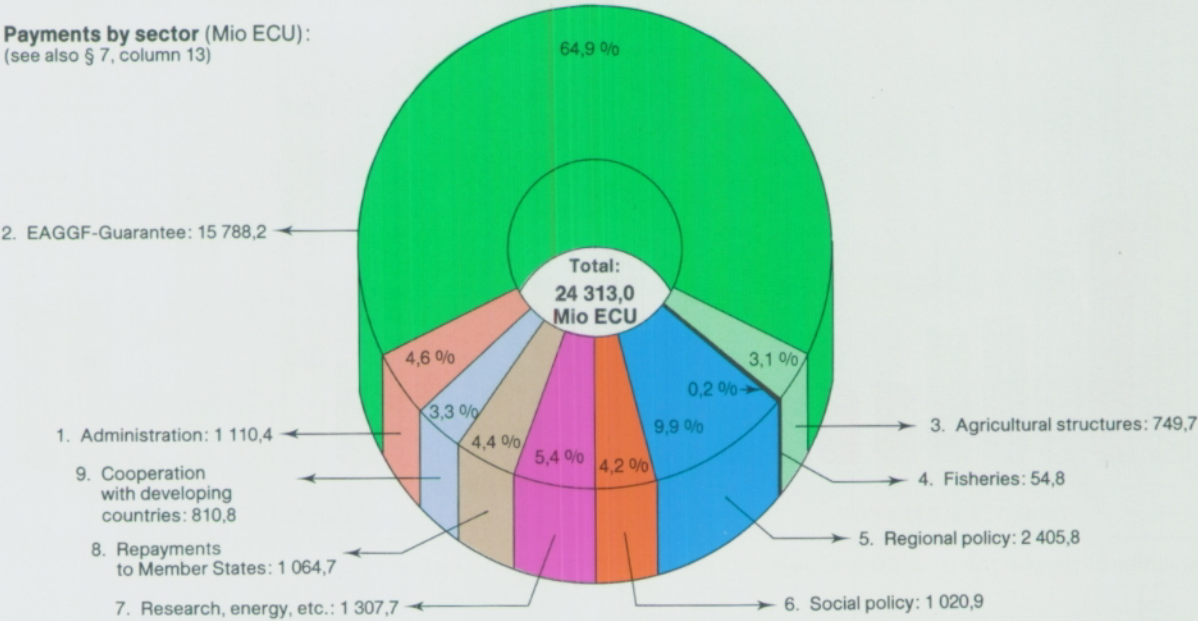
§ 10. The consolidated revenue and expenditure account and the balance of the financial year 1983
(application of Article 15 of Council Regulation (EEC, Euratom, ECSC) No 2891/77)



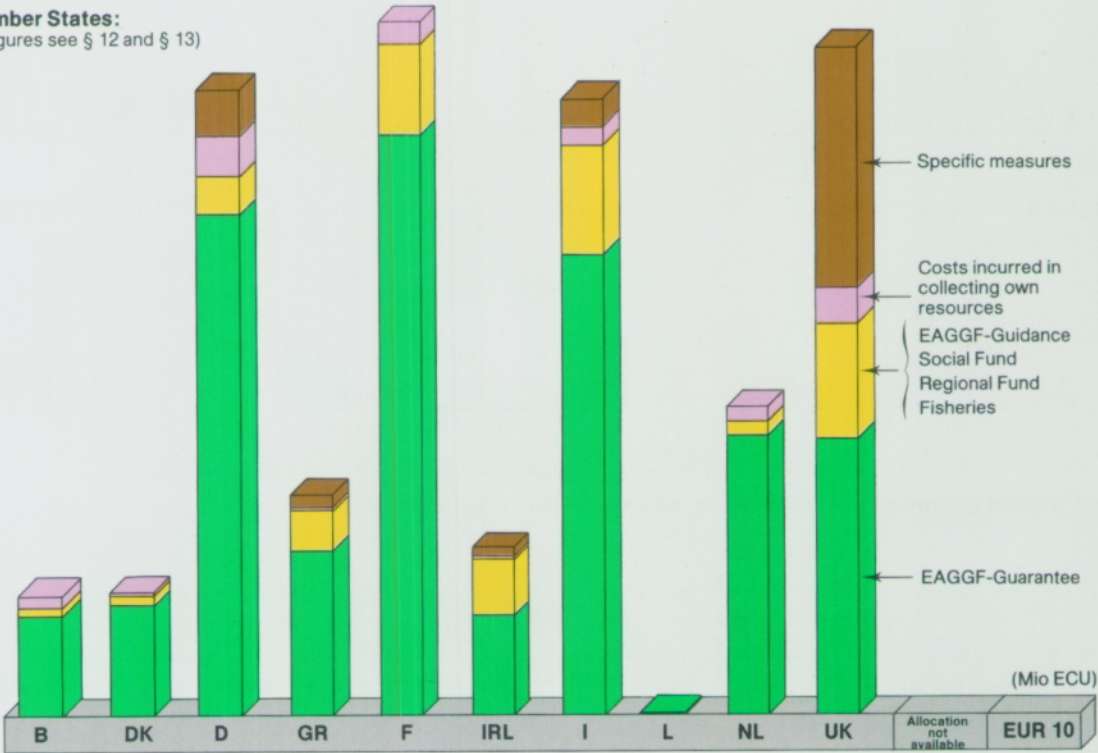
§ 11. Payments made in 1983 — by sector and by recipient Member State

Note: Payments made in 1983 = payments against 1983 appropriations plus payments against carry-overs from 1982

A. Payments by sector (Mio ECU):
(see also § 7, column 13)



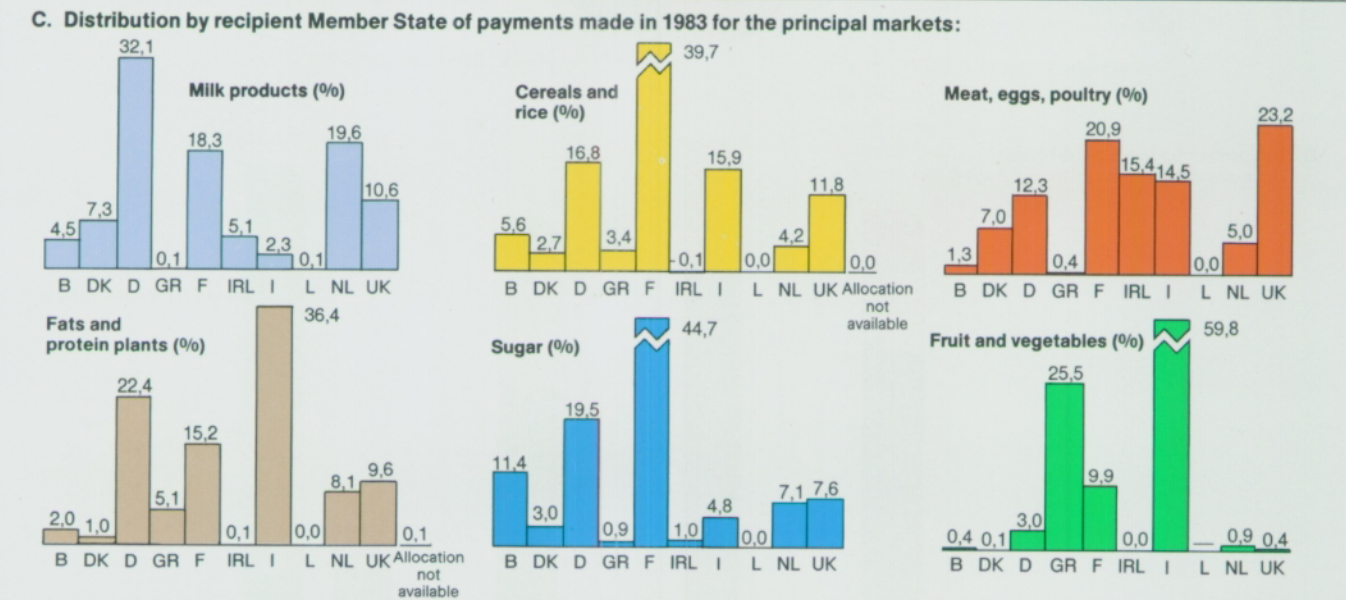
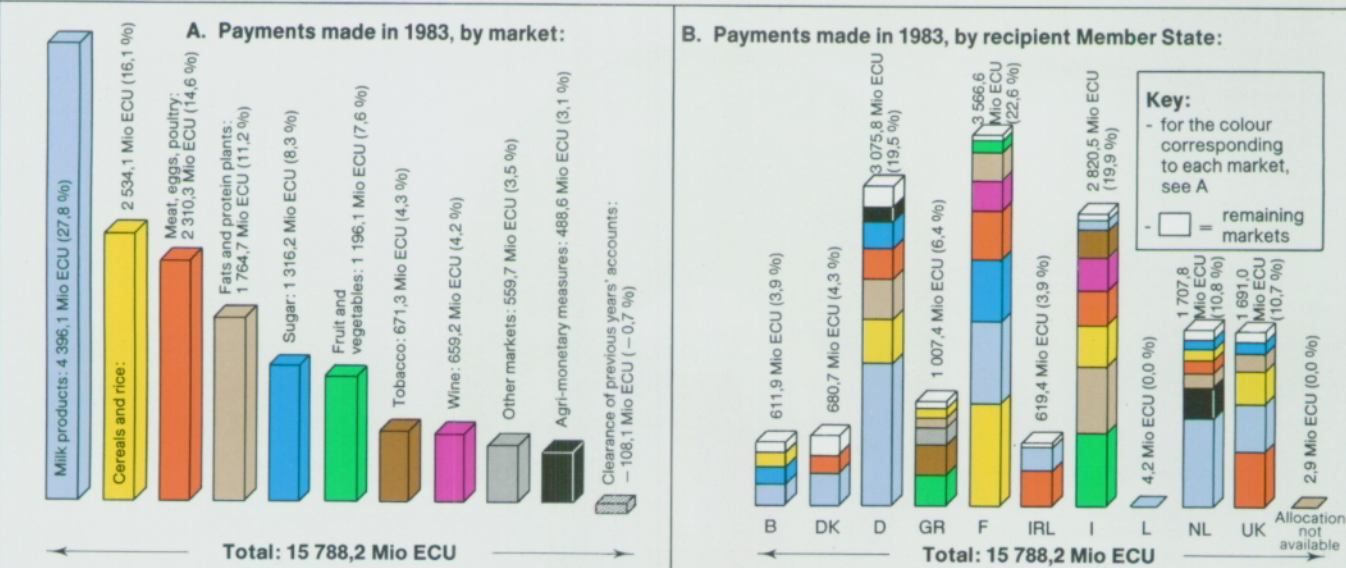
B. Payments to Member States:
(for more detailed figures see § 12 and § 13)



EAGGF-Guarantee(T1-2)(1)	611,9	680,7	3 075,8	1 007,4	3 566,6	619,4	2 820,5	4,2	1 707,8	1 691,0	2,9	15 788,2
EAGGF-Guidance (Ch 30-33)	18,1	20,5	107,7	21,9	182,0	84,1	103,0	0,6	32,2	149,6	—	719,7
Social Fund (Ch 60-62)	20,6	14,7	81,5	20,4	140,5	134,2	221,2	0,3	12,6	244,9	—	890,9
Regional Fund (Ch 50-51)	7,0	16,7	45,0	214,6	219,3	94,5	344,5	0,0	18,1	296,2	—	1 255,9
Fisheries (Ch 40-43,45-46)	0,2	3,6	2,8	0,1	3,9	21,6	5,1	—	6,4	8,4	2,7	54,8
Costs incurred in collecting own resources (Ch 80)	77,7	20,3	241,8	16,6	142,5	11,6	105,9	0,5	83,4	221,6	—	921,9
Specific measures (Ch 52, 53, 82, 86; Article 707)	—	—	270,7	70,4	—	60,8	174,8	—	—	1 471,9	—	2 048,6
Total	735,5 (3,4 %)	756,5 (3,5 %)	3 825,3 (17,7 %)	1 351,4 (6,2 %)	4 254,8 (19,6 %)	1 026,2 (4,7 %)	3 775,0 (17,4 %)	5,6 (0,0 %)	1 860,5 (8,6 %)	4 083,6 (18,9 %)	5,6 (0,0 %)	21 680,0 (100 %)

(1) For the EAGGF-Guarantee these figures include adjusted monetary compensatory amounts (see § 12 D, footnote (1)).

§ 12. EAGGF-Guarantee: payments made in 1983 — by market and by recipient Member State



D. Record of payments made in 1983, by recipient Member State and by market: (Mio ECU)

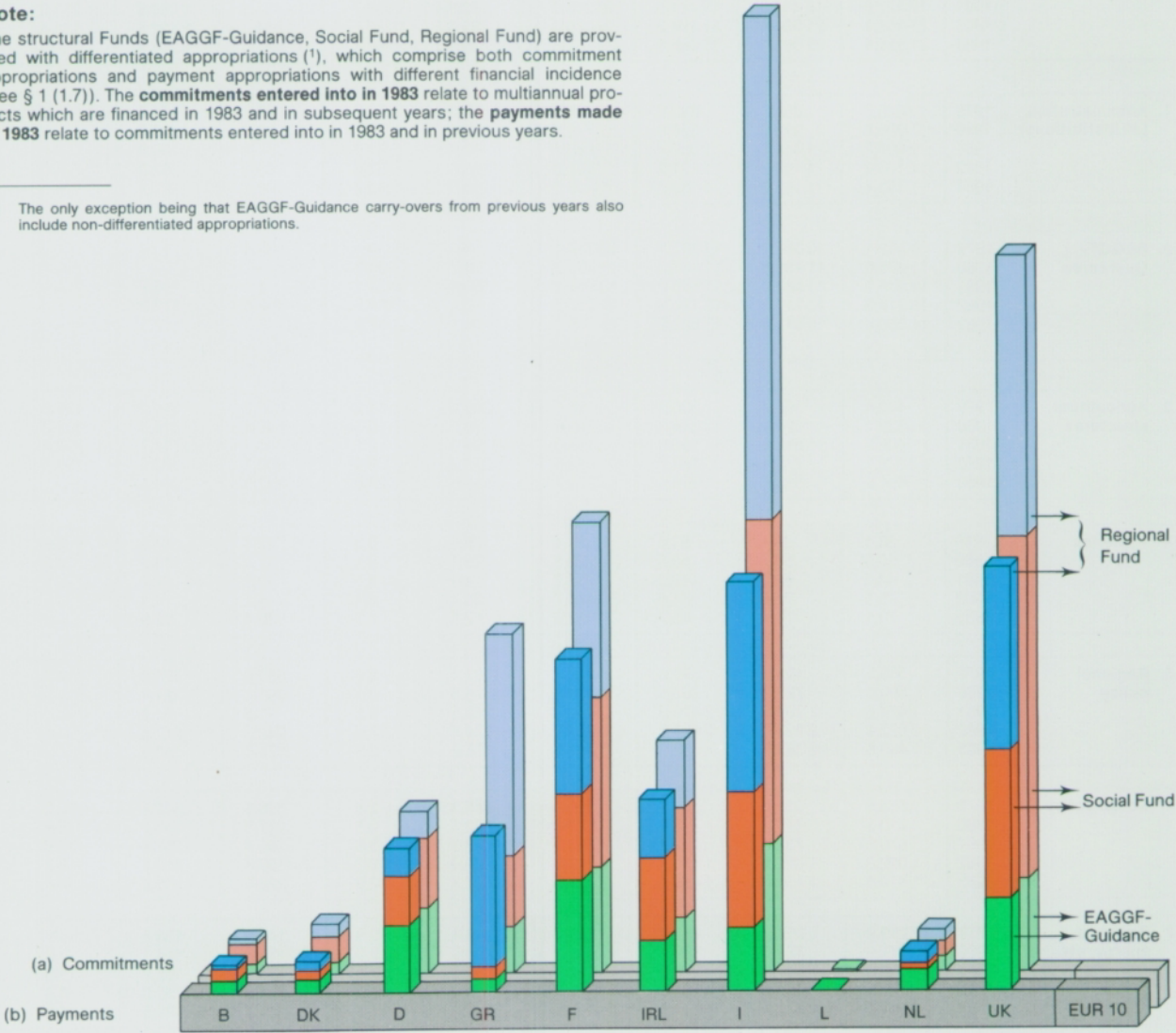
Market	B	DK	D	GR	F	IRL	I	L	NL	UK	Allocation not available	EUR 10
2.1. Cereals and rice	142,0	66,7	426,2	86,7	1 005,9	-2,8	403,5	0,2	107,0	298,6	0,1	2 534,1
2.2. Sugar	150,3	39,9	256,4	11,8	588,5	12,5	63,4	0,0	93,2	100,2	-	1 316,2
2.3. Fats and protein plants	36,3	17,4	396,0	89,6	268,7	1,0	642,2	0,0	142,8	169,0	1,7	1 764,7
2.4. Fruit and vegetables	5,1	1,4	35,7	305,0	118,0	0,1	715,6	-	10,7	4,5	-	1 196,1
2.5. Wine	-	0,0	24,4	33,6	287,9	-	313,0	0,0	0,0	0,3	-	659,2
2.6. Tobacco	5,9	-	36,2	294,2	73,9	-	260,7	-	0,4	-	-	671,3
2.7. Milk products	197,9	322,0	1 409,4	6,1	804,2	226,0	101,7	4,1	859,6	465,1	-	4 396,1
2.8. Meat, eggs, poultry	30,6	162,3	285,1	10,0	481,9	354,9	334,5	0,0	115,6	535,4	-	2 310,3
2.9. Other markets	21,6	41,6	57,3	144,8	59,6	20,7	35,2	0,1	89,9	87,8	1,1	559,7
2.10. Agri-monetary measures (1)	27,4	27,3	147,5	25,6	-55,8	-0,2	-1,2	0,1	291,7	26,2	-	488,6
2.11. Clearance of previous years' accounts	-5,2	2,1	1,6	-	-66,2	7,2	-48,1	-0,3	-3,1	3,9	-	-108,1
Total	611,9	680,7	3 075,8	1 007,4	3 566,6	619,4	2 820,5	4,2	1 707,8	1 691,0	2,9	15 788,2

(1) The agri-monetary measures include monetary compensatory amounts (MCAs) adjusted to cancel the effect of the application of Article 2 of Council Regulation (EEC) No 974/71, under which exporting Member States themselves pay directly the MCAs due on import into certain importing Member States. The MCA adjustment consists in allocating to these importing Member States the amounts which are chargeable to them.

§ 13. The structural Funds: commitments entered into and payments made in 1983 — by recipient Member State

Note:
The structural Funds (EAGGF-Guidance, Social Fund, Regional Fund) are provided with differentiated appropriations ⁽¹⁾, which comprise both commitment appropriations and payment appropriations with different financial incidence (see § 1 (1.7)). The **commitments entered into in 1983** relate to multiannual projects which are financed in 1983 and in subsequent years; the **payments made in 1983** relate to commitments entered into in 1983 and in previous years.

⁽¹⁾ The only exception being that EAGGF-Guidance carry-overs from previous years also include non-differentiated appropriations.



EAGGF-Guidance:												
(a) Commitments	12,9	18,6	107,8	75,6	170,7	92,1	212,3	1,2	24,0	150,7	865,9	
(b) Payments	18,1	20,5	107,7	21,9	182,0	84,1	103,0	0,6	32,2	149,6	719,7	
Social Fund:												
(a) Commitments	33,9	42,2	114,9	114,2	278,4	182,8	527,3	1,1	24,3	558,6	1 877,7	
(b) Payments	20,6	14,7	81,5	20,4	140,5	134,2	221,2	0,3	12,6	244,9	890,9	
Regional Fund:												
(a) Commitments	8,9	22,4	43,7	361,5	285,4	106,5	819,0	—	20,1	459,9	2 127,4	
(b) Payments	7,0	16,7	45,0	214,6	219,3	94,5	344,5	0,0	18,1	296,2	1 255,9	
Total												
(a) Commitments	55,7	83,2	266,4	551,3	734,5	381,4	1 558,6	2,3	68,4	1 169,2	4 871,0	
(b) Payments	45,7	51,9	234,2	256,9	541,8	312,8	668,7	0,9	62,9	690,7	2 866,5	

(Mio ECU)

§ 14. Evolution and utilisation of the appropriations for payment for the period 1979-1983 — by sector

(1979-1980: Mio EUA)
(1981-1983: Mio ECU)

Sector and financial year		A. Appropriations for payment for the financial year						B. Carry-overs from the previous financial year			
		Evolution of appropriations			Payments	Carry-overs to the following financial year	Cancellations	Final carry-overs (2)	Payments	Carry-overs to the following financial year	Cancellations (4)
		Initial budget	Final budget (1)	Final appropriations (2)							
		(1)	(2)	(3)	(4)	(5)	(6) = (3) - (4) - (5)	(7)	(8)	(9)	(10) = (7) - (8) - (9)
General budget -total- (5)	1979	13 494,4	14 447,0	14 488,3	12 925,3	1 450,7	112,3	2 098,9	1 441,8	457,9	199,2
	1980	15 683,1	16 182,5	16 233,3	14 866,7	1 108,4	258,2	1 869,8	1 423,7	329,4	116,7
	1981	19 327,6	18 434,0	18 441,5	16 712,0	1 172,8	556,7	1 435,1	1 080,8	231,3	123,0
	1982	21 984,4	21 984,4	21 994,3	19 320,3	1 385,5	1 288,5	1 404,1	1 102,4	135,4	166,3
	1983	21 558,5	25 061,1	25 068,8	23 101,6	1 706,8	260,4	1 521,0	1 211,4	7,5	302,1
1. Administration (all institutions)	1979	828,7	858,7	860,8	726,9	56,2	77,7	52,8	44,7	—	8,1
	1980	929,6	929,6	896,8	771,5	66,3	59,0	56,2	48,2	—	8,0
	1981	1 007,7	1 015,7	1 037,7	886,1	69,9	81,7	66,2	56,8	—	9,4
	1982	1 103,2	1 103,2	1 121,2	957,0	106,6	57,6	69,9	53,3	—	16,6
	1983	1 153,4	1 161,6	1 162,9	1 019,2	100,5	43,2	106,7	91,2	—	15,5
2. EAGGF-Guarantee	1979	9 582,1	10 384,1	10 387,1	10 387,1	—	—	30,4	30,4	—	—
	1980	11 485,5	11 485,5	11 482,2	11 283,2	8,7	190,3	—	—	—	—
	1981	12 675,0	11 580,0	11 538,0	10 951,5	162,4	424,1	8,7	8,7	—	—
	1982	13 217,3	13 217,3	13 124,3	12 257,3	2,7	864,3	162,4	112,2	—	50,2
	1983	14 050,0	15 811,0	15 822,2	15 785,7	0,1	36,4	2,6	2,5	—	0,1
3. Agricultural structures	1979	403,4	326,7	300,2	93,6	205,4	1,2	856,3	314,5	434,9	106,9
	1980	320,1	320,1	324,2	285,6	38,5	0,1	648,4	316,3	305,2	26,9
	1981	468,9	518,9	553,0	457,0	93,3	2,7	343,7	117,7	209,4	16,6
	1982	772,1	772,1	763,7	483,5	277,2	3,0	302,7	162,6	120,1	20,0
	1983	651,2	653,4	668,5	513,7	131,5	23,3	397,3	236,0	—	161,3
4. Fisheries	1979	36,1	36,1	53,6	27,4	25,9	0,3	23,3	17,9	0,5	4,9
	1980	50,7	50,7	58,0	29,8	28,1	0,1	17,0	13,9	0,1	3,0
	1981	44,3	49,3	49,9	37,7	4,1	8,1	12,7	12,2	—	0,5
	1982	75,8	75,8	81,5	50,7	30,4	0,4	4,1	4,1	—	—
	1983	70,1	70,1	45,7	31,9	12,5	1,3	30,4	22,9	—	7,5
5. Regional policy	1979	553,5	499,5	699,5	318,4	381,1	0,0	353,6	353,6	—	0,0
	1980	603,5	723,2	797,1	722,2	71,8	3,1	381,1	381,1	—	—
	1981	1 674,8	1 797,9	2 416,9	2 164,6	242,5	9,8	71,8	71,8	—	0,0
	1982	2 823,0	2 823,0	2 957,8	2 765,8	174,4	17,6	242,5	242,5	—	—
	1983	1 469,8	2 383,0	2 383,0	2 265,5	115,2	2,3	174,4	140,3	—	34,1
6. Social policy	1979	532,5	532,5	560,7	313,0	245,3	2,4	336,8	312,0	22,5	2,3
	1980	410,2	776,6	775,5	522,2	252,8	0,5	267,8	249,6	16,6	1,6
	1981	670,6	732,6	732,7	580,9	148,5	3,3	269,4	255,8	10,9	2,7
	1982	1 022,3	1 022,3	1 130,7	910,0	220,0	0,7	159,4	150,6	6,7	2,1
	1983	1 410,6	1 430,6	1 430,7	801,0	617,7	12,0	226,8	219,9	—	6,9
7. Research, energy, etc.	1979	259,9	259,9	291,3	147,1	143,3	0,9	174,0	133,5	—	40,5
	1980	371,9	371,9	384,9	195,4	188,6	0,9	125,8	116,1	7,5	2,2
	1981	302,0	309,0	318,0	214,3	96,5	7,2	193,5	162,9	11,0	19,6
	1982	410,4	410,4	462,6	345,7	112,9	4,0	107,5	92,0	8,6	6,9
	1983	541,7	1 374,9	1 395,2	1 216,2	166,7	12,3	121,5	91,5	7,5	22,5
8. Repayments to Member States	1979	691,9	721,1	766,5	681,1	85,4	—	60,9	60,5	—	0,4
	1980	834,5	847,8	847,8	761,0	86,8	—	85,4	85,4	—	0,0
	1981	1 506,6	1 431,9	969,1	869,5	97,1	2,5	86,8	86,8	—	—
	1982	1 120,9	1 120,9	1 123,8	952,2	116,0	55,6	97,1	97,1	—	—
	1983	1 122,9	1 089,0	1 089,0	950,6	99,5	38,9	116,0	114,1	—	1,9
9. Cooperation with developing countries	1979	494,9	494,9	541,6	230,7	308,1	2,8	210,8	174,7	—	36,1
	1980	620,4	620,4	666,8	295,8	366,8	4,2	288,1	213,1	—	75,0
	1981	603,6	791,3	816,2	550,4	258,5	7,3	382,3	308,1	—	74,2
	1982	803,3	803,3	945,3	598,1	345,3	1,9	258,5	188,0	—	70,5
	1983	966,5	981,2	984,6	517,8	463,1	3,7	345,3	293,0	—	52,3

(1) After amending and supplementary budgets.

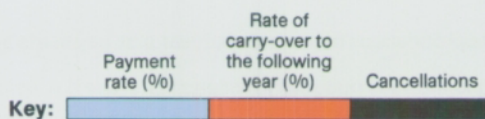
(2) After supplementary receipts and transfers.

(3) After transfers between budget headings and 'transfers' to the appropriations for the current financial year.

(4) For certain sectors, including adjustments of balances of commitments due to variations in the EUA and ECU rates.

(5) For columns (1), (2), (3) and (6), including the amounts appearing in the provisional appropriations and contingency reserve.

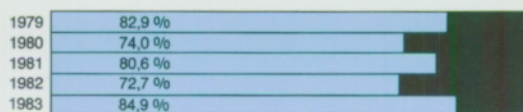
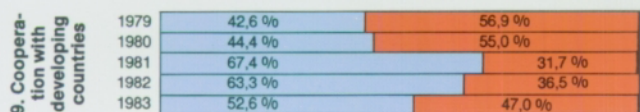
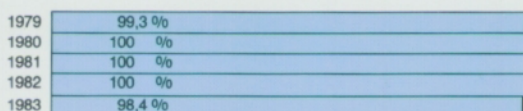
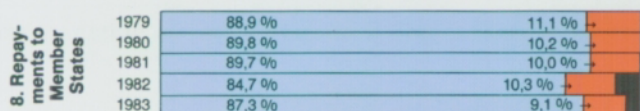
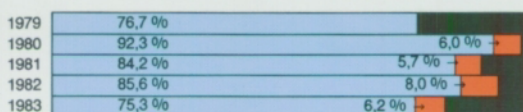
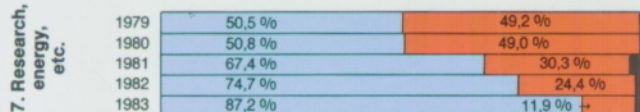
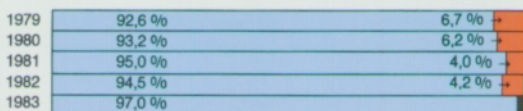
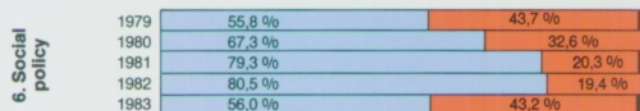
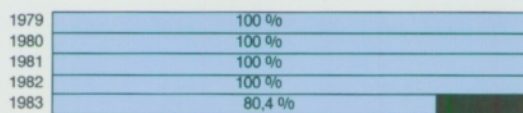
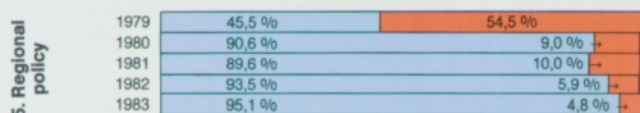
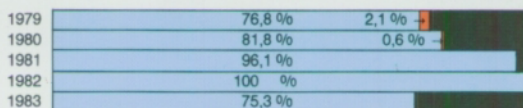
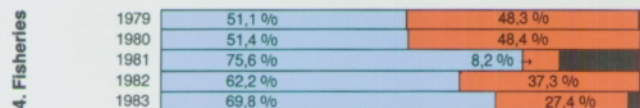
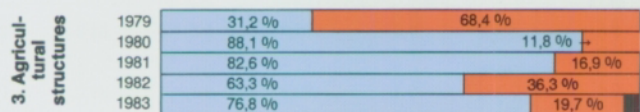
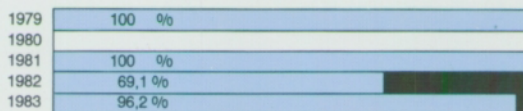
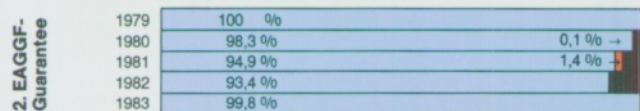
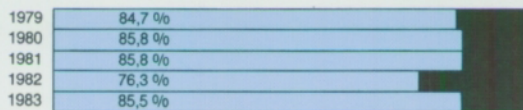
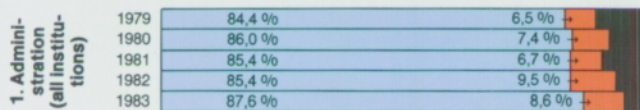
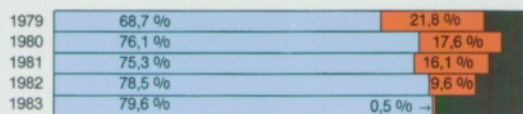
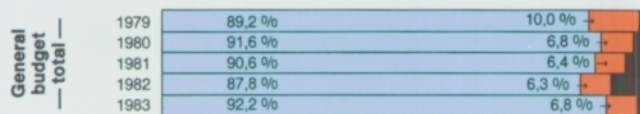
§ 15. Utilisation rates of the appropriations for payment from 1979 to 1983 — by sector



A. Appropriations for the financial year (final appropriations = 100 %)

B. Carry-overs from the previous financial year (appropriations carried over = 100 %)

(for basic figures see § 14)



§ 16. Annual payments during the period 1979-1983 — by sector

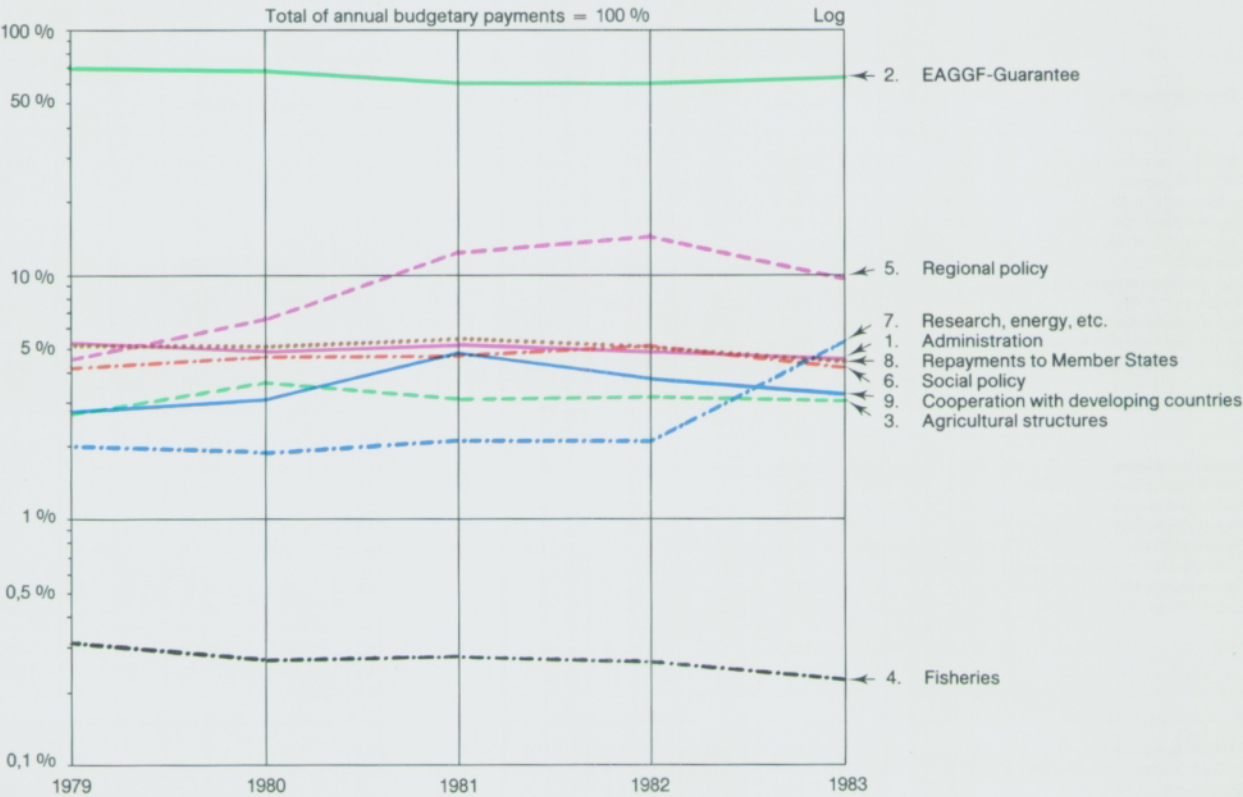
Notes:

1. Annual payments = payments against appropriations of the financial year plus payments against carry-overs from the previous financial year.
2. For the budget headings corresponding to the 1983 budgetary nomenclature, see § 6, column (1).

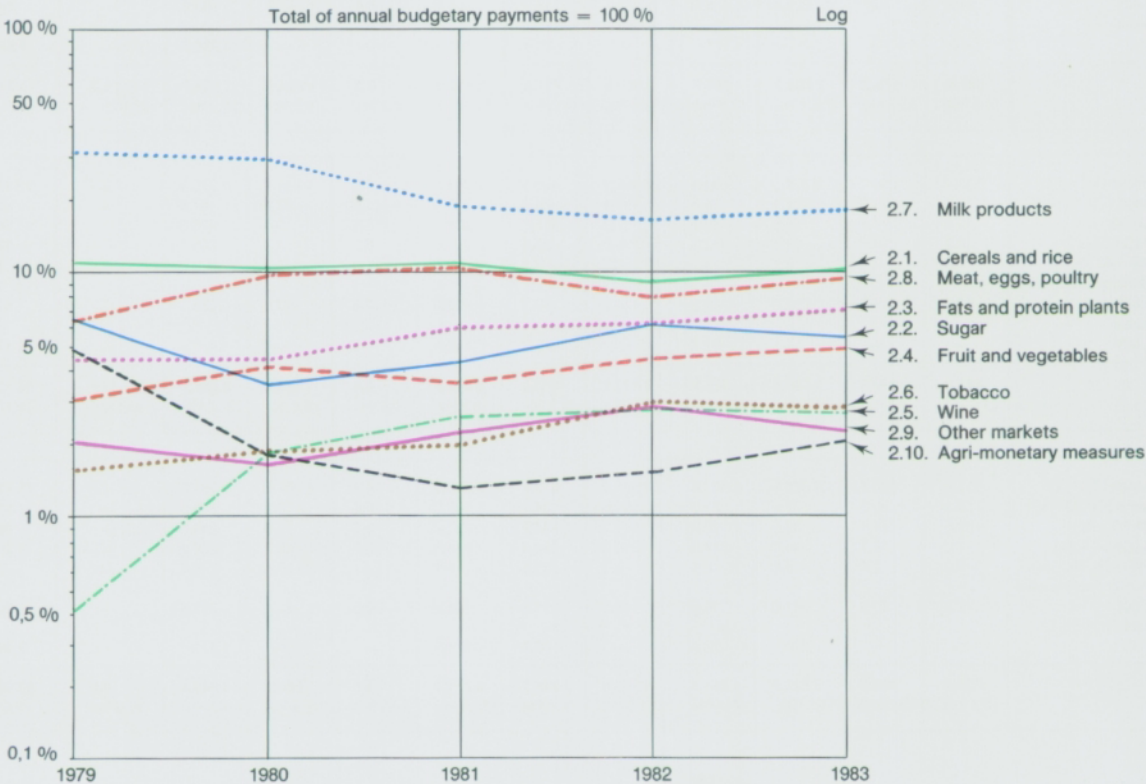
Sector	1979		1980		1981		1982		1983	
	Mio EUA	%	Mio EUA	%	Mio ECU	%	Mio ECU	%	Mio ECU	%
1. Administration	771,6	5,4	819,7	5,0	942,9	5,3	1 010,3	5,0	1 110,4	4,6
1.1. Parliament	109,0	0,8	135,1	0,8	168,0	0,9	173,3	0,9	214,8	0,9
1.2. Council	86,5	0,6	94,5	0,6	103,9	0,6	109,7	0,5	116,7	0,5
(of which: the Economic and Social Committee)	(15,5)	(0,1)	(16,8)	(0,1)	(20,0)	(0,1)	(20,6)	(0,1)	(22,4)	(0,1)
1.3. Commission	550,6	3,8	560,0	3,4	635,4	3,6	688,3	3,4	736,3	3,0
1.4. Court of Justice	16,3	0,1	19,3	0,1	23,1	0,1	25,4	0,1	27,2	0,1
1.5. Court of Auditors	9,2	0,1	10,8	0,1	12,5	0,1	13,6	0,1	15,4	0,1
2. EAGGF-Guarantee	10 417,5	72,5	11 283,2	69,3	10 960,2	61,6	12 369,5	60,6	15 788,2	64,9
2.1. Cereals and rice	1 608,3	11,2	1 719,0	10,6	1 951,8	11,0	1 874,8	9,2	2 534,1	10,4
2.2. Sugar	939,8	6,5	575,2	3,5	767,5	4,3	1 241,8	6,1	1 316,2	5,4
2.3. Fats and protein plants	668,2	4,6	747,8	4,6	1 090,7	6,1	1 295,0	6,3	1 764,7	7,2
2.4. Fruit and vegetables	441,5	3,1	687,3	4,2	641,1	3,6	914,3	4,5	1 196,1	4,9
2.5. Wine	61,3	0,4	299,5	1,9	459,4	2,6	570,6	2,8	659,2	2,7
2.6. Tobacco	225,5	1,6	309,3	1,9	361,8	2,0	622,6	3,0	671,3	2,8
2.7. Milk products	4 521,4	31,5	4 752,0	29,2	3 342,7	18,8	3 327,8	16,3	4 396,1	18,1
2.8. Meat, eggs and poultry	931,6	6,5	1 617,9	9,9	1 867,0	10,5	1 625,9	8,0	2 310,3	9,5
2.9. Other markets	310,5	2,2	276,6	1,7	400,8	2,3	583,6	2,9	559,7	2,3
2.10. Agri-monetary measures	709,4	4,9	298,6	1,8	238,4	1,3	313,1	1,5	488,6	2,0
2.11. Clearance of the accounts	—	—	—	—	- 161,0	- 0,9	—	—	- 108,1	- 0,4
3. Agricultural structures	408,1	2,8	601,9	3,7	574,7	3,2	646,1	3,2	749,7	3,1
3.1. EAGGF-Guidance	401,5	2,7	592,9	3,6	566,5	3,1	638,2	3,2	719,7	3,0
3.2. Specific measures	6,6	0,1	9,0	0,1	8,2	0,1	7,9	0,0	30,0	0,1
4. Fisheries	45,3	0,3	43,7	0,3	49,9	0,3	54,8	0,3	54,8	0,2
4.1. Common organisation of the market	17,0	0,1	23,3	0,2	28,0	0,2	34,0	0,2	25,8	0,1
4.2. Other measures	28,3	0,2	20,4	0,1	21,9	0,1	20,8	0,1	29,0	0,1
5. Regional policy	672,0	4,7	1 103,3	6,8	2 236,4	12,6	3 008,3	14,7	2 405,8	9,9
5.1. Regional Fund	513,2	3,6	726,7	4,5	798,7	4,5	973,0	4,8	1 255,9	5,2
5.2. Measures in favour of the UK	—	—	174,1	1,1	1 248,4	7,0	1 819,2	8,9	887,6	3,7
5.3. Other measures	158,8	1,1	202,5	1,2	189,3	1,1	216,1	1,0	262,3	1,0
6. Social policy	625,0	4,3	771,8	4,7	836,7	4,7	1 060,6	5,2	1 020,9	4,2
6.1. Social Fund	595,7	4,1	735,2	4,5	745,8	4,2	905,6	4,4	890,9	3,7
6.2. Other measures	29,3	0,2	36,6	0,2	90,9	0,5	155,0	0,8	130,0	0,5
7. Research, energy, etc.	280,6	2,0	311,5	1,9	377,2	2,1	437,7	2,1	1 307,7	5,4
7.1. Energy	28,8	0,2	40,3	0,2	63,1	0,3	44,0	0,2	828,0	3,4
7.2. Research and investment	225,1	1,5	249,8	1,5	295,6	1,6	367,6	1,8	423,3	1,7
7.3. Industry and transport	18,2	0,2	12,0	0,1	8,3	0,1	16,3	0,1	44,7	0,2
7.4. Other measures	8,5	0,1	9,4	0,1	10,2	0,1	9,8	0,0	11,7	0,1
8. Repayments to Member States	741,6	5,2	846,4	5,2	956,3	5,4	1 049,3	5,1	1 064,7	4,4
8.1. Costs incurred in collecting own resources	726,6	5,1	791,2	4,9	807,0	4,6	909,3	4,4	921,9	3,8
8.2. Other repayments	15,0	0,1	55,2	0,3	149,3	0,8	140,0	0,7	142,8	0,6
9. Cooperation with developing countries	405,4	2,8	508,9	3,1	858,5	4,8	786,1	3,8	810,8	3,3
9.1. Food aid	259,0	1,8	318,8	1,9	601,7	3,4	540,2	2,6	388,7	1,6
9.2. Financial aid	146,4	1,0	190,1	1,2	256,8	1,4	245,9	1,2	422,1	1,7
Grand total	14 367,1	100	16 290,4	100	17 792,8	100	20 422,7	100	24 313,0	100

§ 17. Evolution of the ratio of 'annual payments by sector' to 'total of annual budgetary payments' (1979-1983)
(for detailed figures see § 16)

A. General budget (all sectors):



B. EAGGF-Guarantee (all markets):



§ 18. Annual payments to the Member States (1979-1983)

Notes:

1. This table summarises the annual payments to the Member States under the principal sectors. For the period under consideration these payments represent 88,7 % of total budgetary payments (= the aggregate of the totals in § 16).
2. Annual payments = payments against appropriations for the financial year plus payments against carry-overs from the previous year.
3. Payments under the EAGGF-Guarantee include adjusted monetary compensatory amounts (see § 12 D, footnote (1)).

(1979-1980: Mio EUA)
(1981-1983: Mio ECU)

Financial year/sector		Belgium	Denmark	FR of Germany	Greece	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Allocation not available	EUR 9/10
1979	EAGGF-Guarantee (T 6-7)	755,8	639,3	2 326,5	—	2 251,0	456,5	1 639,4	13,6	1 412,6	922,8	—	10 417,5
	EAGGF-Guidance (Ch 80-85)	17,1	15,1	118,5	—	98,2	27,9	34,7	0,6	25,3	64,1	—	401,5
	Social Fund (Ch 50-51)	7,8	24,5	61,4	—	93,7	38,8	156,3	0,3	11,0	201,9	—	595,7
	Regional Fund (Ch 55-56)	3,1	9,1	46,0	—	103,6	32,9	143,7	0,3	8,7	165,8	—	513,2
	Fisheries (Ch 47, 86-89; Item 8300)	0,3	0,6	3,3	—	3,1	0,8	3,6	—	4,3	3,0	26,3	45,3
	Costs incurred in collecting own resources (Ch 40)	58,8	14,9	197,5	—	98,9	6,3	96,3	0,4	84,9	168,6	—	726,6
	Specific measures (Ch 57)	—	—	—	—	—	66,1	92,2	—	—	15,0	—	173,3
	Total	842,9 (6,5 %)	703,5 (5,5 %)	2 753,2 (21,4 %)	—	2 648,5 (20,6 %)	629,3 (4,9 %)	2 166,2 (16,8 %)	15,2 (0,1 %)	1 546,8 (12,0 %)	1 541,2 (12,0 %)	26,3 (0,2 %)	12 873,1 (100 %)

1980	EAGGF-Guarantee (T 6-7)	571,1	614,5	2 451,4	—	2 827,6	563,6	1 824,0	11,6	1 538,8	880,5	0,1	11 283,2
	EAGGF-Guidance (Ch 80-83)	25,2	24,5	142,1	—	133,0	39,8	97,0	1,0	26,4	103,9	—	592,9
	Social Fund (Ch 50-52)	12,1	14,7	80,5	—	195,8	72,5	194,4	0,4	5,1	159,7	—	735,2
	Regional Fund (Ch 55-56)	6,6	9,4	50,4	—	99,7	69,6	249,1	1,0	7,7	233,2	—	726,7
	Fisheries (Ch 86-89)	0,7	1,3	3,1	—	2,5	6,3	4,6	—	6,2	6,7	12,3	43,7
	Costs incurred in collecting own resources (Ch 40)	61,5	15,7	212,7	—	113,8	7,6	106,7	0,5	82,9	189,8	—	791,2
	Specific measures (Ch 57, 58)	—	—	—	—	—	67,1	134,7	—	—	229,3	—	431,1
	Total	677,2 (4,6 %)	680,1 (4,7 %)	2 940,2 (20,1 %)	—	3 372,4 (23,1 %)	826,5 (5,7 %)	2 610,5 (17,9 %)	14,5 (0,1 %)	1 667,1 (11,4 %)	1 803,1 (12,3 %)	12,4 (0,1 %)	14 604,0 (100 %)

1981	EAGGF-Guarantee (T 6-7)	489,1	507,8	2 031,5	146,2	3 014,2	437,9	2 092,1	4,1	1 157,2	1 080,1	—	10 960,2
	EAGGF-Guidance (Ch 80-83)	21,7	20,7	134,1	—	120,8	57,6	78,5	2,3	21,9	108,9	—	566,5
	Social Fund (Ch 50-52)	15,3	18,5	72,3	6,6	155,3	60,4	207,1	0,6	14,3	195,4	—	745,8
	Regional Fund (Ch 55-56)	9,2	10,7	36,2	122,0	66,8	80,3	211,7	0,9	5,7	255,2	—	798,7
	Fisheries (Ch 86-89)	0,8	1,4	2,8	—	4,3	5,4	6,7	—	8,4	8,2	11,9	49,9
	Costs incurred in collecting own resources (Ch 40)	61,8	16,2	225,4	8,9	123,1	8,8	94,9	0,4	77,3	190,2	—	807,0
	Specific measures (Ch 49, 57, 58)	—	—	—	111,0	—	66,6	122,3	—	—	1 286,7	—	1 586,6
	Total	597,9 (3,9 %)	575,3 (3,7 %)	2 502,3 (16,1 %)	394,7 (2,5 %)	3 484,5 (22,5 %)	717,0 (4,6 %)	2 813,3 (18,1 %)	8,3 (0,1 %)	1 284,8 (8,3 %)	3 124,7 (20,1 %)	11,9 (0,1 %)	15 514,7 (100 %)

1982	EAGGF-Guarantee (T 1-2)	535,1	556,7	2 027,5	684,6	2 866,2	496,5	2 502,6	2,6	1 416,7	1 278,3	2,7	12 369,5
	EAGGF-Guidance (Ch 30-33)	17,7	20,8	107,1	14,5	167,4	84,3	125,0	1,6	32,2	67,6	—	638,2
	Social Fund (Ch 60-62)	16,8	17,6	89,9	23,5	119,3	115,0	235,1	1,1	9,0	278,3	—	905,6
	Regional Fund (Ch 50-51)	10,8	14,6	61,6	152,3	130,0	93,5	281,8	0,1	3,2	225,1	—	973,0
	Fisheries (Ch 40-42, 46)	0,6	3,2	3,7	—	3,6	7,8	8,9	—	8,3	9,8	8,9	54,8
	Costs incurred in collecting own resources (Ch 80)	68,3	17,6	237,0	18,3	134,7	10,2	102,6	0,4	83,9	236,3	—	909,3
	Specific measures (Ch 52, 53, 82, 86)	—	—	—	92,7	—	72,7	142,6	—	—	1 866,5	—	2 174,5
	Total	649,3 (3,6 %)	630,5 (3,5 %)	2 526,8 (14,0 %)	985,9 (5,5 %)	3 421,2 (19,0 %)	880,0 (4,9 %)	3 398,6 (18,8 %)	5,8 (0,0 %)	1 553,3 (8,6 %)	3 961,9 (22,0 %)	11,6 (0,1 %)	18 024,9 (100 %)

1983	EAGGF-Guarantee (T 1-2)	611,9	680,7	3 075,8	1 007,4	3 566,6	619,4	2 820,5	4,2	1 707,8	1 691,0	2,9	15 788,2
	EAGGF-Guidance (Ch 30-33)	18,1	20,5	107,7	21,9	182,0	84,1	103,0	0,6	32,2	149,6	—	719,7
	Social Fund (Ch 60-62)	20,6	14,7	81,5	20,4	140,5	134,2	221,2	0,3	12,6	244,9	—	890,9
	Regional Fund (Ch 50-51)	7,0	16,7	45,0	214,6	219,3	94,5	344,5	0,0	18,1	296,2	—	1 255,9
	Fisheries (Ch 40-43, 45-46)	0,2	3,6	2,8	0,1	3,9	21,6	5,1	—	6,4	8,4	2,7	54,8
	Costs incurred in collecting own resources (Ch 80)	77,7	20,3	241,8	16,6	142,5	11,6	105,9	0,5	83,4	221,6	—	921,9
	Specific measures (Ch 52, 53, 82, 86; Article 707)	—	—	270,7	70,4	—	60,8	174,8	—	—	1 471,9	—	2 048,6
	Total	735,5 (3,4 %)	756,5 (3,5 %)	3 825,3 (17,7 %)	1 351,4 (6,2 %)	4 254,8 (19,6 %)	1 026,2 (4,7 %)	3 775,0 (17,4 %)	5,6 (0,0 %)	1 860,5 (8,6 %)	4 063,6 (18,9 %)	5,6 (0,0 %)	21 680,0 (100 %)

§ 19. Actual own resources — by Member State (1979-1983)

(1979-1980: Mio EUA)
(1981-1983: Mio ECU)

		Bel- gium	Den- mark	FR of Germany	Greece	France	Ireland	Italy	Luxem- bourg	Nether- lands	United Kingdom	EUR 9/10
1979	Customs duties	335,7	124,4	1 586,6	—	754,2	57,1	497,2	3,8	485,6	1 344,5	5 189,1
	Agricultural levies	229,7	8,0	263,7	—	96,5	3,6	410,6	0,1	313,2	353,2	1 678,6
	Sugar and isoglucose levies	30,8	21,1	146,3	—	152,3	4,6	45,9	—	37,8	26,1	464,9
	VAT	329,6	183,9	—	—	1 720,4	—	747,6	—	453,6	1 302,6	4 737,7
	Financial contributions (GNP)	—	—	2 245,6	—	—	41,6	—	14,9	—	—	2 302,1
	Total	925,8 (6,4 %)	337,4 (2,4 %)	4 242,2 (29,5 %)	—	2 723,4 (19,0 %)	106,9 (0,7 %)	1 701,3 (11,8 %)	18,8 (0,1 %)	1 290,2 (9,0 %)	3 026,4 (21,1 %)	14 372,4 (100 %)
	After extra-budgetary financial compensa- tion between the Member States ⁽¹⁾	966,5 (6,7 %)	337,4 (2,4 %)	4 407,2 (30,7 %)	—	2 886,5 (20,1 %)	104,6 (0,7 %)	1 793,2 (12,5 %)	19,4 (0,1 %)	1 344,1 (9,3 %)	2 513,5 (17,5 %)	14 372,4 (100 %)
1980	Customs duties	392,6	130,2	1 799,1	—	900,0	67,1	636,9	4,3	535,5	1 440,1	5 905,8
	Agricultural levies	193,1	7,5	223,7	—	91,6	3,9	379,3	0,1	234,7	401,5	1 535,4
	Sugar and isoglucose levies	27,2	19,1	130,7	—	158,0	4,6	54,4	—	40,8	32,1	466,9
	VAT ⁽²⁾	337,7	189,4	2 456,7	—	1 842,4	63,7	858,7	15,2	461,6	1 294,1	7 519,5
	Total	950,6 (6,2 %)	346,2 (2,2 %)	4 610,2 (29,9 %)	—	2 992,0 (19,4 %)	139,3 (0,9 %)	1 929,3 (12,5 %)	19,6 (0,1 %)	1 272,6 (8,3 %)	3 167,8 (20,5 %)	15 427,6 (100 %)
1981	Customs duties	408,4	135,2	1 943,8	84,6	977,3	81,9	633,0	4,5	572,8	1 550,9	6 392,4
	Agricultural levies	178,4	10,1	179,9	17,4	103,1	4,3	247,6	0,1	175,4	348,6	1 264,9
	Sugar and isoglucose levies	27,8	19,3	126,9	1,0	154,5	4,6	62,5	—	39,1	46,9	482,6
	VAT ⁽²⁾ ⁽³⁾	375,9	189,8	2 806,5	151,5	2 256,2	68,1	1 582,9	22,6	499,8	1 930,8	9 884,1
	Total	990,5 (5,5 %)	354,4 (2,0 %)	5 057,1 (28,1 %)	254,5 (1,4 %)	3 491,1 (19,4 %)	158,9 (0,9 %)	2 526,0 (14,0 %)	27,2 (0,1 %)	1 287,1 (7,1 %)	3 877,2 (21,5 %)	18 024,0 (100 %)
1982	Customs duties	403,7	142,6	1 966,5	108,7	1 071,2	87,8	660,8	4,3	585,2	1 784,5	6 815,3
	Agricultural levies	238,6	7,5	201,9	63,5	70,9	6,0	285,1	0,1	172,5	475,9	1 522,0
	Sugar and isoglucose levies	44,4	25,3	190,2	13,1	211,0	7,0	83,5	—	58,9	72,4	705,8
	VAT ⁽²⁾ ⁽³⁾	461,6	226,8	3 339,9	196,3	2 872,8	107,7	1 457,8	25,7	649,8	2 782,7	12 121,1
	Total	1 148,3 (5,4 %)	402,2 (1,9 %)	5 698,5 (26,9 %)	381,6 (1,8 %)	4 225,9 (20,0 %)	208,5 (1,0 %)	2 487,2 (11,8 %)	30,1 (0,1 %)	1 466,4 (6,9 %)	5 115,5 (24,2 %)	21 164,2 (100 %)
1983	Customs duties	423,8	159,8	2 019,8	107,4	1 051,8	100,4	657,1	4,6	633,2	1 830,8	6 988,7
	Agricultural levies	293,9	6,9	143,0	38,0	78,9	7,0	323,2	0,1	135,8	320,3	1 347,1
	Sugar and isoglucose levies	65,8	38,9	270,5	16,7	293,7	11,6	95,0	—	82,2	73,6	948,0
	VAT ⁽²⁾ ⁽³⁾	432,4	274,3	4 038,8	215,6	3 082,1	150,6	1 923,4	39,2	713,7	2 859,7	13 729,8
	Total	1 215,9 (5,3 %)	479,9 (2,1 %)	6 472,1 (28,1 %)	377,7 (1,6 %)	4 506,5 (19,6 %)	269,6 (1,2 %)	2 998,7 (13,0 %)	43,9 (0,2 %)	1 564,9 (6,8 %)	5 084,4 (22,1 %)	23 013,6 (100 %)

⁽¹⁾ Under Article 131 of the Treaty of Accession concluded upon the entry of Denmark, Ireland and the United Kingdom.

⁽²⁾ Including the balances and adjustments of previous financial years.

⁽³⁾ Greece paid a financial contribution based on its GNP.

Part II: The European Development Funds (EDF) (position at 31 December 1983)

§ 20. General information on the EDF

THE FIRST THREE EDF

20.1. General information and detailed financial information on the first three EDF, established under agreements in force between 1959 and 1976, has most recently been given in the annual report of the Court of Auditors on the financial year 1980. Only a few small amounts still remain to be paid under the 2nd and 3rd EDF.

A summary of the annual payments made under the first three EDF is given in § 27.

THE 4th AND 5th EDF

20.2. Legal provisions

a) Legal basis in respect of ACP States:

- 4th EDF: ACP-EEC Convention signed in Lomé on 28 February 1975 (Lomé I),
- 5th EDF: second ACP-EEC Convention signed in Lomé on 31 October 1979 (Lomé II).

b) Legal basis in respect of the OCT and FOD:

- 4th EDF: Council Decision 76/568/EEC of 29 June 1976,
- 5th EDF: Council Decision 80/1186/EEC of 16 December 1980 (no longer concerns the FOD).

c) Establishment of the EDF:

- 4th EDF: internal agreement of 11 July 1975,
- 5th EDF: internal agreement of 20 November 1979.

d) Financial Regulations:

- 4th EDF: Council Decision 76/647/EEC of 27 July 1976,
- 5th EDF: Council Decision 81/215/EEC of 17 March 1981.

20.3. Allocations, financing, distribution and type of aid

The EDF allocations after changes ⁽¹⁾ by the Council are as follows:

- 4th EDF: 3 155,9 Mio ECU,
- 5th EDF: 4 802,3 Mio ECU.

The EDF are financed by the EC Member States (with the exception of Greece for the 4th EDF) in proportions laid down in the internal agreements.

The above-mentioned internal agreements provide for distribution of the allocations of the 4th and 5th EDF between the ACP States and the OCT/FOD and between grants, special loans, risk capital, Stabex ⁽²⁾ and Sysmin ⁽³⁾ for the 5th EDF.

Part of the allocation in the form of grants is reserved for exceptional aid and for interest subsidies on loans granted by the European Investment Bank. The rest of the allocation in the form of grants and the allocation in the form of special loans are distributed among the recipient countries, with the exception of funds for the regional projects, administrative costs (4th EDF) and a contingency reserve. The amounts thus allocated to the recipient countries, called indicative programmes in the case of the ACP States, are used to finance the projects adopted.

20.4. Monetary unit

The EDF amounts are given in ECU; for conversion into ECU of the monetary units previously applied, it has been agreed that 1 u.a. = 1 EUA = 1 ECU.

20.5. Date of entry into force

- 4th EDF: 1 April 1976,
- 5th EDF: 1 January 1981.

20.6. Financial implementation

The Commission draws up a timetable of requests for contributions, which in principle are to be paid quarterly by the Member States of the European Communities (4th EDF: six-monthly). The use of the EDF resources is shown in the accounts in three stages: (I) financing decision, (II) signing of contracts against funds allocated to national authorising officers, (III) authorisation of payments to contractors.

20.7. External audit

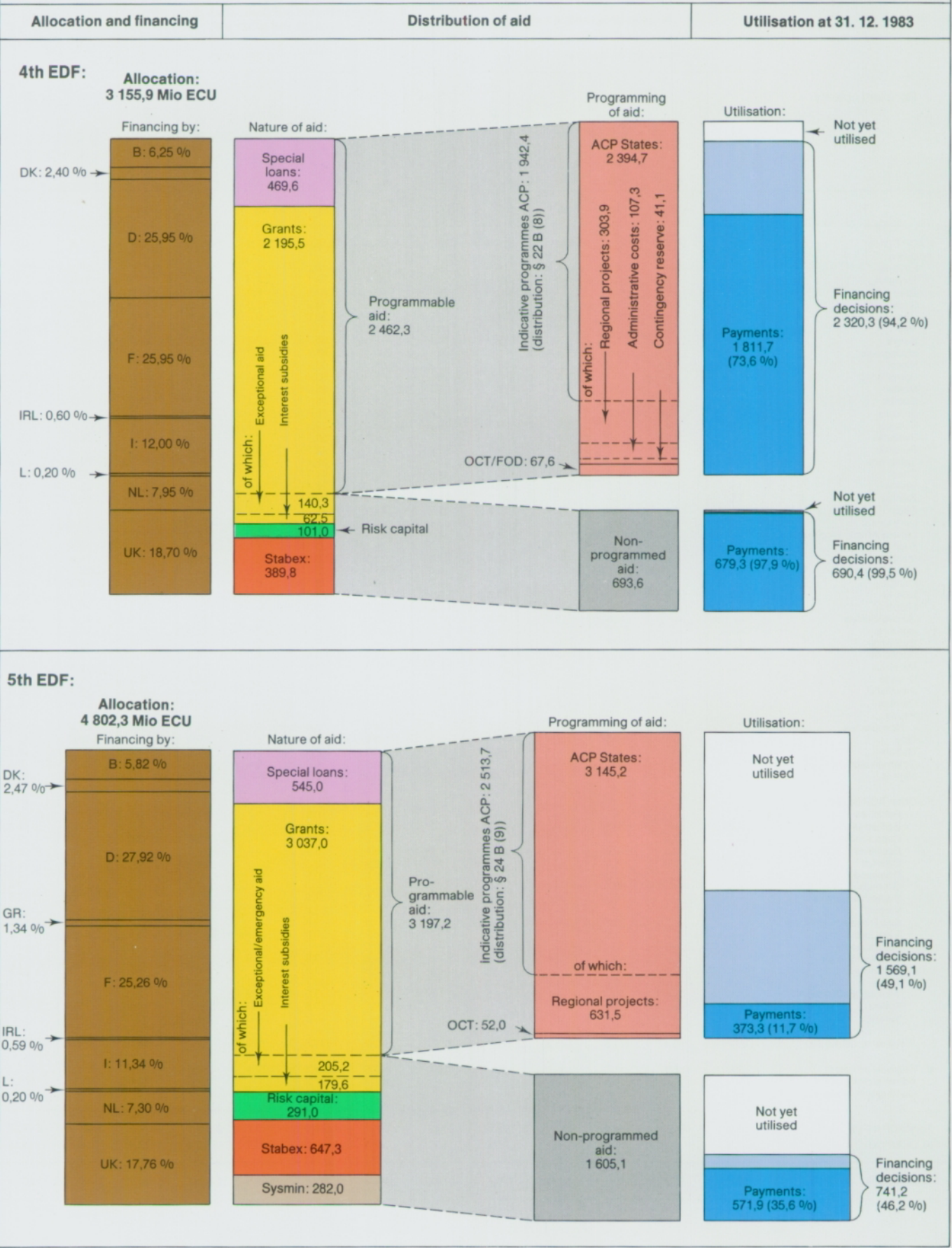
The Court of Auditors is responsible for the audit of the EDF (in accordance with the Treaty).

20.8 Authority giving discharge

The European Parliament gives discharge of the financial management of the EDF, on the recommendation of the Council (in accordance with internal agreements).

(1) The initial allocations were altered by Council Decisions, and are increased by various receipts such as reconstitution of Stabex transfers and bank interest.
(2) System designed to guarantee the stabilisation of earnings from exports by the ACP States to the Community (Lomé I, Article 16, and Lomé II, Article 23).
(3) System designed to aid ACP States whose economies are largely dependent on the mining sectors and in particular towards helping them cope with a decline in their capacity to export mining products to the Community (Lomé II, Article 49).

§ 21. The 4th and 5th EDF: allocations, financing, distribution of aid, utilisation rates

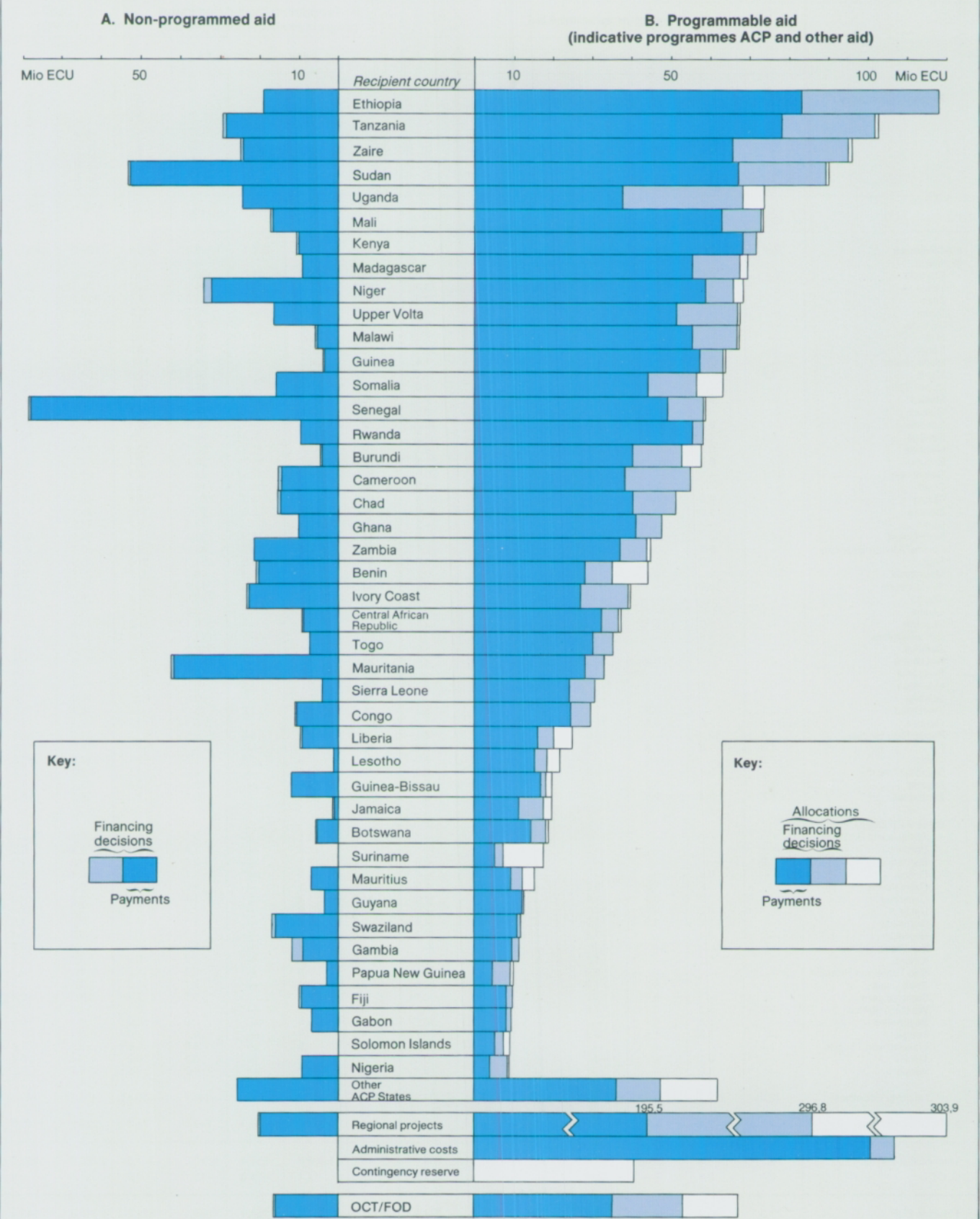


§ 22. The 4th EDF: aid by type and by recipient country
(financial implementation: situation at 31 December 1983)

(Mio ECU)

Recipient country	A. Non-programmed aid						B. Programmable aid (indicative programmes ACP and other aid)					Total (A + B)	
	Financing decisions					Payments made	Financing decisions				Payments made	Financing decisions	Payments made
	Interest subsidies (grants)	Risk capital	Exceptional aid (grants)	Stabex	Total (2) + (3) + (4) + (5)		Allocations	Grants	Special loans	Total (9) + (10)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13) = (6) + (11)	(14) = (7) + (12)
I. ACP States including:	58,4	90,6	128,5	377,5	655,0	644,2	1 942,4	1 516,9	345,9	1 862,8	1 479,2	2 517,8	2 123,4
Ethiopia	—	—	4,7	14,4	19,1	19,1	118,2	118,2	—	118,2	83,7	137,3	102,8
Tanzania	0,7	7,8	0,3	20,7	29,5	28,8	103,4	69,1	32,9	102,0	78,5	131,5	107,3
Zaire	—	5,6	19,3	—	24,9	24,3	96,5	87,9	8,0	95,9	66,1	120,8	90,4
Sudan	—	6,5	4,9	41,8	53,2	53,1	90,6	74,9	15,0	89,9	67,1	143,1	120,2
Uganda	—	0,3	3,3	20,6	24,2	24,2	73,6	58,8	9,7	68,5	37,9	92,7	62,1
Mali	—	6,4	1,0	9,8	17,2	16,7	73,5	71,5	1,4	72,9	63,4	90,1	80,1
Kenya	8,4	1,2	1,3	—	10,9	10,7	72,0	34,2	37,8	72,0	68,3	82,9	79,0
Madagascar	—	2,3	1,5	5,8	9,6	9,6	69,2	61,4	6,0	67,4	55,6	77,0	65,2
Niger	1,1	0,8	9,6	22,7	34,2	32,2	68,5	66,2	—	66,2	58,9	100,4	91,1
Upper Volta	1,6	7,6	—	7,3	16,5	16,5	68,0	60,4	7,0	67,4	52,0	83,9	68,5
Malawi	2,3	1,6	2,6	—	6,5	6,1	67,9	55,6	11,7	67,3	55,6	73,8	61,7
Guinea	0,4	0,3	3,0	—	3,7	3,6	64,0	38,1	25,4	63,5	57,4	67,2	61,0
Somalia	—	0,2	13,3	1,9	15,4	15,4	63,6	56,6	—	56,6	44,1	72,0	59,5
Senegal	1,8	7,4	4,7	65,1	79,0	78,9	59,0	39,5	19,3	58,8	49,5	137,8	128,4
Rwanda	—	3,0	5,9	0,6	9,5	9,5	58,7	56,1	2,6	58,7	55,7	68,2	65,2
Burundi	—	0,5	2,1	1,5	4,1	3,9	58,1	48,2	5,0	53,2	40,8	57,3	44,7
Cameroon	4,2	4,6	2,3	4,0	15,1	14,4	55,3	33,4	22,0	55,4	38,4	70,5	52,8
Chad	—	7,5	0,3	7,3	15,1	14,6	51,9	44,3	7,5	51,8	40,9	66,9	55,5
Ghana	1,9	0,2	2,7	5,2	10,0	10,0	48,0	28,4	19,6	48,0	41,6	58,0	51,6
Zambia	1,5	3,3	16,4	—	21,2	21,2	45,1	27,0	17,6	44,6	37,5	65,8	58,7
Benin	—	0,4	0,0	20,4	20,8	20,5	44,3	34,7	0,4	35,1	28,5	55,9	49,0
Ivory Coast	7,1	0,9	0,1	15,0	23,1	22,8	40,0	16,9	22,8	39,7	27,0	62,8	49,8
Central African Republic	—	—	1,1	7,8	8,9	8,8	37,3	36,7	—	36,7	32,3	45,6	41,1
Togo	0,4	3,0	—	3,6	7,0	7,0	35,7	33,3	2,3	35,6	30,2	42,6	37,2
Mauritania	3,6	—	1,7	37,0	42,3	42,0	33,6	33,5	—	33,5	28,3	75,8	70,3
Sierra Leone	—	—	—	4,0	4,0	4,0	31,1	27,2	3,8	31,0	24,4	35,0	28,4
Congo	—	3,1	0,3	7,4	10,8	10,7	30,0	23,1	6,7	29,8	24,8	40,6	35,5
Liberia	1,2	0,4	—	7,6	9,2	9,0	25,0	20,8	—	20,8	16,4	30,0	25,4
Lesotho	—	0,1	1,1	—	1,2	1,2	22,0	19,0	—	19,0	15,4	20,2	16,6
Guinea-Bissau	—	—	0,5	11,3	11,8	11,8	20,0	18,7	—	18,7	17,1	30,5	28,9
Jamaica	—	—	1,2	—	1,2	1,1	20,0	9,2	8,6	17,8	11,5	19,0	12,6
Botswana	1,3	1,8	2,7	—	5,8	5,7	19,0	17,8	0,6	18,4	14,6	24,2	20,3
Suriname	—	—	—	—	—	—	18,0	3,5	4,0	7,5	5,5	7,5	5,5
Mauritius	2,2	0,0	4,5	—	6,7	6,7	15,3	4,8	7,6	12,4	9,8	19,1	16,5
Guyana	—	3,2	—	—	3,2	3,2	12,8	5,9	6,8	12,7	12,5	15,9	15,7
Swaziland	2,0	1,1	0,0	13,2	16,3	15,4	12,0	8,4	3,5	11,9	11,0	28,2	26,4
Gambia	—	2,4	0,7	7,5	10,6	8,5	11,3	11,3	—	11,3	9,8	21,9	18,3
Papua New Guinea	1,1	1,6	—	—	2,7	2,7	10,0	5,6	3,5	9,1	4,9	11,8	7,6
Fidji	3,9	0,1	3,6	2,1	9,7	9,5	9,9	3,2	6,7	9,9	8,2	19,6	17,7
Gabon	—	—	—	6,7	6,7	6,7	9,5	2,1	7,4	9,5	8,2	16,2	14,9
Solomon Islands	—	—	—	—	—	—	9,3	0,8	6,8	7,6	5,4	7,6	5,4
Nigeria	9,0	—	—	—	9,0	9,0	9,0	8,8	—	8,8	4,0	17,8	13,0
Other ACP States:	—	—	—	—	—	—	1,8	0,6	1,1	1,7	0,7	1,7	0,7
Bahamas	—	—	—	—	—	—	2,6	1,1	0,9	2,0	1,9	3,3	3,2
Barbados	1,2	—	0,1	—	1,3	1,3	4,0	4,0	—	4,0	3,6	10,1	9,7
Cape Verde	—	3,6	1,3	1,2	6,1	6,1	6,3	6,2	—	6,2	4,0	9,1	6,9
Comoros	—	0,0	2,9	—	2,9	2,9	3,9	2,3	—	2,3	2,0	4,6	4,3
Djibouti	—	1,0	1,3	—	2,3	2,3	2,0	0,5	—	0,5	0,4	4,4	4,3
Dominica	—	—	3,9	—	3,9	3,9	2,0	2,0	—	2,0	1,9	2,5	2,4
Grenada	—	—	0,5	—	0,5	0,5	7,0	7,0	—	7,0	6,2	7,3	6,5
Equatorial Guinea	—	—	0,3	—	0,3	0,3	3,5	3,2	—	3,2	0,7	3,2	0,7
Kiribati	—	—	—	—	—	—	1,8	1,8	—	1,8	1,7	2,1	2,0
Sao Tome and Principe	—	—	0,3	—	0,3	0,3	3,2	0,9	—	0,9	0,8	2,1	2,0
Saint Lucia	—	0,2	1,0	—	1,2	1,2	3,0	—	—	—	—	—	—
Saint Vincent	—	—	—	—	—	—	4,6	3,6	0,9	4,5	4,3	7,3	7,1
Western Samoa	—	—	—	2,8	2,8	2,8	2,4	2,3	—	2,3	2,2	2,9	2,8
Seychelles	—	0,6	—	—	0,6	0,6	3,2	2,7	0,1	2,8	2,7	4,2	4,1
Tonga	—	—	0,2	1,2	1,4	1,4	10,3	3,0	2,9	5,9	2,7	7,4	4,2
Trinidad and Tobago	1,5	—	—	—	1,5	1,5	0,6	0,6	—	0,6	0,6	0,6	0,6
Tuvalu	—	—	—	—	—	—	—	—	—	—	—	—	—
Vanuatu	—	—	—	—	—	—	—	—	—	—	—	—	—
(Total other countries)	(2,7)	(5,4)	(11,8)	(5,2)	(25,1)	(25,1)	(62,2)	(41,8)	(5,9)	(47,7)	(36,4)	(72,8)	(61,5)
II. Regional projects	2,6	6,1	11,3	—	20,0	19,8	303,9	224,7	72,1	296,8	195,5	316,8	215,3
Administrative costs	—	—	—	—	—	—	107,3	107,3	—	107,3	101,6	107,3	101,6
Contingency reserve	—	—	—	—	—	—	41,1	—	—	—	—	—	—
Total ACP (I + II)	61,0	96,7	139,8	377,5	675,0	664,0	2 394,7	1 848,9	418,0	2 266,9	1 776,3	2 941,9	2 440,3
III. OCT/FOD	1,5	1,1	0,5	12,3	15,4	15,3	67,6	32,5	20,9	53,4	35,4	68,8	50,7
Total 4th EDF	62,5	97,8	140,3	389,8	690,4	679,3	2 462,3	1 881,4	438,9	2 320,3	1 811,7	3 010,7	2 491,0

§ 23. The 4th EDF: financial implementation of aid by recipient country (31 December 1983)
(for detailed figures see § 22)

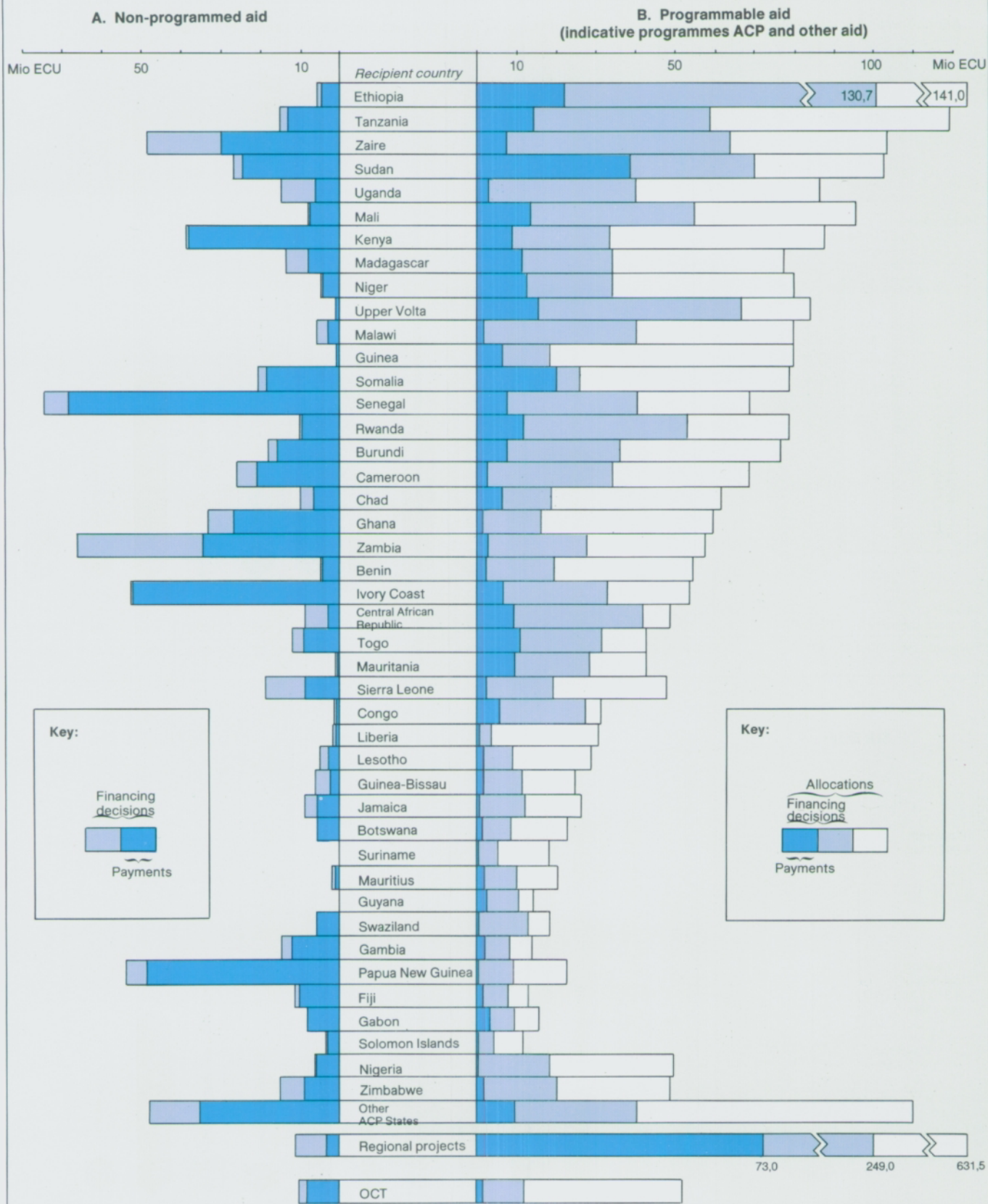


§ 24. The 5th EDF: aid by type and by recipient country
(financial implementation: situation at 31 December 1983)

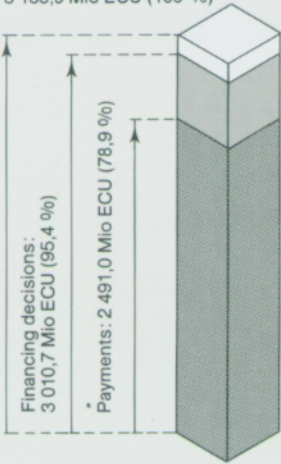
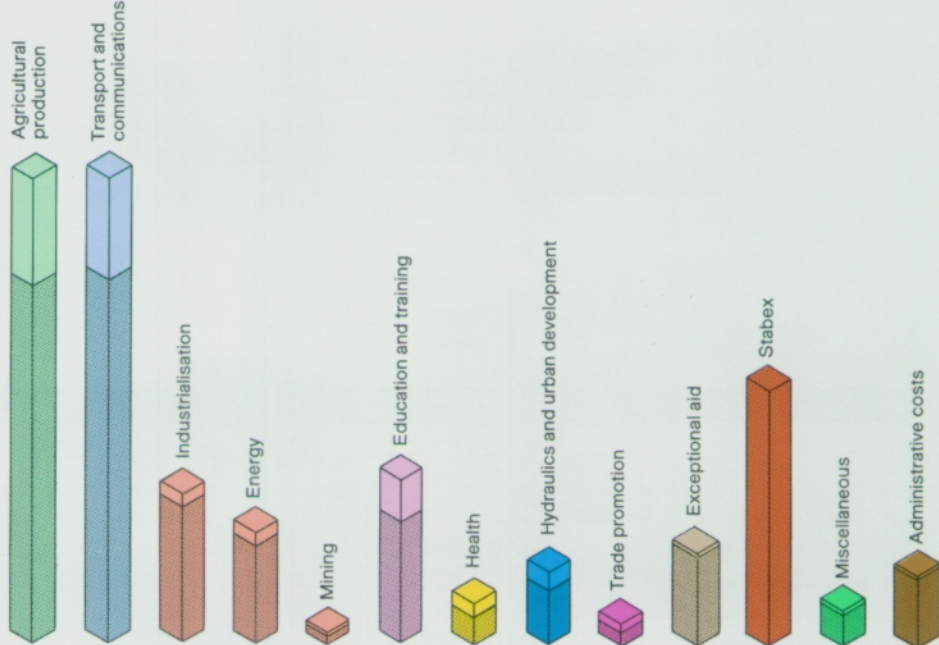
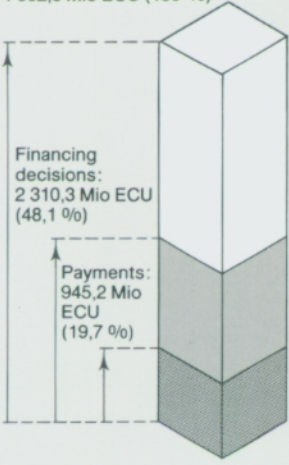
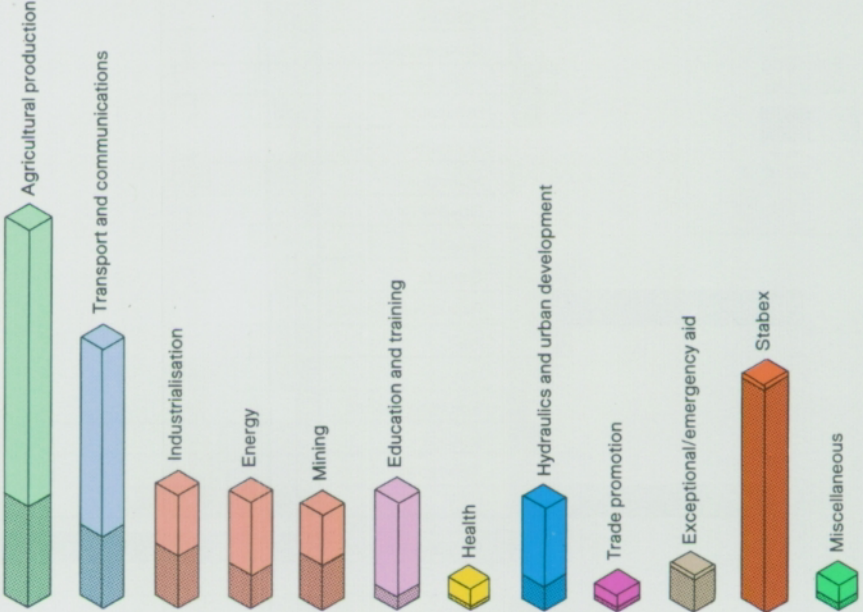
(Mio ECU)

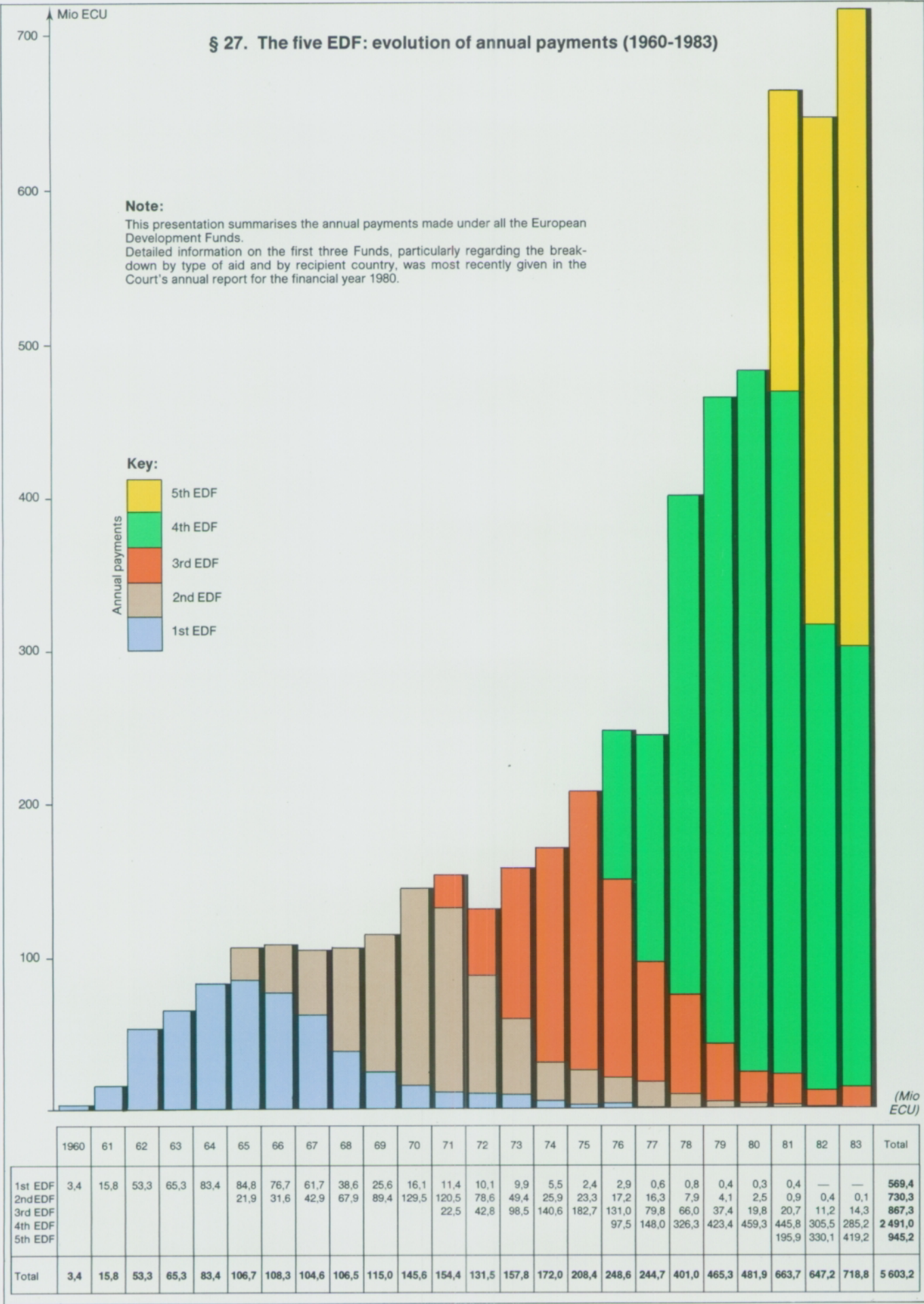
Recipient country	A. Non-programmed aid							B. Programmable aid (indicative programmes ACP and other aid)					Total (A + B)	
	Financing decisions						Payments made	Financing decisions				Payments made	Financing decisions	Payments made
	Interest subsidies (grants)	Risk capital	Exceptional/emergency aid (grants)	Stabex	Sysmin	Total (2) + (3) + (4) + (5) + (6)		Allocations	Grants	Special loans	Total (10) + (11)			
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14) = (7) + (12)	(15) = (8) + (13)
I. ACP States including:	75,2	132,0	56,0	362,8	95,0	721,0	561,5	2 513,7	1 101,9	206,1	1 308,0	298,3	2 029,0	859,8
Ethiopia	—	0,5	4,2	1,0	—	5,7	4,7	141,0	109,7	21,0	130,7	22,1	136,4	26,8
Tanzania	—	7,5	0,5	6,9	—	14,9	13,0	120,7	51,7	7,5	59,2	14,2	74,1	27,2
Zaire	—	6,0	2,8	—	40,0	48,8	29,6	104,0	47,2	16,7	63,9	7,8	112,7	37,4
Sudan	—	—	2,0	24,3	—	26,3	24,2	103,0	70,5	—	70,5	38,9	96,8	63,1
Uganda	—	10,0	4,2	—	—	14,2	6,0	87,0	39,9	—	39,9	2,8	54,1	8,8
Mali	—	—	0,9	6,8	—	7,7	7,5	96,0	42,2	13,4	55,6	13,5	63,3	21,0
Kenya	5,1	1,6	0,7	31,1	—	38,5	38,2	88,0	25,0	9,0	34,0	8,4	72,5	46,6
Madagascar	—	7,2	1,3	4,7	—	13,2	7,4	78,0	34,5	—	34,5	11,6	47,7	19,0
Niger	3,6	—	1,1	—	—	4,7	4,4	80,5	34,4	—	34,4	12,8	39,1	17,2
Upper Volta	—	—	0,0	1,0	—	1,0	1,0	84,5	60,0	7,0	67,0	15,6	68,0	16,6
Malawi	—	3,0	0,4	2,0	—	5,4	2,7	80,0	30,1	10,0	40,1	1,5	45,5	4,2
Guinea	—	—	0,6	—	—	0,6	0,5	80,0	14,4	4,1	18,5	6,7	19,1	7,2
Somalia	—	2,6	16,0	2,6	—	21,2	18,2	79,3	26,1	—	26,1	20,4	47,3	38,6
Senegal	5,6	4,2	0,2	64,1	—	74,1	68,2	69,0	30,3	10,3	40,6	7,6	114,7	75,8
Rwanda	—	0,7	2,0	7,1	—	9,8	9,1	79,0	41,4	11,9	53,3	12,0	63,1	21,1
Burundi	—	6,5	0,2	11,0	—	17,7	15,1	77,0	24,7	11,7	36,4	7,4	54,1	22,5
Cameroon	11,1	—	—	14,6	—	25,7	20,5	69,0	16,2	17,9	34,1	2,9	59,8	23,4
Chad	—	—	3,7	6,1	—	9,8	6,2	62,0	18,5	—	18,5	6,3	28,3	12,5
Ghana	—	6,0	1,4	25,6	—	33,0	26,4	60,0	14,9	1,2	16,1	1,6	49,1	28,0
Zambia	8,5	1,5	1,1	—	55,0	66,1	34,0	58,0	25,9	2,0	27,9	2,5	94,0	36,5
Benin	—	—	0,8	3,6	—	4,4	4,2	55,0	19,5	—	19,5	2,2	23,9	6,4
Ivory Coast	4,7	—	0,8	46,8	—	52,3	52,2	54,0	14,1	18,3	32,4	7,0	84,7	59,2
Central African Republic	—	5,1	0,5	2,5	—	8,1	2,7	49,0	37,3	4,7	42,0	9,3	50,1	12,0
Togo	1,5	3,0	0,1	7,1	—	11,7	8,6	43,0	26,1	5,8	31,9	11,0	43,6	19,6
Mauritania	—	—	0,4	—	—	0,4	0,2	43,0	22,0	6,3	28,3	9,7	28,7	9,9
Sierra Leone	—	10,0	—	8,4	—	18,4	8,1	48,5	17,1	2,4	19,5	2,7	37,9	10,8
Congo	0,5	0,5	—	—	—	1,0	0,5	31,5	18,5	9,3	27,8	6,4	28,8	6,9
Liberia	0,5	0,7	—	—	—	1,2	0,7	31,0	3,8	—	3,8	0,8	5,0	1,5
Lesotho	—	3,0	0,1	1,3	—	4,4	2,1	29,0	9,1	—	9,1	1,9	13,5	4,0
Guinea-Bissau	—	3,8	—	2,0	—	5,8	2,0	25,0	11,8	—	11,8	1,9	17,6	3,9
Jamaica	—	5,0	—	3,2	—	8,2	5,2	26,4	9,4	2,6	12,0	0,9	20,2	6,1
Botswana	4,8	—	0,2	—	—	5,0	4,9	23,0	8,9	—	8,9	1,5	13,9	6,4
Suriname	—	—	—	—	—	—	—	18,0	2,8	2,7	5,5	0,5	5,5	0,5
Mauritius	0,8	0,5	0,1	—	—	1,4	0,7	20,5	9,3	0,9	10,2	2,1	11,6	2,8
Guyana	—	—	—	—	—	—	—	14,6	10,8	—	10,8	2,2	10,8	2,2
Swaziland	2,1	—	0,0	3,1	—	5,2	5,2	18,5	9,8	3,2	13,0	0,4	18,2	5,6
Gambia	—	1,6	0,1	12,3	—	14,0	11,6	14,0	8,3	—	8,3	2,1	22,3	13,7
Papua New Guinea	1,4	13,8	—	38,0	—	53,2	48,2	23,0	5,2	4,4	9,6	0,3	62,8	48,5
Fiji	4,0	1,8	2,8	2,1	—	10,7	9,9	13,0	8,0	—	8,0	1,9	18,7	11,8
Gabon	7,2	—	—	—	—	7,2	7,2	16,0	7,6	1,8	9,4	3,4	16,6	10,6
Solomon Islands	—	0,4	—	2,3	—	2,7	2,3	12,0	4,5	—	4,5	0,5	7,2	2,8
Nigeria	5,1	—	0,2	—	—	5,3	5,1	50,0	18,8	—	18,8	0,6	24,1	5,7
Zimbabwe	6,7	5,4	2,5	—	—	14,6	8,1	49,0	20,9	—	20,9	2,0	35,5	10,1
Other ACP States:														
Antigua and Barbuda	—	—	—	—	—	—	—	2,7	0,1	—	0,1	—	0,1	—
Bahamas	—	—	—	—	—	—	—	2,1	1,4	—	1,4	0,0	1,4	0,0
Barbados	0,9	—	—	—	—	0,9	0,9	3,7	2,1	—	2,1	0,3	3,0	1,2
Belize	—	0,6	—	—	—	0,6	—	5,5	0,1	—	0,1	0,0	0,7	0,0
Cape Verde	—	6,8	1,0	0,2	—	8,0	2,7	16,0	1,3	—	1,3	0,2	9,3	2,9
Comoros	—	0,2	0,3	1,4	—	1,9	1,9	14,5	1,4	—	1,4	0,7	3,3	2,6
Djibouti	—	2,2	0,1	—	—	2,3	2,0	5,4	2,9	—	2,9	0,2	5,2	2,2
Dominica	—	1,0	0,5	3,0	—	4,5	4,4	3,5	2,8	—	2,8	0,2	7,3	4,6
Grenada	—	2,4	—	1,8	—	4,2	2,3	3,5	1,1	—	1,1	0,1	5,3	2,4
Equatorial Guinea	—	—	—	—	—	—	—	8,5	0,3	—	0,3	0,1	0,3	0,1
Kiribati	—	0,2	—	1,5	—	1,7	1,6	4,0	0,7	—	0,7	0,3	2,4	1,9
Sao Tome and Principe	—	—	—	3,7	—	3,7	3,5	4,0	3,5	—	3,5	1,2	7,2	4,7
Saint Lucia	—	—	0,2	1,3	—	1,5	1,6	3,7	2,1	—	2,1	1,3	3,6	2,9
Saint Vincent	—	—	0,2	—	—	0,2	0,2	3,7	3,3	—	3,3	2,2	3,5	2,4
Western Samoa	—	3,3	0,2	4,9	—	8,4	5,8	6,2	5,2	—	5,2	2,1	13,6	7,9
Seychelles	—	1,0	0,2	—	—	1,2	0,7	3,6	2,9	—	2,9	0,2	4,1	0,9
Tonga	—	1,3	1,4	3,3	—	6,0	5,7	4,1	0,1	—	0,1	0,0	6,1	5,7
Trinidad and Tobago	1,1	—	—	—	—	1,1	1,2	10,5	4,8	—	4,8	0,6	5,9	1,8
Tuvalu	—	0,1	—	0,1	—	0,2	0,2	1,0	0,4	—	0,4	0,2	0,6	0,4
Vanuatu	—	1,0	—	—	—	1,0	0,2	4,5	4,2	—	4,2	0,5	5,2	0,7
(Total other countries)	(2,0)	(20,1)	(4,1)	(21,2)	(—)	(47,4)	(34,9)	(110,7)	(40,7)	(—)	(40,7)	(10,4)	(88,1)	(45,3)
II. Regional projects	1,3	9,4	—	—	—	10,7	2,9	631,5	199,7	49,3	249,0	73,0	259,7	75,9
Total ACP (I + II)	76,5	141,4	56,0	362,8	95,0	731,7	564,4	3 145,2	1 301,6	255,4	1 557,0	371,3	2 288,7	935,7
III. OCT	0,8	2,8	0,5	5,4	—	9,5	7,5	52,0	11,1	1,0	12,1	2,0	21,6	9,5
Total 5th EDF	77,3	144,2	56,5	368,2	95,0	741,2	571,9	3 197,2	1 312,7	256,4	1 569,1	373,3	2 310,3	945,2

§ 25. The 5th EDF: financial implementation of aid by recipient country (31 December 1983)
(for detailed figures see § 24)



§ 26. The 4th and 5th EDF: utilisation of aid by economic sector (situation at 31 December 1983)

Allocation and total utilisation	Financing decisions and payments by economic sector												
<p>4th EDF:</p> <p>Allocation: 3 155,9 Mio ECU (100 %)</p> <p>Financing decisions: 3 010,7 Mio ECU (95,4 %)</p> <p>Payments: 2 491,0 Mio ECU (78,9 %)</p> 	 <p>Agricultural production</p> <p>Transport and communications</p> <p>Industrialisation</p> <p>Energy</p> <p>Mining</p> <p>Education and training</p> <p>Health</p> <p>Hydraulics and urban development</p> <p>Trade promotion</p> <p>Exceptional aid</p> <p>Stabex</p> <p>Miscellaneous</p> <p>Administrative costs</p>	707,7	721,6	237,9	170,7	17,9	250,4	64,1	111,4	35,2	140,3	389,8	56,4
Financing decisions (Mio ECU)	3 010,7	707,7	721,6	237,9	170,7	17,9	250,4	64,1	111,4	35,2	140,3	389,8	56,4
Payments (Mio ECU)	2 491,0	546,9	553,1	207,6	150,1	16,6	188,8	45,7	82,6	22,2	136,9	389,8	49,1
		101,6											
<p>5th EDF:</p> <p>Allocation: 4 802,3 Mio ECU (100 %)</p> <p>Financing decisions: 2 310,3 Mio ECU (48,1 %)</p> <p>Payments: 945,2 Mio ECU (19,7 %)</p> 	 <p>Agricultural production</p> <p>Transport and communications</p> <p>Industrialisation</p> <p>Energy</p> <p>Mining</p> <p>Education and training</p> <p>Health</p> <p>Hydraulics and urban development</p> <p>Trade promotion</p> <p>Exceptional/emergency aid</p> <p>Stabex</p> <p>Miscellaneous</p>	583,9	403,4	173,2	164,2	147,6	166,0	35,5	163,2	25,4	56,5	351,5	39,9
Financing decisions (Mio ECU)	2 310,3	583,9	403,4	173,2	164,2	147,6	166,0	35,5	163,2	25,4	56,5	351,5	39,9
Payments (Mio ECU)	945,2	154,9	111,3	78,4	51,9	69,5	21,3	7,7	33,4	7,4	51,5	347,9	10,0



Replies of the institutions to the observations of the Court concerning the financial year 1983

The institution responsible for the replies is indicated either at the beginning of each chapter (if appropriate) or before the individual reply or series of replies within each chapter (see also paragraph 10 of the introduction).

Preliminary comment

Council

The Council would reiterate its wish that the comments by the Court of Auditors on each institution should be brought together in separate parts of the Court's report.

Replies of the Commission to Chapter 1 General matters

Year of account and balance sheet questions

Paragraph 1.4

Under Article 27 of the Financial Regulation the balance from each financial year is to be entered in the budget once it has been definitively determined from the accounts. Accordingly provision was made for it to be entered, as a general rule, in an amending budget to be drawn up in the autumn of the following financial year ($n+1$); for the same reason it would be preferable to be able to hold its entry over until the year after that ($n+2$). This is quite reasonable, since it would make it possible to use the definitive figure.

However, the object of entering the balance is to ensure that the principle that revenue and expenditure should balance is adhered to as closely as possible. It may therefore be quite consistent with the spirit of all the relevant provisions (both of the Treaty and the Financial Regulations) to enter a provisional balance if circumstances call for a supplementary and/or amending budget to be drawn up before the revenue and expenditure account is formally adopted. This makes for closer compliance

with the principle of budgetary balance and greater transparency of the accounts.

The Commission feels that it would be to everyone's benefit if regulations in future were to provide explicitly for all possibilities concerning the budget.

Paragraphs 1.5 and 1.6

The budget for each financial year has to be implemented within the time limits laid down in the rules. The revenue and expenditure account for any given year must faithfully reflect the financial consequences of all operations — i.e. budgetary transactions — on both the revenue and the expenditure side, carried out by the institutions in the course of their activities. In accounting and legal terms the revenue and expenditure account is a 'historical' document which cannot be altered. Where adjustments and regularisations are made outside the time limits, they have to be recorded under the financial year in which they occur.

The comments of the Court and those made in connection with the discharge are intended to guide the action of the Commission and the other institutions

in future financial years. In the Commission's view, however, they cannot give rise to *ex post* modification of the accounts for the financial year in question, since these have been formally closed.

The Commission does not share the Court's opinion as regards the accounting action to be taken in respect of any adjustments entailed by operations which prove to be irregular.

The accounts for which a discharge is given can only reflect the operations during the financial year.

Availability and management of appropriations

Paragraph 1.9

The Commission would point out that some of the criticisms made by the Court, particularly in its opi-

nion of 7 June 1984, were based on a misleading presentation of the figures as given by the Court in Table 1.5 (Under-utilisation of appropriations for payments); this inevitably leads to conclusions which are not compatible with the system deriving from the rules now in force. It is essential that all possible misunderstanding be eliminated in the sensitive area of carry-overs so that the bodies concerned can make a correct assessment.

The Commission therefore considers that the figures should be presented in a different form (see table below) to allow an objective assessment. Because non-differentiated appropriations and differentiated payment appropriations are very different in nature, it is not correct to lump them together, as the Court has done. A clear distinction has to be made between the two.

Utilisation of appropriations for payments ⁽¹⁾

million units of account (rounded)

Implementation of carry-overs from previous year				Implementation of appropriations for current year						
Year	Approps carried over ⁽²⁾	Payments made	Approps lapsing	Approps for year	Utilisation of approps			Approps carried over	Approps lapsing	
					Commitments (non-diff.)	Payments	Approps not utilised 4-6		Amount	%
	1	2	3	4	5	6	7	8	9	10
1979										
CND	259	253	6	12 368	12 317	11 996	372	328	44	0,3
CD	1 214	1 037	177	1 841	—	726	1 115	1 096	19	1,—
1980										
CND	328	321	7	13 921	13 719	13 244	677	474	203	1,5
CD	1 057	961 ⁽³⁾	96	1 991	—	1 384	607	606	1	0,—
1981										
CND	474	458	16	15 565	14 678	14 342	1 222	710	512 ⁽⁴⁾	3,3
CD	611	521 ⁽³⁾	90	2 524	—	2 084	440	434	6	0,2
1982										
CND	710	645	65	17 960	16 719	16 335	1 626	384	1 242 ⁽⁵⁾	6,9
CD	445	358 ⁽³⁾	87	3 659	—	2 683	976	954	22	0,6
1983										
CND	384	358	26	20 530	20 383	19 854	676	530	146	0,7
CD	962	756 ⁽³⁾	206	4 134	—	2 916	1 219	1 133	86	2,1

CND = Non-diff.

CD = Diff.

⁽¹⁾ In the case of non-differentiated appropriations these are also appropriations for commitments.

⁽²⁾ Excluding appropriations prior to 1977 for EAGGF Guidance and aid to Friuli.

⁽³⁾ Including some unutilised carry-overs which were retained (Art. 6(4) of the Financial Regulation).

⁽⁴⁾ Including 424 in EAGGF Guarantee.

⁽⁵⁾ Including 864 in EAGGF Guarantee and 264 in provisional appropriations (Title 10 of budget).

Significance of carry-overs of non-differentiated appropriations

Non-differentiated appropriations are intended to cover expenditure, with no distinction between commitments and payments, for operations carried out within one year. However, as there is always a certain lapse of time between commitment and payment, the Financial Regulation (Article 6) stipulates that non-differentiated appropriations covering commitments entered in the accounts but still awaiting payment are automatically carried over.

For the budgetary implementation of non-differentiated appropriations, the principle of annuality means that commitments must be made during the financial year in question (n), but it in no way precludes payments from being made in the next year (n + 1). Both the Treaty and the Financial Regulation allow commitments contracted to be carried over to the next financial year.

Non-differentiated appropriations cover many areas in the budget where negotiations are necessary before they can be committed. This is the case with studies, for example, where the negotiations, by definition, may be concluded at the end of the year. In these circumstances payment obviously has to be made the following year.

The present system laid down in the Treaty and the Financial Regulation is sound and permits actual requirements to be met while ensuring continuity in implementation of the budget.

The need for automatic carry-overs of non-differentiated appropriations cannot, therefore, be attributed to errors in the budget estimates. Only where non-differentiated appropriations lapse could it be claimed that such errors had been made, and even then the real causes would still have to be determined. For instance the reasons why sizeable amounts of EAGGF Guarantee Section appropriations lapsed in 1981 and 1982 are to be found in the normal difficulties of preparing estimates and the notoriously unpredictable factors which apply in this area.

Significance of carry-overs of differentiated payment appropriations

On the other hand, it is, in principle, correct to say that carry-overs of differentiated payment appro-

priations do basically reflect an overestimate of the original appropriations.

The Commission would, however, make the following points:

- the budget estimates are prepared long before actual implementation takes place (between eight and 20 months in advance) and it is therefore impossible in practice to predict actual need accurately for each heading, whatever it may be;
- delays in the utilisation of appropriations occur most frequently in areas particularly subject to purely external constraints (e.g. structural funds, development aid, new sources of energy, research); here the Commission is wholly dependent on implementation by third parties (such as Member States and non-member countries), over which it has no direct influence;
- there are, in particular, two obvious justifications for carrying over appropriations and keeping them available for the following year: firstly in order to cover the backlog of commitments entered into (in the Commission's view, the Court failed to take this into account in its opinion of 7 June 1984 on budgetary management for 1984) and secondly to avoid a destabilising effect on budget resources for the following financial year (since the estimates of payment appropriations are based on assumptions concerning the utilisation of the previous year's appropriations);
- finally the Commission would recall that its proposals for greater flexibility in management (giving it the power to make transfers between differentiated payment appropriations) — first made in the context of revision of the Financial Regulation in 1976, and renewed in 1980 — have not yet been adopted. A greater degree of flexibility in management in keeping with the spirit of Article 205 of the Treaty would enable the Commission and the budgetary authority to make tighter estimates of appropriations and adjustments between headings could then easily be made during the financial year in line with actual requirements.

The table above shows that while there was a large carry-over of payment appropriations in 1979, carry-overs in 1980 and 1981 were considerably

lower for the reasons given earlier. By contrast, 1982 and 1983 again show relatively large carry-overs mainly due to the external constraints indicated above.

Paragraph 1.10

The build-up of commitments awaiting payment, to which the Court refers, is basically due to the desire of Parliament, the Council and the Commission to develop European policies. The Commission would make the following points:

- an increase (build-up) in commitments which have not yet given rise to payments is a natural consequence of the expansion in the overall volume of the budget, in other words the increase from year to year of commitment appropriations designed to meet the growing requirements of existing policies and the launching of new policies;

This is an accounting phenomenon due to the fact that, since payment appropriations are systematically lower than commitment appropriations (the difference varying from one area to another) and since policies are not being cut back, let alone halted altogether — which would eliminate commitment appropriations for the activity in question — the arrears of outstanding payments are increasing. The growth of the amounts involved is the mathematical reflection of the growth in the volume of the budget and the difference between the amounts of commitments and the amounts of payments;

- the various systems of accelerated payments have made it possible to contain the build-up; if payments were made at a slower rate, the arrears of outstanding payments would be even higher;
- it is precisely this feature of the differentiation of appropriations which enables the Commission to enter into legal obligations, in other words to carry out operations, at the appropriate time without having to mobilise resources prematurely. This is exactly what the Court has advocated on a number of occasions. This system means that resources do not need to be mobilised; i.e. that the corresponding payment appropriations do not need to be requested,

until the operation in question has reached a stage where it is necessary;

- however, this system also entails two essential requirements: firstly the transparency and clarity of the data must be improved in both budgetary and accounting terms and secondly there must be tighter monitoring. To this end the Commission has taken measures to ensure that commitments are monitored constantly and strictly by authorising officers. Nevertheless the Commission can only repeat that in many cases it is subject to the external constraints of having to depend on Member States or other parties for the implementation of operations and their payment.

Paragraph 1.11 and paragraph 1.14 (b) in part

From both the legal and the accounting point of view the Commission considers that the arrears of commitments entered into (which are quantified precisely in the accounts) and certain (purely potential) costs liable to be incurred under the EAGGF Guarantee Section, notably for the disposal of intervention stocks, cannot be added together — as the Court has done — but must be treated separately. The two things are quite different in legal, budgetary and accounting terms.

As regards the first of them, the Commission would recall that it has agreed to enter (in an account off the balance sheet) the amount of commitments in respect of differentiated appropriations which are not covered by payment appropriations carried over; but these are actual commitments entered into by virtue of duly authorised commitment appropriations.

However, the Commission feels unable to include in the statement of the Communities' financial situation at 31 December the amount of potential costs for which formal commitments have not yet been made, since any assessment of the figure would be liable to substantial adjustment and could not give any accurate indication of the future obligations of the Communities.

Certain data concerning public agricultural stocks are taken from the EAGGF financial reports produced in September each year, this includes information on the position of public stocks, their value, the cost of storage and the cost of disposal.

The Commission is considering ways of making the information more rapidly available to the other

Community bodies in an appropriate context or document and is also seeking ways of making the information more comprehensive.

As regards food aid appropriations (see paragraph 10.5) the Commission has proposed in the preliminary draft 1985 budget that differentiated appropriations be used. The introduction of commitment appropriations in this area would meet the Court's wishes.

Paragraph 1.12

The Commission does not agree with the Court, which claims in substance that the introduction of the system of accelerated payments has not had any positive effect on the implementation of the policies concerned.

In the Commission's view this system has speeded up budgetary implementation of the headings concerned in accounting terms (it would inevitably have been slower if the initial advances had accounted for a lower percentage, as was previously the case) and has helped boost action by the Member States by making larger sums available for starting up the operations in question.

The Commission concedes, however, that the actual realisation of some projects financed under the system of accelerated payments has been hampered by material or administrative factors unrelated to the rate of finance; moreover, the Member States have not always been able to produce as promptly as requested the necessary supporting documents on which subsequent payments and final settlement depend.

Nevertheless the build-up of outstanding liabilities also depends on other factors (see replies to paragraph 1.6) and would clearly be higher in the absence of the system.

Paragraph 1.13

In reply to the Court's question, the Commission considers that the contributions made out of the general budget to the ECSC operating budget in 1982 and 1983 were justified, even though amounts exceeding these contributions appeared unused in the ECSC accounts at the end of the financial years in question.

The ECSC accounts include a table showing the allocation of the surplus of revenue over expendi-

ture, which the ECSC has to have at the close of each financial year. This positive balance derives from adjustments to the provisions for financial aid as a result of budgetary operations and from the allocations to the guarantee fund, to the special reserve (used to help finance the construction of workers' housing) and to the former pension fund (also used to finance building loans).

The Commission does not therefore consider that these amounts would be unused. This particular aspect of the management of ECSC funds in no way calls into question the justification of the contributions from the general budget to the ECSC, which are in any case authorised quite deliberately by the budgetary authority.

Paragraph 1.14

The Court's threefold objective in making these comments needs to be viewed in the light of the replies given above by the Commission.

The Commission would ask the Court to reconsider whether some of its comments are well-founded.

As regards the mobilisation of resources, the Commission would point out that the system of differentiated appropriations is particularly suited to meet the requirements to which the Court draws attention. In the Commission's view the system should, where appropriate, be extended to certain areas where it is not yet applied (food aid, for example) but where the multiannual nature and conditions of implementation require it. This is the only way to improve the accuracy of estimates — even though this will never be easy because of the external factors that influence the outcome.

Paragraphs 1.15 to 1.18

In these paragraphs the Court gives a brief summary of a number of comments which appear in detail under the relevant headings. In view of their varied nature, it seems appropriate to reply to each of the

issues raised under the specific heading to which it relates, rather than try to give a single reply here.

However, the Commission would make the following three fundamental points:

(a) At the political level it has been responsible for a large number of initiatives in its various fields of activity in order to improve the conditions for implementing policies and adapting them, as far as possible, to constantly changing requirements. By way of example it would cite the following communications and proposals:

- Common agricultural policy — Proposals of the Commission
(COM(83) 500 final, 28 July 1983)
- Report and proposals on ways of increasing the effectiveness of the Community structural funds
(COM(83) 501 final, 28 July 1983)
- 'Pisani Memorandum' on the Community's development policy
(COM(82) 640 final, 30 September 1982)
- Communication on food aid for development
(COM(83) 141 final, 24 March 1983)
- Proposal on the framework programme for Community scientific and technical activities
(COM(83) 260 final, 17 May 1983).

The Commission has made the necessary proposals to adapt policies in line with requirements in the corresponding areas. In terms of management, however, the Commission is largely dependent on the Member States for the implementation of many policies, particularly as regards the structural Funds.

(b) On the technical side of management and budgetary implementation, the Commission has made the necessary proposals to update and improve a number of regulations, in particular in the field of general financial rules (e.g. proposal for the revision of the Financial Regulation and the implementing provisions, adjustments to the regulations concerning the Berlin Centre and the Dublin Foundation). It has also made the necessary proposals regarding own resources (basic decision and detailed implementing rules). Unfortunately none of these

proposals has yet been adopted, as the institutions concerned have not completed their examination.

(c) Finally, the Commission would take issue, in general terms, with the Court's method of presentation in paragraphs 1.15 to 1.18. Each paragraph in fact covers an amalgam of different comments which hardly lend themselves to synthesis or generalisation except at the risk of producing hasty, superficial and even erroneous conclusions. The Commission therefore considers that the Court's comments should be dealt with under the relevant separate headings; this is the only way to assess them correctly and objectively. The Commission has endeavoured to give a suitable and detailed reply to each comment in the context of the specific sector concerned.

Paragraph 1.19

In view of the seriousness of the Court's summary the Commission has looked very closely into the points raised in the comments referred to.

The Court's summary was given with the laudable intention of making its report as easy to consult and as clear as possible.

However, the comments referred to cover a very wide variety of fields of activity, within which there is an equally wide diversity of specific activities.

As will be seen from the replies to the comments on specific actions, not all the contracts referred to in the summary are contracts in the strict sense of the term within the meaning of Article 50 of the Financial Regulation. Some of them, in fact, specify the conditions determined by the Commission for obtaining finance for services which constitute or form part of an activity which can only be performed by a third party within the framework of a Community policy.

In 1984 the Financial Controller has focused special attention on compliance with the criteria concerning the definition of contracts in the strict sense and as a result the application of the rules on the award of contracts and invitations to tender has been considerably extended.

Paragraph 1.20

The Comments on the excessive concentration of commitment and payment operations in respect of ERDF and ESF aid relate to transactions which are prepared throughout the year but not effected formally until the end of the year. There is therefore no ground for claiming that the procedures for examining applications and payments are limited because of this. But if the Council were to take decisions earlier in the year, this would undoubtedly facilitate and enhance the Commission's work.

Paragraph 1.21

The arguments expounded in the replies to paragraphs 9.4 and 10.5 clearly reveal that this is a complex matter, given the different areas involved. In reply to paragraph 9.4 the Commission stated its willingness to look at the question in greater detail.

Paragraph 1.22

Like the Court, the Commission is in favour of harmonising and improving the procedure for the recovery of taxes and duties; it is in the process of establishing appropriate internal procedures. It cannot, however, agree to enter expenditure exclusive of tax as the Court proposes; it doubts whether such a procedure would be compatible with Articles 3 and 22 of the Financial Regulation.

Observations in special reports which are relevant for discharge

Paragraph 1.23

The Commission would refer to the detailed replies it made when the Court published these reports and which accompanied the reports. It will limit itself here to the following brief reactions:

- (a) Operations of the common organisation of the market in sheepmeat

The Commission regards the differences in market prices between the various regions of the Community as undesirable. On a number of occasions it has made proposals for improving the operation of the sheepmeat market. It is nevertheless bound to manage the markets in accordance with the rules adopted by the Council.

The Commission's reply highlights the fact that in the main the Court's comments related to the normal consequences of proper application of the rules in force as adopted by the Council, and not to the Commission's management of the market.

- (b) Coordination of Community aids to third countries

The Court's report might give the uninformed reader the impression that nothing is done about the coordination of aids, either by the Commission, or by the Member States, or by the other aid donors.

There may well be scope for improving the coordination of aid. But while it is true that the 1974 Council Resolution on the harmonisation and coordination of Member States' cooperation policies has not had all the results expected from the point of view of operations, since then many steps have been taken to increase coordination with the Member States and other aid donors.

- (c) Management of Community development aid funds by the European Investment Bank (EIB)

- (i) The Commission feels that a way can be found of improving the information the Bank gives to the Commission about its management of Community funds.

The Commission has proposed looking into the possibilities; the way chosen must safeguard the Commission's own responsibility while at the same time allowing its agent a suitable degree of management autonomy.

- (ii) The Court's comparison of the income received by the major development banks makes no allowance for the EIB's very specific mission.

Replies of the institutions to

Chapter 2

Accounting matters

European Parliament

Cash deficit

Paragraph 2.5

Pursuant to the first subparagraph of Article 70 (3) of the Financial Regulation and in accordance with the policy at present in force, the European Parliament asked its insurance company to make good the deficit in the accounts of the Members' Pay Office. By letter of 28 May 1984 the insurance company announced that after inspection of the documents submitted to it it did not feel it could pay the amount requested, taking the view that a 'serious offence' had been committed and that there had been 'intentional violation' of the regulations (see Article 6 of the insurance policy). By letter of 24 July 1984 the European Parliament, taking account of the proceedings currently in hand, reserved its opinion on the final closure of the matter.

The European Parliament has informed the former accounting officer and the former administrator of advance funds that it could not comply with their requests as the formalities required by the Financial Regulation and the implementing provisions for payments out of the guarantee fund had not all been met.

Advances to be settled and expenditure to be charged

Paragraph 2.8

As the Court of Auditors points out, the European Parliament closed the accounts for 1983 on 13 December 1983, which is earlier than usual. As a result, the expenditure to be charged was artificially inflated by roughly 3 million ECU in respect of the imprest account for 'all meetings of Members' and 0,6 million ECU for the imprest account for 'mission expenses'.

In order to cut down further on the 'expenditure to be charged' at the end of the financial year, the European Parliament has introduced new arrangements in accordance with its 1983 undertaking to reduce the amount of time spent on internal administrative and technical procedures. A number of improvements have already been made since the last quarter of 1983.

Moreover, the proposed exhaustive study of the payment of mission expenses has now been carried out and a new system, permitting the more rapid set-

tlement of advances, should be introduced in spring 1985.

Commission

Cash deficit

Advances to be settled and expenditure to be charged

Paragraphs 2.7 – 2.8

As regards the accounting implications, the Commission would refer the Court to its general comments in reply to paragraphs 1.5 and 1.6.

European Parliament

Monitoring of other assets and other liabilities

Paragraph 2.9

At 30 June 1984 the old sums (dating back more than six months mentioned by the Court amounted to 85 700 ECU, including 50 000 ECU for sundry outstanding debts (transfer of officials' pension rights 30 000 ECU; Members 14 000 ECU; taxes 6 000 ECU).

Imprest accounts

Paragraph 2.10

In accordance with the recommendations of the Court the European Parliament's accounting officer has given the administrators of imprest accounts (with funds) the instructions necessary to ensure that the accounts are duly settled within the appropriate time limit.

At 30 June 1984, nine of the 11 sub-accounts opened for mission expenses under the main account had been fully reconciled with the imprest account. The operation will be completed by the end of the financial year.

Council

Financial Regulation

Paragraph 2.11

The Council takes note of the Court of Auditors' comments and has now taken the necessary steps to comply with the Financial Regulation.

*Council (cont.)***Paragraph 2.12**

Having regard to the Court of Auditors' comment, payment orders for cash advances paid to the Economic and Social Committee will in future be submitted to the Financial Controller, pursuant to Article 42 (last paragraph) of the Financial Regulation.

Paragraph 2.13

Having regard to the Court of Auditors' comment on payments to delegates in cash without prior approval by the Financial Controller (contrary to the provisions of the Financial Regulation), the Council, by a Decision of 20 June 1984, set up a system of advances which has actually been in operation since 1 July 1984. A copy of the Decision was sent to the Court of Auditors with letter No 8376 of 12 July 1984.

The Council would point out that cash reimbursement accounts for only 13% of total travel expenses reimbursement. It is unable at present to put into practice the Court of Auditors' comments on extending the system of payment by bank transfer to all delegates.

*Commission***Reconciliation of bank accounts****Paragraphs 2.14 – 2.15**

The number of reconciliations has been increased in order to cater for actual needs more effectively. In this connection the Commission has reorganised the Accounts and Cash Office Department along the lines recommended by the Court. A computerisation project is under way which will make it possible from the beginning of 1985 to carry out reconciliations more or less continuously.

Old transactions for which no supporting documents had been provided, amounting to 79 000 ECU, are in the process of being cleared.

Accounts with Treasuries**Paragraph 2.16**

In the light of experience gained in 1979, EAGGF advances for January are now paid out in January in

order to prevent them from being used to cover over-expenditure.

Recoverable taxes and duties**Paragraphs 2.18 and 2.19**

1. The Commission agrees with the Court that the accounting procedure for recoverable taxes and duties needs to be improved. It is accordingly studying the possibility of introducing a system running from the moment when the Central Accounting Unit registers payment orders in respect of invoices which include taxes and duties liable to give rise subsequently to claim by the Commission on the national authorities. This computerised system should, in principle, permit proper management of applications for refunds.

2. The Commission cannot accept the Court's proposal that expenditure should be charged net of tax since this would, in its view, be contrary to Articles 3 and 22 of the Financial Regulation of 21 December 1977, which provide for expenditure to be charged in full and for tax refunds to be available for reuse. These provisions were introduced in the Financial Regulation of 25 April 1973 for this very purpose. Like the Court, however, the Commission would be very happy to see full harmonisation between the institutions and the bodies concerned. The revision of the Financial Regulation which is still in progress should clarify once and for all the precise scope of the provisions in question.

3. As regards the specific points raised by the Court in paragraph 2.18, the Commission would reply that:

- VAT refunds by the Member States are not entered in the suspense account unless the application is made before 31 December of the year in question;
- as regards the imports for the JRC Petten Establishment, the firm concerned has been asked to supply duplicates of the customs documents;
- while it has not always been possible to make applications for refunds more than once a year, the Commission hopes to be able to speed up the submission of applications following a change in the procedures; however, it still has to rely on the effective cooperation of the Member

Commission (cont.)

States in applying the Protocol on Privileges and Immunities, which is the legal basis for such applications.

4. As regards the accounting implications, the Commission would refer the Court to its general comments in reply to paragraphs 1.5 and 1.6.

Principle of consistency of accounting methods**Paragraphs 2.20 and 2.21**

Appropriate measures have been taken to define more clearly the use of extra-budgetary accounts for expenditure by external offices and delegations.

Paragraphs 2.22 to 2.24

The Commission fully endorses the principles set out by the Court in paragraph 2.24.

*Court of Auditors***Paragraph 2.25**

The Court has taken steps to avoid a recurrence of a situation of this kind; at the beginning of 1984 the appropriations in Article 140 were augmented through a chapter to chapter transfer.

*Commission***Paragraph 2.25**

As regards the accounting implications, the Commission would refer the Court to its general comments in reply to paragraphs 1.5 and 1.6.

*Economic and Social Committee***Financial Regulation****Paragraph 2.26**

The Committee does its best to keep strictly to the financial year principle. It takes note of the comments by the Court of Auditors on the carrying-over of certain items of expenditure and revenue beyond the financial year concerned. In the past bank interest revenue has only arrived after the accounts

have been closed and therefore has had to be credited to the following financial year. In addition, some orders of payment have not reached the Financial Controller in time, i.e. by 31 December of the financial year.

The Committee will see that such discrepancies do not recur in future.

Paragraph 2.27

Committee Member's transport and attendance expenses are paid in accordance with the rules laid down by the ESC Bureau and approved by the Council. In practice, these rules make it necessary to effect such disbursements relatively speedily and many detailed conditions have to be observed. However, the Committee acknowledges — as pointed out by the Court of Auditors — that the previous arrangements did not constitute an imprest account. It has therefore recently set up an imprest account under Article 49 of the Financial Regulation. This decision should satisfy the Court of Auditors.

Bank accounts**Paragraph 2.29**

These remarks on bank accounts are directly linked with the comments on point 2.26. The Committee reiterates that it will see that these procedures are changed.

Paragraph 2.30

The Committee defends the practice of transferring cash surpluses to a deposit account on the grounds of sound, responsible management of Community funds. In order to comply with the requirements of the Court of Auditors, the Committee has worked out a formula for registering these transactions.

*Balance sheet and revenue and expenditure account of the Communities***Fixed assets and stocks****Paragraphs 2.32 – 2.33 and 2.34***European Parliament*

In accordance with the undertaking given in 1983 the European Parliament has more or less com-

European Parliament (cont.)

pleted the formalities necessary for ensuring that a start can be made on bringing the permanent inventory into line with the real situation during 1985.

The European Parliament is fully prepared to examine with the other Community institutions and bodies the scope for standardising the method used for valuing stocks and fixed assets.

Council

The measures announced by the Council in reply to the comments for the financial year 1982 have continued. The Council is expecting a computerised inventory control system to become operational by the start of 1985.

Commission

The Court recommends the introduction of a consultation procedure between the accounting officers of the institutions in order to harmonise monitoring methods and valuation criteria.

In the light of generally accepted accounting principles and the inherent constraints on the various institutions, a working party comprising all those concerned could be set up. In view of the volume of operations which it handles, the Commission would take the leading role.

The work being done to ensure that the permanent inventories agree with the actual situation has not yet been completed. However, a systematic review of the inventory of the external offices is under way.

Adjustment of contra accounts of Community institutions and bodies**Accounting principles and methods****Paragraphs 2.35 – 2.38***Commission (2.35 and 2.38)*

The Commission will follow the Court's recommendation and see that an inter-institutional working party is set up to define uniform accounting principles for reconciling contra accounts, in particular in respect of dates of entries.

European Parliament (2.35 and 2.36)

Two of the balances on the three interinstitutional accounts held by the European Parliament were

confirmed before the accounts were closed. In the third case all the European Parliament could do was forward its figures to the Commission, which was not able to supply its own figures by the date on which Parliament closed its accounts, i.e. 26 January 1984.

When the costs for the Publications Office rose in November 1983 the advance involved was incorrectly entered in the accounts. The error was noticed by the accounting officer and corrected in February 1984.

Council (2.36)

As the Council was not asked to pay any advance to the Publications Office in November 1983, the Court of Auditors' comments does not apply to it.

Commission (2.36 and 2.37)

The necessary instructions have been given to departments to avoid anomalies of the kind referred to.

Economic and Social Committee (2.31 – 2.38)

The Committee takes note of the Court's various comments on accounting principles and methods, with particular reference to fixed assets, stocks and the adjustment of contra accounts of Community institutions and bodies.

It wholeheartedly endorses the Court's recommendation that 'it is the responsibility of the Commission ... to decide, in consultation with the other institutions, the procedure to adopt in order to establish these principles and methods'. It therefore advocates that the Heads of Administration be directed to study this matter jointly in the near future.

While in no way underestimating the work involved in such alignment, the Committee will attempt to abide strictly by the rules once they have been drawn up and adopted. Meanwhile the value of stocks will be entered in the balance sheet at 31 December 1984 on the basis of estimates, since the Committee does not keep detailed running checks on stocks.

Court of Auditors (2.31 – 2.35)

The Court of Auditors has asked the Commission department responsible for these matters to organise a meeting, as suggested in paragraph 2.38, of all the accounting officers of the institutions of the Euro-

Court of Auditors (cont.)

pean Communities in order to harmonise the presentation of fixed assets and stocks in the balance sheet as at 31 December 1984 and to find a way of ensuring that the balances of the contra accounts of the institutions agree at the end of the financial year.

Court of Auditors (2.36)

The Court of Auditors made advances to increase

the working capital of the Publications Office only in January 1984, and the amount concerned, 50 889 ECU appears in the general accounts for the financial year 1984. Only advances made up to 31 December 1983 are included in the item fixed assets of the balance sheet as at that date.

Replies of the Commission to Chapter 3

Revenue

*Summary of financial information***Paragraph 3.5**

When the Commission's control of a VAT base reveals that corrections need to be made, it is only natural that they should apply to earlier years and not just the base in question. Until 1982 an agreement within the ACOR between the Member States and the Commission provided for corrections to be made to the bases for the three years preceding the one giving rise to the correction. This provision was incorporated in Regulation No 3625/83, which amends Regulation No 2892/77 and will apply from 1983.

*Recording and recovering revenue due***Paragraphs 3.6 to 3.9**

The Commission has thoroughly overhauled its internal instructions relating to the recovery of fines and financial penalties and certain other debts. It has reminded authorising officers and the accounting officer of their responsibilities under Article 23 of the Financial Regulation and also amended and improved the form for establishing a debt, which will be introduced on 1 November 1984. At the same time, it has amended the accounting procedures concerning the recording of budget revenue. The new revenue accounting system requires the preparation and introduction of new computer programs and procedures, which, although complex and requiring specialist assistance, are expected to become operational on 1 January 1985. A report

analysing the new computerised accounting system for budgetary revenue has been sent to the appropriate department of the Court of Auditors.

*Fraud and irregularities***Paragraphs 3.10 to 3.13**

The situation described by the Court derives from the existing rules, which make the establishment of duties subject to national legislation and rules. In a number of Member States, duties may be established, and the corresponding amounts made available to the Commission, only after judicial proceedings started under national legislation have been concluded. This is the position in the first case referred to in paragraph 3.12, the so-called 'Como butter' case.

The Commission is aware of the problems referred to by the Court and in October 1983 sent the Council a new proposal for an amendment to Regulation No 2891/77 to define the concept of establishment and specify in what circumstances and subject to what conditions the making available of own resources might be deferred. The object of this proposal is to improve the procedures for these operations and provide the Commission with more information on irregularities leading to legal proceedings in the Member States and the progress of such proceedings.

More generally, the Commission receives information on frauds and irregularities under Regulation (EEC) No 1468/81 on mutual assistance between the administrative authorities of the Member States

and cooperation between the latter and the Commission to ensure the correct application of the law on customs or agricultural matters⁽¹⁾ and through the annual and six-monthly reports provided for by Regulation (EEC, Euratom, ECSC) No 2891/77⁽²⁾. The Commission also gathers information from the controls it carries out in association with the Member States and from a wide range of other sources. However, there is at present no provision for the regular, systematic and obligatory transmission of information on frauds and irregularities. In consequence, the Commission asked the Council last February to resume consideration of the proposal it made in 1979 for measures to be taken in the event of irregularities affecting the own resources referred to in the Decision of 21 April 1970 and the organisation of an information system for the Commission in this field.

This proposal must be adopted if the Commission is to be able to obtain the information which will allow it to respond to all such requests by the Court.

Difficulties in application of VAT own resources system

Paragraphs 3.17 to 3.20

The Commission would point out that, of the 23 cases of infringement of the Sixth VAT Directive, 12 may be regarded as having resulted in a loss of VAT own resources and should, therefore, lead to parallel proceedings for infringement of own resources legislation.

For all such cases, the Commission has developed a system to coordinate proceedings against infringements of the VAT directives with those against infringements of the rules governing own resources. Letters asking for the amounts in question to be made available were sent to the appropriate authorities at the beginning of July 1984 and receivable orders have been drawn up.

Although the Commission can estimate the amounts involved, the regulations now in force require the Member States to calculate VAT own resources and they alone have the necessary data for the calculations. Until it has these calculations, the Commission can only make very rough estimates, of no real value for accounting purposes. For this reason, it does not enter an amount on the receivable orders issued in such cases until it has received the Member States' calculations.

The Commission considers that this procedure should satisfy the Court on the question of the monitoring and control of cases of this kind. It will be the normal practice in future.

It must also be borne in mind that the need to pay scrupulous attention to the formal aspects of judicial proceedings means that time-limits must be observed and this explains the delays referred to by the Court in paragraph 3.20.

Valuation of goods for customs purposes

Valuation system

Paragraph 3.22

Table 3.2 shows results taken from a survey conducted in the period August/September 1981 on the frequency of use of the individual valuation method permitted under the Code at a time when the Member States had acquired little experience in its application. The survey was made as a consequence of a decision made in the Committee on Customs Valuation (CCV) of the GATT to establish the pattern of usage. The survey, conducted in the Community and elsewhere among the Contracting Parties, showed that the first method of valuation envisaged by the Code, based on the 'transaction value', was the one generally used. This accorded with the intention of Contracting Parties in drawing up the code.

Apart from requesting that the survey should relate to a period in August/September 1981, the CCV did not establish standards on such matters as the methodology to be used, the length of period covered, the size of the sample taken and the numbers and types of customs offices to be covered. In effect the CCV was content, in broad terms, with crude results which would establish that the 'transaction value' was the predominant method in use. The figures reported by the parties on the use of this method ranged, with little exception, from 90% to 99%. In viewing these results, and apart altogether from the lack of coordinated approach in arriving at them, it was appreciated that the parties were gaining experience in applying a code that differed considerably from the variety of practices it replaced and that it would take time and experience to achieve uniformity of application. It was further appreciated that a number of observable factors, such as differences in trade practices and patterns of trade in the econom-

⁽¹⁾ OJ No L 144, 2. 6. 1981, p. 1.

⁽²⁾ OJ No L 336, 27. 12. 1977, p. 7.

ies of Contracting Parties, would influence the outcome of the survey.

The Commission was, of course, conscious of the spread in the survey figures that were reported by the Member States. It was also conscious that some Member States had used less exacting methods than others in arriving at results. Nevertheless, it was considered that the prime objective of the survey had been achieved and that little would be gained at that stage in attempting to refine these figures by closer analysis in terms of such considerations as trade practices and patterns of trade. However, the need for a more exacting survey was kept in mind, as was the fact that it could with advantage again be linked with a survey in the GATT which would also serve a wider Community interest. The Community proposed such a survey in the CCV in November 1982. A working party (of the Technical Committee on Customs Valuation) reported in March 1983 on a suitable methodology to be used, but the CCV is awaiting an increase in the number of Contracting Parties before proceeding further. Relevant data will, however, be sought from the Member States in the near future.

Apart from the aspect of a further survey to gauge more accurately the extent of the use of the 'transaction value' method, other activities of the Commission are aimed at producing uniformity of practice among the Member States. The Commission is continuously seeking the correct application of the Community legislation governing customs valuation, both by examining measures taken by the Member States for its application and through the work of the Customs Valuation Committee set up to examine the application of the legislation and questions arising from it. Where questions arise in the course of everyday work on aspects of valuation which involve a choice of methods, matters calling for comment are brought to the notice of the Member States and are pursued.

It could be expected that the use of one valuation method rather than another would be neutral in relation to own resources. The code aims at a 'fair, uniform and neutral' system for the valuation of goods for customs purposes that precludes the use of arbitrary or fictitious customs values. It is inherent in this that the valuation methods are conceived to achieve broadly comparable results. The method

to be used depends on the commercial circumstances of the import transaction but the objective remains the same.

Paragraph 3.23

The examples quoted by the Court should be considered in the light of the following points:

(a) Customs warehouses

The Commission is in the process of preparing a proposal for a Council Regulation to replace the existing provisions (Directive 69/74/EEC on customs warehouses ⁽¹⁾ and implementing directives).

The Commission hopes to complete its work at the end of 1984 and then send the proposal to the Council. The proposal will contain no provision specifically permitting the Member State to choose the point to be taken for the valuation for customs purposes in the case of release for free circulation of goods previously held in a warehouse. Such goods would therefore be subject to Directive 79/695/EEC (release for free circulation) and, in particular, Article 11 ⁽²⁾.

(b) Internal transport costs

Article 15 of Council Regulation (EEC) No 1224/80 contains provisions which exclude the cost of transport after importation into the customs territory of the Community from the customs value of imported goods.

Article 15 (2) envisages different circumstances under which such costs are incurred, i. e. (a) where goods are carried by the same means of transport to a place beyond the point of introduction into the customs territory of the Community, (b) where goods are invoiced at a uniform free domicile price, and (c) where transport is free or provided by the buyer. Criteria are laid down dealing with each set of circumstances. For case (a) transport costs are assessed in proportion to the distance covered outside and inside the customs territory of the Community; for case (b) a deduction is allowed if evidence is produced that the free-frontier price is

⁽¹⁾ OJ No L 58, 8. 3. 1969, p. 7.

⁽²⁾ OJ No L 205, 13. 8. 1979, p. 19.

lower than the uniform free domicile price; for case (c) transport costs to the place of introduction are included in accordance with the schedule of freight rates normally applied for the same modes of transport.

Criteria are provided in each of the above cases for determining the transport costs for inclusion or exclusion from the customs value. Such cases are thought to cover the bulk of relevant cases which could arise.

The Commission is aware of the two instances quoted by the Court of Auditors in which Member States have applied pragmatic solutions, involving in one case the use of average rates in respect of imports by a particular firm, and in the other case of fixed minimum rates in respect of 'roadborne' traffic into the Member State involved. Greater detail is being sought in the first case referred to but, by way of initial reaction, it would seem that, because of the averaging process involved in the calculation, own resources should not be adversely affected. In the second case, the practical effect is to lower the deductible amount related to transport costs within the Community and consequently enhance the amounts attributable to own resources.

It will be noted also that transport costs must be 'distinguished' from the price payable before they may be allowed in arriving at the customs value. The Commission has been conscious, as a result of inspections carried out on own resources, that at least one Member State has encountered problems in administering the notion of 'distinguished' in Article 15. The problem has been referred to a working party (of the Customs Valuation Committee) set up to study the treatment of transport costs in customs value with a view both to identifying areas of difficulty and proposing solutions. The working party met from 16 to 18 April 1984 and one of the initial conclusions was the need for a clarification of the concept of costs being 'distinguished' as referred to in Article 15 (1). The expression 'distinguished' is taken from the GATT Valuation Code and it will probably be necessary to seek agreement on any clarification of it in collaboration with our partners in the GATT.

(c) Computer software

At present Member States base the customs value of a carrier medium (e. g. a cassette or disc) bearing software (data or a computer program) for use in data processing equipment on the price paid for both the medium and the content. Insofar as the customs tariff relates only to physical goods customs duty is not chargeable on computer software transmitted by wire or satellite for instance.

Under the international rules on customs valuation which were superseded by the GATT Valuation Code, the value of the software was not normally included in the valuation of the carrier medium.

Following the adoption of the Code some countries maintained the practice applying under the previous rules and others changed to include the price of the software in the customs value. The upshot of this, and additionally of serious practical valuation problems that have arisen because of special features of international trade in software and of the position relating to the use of wire and satellite for transmitting data and programs, was a reconsideration in the GATT of the basis on which carrier media bearing software should be valued. A further point is that the change brought about by the GATT Code was in this instance unintended.

There is a large measure of acceptance among Contracting Parties of a proposal by the United States to allow parties to revert, if they choose, to the previous approach and exclude the value of the software from the customs value. A decision to permit this was adopted by the Contracting Parties in the Committee on Customs Valuation of the GATT on 24 September 1984. If the Community changes its present practice, as might be anticipated, and falls in line with the approach generally favoured by the Contracting Parties, some reduction in own resources can be expected. The extent of this has yet to be determined.

The Commission would point out that the financial consequences are one of the factors considered in any decision on whether the customs rules should be changed.

Replies of the Commission to

Chapter 4

European Agricultural Guidance and Guarantee Fund Guarantee Section

Nomenclature not adapted to entry of revenue in the accounts

Paragraph 4.5

The concept of negative expenditure arises from special provisions introduced by Community rules. In the case of the co-responsibility levy, these measures are regarded as intervention designed to regulate the markets. This form of entry in the budget was thus the result of a decision by the budgetary authority.

Budgetary transparency is improved by use of a detailed nomenclature showing the amount yielded by these measures. As the Court acknowledges in paragraph 4.6, the Commission is continuing to refine this nomenclature.

Furthermore, the Commission's annual financial report on the EAGGF Guarantee Section contains detailed figures on receipts from co-responsibility levies in the milk and milk products sector and details of how they were used.

Nomenclature and declaration

Paragraphs 4.6 and 4.20

The Commission notes that the Court's comment is addressed to the Member States alone. It considers that, except in case of *force majeure* brought about by the introduction of new subdivisions during a financial year, they respect the nomenclature.

Separate subdivisions for declaration of the amounts recovered by the Member States and accounting corrections as recommended by the Court in paragraph 4.20 have not been requested.

Indication of potential losses in the balance sheet Lack of information on future liabilities

Paragraphs 4.7 and 4.35

The Commission is not in favour of entering potential losses on intervention in the balance sheet for the following reasons:

- the budget for the following year allows for the foreseeable costs of total or partial disposal of stocks carried over from the previous year;
- the variety of factors which determine disposal costs in subsequent years mean that the figures would be of little value for accounting purposes.

Calculation of the potential loss resulting from public storage depends on the assumptions of both selling prices and the pace at which sales are made.

The annual financial reports contain the following information:

- the volume, value and storage and disposal costs of public stocks;
- reservations on amounts already cleared contained in clearance decisions (see also the Commission's replies to paragraph 4.45);
- reservations on amounts wrongly paid to individuals and the progress made in recovering them.

See also the Commission's reply to paragraph 1.11.

Supplementary and amending budget inadequate and late**Paragraph 4.9**

The Commission presented its preliminary draft supplementary and amending budget to adjust the various requirements for appropriations up to the end of the year after it had thoroughly examined all the relevant factors, including the latest available estimates.

**Late transfers of appropriations
Consequences of delays in the procedures****Paragraphs 4.10, 4.11 and 4.19**

While the supplementary and amending budget was being adopted, every effort had to be made to avoid sending amendments to chapters to the budgetary authority and so asking it to take decisions on two separate procedures, which could in fact be contradictory.

This did not, however, prevent information being sent to the budgetary authority on the utilisation of appropriations in the budget as a whole and the EAGGF in particular, principally through the Commission's quarterly reports on the implementation of the budget and the monthly statements of utilisation of EAGGF Guarantee Section appropriations.

Steps have been taken to introduce a procedure which will ensure that, if similar situations arise in future, the difficulties caused by the late commitment and charging of a large proportion of expenditure and the consequent delays in sending the accounting documents to the Court will not occur again.

In future the commitment and charging procedure will be suspended only in respect of that part of the expenditure for which there are insufficient appropriations.

Adjustments due to inadequate estimates**Paragraph 4.12**

The Commission's reply to this paragraph is included in that to paragraphs 4.51 to 4.54 and 4.62.

Strict management of the monthly advances**Paragraph 4.14**

During the revision of Regulation No 380/78, the Commission considered it advisable to retain a time-limit for the payment of advances.

Naturally, the Commission's management responsibilities require it to take account of special circumstances arising from the budget situation and the cash available.

Recoveries in respect of the clearance of the 1976/77 accounts**Paragraph 4.16**

The Commission has revised the relevant rules (Article 9 (7) of Commission Regulation No 3184/83) to avoid such difficulties in future.

Unsuitability of the rules of the EAGGF Guarantee Section to the management of multiannual operations financed from deductions**Paragraphs 4.21 and 4.22**

The Commission would point out that the deduction does not constitute revenue within the meaning of Article 3 of the Financial Regulation. It is a reduction in the aid granted to farmers in return for which supplementary expenditure is made on specified work or measures in the same sector. These are laid down by Community rules and remain linked to the main measure.

For the sake of budget transparency, the payments in question have been recorded under a new budget item in the same title.

Since the nature of EAGGF appropriations means that the differentiated appropriations system cannot be used, deductions are monitored outside the budget procedure and the budgetary authority is kept informed.

Management of cash position**Paragraph 4.23**

The Commission it normal under the EAGGF Guarantee financing system that the Member States

should have cash balances at the end of the month. It does not agree with the Court that those held by certain Member States are excessive.

In view of the difficulties of making estimates in this field, it can see no justification for criticisms of the average monthly utilisation rate (90,7%) and the year-end utilisation rate (99,8%).

During the year the Member States may use the advances for the following month as soon as they receive them; this of course affects the monthly balances.

Paragraph 4.24

Since the Commission had insufficient appropriations at the end of 1983, it authorised the two Member States which had exhausted their resources to use those remaining available in other Member States, which had been blocked on the Commission's instructions.

Paragraph 4.25

The Member States may request by telex a correction to the amount of the advance, provided that this is justified for each budget item. All the Member States respect this rule.

The cash balances recorded on 31 December cannot include the advances for January received in December because, in line with wishes previously expressed by the Court and the discharge authority, these are not made available until 2 January to prevent the Member States from using them for expenditure incurred during the previous year. The Member States normally use the same method to prepare their cash statements.

Paragraph 4.26

The Commission has decided to investigate whether the system of monthly advances can be amended as recommended by the Court; preparations are now in progress.

Public storage

Paragraph 4.29

The Commission would point out that the increase in public stocks is due not only to increased Community production but also to the contraction of world market outlets, especially for milk products. Even appreciably higher refund rates would not have increased exports to any substantial degree.

Paragraph 4.30

(a) Lack of harmonisation of prices for beef and veal in Italy

Buying-in prices for beef and veal in Italy for the 1984/85 marketing year have been amended (by Commission Regulation No 1222/84) to bring them more closely into line with those elsewhere in the Community.

(b) (i) Gain to one Member State from the standard-rate reimbursement of financial costs

In its report (COM(84) 129 final) on the system of uniform interest rates used to calculate financing costs in respect of funds mobilised by the Member States to finance buying-in of agricultural products for public storage, the Commission too pointed out that one Member State had exploited national provisions enabling capital to be raised on favourable terms to make a profit from the standard-rate system for financing interest costs. This is a consequence of the system provided for by Community rules. The Commission does not propose to discontinue the standard-rate system because of the advantages it also offers, but a provision should be added for such financing to be reduced, particularly in circumstances when it could lead to large gains for some Member States.

(ii) Questionable need for transfers of public stocks

The transfer of public stocks between intervention bodies is done on the basis of a Council decision and usually forms part of the annual package of farm prices and related measures.

The Commission considers that the market mechanisms are such as to ensure adequate supplies

throughout the Community. Any transfers should therefore be limited to an absolute minimum.

Effect on the revenue and expenditure account of Regulation No 3184/83 on public storage

Paragraph 4.32

The date of 30 November specified by the Commission Regulation for determination, on the basis of an inventory, of the exact level of stocks will not distort the assessment of changes in stocks except during the first year of its operation.

Paragraph 4.33

For the Commission's replies to the comments on the deferment of expenditure to a later year, see paragraphs 4.51 to 4.54 and 4.62 to 4.65.

Financial volume of storage operations

Paragraph 4.34

The Commission does not agree with the Court that the system for financing public storage does not reveal the actual financial volume of all the measures covered by the system. The Commission would emphasise that Council Regulations Nos 1883/78 and 3247/81 provide that amounts to be financed by the EAGGF should be determined on the basis of annual accounts for each product prepared by the national intervention bodies responsible for public storage.

These accounts are naturally rendered complex by the conjunction of Community rules and the decentralised nature of the many national intervention bodies.

To improve budget transparency, since 1980 the budgetary authority, acting on a proposal from the Commission, has replaced the single budget item by three separate headings:

- actual storage costs (admission to warehouses, the stay in them and removal);
- interest costs on the national funds tied up by the purchase of products;

— gains or losses on sale and any other revenue and expenditure.

Separate headings are not used for the public storage of oilseeds, where intervention occurs only occasionally (9,4 million ECU in gains over the last three years, compared with 4 090 million ECU in expenditure for all products subject to intervention).

In reply to the comments at subparagraphs 4.34 (c) and (d), it should be noted that some specific expenditure relating to special sales may be identified from the monthly declarations by the Member States, which are available to the Court.

Various levels of control

Paragraph 4.36

With reference to paragraph 4.36 (b), it should be noted that, besides the checks made in connection with the clearance of accounts, the Commission also carries out on-the-spot enquiries into the application of certain measures if it considers these necessary or where it suspects irregularity.

Control of frauds and irregularities

Paragraph 4.37

In general, the variation between the Member States in the number of cases of fraud and the amounts involved is continuing to increase. One Member State accounted for 64% of the cases reported in 1983 and 68% of the amounts wrongly paid. This has been the case ever since Regulation No 283/72 came into force.

The fact that some Member States report more cases than others does not necessarily mean that fraud is more prevalent there than elsewhere in the Community.

Member States may differ slightly in their control systems and in their interpretation of irregularity, but this alone cannot explain all the disparity.

The Commission is continuing to demand that, as laid down by the Regulation, it should be notified of all irregularities within the meaning of Article 3 of Regulation No 283/72.

Commission's activity in 1983**Paragraph 4.38**

(b) The Commission does not share the Court's apprehensions, since the computer system being installed will permit a large measure of flexibility. It does not therefore seem necessary to solve all the problems in advance.

(c) While it is true that the availability of administrative resources held up the monitoring of Directive 77/435/EEC at one time, on the other hand the Commission has continued to discuss its application with the Member States, both at special seminars and as part of the process of clearing accounts and carrying out systems audits.

The Commission would also refer to its detailed replies to the special report of the Court of Auditors on implementation of the Directive.

(d) The number of enquiries begun depends on the types of problems encountered, their scale and their financial consequences.

Such enquiries should not be regarded as isolated operations since they form part of the whole panoply of targeted inspections, controls of the clearance of accounts, systems audits and monitoring through *ad hoc* information systems.

Paragraph 4.39

The Commission acts with the greatest possible efficiency permitted by the legal and administrative means at its disposal, the complexity of the decentralised structures and the wide dispersion of responsibilities.

Controls related to the clearance of the accounts**Provisional acceptance and refusal of expenditure (reservations)****Paragraphs 4.40, 4.41, 4.45 (c), 4.46 and 4.48**

As the Court says, clearance decisions involve the provisional acceptance and refusal of certain expenditure. In this way the Commission endeavours to take such decisions as soon as possible and to protect the financial interests of the Communities.

Provisional acceptance concerns expenditure which is the subject of a special enquiry to determine beyond doubt whether it has been properly effected in accordance with Community law. Such enquiries, normally carried out by the Member States concerned, often take more than a year. Where the evidence is insufficient to refuse part or all of the expenditure, the Commission reserves the right to return to the point after the enquiry is complete, so as not to hold up the clearance decision.

It should be noted that the amounts quoted by the Court are the total declared expenditure into which enquiries are being made. Normally, if any corrections at all are required, they would apply only to part of that sum.

Provisional refusals apply to:

1. cases where, in the Commission's view, the evidence is sufficient to refuse expenditure although a final decision depends on a judgment by the Court of Justice which has not been delivered at the moment when the accounts are cleared;
2. very exceptional cases where the Member State is allowed to supply further supporting documents which might cause the Commission to adopt a different view during the next clearance. The Court of Justice has already held that in such cases the Commission may allow such proof to be produced at a later date.

The amounts which are the subject of reservations have a much greater impact on those years for which expenditure has been checked after a considerable delay. As the delay has been reduced, the amounts which are the subject of a provisional refusal have also fallen. When the accounts for 1978 and 1979 were cleared, the amounts provisionally refused for the reasons given in 2 above were only 13 million ECU and 14 million ECU respectively.

The Commission will do all in its power to avoid the accumulation criticised by the Court in paragraph 4.46.

Scope of inspections unequal**Paragraph 4.44**

The Commission uses selective checks measures in all sectors in as much detail as possible.

As the Court suggests, the Commission is gradually introducing systems audits. At the same time, it has taken other steps to improve these checks, including preparation of a manual to guide its inspectors. In the sugar sector, the Commission takes account of own resources inspections already carried out to avoid duplication of effort and improve efficiency.

Application of the results of the verifications to the original financial year

Paragraph 4.45

Article 5 (2) (b) of Council Regulation (EEC) No 729/79 requires the Commission to clear the accounts on the basis of annual accounts, whose content is specified by Article 3 of Regulation (EEC) No 1723/72.

Clearance is a complex operation which can only be fully understood with reference not only to legal decisions but also to the summaries on which the decisions are based.

The Commission has attempted to clarify the effect of its clearance decisions through information in the annual EAGGF financial reports, which include tables showing, for each Member State, the situation compared with that of the original financial year, what has become of amounts in respect of which reservations were made in previous financial years and any amounts subsequently allowed. In line with the Court's wishes, explanatory notes will accompany this information in future.

The accounting data which could be included with the revenue and expenditure account have always been available to the Court and the Commission is willing to publish them in future. The presentation of these figures will be in line with the wishes expressed by the Court in its opinion on the proposed Financial Regulation.

Attitude to reservations

Paragraph 4.48

As the Court notes, the Financial Controller did indeed oppose draft clearance decisions accompanied by reservations.

He has always done so and still maintains this line. In his memorandum to the Commission concerning the clearance of accounts for 1978/79 he stood by his previous position that the reservations accompanying the clearance decisions were unacceptable from a legal point of view.

If the reservation is negative, it does not make the expenditure in question a charge on the budget, hence the question of the withholding of approval does not arise.

Overruling the refusal of approval by the Financial Controller

Paragraphs 4.49 and 4.50

When selling skimmed-milk powder from public storage, the Member State granted the trader an interest-free deferred payment facility, for which Community rules make no provision. This gave him an undue advantage over other potential competing buyers, although not at the Community's expense.

This operation took place at a time when there were enormous surpluses of skimmed-milk powder which could not be absorbed by the usual measures to ease the market, such as processing into compound feed within the Community or export to non-member countries. Hence Regulation (EEC) No 2054/76 provided for a reduction in the selling price where skimmed-milk powder was sold from intervention stocks for use as animal feed in non-member countries, in addition to the normal export refund. The sales by Belgium under this Regulation eased the market and reduced the cost to the EAGGF of prolonged storage.

Since the Commission considered that the operation could be broken down into two separate transactions, linked only for administrative convenience, it refused to take account of the price reduction in clearing the accounts.

Failure to adapt the management and control methods of the EAGGF Guarantee Section

Paragraphs 4.51 to 4.54 and 4.62

The Court of Auditors alleges that the Commission has not been able to keep agricultural expenditure within the limits of the appropriations authorised because of the shortcomings and rigidity of its methods for managing and controlling the EAGGF.

As the Court itself states at paragraph 4.63, the Commission would point out that it has kept within the appropriations available and it considers that it has properly discharged its responsibility for implementation of the 1983 budget, given the constraints imposed by the availability of appropriations.

Both in 1983 and in earlier years the Commission took a number of political initiatives to keep agricultural expenditure under control — a problem whose origins do not lie at management level and which cannot be solved simply by improving management and control mechanisms.

The Court finds that the main reason why EAGGF expenditure is not properly managed and controlled is that expenditure is not committed at the point where the decision is taken (e.g. the Council decision on prices and related measures) but later, when expenditure has occurred. The Commission must point out that it makes commitments in accordance with Article 97 of the Financial Regulation. It would add that there is no provision for a direct accounting commitment to accompany a management decision.

The Commission has made considerable use of the opportunities for real savings in agricultural management as far as permitted by existing Council regulations.

Guarantee thresholds

Paragraph 4.55

Guarantee thresholds are market measures which generally have the effect of setting lower prices if production exceeds a certain level.

Close and consistent monitoring of failure to respect these thresholds in connection with the budget pro-

cedure can only create complications and is of doubtful value. The Council fixes prices for the marketing year on a proposal from the Commission and after receiving the opinion of Parliament on the basis of the production figures then available. If at a later date, six months later in the case quoted by the Court, more recent production figures become available in the context of the budget procedure, this does not mean that prices should be changed — to do so would severely distort the market. More recent figures are used to fix prices for the following year.

Suggestions made in the Court's report following the Stuttgart European Council

Paragraph 4.56

The Commission considered with interest the Court's report of 6 October 1983 ⁽¹⁾. It had itself already made some of the suggestions contained there and others had been included in its July 1983 communication on the common agricultural policy (COM(83) 500 final).

The Commission was not asked to react to the Court's report during its preparation and it reserves its position on a number of points, particularly those referred to in paragraph 4.56 of the annual report.

Expenditure committed by the Commission

Paragraphs 4.57 and 4.60

As in the case of decisions on prices and related measures, the Financial Regulation makes no provision for a Commission management decision to be accompanied by a commitment of appropriations.

The Commission has grave reservations on the practicability of the Court's suggestion that a management decision should be followed by charging.

To take the example of rate fixing, to which traders respond by applying for aids or certificates, the volume of applications and the month when the expenditure will occur are not known at the time when the decision is taken. The Commission does

⁽¹⁾ OJ No C 287, 26. 10. 1983.

not consider that a commitment can be made in respect of this potential expenditure of an uncertain amount which will take place at an unknown date. The same applies to decisions to sell products in public storage where decisions are implemented by national intervention agencies and the Commission is unaware at the time of taking the decision of the losses incurred on sale and other factors (purchase price, date of purchase, date of sale).

Management of exports

Paragraph 4.58

The Court's proposals for permanent and parallel monitoring of the volumes covered by certificates issued and the actual volumes of exports would present administrative difficulties, particularly for national administrations. Under the decentralised system, certificates are issued by the Member States. The Court's solution would require monitoring of each certificate and a special centralising procedure for the data so that it would be possible to know, day by day, the state of utilisation of each certificate. Monitoring would be further complicated by the fact that certificates can be used for exports from Member States other than the one in which they are issued.

The effect on the market of the sale of intervention stocks

Paragraph 4.61

It is not always possible to avoid competition between products sold from public storage and products on the market. Subsidies to incorporate butter in ice cream and cakes may be granted in respect of butter on the market, butter in private storage and butter in public storage.

Generally speaking, if a special outlet is being sought when stocks of butter in public storage are very large, preference is given to these stocks and a

lower subsidy is paid if the trader nevertheless prefers to use butter on the market. It should also be noted that, for certain manufacturing processes, the butter in public storage has technical features which make it particularly attractive.

Control of agricultural expenditure and carrying over of expenditure to later years

Paragraphs 4.63 to 4.65

As it stated in its replies to paragraphs 4.51 to 4.54, the Commission commits agricultural expenditure in accordance with the rules laid down by the Financial Regulation.

At the end of 1983 it decided to suspend the payment of advances and thus transferred expenditure of 675 million ECU to the following year. In the Commission's view, the remainder of the 2 000 million ECU should not be regarded in the same way since it relates to matters recurring each year and concerns the question of public stocks dealt with elsewhere (see the Commission's replies to paragraphs 4.7 and 4.35) are treated.

It should be pointed out that the Commission does not have the power to take measures which would achieve significant savings in agricultural expenditure.

- In the case of intervention, the power to cancel (even temporarily) purchases by an intervention agency rests with the Council, acting after receiving Parliament's opinion.
- In the case of refunds, export is a way of disposing of surpluses. Cancellation of refunds would mean higher public storage costs.

The Commission would emphasise that its market management efforts have resulted in as great a control of agricultural expenditure as it can achieve, since it not only avoided the 1983 appropriations being exceeded but also eased the strains on the market caused by the shortage of appropriations.

Replies of the Commission to

Chapter 5

European Agricultural Guidance and Guarantee Fund, Guidance Section and specific agricultural measures

Observations arising from the financial information

Aid towards the reconstitution of agricultural areas damaged by hurricanes

Situation at	31. 12. 1982	31. 12. 1983	30. 9. 1984
Projects financed	7 456	7 456	7 456
Of which: completed	5 939	6 284	6 366
cancelled	808	833	842
in progress	709	339	248

Paragraphs 5.8 to 5.11

It should be remembered that, in practice, the operation involved was indirect, with the EAGGF Guidance Section contributing to the expenditure of the Member State, and not direct, where the subsidy is directly linked to a specific investment project.

The specific locations or investments involved in indirect operations are rarely known since the refund request from the Member State (or the report on use where advances are concerned) can inevitably give only a general picture. Moreover, in view of the number of cases involved, it would be out of the question for obvious administrative reasons to ask for full details; monitoring has always been by random checks.

Furthermore, the French authorities had available computer lists giving full details of the aid granted in individual cases. EAGGF officials had access to these lists when considering the French request for payment of the balance.

Observations on the system of granting and management of aid at national and Community level

Regulation No 17/64 relating to individual projects: settlement of commitments

Paragraph 5.12

(a) The situation concerning projects under Regulation No 17/64 was as follows:

These few figures show that the number of files still open was halved in 1983 so that it accounted for only 4,5% of projects financed. Furthermore, only 248 such files remained at 30 September 1984 and of these 50 had been completed and payments were in progress.

(b) The Commission's practice did not lead to any delay. The appropriations were re-used as soon as they were released. The practice followed is, moreover, perfectly in line with the Community nature of the measure. No appropriations were 'reserved' for particular Member States — in reassigning the appropriations which became available the Commission gave priority to projects in the same region (where the project not implemented should have been carried out) in so far as worthwhile projects had been put forward.

(c) The Commission regularly examines progress made in implementing projects and stops aid to those which do not offer adequate guarantees of completion. Consequently, requests for carryovers of appropriations at the end of the five-year period were limited, up to and including 1982, to projects which met these conditions.

As the revenue and expenditure account shows, the Commission has not requested that these appropriations be carried over from 1983 to 1984 and commitments on outstanding projects will be settled using appropriations entered in the budget.

Regulation No 355/77 concerning the financing of projects to improve the conditions under which agricultural products are processed and marketed

Paragraph 5.14

The duration of the common measures has again been extended, with certain amendments, by Council Regulation (EEC) No 1932/84 of 19 June 1984 for a further 10 years (1).

Paragraph 5.16

It should be borne in mind when considering the comments made by the Court of Auditors in paragraphs 5.17 to 5.31 that the projects concerned are only a small percentage of the total and that, furthermore, it is not possible to project conclusions from one country onto another.

Absence of adequate guarantees as to the profitability of the projects subsidised

Paragraphs 5.17 and 5.18

Under Regulation (EEC) No 355/77 alone the Community has financed close on 3 000 projects involving a total investment of 4 300 million ECU and aid of almost 1 100 million ECU, and this has been done on the basis of financial estimates.

The Commission is pleased to note that it has had no major problems with these projects, despite the difficult economic situation. On the other hand, since so many projects are involved, it is almost inevitable that one or other of them will not prove successful financially, particularly as aid cannot be limited to ventures which are in such a sound financial position as to have no need of aid.

Moreover, the three points below are of particular relevance:

- The Court of Auditors bases its view on an analysis of the operating accounts immediately after completion of the project. At that point, however, the financial costs are bound to be particularly heavy.
- The operating accounts do not give an accurate picture of the project's success because they deal not with investment but with the venture as a whole, where results are normally influenced primarily by other factors.

- Investment must, above all, improve the situation of farmers rather than create profits; this is most evident in the case of cooperatives.

Lack of consistency in the data provided by the beneficiaries and no 'ex post' appraisal of the application of the common measures

Paragraph 5.20

Such differences are to be expected, not just because so many outside factors are involved in the actual outcome (harvests, prices, changes in the economic situation) but also because of the time which elapses between the request for aid being drawn up and the report being produced. This will be a minimum of about four years and may be much greater in view of the fact that the estimates are drawn up before the file is submitted and the reports only produced two years after the last payment of Community aid.

Paragraph 5.21

There is no obligation under the Regulation for Member States to use the report to the Commission, although it ought to be of interest to them, at least for the purpose of updating sectoral programmes. In any case, there were only 12 reports in France up to the end of 1983 compared with a total of 259 for the Community.

The unrepresentative nature of the files in the past had also delayed analysis of the reports at Community level.

Shortage of information on financing arrangements

Paragraphs 5.23 and 5.24

The granting of supplementary aid following the Commission decision is not expressly ruled out provided the Member State observes the minimum and maximum levels stipulated in the Regulation and the aid is declared when the request for payment of Community aid is made. Under these circumstances, either Community aid is not affected or the Commission can alter the amount it actually pays.

Interaction of structural aid and objectives of market policies

Paragraph 5.25

The criteria used in 1984 for selecting projects were amended on 22 February 1984 to exclude the grant-

(1) OJ No L 180, 7. 7. 1984, p. 1.

ing of aid under this heading to investments in the milk sector ⁽¹⁾.

Paragraph 5.26

In the two cases quoted, EAGGF aid was granted to investments aimed at shifting production out of butter into cheese. This objective was achieved in both cases and there was therefore no opposite effect.

Paragraph 5.27

In the cases referred to there was a shortage of slaughtering capacity in the production region. Capacity was created to match existing livestock numbers and did not therefore encourage its extension. Nor, in the Commission's view, was there any increase in the use of intervention: the market situations in which intervention is possible under the regulations in force were not unfavourably affected by the capacity in question.

Paragraph 5.28

The above replies on the specific cases cited show that the investments were consistent with market policy and not in conflict with it and that it is a difficult issue on which to reach a general conclusion.

Inclusion of several investments which are economically and technically independent under one project

Paragraph 5.30

The concept of a project, as expressed in Article 6(1) of Regulation (EEC) No 355/77, does not exclude the grouping of several investments where necessary.

The problems referred to by the Court of Auditors may arise for a variety of reasons (an ill-conceived project, national or local administrative problems, the economic situation, etc.), but they are not caused by the grouping of several investments under one project.

Delay in the submission of requests for payment for work completed and overstepping of initial costs

Paragraph 5.31

(a) The Commission broadly shares the concern expressed by the Court of Auditors and has already contacted the Member State concerned.

(b) The Commission has always advocated that costs be estimated by reference to the planned start-date for a project. Moreover, the recent amendment to the Regulation expressly states that costs should be calculated in this way.

Financing of projects aiming to speed up improvement of agricultural infrastructure in certain less-favoured areas of the Federal Republic of Germany

Paragraph 5.36

The programme describes the range of works to be undertaken with Community aid under Regulation (EEC) No 1938/81. These works would not have been carried out without the additional resources of the EAGGF, unless at a later date as national resources became available.

Paragraph 5.39

The national expenditure figures and aid conditions quoted by the Court of Auditors have no bearing on the question of harmonisation. Harmonisation is intended to promote the complementarity of different programmes and to avoid contradictions. However the Court of Auditors has highlighted differences in the priorities established under national programmes and those established under the framework programme for Regulation (EEC) No 1938/81, which is intended to aid certain less-favoured areas. A more valid comparison would be with the framework programme for regional economic development ⁽²⁾.

Paragraph 5.40

The Commission cannot agree with the Court of Auditors' conclusions in relation to the flood con-

⁽¹⁾ OJ No C 56, 29. 2. 1984, p. 4.

⁽²⁾ Drucksache 10-1279 of the Deutsche Bundestag of 11 April 1984.

trol measures on the river Itz. The measures have clear agricultural benefits and so are in complete conformity with the objectives of the Regulation. The fact that they incidentally have a wider beneficial impact in no way reduces their validity as agricultural measures.

Measures for the acceleration and guidance of collective irrigation works

Implementation of the measures

Paragraph 5.44

The comment that 'the programmes have hardly proved viable' would seem exaggerated in relation to the actual observations made by the Court of Auditors. While the need to replace the 80 000 ha in the initial programme was regrettable, it should be noted that Regulation (EEC) No 1362/78 covers a total of 200 000 ha. Moreover, most of the adjustment was caused by a blockage resulting from the review of the activities of the 'Cassa per il Mezzogiorno' ordered by the Italian Parliament.

Paragraph 5.45

As regards availability of water for the works in Corsica, it is true that the Commission, when considering the programme, pointed out to the French authorities that two of the four zones concerned seemed to be at the lower limit of accepted norms for irrigation of the crops planned. However, water requirements are dependent on a number of factors, some of which are difficult to assess, and as a result the Commission decided to approve the programme, following assurances given in bilateral contacts with the French authorities.

Paragraph 5.48

As far as Directive 79/173 is concerned, Commission officials noted the problem during their visit in February 1982. Indeed, it was at the Commission's request that the clause whereby users entered into a commitment not to irrigate the vines was included in the contract of use.

Furthermore, French regulations prohibit irrigation of vines between 1 April and 31 October. Monitoring of this legal commitment therefore largely coincides with that of observance of Community provisions. It is, of course, always difficult to ensure an

effective check on observance of specific conditions at the production level but it would seem no more complicated for this type of check than for any other. In any case, it would always be possible to penalise any infringements, since a written commitment exists.

As regards Regulation No 1362/78, the Commission has not yet carried out an on-the-spot check because no request for final payment has so far been made for a project financed under this operation.

The Italian authorities have, at the request of the Commission, confirmed that the areas concerned are not yet properly irrigated and that the few small patches of vines (mainly used for the producers' own consumption) will disappear with irrigation.

Paragraph 5.49

The applicant, informed of the insufficiency of the appropriations remaining, told the Commission that he could make do with the amount available and meet the balance using his own resources.

The development of agricultural advisory services

Paragraph 5.53

It is true that, five years after adoption of the Regulation, this operation can be seen as disappointing. However, it should be remembered that implementation was held up by the Italian institutional framework, with 20 regions having to reach political agreement on uniform legislation to provide common norms for the operation of administrative boards for advisory centres.

In addition, Italy wished to take advantage of the opportunity offered by the Regulation to introduce a new, original, well-structured and lasting system of agricultural advisory services.

Nevertheless, now that the administrative structure is in place and recruitment and training of advisory officers have begun (the first phase of the programme), the operation is properly under way and there is every reason to believe that the object originally envisaged will ultimately be achieved.

Paragraph 5.54

In view of the delays in starting the operation, completion of the first implementation report has had to be delayed.

*The stimulation of agricultural development
in the less-favoured areas of the
West of Ireland*

Land improvement**Paragraph 5.58**

Whilst the Commission shares the Court of Auditors' disappointment at the lack of progress with these measures there are certain practical difficulties which cannot be overcome quickly. For the division of commonage, the agreement of all of a large number of individuals is necessary before the division can take place. This involves the laborious task of tracing rights-owners who may no longer even live in the region and obtaining the agreement of all of them.

Orientation of production**Paragraph 5.60**

It is clear that the measure for the orientation of production requires a large impetus since this is the essential on-farm part of the programme. No application of the measure took place in 1981 and 1982 because of industrial action in the implementing agency. 1983 was therefore the first year of implementation of the measure and the low number of plans approved in that year is representative of the starting-up phase. However if the objectives of the programme are to be fully achieved, a much greater number of improvement plans will need to be submitted.

Some extra impetus will come from the Commission's proposal to the Council for a Regulation on improving the efficiency of agricultural structures⁽¹⁾, in which it is proposed that Article 10(1) of Regulation (EEC) No 1820/80 be modified so that the conditions for the improvement plan under Regulation (EEC) No 1820/80 would be brought in line with the improvement plan provided for in

Article 2(1) of the new general measure. On the one hand this would relax the conditions of entry into the benefits of the scheme while on the other hand higher rates of aid and higher amounts of investment eligible for aid would be allowed. This should have the effect of both making the scheme more attractive to farmers and allowing participation by a wider group of farmers. However the success of such a measure also depends on the farmers' willingness to invest and on their own capital resources, both of which are determined by factors outside the measure itself.

Farm roads**Paragraph 5.61**

As regards the practice noted by the Court of Auditors, the Commission is not aware of a maximum length of road which may be aided under the programme, though practices do vary from one County Council to another and it is clear that the Councils have a certain flexibility in how to spend each year's allocation of funds. It is understood that where, in the past, under the purely national scheme which predated the Community measure, funds were insufficient to meet all of the demands it was a practice to aid as many projects as possible so as to spread more widely the benefit of the resources available.

Paragraph 5.62

This should be reduced because of the greater resources available under the common measure. Moreover it is not clear whether in fact the problem of partly renovated farm roads is a significant one in relation to the overall volume of expenditure or whether it is limited to a few isolated cases.

General comment**Paragraph 5.64**

In the case of reimbursement measures the national or regional administration is responsible for drafting the programme. This procedure should ensure that sufficient account is taken of local realities. Many of the Court of Auditors' remarks stem in fact from an insufficient uptake of the measures, as compared with the original aims. Whilst this is a matter of concern to the Commission, it constitutes neither financial mismanagement nor poor cost-effectiveness, since the cost is in most cases directly proportional to the extent of application and hence to the effectiveness of the measure.

⁽¹⁾ COM(83) 559 final, 10. 10. 1983.

Replies of the Commission to

Chapter 6

Common fisheries policy

Observations on the system of managing EAGGF Guarantee Section appropriations

Point 6.6

In the absence of a Council decision the Commission has declared in the Council — 27 July 1981 and 21 July 1982 — that the approval of national measures regarding the fishing activities of the Member States should be based on its proposals. For 1983 Council regulation No 198/83 extended the period of application for TACs and quotas of 1982 which were adopted on 25 January 1983. Definite TACs and quotas for 1983 were adopted on 20 December 1983.

It is not certain that all exports of mackerel by the Netherlands were fish caught by fishermen of this Member State.

Taking into account these circumstances, the Commission considers that it would not have been appropriate to suspend advances to the Netherlands. Steps have already been taken by the Commission to ensure correct application by the Member States of all aspects of the common fisheries policy. A limitation of advances paid could certainly provide an important instrument to help to achieve this end.

The Commission's final position on payments will be determined when clearing the accounts for the years in question.

Replies of the Commission to

Chapter 7

Regional aid expenditure

Introduction and summary of financial information

Distribution of ERDF funds and compensating adjustment at a later date

Paragraphs 7.1 to 7.8

In view of the fact that no quota was set in the ERDF Regulation beyond 31 December 1981, the Commission, for reasons of sound management, committed the appropriations available by applying the criteria for the selection of projects laid down in the Regulation in force and basing its distribution on the Council's decisions for 1981.

The Commission did not therefore merely continue to apply in 1983 the quotas laid down for 1981. Naturally, in managing the ERDF appropriations for 1984, the Commission is taking account of the fact that a number of Member States have, during 1982 and 1983, received assistance well below the

levels scheduled in 1981. In addition, the Commission will also take into account the fact that, by derogation from the provisions of Article 4 (3) of the new Regulation to come into force on 1 January 1985 (under Article 45), some ERDF resources will be used in 1985 and later years to cover budgetary commitments still to be entered into for the execution of specific Community measures.

Observations arising from the financial information

Excessive concentration of commitment and payment operations at the close of the financial year

Paragraphs 7.9 and 7.10

The fact that a large proportion of ERDF operations were charged to budget items at the close of the financial year does not mean that examination of the requests for assistance and for payment of aid were also concentrated at the end of the financial

year, nor that this accumulation might have a detrimental effect on ERDF management. Booking expenditure to the appropriate budgetary item is the culmination of a process of examination and consultation which begins far earlier ⁽¹⁾.

Commitments outstanding at year-end

Paragraphs 7.11 to 7.16

The fact that payments and commitments do not progress at the same pace is quite natural since the rules governing the ERDF state that when decisions to grant aid are taken the full amount of aid is immediately charged to the commitment appropriations whereas the payment of the amounts thus committed is staggered over a number of financial years according to the pace at which work on the investment advances. In addition, the amount of assistance outstanding at the end of 1983 (3 716 million ECU), includes some 1 500 million ECU in commitments entered into at the end of December 1983 which could hardly have been paid before the end of 1983, so that the actual percentage of payments outstanding at 31 December 1983 is only some 26% (paragraph 7.11). Following checks made in 1983 on the utilisation of appropriations, a campaign was launched to speed up the closure of files dating back to the first three-year period of the ERDF's existence. As a result the amount of ERDF commitments from the 1975-77 period still awaiting payment is now only some 2% of total commitments entered into (1 022 million ECU). In the meantime, the Commission has continued on the same lines and extended the campaign to cases outstanding from 1978 and also included ERDF decisions for 1979 and 1980 for which no payments had been made. At the same time, it is continuing, during on-the-spot inspections, to examine projects located in the regions inspected for which ERDF payments are not being made as originally forecast (paragraphs 7.12 and 7.13). The reasons for delays are being subjected to particular scrutiny. The period for implementation given in the request for assistance is exceeded in some cases, but the period indicated is no more than a rough guide and does not constitute, under the terms of the ERDF Regulation, either a statutory condition of that Regulation or one of the criteria for establishing that the aid decision and implementation are consistent. In other words, the fact that projects are not implemented within the scheduled time-scale does not constitute

in itself sufficient reason for cancellation within the meaning of Article 9 (1) of the ERDF Regulation (paragraphs 7.14 to 7.16). In this connection it should be observed that Article 32 (6) of the new ERDF Regulation ⁽²⁾, which will come into force on 1 January 1985, provides that operations which have not been the object of any payment for four years and where no explanation for the delay has been received from the Member State concerned within a period fixed by the Commission shall be considered not to have been executed and the remainder of the Fund's assistance shall be reallocated.

Observations on the system of granting and managing the aid at Community and national level

Paragraph 7.17

From a general viewpoint, the Commission would stress that, along the lines of the principles laid down in its report on ways of increasing the effectiveness of the Community's structural Funds ⁽³⁾, it has proposed a number of improvements to the quality of ERDF management which have been included in the new ERDF Regulation.

Regional development programmes and statistical summaries

Paragraphs 7.18 to 7.23

The Commission would reiterate ⁽⁴⁾ that the fact that some assessment procedures provided for in the ERDF Regulation for a number of second-generation regional development programmes were completed later than for others of the same generation does not mean that there was no proper reference framework for the examination of ERDF aid for some Member States. During 1983 the Commission had at all times sufficient data to be able to exercise

⁽¹⁾ See also the Commission's reply to paragraph 7.13 of the Court of Auditors' annual report for the financial year 1980; OJ No C 344, 31. 12. 1981, p. 231.

⁽²⁾ Council Regulation (EEC) No 1787/84 of 19 June 1984, on the European Regional Development Fund; OJ No L 169, 28. 6. 1984.

⁽³⁾ COM(83) 501 final, 28. 7. 1983.

⁽⁴⁾ See Commission reply to paragraph 6.24 of the Court of Auditors' comments relating to the 1982 financial year; OJ No C 357, 31. 12. 1983, p. 212.

the power conferred on it by the ERDF Regulation of assessing that the projects submitted for ERDF assistance were consistent with the programmes (paragraphs 7.19 and 7.20).

With regard to programme content (paragraph 7.21), the examination which the Commission carried out pursuant to the relevant responsibilities conferred on it by the ERDF Regulation, led it to conclude that 'the second-generation programmes taken as a whole represent a substantial improvement on those of the preceding period. They improve the conditions in which evaluations of the investment projects presented by the Member States for ERDF assistance are made. The Commission considers that a more precise definition of priorities would facilitate the coordination of the orientation and priorities of Community and national regional policy and the usage of the ERDF in the choice of actions in common financing' (1).

As regards assessments of the impact of ERDF assistance (paragraphs 7.22 and 7.23) better results should be obtained by the prior assessment and subsequent evaluation methods which the Commission will be applying under the new ERDF Regulation along the lines laid down in its report on ways of increasing the effectiveness of the structural Funds.

Prior assessment of the contribution made by investments to the region's development

Paragraphs 7.24 to 7.35

The Commission would reaffirm (2) that, as part of the responsibilities conferred on it by the ERDF Regulation, it checks the eligibility of investments according to the criteria set out in Article 5 of the ERDF Regulation (paragraphs 7.24 and 7.25).

In its concern to increase the effectiveness of the ERDF, the Commission has proposed a number of

improvements in the quality of ERDF management, along the lines laid down in its report on ways of increasing the effectiveness of the structural Funds and these have been incorporated in the new ERDF Regulation. The improvements relate in particular to a gradual transition from the present method of assisting individual projects receiving national aid to co-financed programmes. These programmes should provide a better link between the objectives of structural development or conversion of regions and the objectives of other Community policies. Similarly the new Regulation provides that, for investment projects of an amount equal to or over 15 million ECU, the Member States have, when submitting their requests for assistance, to provide the results of profitability assessment for industrial projects and of cost and socio-economic benefit analyses for infrastructure investments. This will give the Commission a better idea of the economic viability of investment projects (paragraphs 7.26 to 7.29) and enable it to obviate the difficulties of granting assistance in 'tranches' (paragraphs 7.30 to 7.35). With specific reference to the Court of Auditors' findings during its independent audit in Greece (paragraph 7.34) these are being examined jointly with the Court and, where appropriate, the Commission will follow the matter up with the Member State concerned if it is established that some projects are for amounts below the 50 000 ECU minimum.

The use and sale of investments in advance factories

Paragraphs 7.36 to 7.39

On the question of occupation of advance factories, the Commission considers that ERDF assistance of 20% may be granted provided that the surface for which aid is granted does not exceed the annual average of surfaces newly occupied over the past three years. This rule was established and has been observed in order to avoid over-capacity (paragraph 7.36).

It is inevitable with the regional development instrument of advance factories that the firms occupying or intending to occupy the factories may wish to purchase them (paragraphs 7.37 to 7.39). The possibility of renting or purchasing such factories is one of the attractions for potential investors.

(1) Commission Opinion of 19 June 1984 on the regional development programmes; OJ No L 211, 8. 8. 1984, pp. 18 and 19.

(2) See also the Commission's reply to paragraphs 7.17 to 7.25 of the comments by the Court of Auditors concerning the 1981 financial year; OJ No C 344, 31. 12. 1982, p. 195.

Checks on job creation or maintenance

Paragraphs 7.40 to 7.42

The Commission would repeat ⁽¹⁾ that, as the Court of Auditors itself stated in its special report, there can be no doubt that forecasting the number of jobs maintained or created either at company level or in more general terms is a hazardous exercise because of the many uncertainties involved. The forecast made in requests for assistance can therefore be no more than a rough guide. In addition, in the present economic circumstances, it is no surprise to find that it takes longer than expected for firms to start up and for jobs actually to be made and that in some cases the number of jobs never actually reaches the initial forecast.

Since these forecasts are so uncertain and hence purely indicative, penalties for divergence between forecasts and actual achievements in creating or maintaining jobs are not justified where an assisted investment has been implemented as planned and provided that all the conditions imposed by the ERDF Regulation (particularly the limits set in Article 4 (1) (a) and (2) (a)) are fulfilled.

It is clear that in the two specific cases checked by the Court of Auditors (paragraphs 7.41 and 7.42) if, after an examination with the Court's staff, it should prove that the above conditions have not been fulfilled, the Commission will regularise the situation.

Supplementary measures in favour of the United Kingdom

Paragraphs 7.43 to 7.55

The Commission would again repeat that these supplementary measures were intended for infrastruc-

ture investments to be undertaken by public authorities in the United Kingdom under special programmes covering several years.

Eight special programmes were submitted by the United Kingdom in 1980 and were broken down into sub-programmes covering the years 1980-81 to 1982-83. These sub-programmes, whose figures have been amended from time to time, provided the basis for the Commission decisions granting aid (paragraph 7.47).

It is acknowledged that Article 4 (3) of Regulation No 2744/80 states that the total amount of Community financial assistance towards a sub-programme involving a particular type of investment may not exceed 70% of the planned annual expenditure for its execution. However, it should be noted that, according to statements recorded in the Council minutes when Regulation No 2744/80 was adopted on 27 October 1980, this ceiling was to apply to Community subsidies alone. Accordingly, loans from the European Investment Bank are not taken into consideration, and the limit of 70% has never been exceeded. Wherever there has been a risk of exceeding the limit, the Commission has taken steps to reduce the rate of assistance when decisions were amended. This was the case in 1982 for the water and sewerage sub-programme in the North of England, where the aid was reduced to 30%, and in 1983 for telecommunications in the South-west of England, where a reduction to 20% was applied (paragraphs 7.48 to 7.51).

Whenever the Commission has been able to establish that expenditure given in the UK declaration for a particular sub-programme has been overstated because of the difference between gross and net expenditure, the UK authorities have always been requested to provide figures pinpointing repayments. This was the case for example with the electricity sub-programme in the South-west Region which led the Commission to ask for a complete re-statement of the figures for electricity programmes for 1981-82. The variance revealed by the Court between gross and net expenditure has never exceeded 15% which the Commission considers to be the limit for an adjustment of the grant available for the sub-programme (paragraph 7.52).

⁽¹⁾ The Commission's answers to the Court of Auditors' special report on job creation or maintenance in the granting of aid to regional investments; OJ No C 345, 31. 12. 1982, pp. 14 to 16.

Replies of the Commission to

Chapter 8

Social sector

European Social Fund

Decision to overrule Financial Controller's refusal to grant approval

Paragraphs 8.7 to 8.9

For the Commission there could be no question of implementing in 1983 a budget contrary to the decisions adopted by the budgetary authority and by Parliament in particular. But that is what would have happened if the Commission had not decided to overrule the Financial Controller's refusal.

It was the budget itself, as adopted by Parliament at the end of 1982, which carried in Chapter 60 (Measures for young people) an allocation of commitment appropriations for 1983 that was 203,49 million ECU more than what it should have been if Article 9(2) of Decision 71/66/EEC as amended by Decision 77/801/EEC⁽¹⁾ had purely and simply been respected to the letter. In view of that and because any proposal for a supplementary budget to increase the allocation of Chapter 61 for the portion relating to measures in favour of ERDF regions would have had no chance of success, the Commission in reality had only two solutions to choose from if it had wanted to restore the balance that the budgetary authority had upset. The two solutions were:

- to make a transfer to Chapter 61 from Chapter 60 and in particular from the heading concerning measures to assist young people;
- to avoid committing all the appropriations available in Chapter 60, leaving unused the 203,49 million ECU imbalance with regard to Article 9(2).

If the Commission had adopted one of these solutions in implementing the 1983 budget the formal problem of the balance required by Article 9(2)

would indeed have been eliminated. Yet in opting for one of those solutions the Commission would at the same time have infringed the priorities and objectives set by Parliament itself, which has on many other occasions stressed the gravity and urgency of the problems connected with the employment of young people in the Community.

It was for these reasons that the Commission, fully aware of the imbalances involved, preferred in the end to implement the 1983 budget as approved by the budgetary authority.

In doing so, the Commission would have preferred to first remove the formal obstacle represented by Article 9(2), which was still in force but could be considered virtually rescinded in view of the progress made in the work to revise the basic instrument of the European Social Fund⁽²⁾. In fact, following its deliberations of 28 June 1983, the Commission had planned to address an opinion to the Council recommending that an act be adopted urgently to repeal Article 9(2) as regards its application to the financial year 1983.

However, when the Fund Committee was consulted on this point, it emerged from the views expressed by certain government representatives that the act in question would not have secured the unanimous support that was essential within the Council. So the Commission finally decided to implement the ESF budget for 1983 in its original form after assuming the responsibility of overruling its own Financial Controller's refusal to grant approval.

It should be added that in order to ensure the regional concentration sought by Article 9(2) of Decision 71/66/EEC, in 1983 the Commission allocated 81,26% of the total appropriations available (Chapters 60 and 61 of the budget = Articles 4 and 5 of Decision 71/66/EEC) to operations to be carried out in ERDF regions⁽³⁾. This was achieved, in

⁽¹⁾ OJ No L 28, 4. 2. 1971, p. 15; OJ No L 337, 27. 12. 1977, p. 12.

⁽²⁾ In June 1983 the instruments for the reformed ESF, though not formally adopted, had already been agreed in principle by the Council.

⁽³⁾ See Table VIII.3 annexed to the 12th report on the activities of the ESF — 1983.

large part, by the substantial volume of aid granted in favour of young people in these regions.

Management of aid: accumulation of operations at the close of the financial year

Paragraphs 8.11 to 8.13

The Commission cannot agree with the Court's conclusions when it states that the accumulation of a number of operations at the end of the year was excessive in 1983 and likely to have a detrimental effect on the smooth organisation of management.

The following data may serve in answer to the Court's observations:

(a) Commitments entered into

Though so many commitments were entered into in December this does not mean that the vetting of applications was also concentrated into the same period. This vetting — as generally happens — began as soon as the applications were submitted and was already completed by September. The fact that the second series of decisions was not taken until the end of the year was because of the difficulties explained above (see replies to paragraphs 8.7 to 8.9), which, depending on the solution eventually adopted to overcome the problems of implementing the budget, could involve different amounts in commitment appropriations for each budget heading with an inevitable impact on the foreseeable effect of the weighted reduction in terms of commitments.

(b) Refunds for re-use

The financial year 1983 saw a change in the procedure for recording refunds. Instead of Commission departments simply sending an acknowledgement of receipt to the national authorities concerned, it was laid down in July that refunds must from now on be ratified by an act of the same legal status as the approval decisions, to which they constitute, so to speak, an amendment. It was therefore no longer possible to continue the former practice, which

consisted of recording each refund individually and case by case, and even in order of receipt by the department concerned. Instead, refunds had to be grouped to enable the Commission to adopt a single appropriate act (decision). In 1983 this could only be done at the end of the year.

(c) Payments

The percentage of payments cited in the Court's observations (19%) cannot be regarded as excessive. Over half the payments recorded in December 1983 involved requests for advances, for the Member States tend to send this type of payment request to the Commission at the end of the year. As regards balances paid in December it should be pointed out that these are acts which were formally concluded at the end of the year but whose preparation began much earlier. The number of these payments occurring in December cannot therefore be attributed to any end-of-year haste or confusion which might have detracted from the smooth organisation and quality of the Commission's work.

To sum up, the operations concentrated at the end of 1983 which the Court criticises are for the most part acts marking the formal culmination of examination and control procedures normally extending over a whole year. This year-end concentration might in future be less marked in that pursuant to one of the rules governing the reformed Social Fund, the Commission will have to take all its approval decisions together, by 31 March of each year, except, however, in 1984.

Inadequate examination of applications for assistance

Paragraph 8.15

A check on the files to which the Court's comments relate revealed that in almost every case the forms were correctly filled in. The Commission therefore had for each file the information needed to vet the applications.

Whenever forms did not contain all the essential particulars or whenever it served the purpose of

appraisal the Commission requested further details from the Member States as it is entitled to do under Article 2 of Decision 78/706/EEC ⁽¹⁾.

Paragraph 8.16

The Commission does not accept the conclusions that the Court draws from a number of claims which, in the Commission's view, are not proven. This is the case, for instance, with the following:

(a) **the concept of eligibility.** Ineligible applications are rejected. Eligible applications are graded at priority levels set by the Commission's guidelines for management of the Fund. In 1983 applications totalling 64,29 million ECU were rejected as ineligible.

It should be noted that the amount concerned by the Court's criticisms represents only about 0,01% of the volume of applications for assistance audited by the Court, this volume being equal to 7,33% of the amount committed.

However, should the Commission find — after the application has been approved — anything ineligible in the expenditure presented by the Member State the error is corrected when the balance is paid.

(b) According to the rules governing tasks and operations of the Fund, applications for assistance are assessed pursuant to the Commission's guidelines for the management of the Fund. These give priority to the most effective measures to improve critical situations on the employment market.

Priorities are established in the employment policy defined by the Council. Assessing the priority nature of each measure is one of the key factors in the Commission's appraisal of applications.

The efficiency and effectiveness of individual measures for which Fund aid is granted cannot be gauged until the measure has been completed. The Commission kept up its work in this direction in

1983 and selected 'technical progress' operations ⁽²⁾. The Commission attaches especial importance to this activity and intends to step up its efforts as far as its management workload will permit.

Paragraph 8.17

The Commission has not found any statement of 'principles of management by objectives' in the rules in force. What the rules prescribed until 1983 was the grouping of aid applications by area of operation ⁽³⁾.

Various vocational training measures may be grouped together in one approval decision on the basis of the employment policy objectives set by the Council and taken as the Fund's priorities (e.g. training of women for occupations where they are under represented).

All applications for assistance — grouped or not — are submitted for selection in accordance with their priority rating as defined in the Commission's management guidelines. In 1983 applications for 362,77 million ECU (about 12% of the total requested) were not considered, because they did not meet priority objectives.

Weaknesses in the procedures for final payments and recoveries

Paragraph 8.19

The ESF cannot run smoothly without a relationship of trust between the Commission and the responsible authorities of the Member States. This trust, which in practical management terms reflects the principle of cofinancing itself, ensures that the Commission can rely on the quality of the information supplied by the Member States.

The latter not only provide the same amount of financial aid as the Fund to projects approved at Community level, they also possess the peripheral administrative structure essential to ensuring —

⁽¹⁾ OJ No L 238, 30. 8. 1978, p. 20.

⁽²⁾ See 12th report on the activities of the ESF — 1983, pp. 85 and 86.

⁽³⁾ See Article 5(3) of Regulation (EEC) No 2396/71 (OJ No L 249, 10. 11. 1971, p. 54) as amended by Regulation (EEC) No 2893/77 (OJ No L 337, 27. 12. 1977, p. 1).

from day to day and on site — that projects are progressing in accordance with the approval decisions. This would seem to be the only method of organisation offering sufficient guarantees for the use of public money, either national or Community, in view of the wide variety of local conditions and agencies involved.

In this context the control function that devolves upon the Community institutions is performed by the Commission by means of spot checks, made by sample surveys and designed to ensure that the system of controls set up by both nationally and locally, is working properly according to Community standards. The Member States are ultimately responsible to the Community for any amounts received in error or excess by the recipient bodies.

Paragraph 8.20

As regards admissibility and/or eligibility of expenditure submitted, the Commission took care to ask the Member States concerned for explanations whenever the payment requests did not furnish adequate particulars.

When explanations received were not considered satisfactory the Commission decided to conduct on-the-spot checks, which, in a number of instances, led to substantial reductions in the amounts to be paid.

Paragraph 8.21

The Commission does not see the four cases in question in the same light as the Court.

Paragraph 8.22

While it does not rule out possible improvements to the system, the Commission does not share the Court's view that its 'examination of the eligibility of expenditure is somewhat sketchy'.

(a) The rules governing administration of the Fund assign clear-cut tasks to the Member States in the matter of checking. In that context Member States' certifications are not mere formalities. The Commission recognises only those certifications and audits for which the Member States take responsibility.

When particulars supplied in payment requests certified by the Member States were considered inadequate, they were followed up by requests for further information or by on-the-spot checks.

(c) The breakdown of expenditure between the different categories of staff (teaching or non-teaching) is not a condition of eligibility under the rules in force. A good many training measures require the services of more non-teaching staff than teachers (e.g. in intensive courses or in installing and maintaining special equipment).

It should be pointed out that until 1983 payment application forms included questions which, in number, far exceeded the conditions of eligibility required under the rules in force at the time and were designed solely to provide the Commission with information.

These additional questions were removed from the forms in 1984 not only because of the huge increase in the number of files submitted each year but also to obviate possible misunderstandings at management level.

This was a real simplification designed to boost, for the Member States as well as the Commission, the effectiveness of management in implementing budget appropriations.

Paragraph 8.23

Assistance from the Fund is approved on the basis of estimates of expenditure examined by Commission departments. The very nature of an estimate precludes any insistence that estimates and actual costs should match.

Paragraph 8.24

The Commission will take the necessary steps to provide further information on each case in future, so that the Court can make a more thorough audit.

Paragraph 8.25

As the Court maintains its position despite the replies given, the Commission is having the cases re-examined.

Paragraph 8.29

To improve the system the Commission has taken every opportunity to impress on the Member States the need to ensure that requests for payment of second advances do not involve sums that might exceed actual final expenditure. In 1983 excess advances amounted to roughly 1 million ECU (less than 0,05 % of aid granted for 1981 and 1982).

Paragraph 8.30

In these 13 cases between 1977 and 1981 decommitments for re-use were no longer possible because the Commission was notified of unused sums only when it received the request for payment of the balances, in other words too late (multiannual projects).

Paragraph 8.31

The Commission will endeavour to act on the Court's suggestions but would point out that this inevitably means an increase in resources and, in particular, more staff.

Miscellaneous activities in the social sector**General point**

Since the Court has concentrated its audit of Articles 630 and 631 on the management and the form of contracts, the Commission should explain the reasons that prompted it to call in outsiders to implement the programme of measures for education and to adopt the procedure of 'subsidy' contracts rather than that of service contracts.

General observations**Paragraph 8.36**

The Commission applies a number of operational criteria that enable it to distinguish between the provision of services that constitute a subsidy and are not subject to Articles 50 and 51 of the Financial Regulation and other provisions of services. The criteria are:

- (a) services rendered by contractors do not provide a direct service for the Commission but implement, at Community level, cooperation measures between Member States which have been decided by the Council and the Ministers for Education meeting within the Council;
- (b) tasks assigned by the Commission to contractors are such that, by their specificity, they can only be performed by outsiders;
- (c) subsidies granted have never exceeded the staff and administrative expenditure needed to perform the task assigned in the contract with due respect for efficiency and economy;
- (d) contracts stipulate that both the Commission and the Court of Auditors are entitled to monitor the use made of subsidies;
- (e) before making a payment the Commission normally demands the relevant supporting documents and checks to see what the funds have been used for, in accordance with Article 37 of the Financial Regulation of the European Communities.

These were the criteria that determined the distinction between the various measures in question.

The above explanations, like the observations in the Court's report, show the complexity of distinguishing between subsidies and contracts for the provision of services.

In future the Commission intends to examine individual cases in the light of all points made in the two sets of observations, in an effort to reconcile the viewpoints.

Paragraph 8.37

The Commission has taken note of the Court's observations and in future will insist that all contractors present a detailed statement in addition to the report.

Paragraph 8.38

In order to have a clear and detailed description of the service to be provided, the Commission departments discontinued the use of 'succinct letters of

requisition' at the beginning of 1983 and replaced them by proper contracts with work programmes attached to enable the contracts to be effectively monitored.

Paragraph 8.39

The increases in costs correspond each time to additional work asked of the contractor, even though this may not be clearly reflected in the contracts. The Commission's approach in describing the tasks was to take account of the number of recipients of Community assistance, particularly because they have increased appreciably over the last two years (e.g. those participating in study visits and the number of joint study programmes have doubled). Applications or requests for aid submitted to the Commission under the various programmes more than tripled. And it is now more necessary than ever to provide documents, forms and information in the seven Community languages.

Finally, the success of the various measures undertaken means that contractors are having to take more time and trouble studying the dossiers, because of the need for ever more selectivity.

Observations concerning contracts

Paragraphs 8.41 and 8.42

The sum of 448 140 ECU covers not only the cost of the administrative management of subsidies, but also the cost of publishing an information bulletin, of preparing a substantial volume of documentation and of other activities including:

- information for over 3 000 institutes of higher education in the Community on subsidy programmes;
- compiling and distributing all the application documents;
- in 1983 preparing 964 requests (441 joint study programmes and 525 short study visits) for the selection meeting;
- drawing up and issuing 405 subsidy contracts;
- evaluating all 405 project reports;

- detailed reports to the Commission for each joint study programme;
- organising information seminars in several Member States;
- editing and producing specific documentation on study programmes for the following subjects: teacher training, engineering science and business management;
- on-the-spot monitoring of progress of individual programmes.

All the above work is done in the seven official languages of the European Communities which demands a great deal of time and high translation costs. The same applies to the Delta Journal. The amount includes the costs of drafting, translation, printing and distribution in the Member States of three issues, each running to 3 000 copies.

Paragraphs 8.43 and 8.44

The function of the Eurydice Central Unit is not to provide a direct service for the Commission but to perform a coordinating and guiding role in the information network made up of 13 national units in the 10 Member States, with a view to promoting concordance between education systems in the Community.

The equipment and material used by this Central Unit to provide the services asked of it — coordinating and guiding the network — were charged in part to the subsidy which the Commission grants to the European Cultural Foundation. The Commission views this equipment as part of the Foundation's assets, and in future it must be included in the analytical accounts which the Foundation is required to submit to the Commission. The Commission will get in touch with the Foundation in order to clarify this aspect in the interest of sound financial management.

Paragraph 8.46

The Commission has taken note of the points raised by the Court. It will take appropriate steps to attain the Court's objectives.

It would, however, point out that:

The reasons already given in the reply to paragraph 8.36 justify the use in this case of the subsidy proce-

dure, rather than the 'provision of services' procedure.

The highly specialised and practical nature of the guidance and, more generally, the work of technical coordination done by the contractor demand qualifications not available in the Commission's departments (educators, psychologists, sociologists, teachers, and so on). But it should be remembered that the Commission is clearly responsible for supervising the implementation of programmes for the transition from school to working life. A further point to note is that this is a temporary subsidy, the Transition II Programme covering the years 1983 to 1986.

Paragraphs 8.48 and 8.49

The staff expenditure was computed on the basis of fixed 'man/month' amounts. When the contract was signed the contractor submitted calculations of general staff expenditure, namely 128% of the basic remuneration for the staff of the contractor firm and 56% for staff hired on freelance contracts. The amounts thus computed have been adjusted each year for inflation. The statements of staff expenditure made out by the contractor therefore do not differ from the initial estimates except where staff undertook work that was either more or less extensive than originally planned.

The contractor presented a quarterly summary statement of the number of 'man/months' worked and the Commission, after checking it, made the payment. After auditing all the summary statements of expenditure and the cost statements in its possession and after making enquiries at the contractor's, the Commission believes that it has neither made double payments nor paid 'excessive remuneration'. However, as regards the discrepancies between actual and invoiced costs the Commission will re-examine the position, for 1983 as well, by the end of 1984, in liaison with the contractor and will ask him to fulfil the conditions of the contract.

Aid to disaster victims in the Community

The budget item concerned by the observations was created by the Commission to offer material tokens

of Europe's solidarity with Member States' citizens stricken by natural disasters. It is a modest and symbolic instrument, but carries considerable psychological weight. Being direct, swift and humanitarian, such aid has a tangible effect, brings the Community closer to the victims and makes the Community into a patent 'reality' in the regions concerned.

When investigating the circumstances the Commission takes all necessary precautions and, after taking its decision, makes the emergency aid conditional upon transmittal of a utilisation report within four months of payment and upon all the usual checks by the Commission and the Court of Auditors.

Time taken for decisions

Paragraph 8.53

It is true that in the two cases cited (floods in France and in Germany) the Commission was obliged on 7 June 1983 to take a decision in principle for want of adequate information in order to take a decision on the amount of aid to be granted. It took its decision on 14 September after receiving the information requested during August.

As regards the other two cases (aid for Greenland fishermen and for the victims of forest fires in Sardinia) the Commission took decisions after considering the special and exceptional nature of these aids.

On-the-spot visits

Paragraph 8.54

In the notification of aid the Commission regularly specifies that an on-the-spot visit will be made by its officials in order to determine with the recipient authorities how the aid is to be distributed.

To accomplish this task the Commission depends on the cooperation of the Member States and the local authorities concerned. Since there was no cooperation in the cases mentioned, it was impossible to make the planned visits.

Utilisation of aid**Paragraph 8.55**

By means of utilisation reports, admittedly of very uneven quality, Commission departments have been able to define more clearly the conditions for distributing aid, the purpose of on-the-spot visits and what the reports should contain. The authorities concerned are informed during the visit of what the utilisation report should contain.

Paragraph 8.56

Acting on the Court's requests the Commission has been making a systematic review of all files on aid granted during the last few years. Departments have been sending reminders, usually via the Permanent Representative's Office, in all cases where the utilisation report is still missing.

Letters have been sent to the Member States asking for the utilisation reports or for further information

relating to the decisions taken before 8 November 1983.

Answers have been received from:

- Ireland: further information — decision of 22 January 1982,
- FR of Germany: decision of 14 September 1983,
- Belgium: decision of 29 September 1982,
- Grand Duchy of Luxembourg: description of distribution of aid; decision of 7 June 1983.

Paragraph 8.57

With regard to the two cases mentioned (aid granted to Germany in 1981 and 1983) the Commission believes that the relevant decisions do not allow for any claim for recovery of the aid granted.

However, the commission is prepared, without prejudice to the characteristics of emergency aid and the criteria that it must meet, to protect itself with wider guarantees in respect of future payments and to determine, in agreement with the Member States or the recipients, the best time for paying the aid.

Replies of the Commission to Chapter 9

Research, energy, etc.

*General introduction***Budgetary preparation****Paragraph 9.3**

The Commission can only restate its replies to paragraph 8.5 of the Court's 1982 Report, namely that the difficulties are due to the following factors:

- primarily, decisions which the Council takes late in the year, such as those on demonstration projects, jeopardise the satisfactory implementation of the budget involved, since the Commis-

sion is left with no more than a few months to select projects, negotiate and conclude contracts and take all the steps which sound financial management demands;

- the time taken to carry out projects varies from two to four years, during which the Commission depends on the progress made by the contractors when making payments;
- the possible withdrawal of firms in the course of the work.

The difficulties encountered in the utilisation of appropriations does not mean that the amounts entered in the budget are not justified by actual needs.

If it is accepted that payments should be made during the year in which appropriations are allocated and committed, then either the institutions would be unable to undertake long-term studies or there would be a proliferation of headings with differentiated appropriations. The financial rules currently in force are applied correctly. The appropriations are used in conformity with the Financial Regulation.

General observations

Observations on commitments shown in the accounts

Paragraph 9.4

The Court's observations must be seen in the light of the following:

- (a) The Commission does not enter into any legally binding obligation until a commitment proposal has been approved by the Financial Controller; only the signing of a contract constitutes a formal undertaking. If a contractor begins research before concluding a contract, he is acting on his own responsibility and the risks are borne by him and not the Commission.
 - (b) The Commission monitors earlier commitments very carefully. It must avoid making decommitments too hastily before a contract has been finally completed (the essential requirements being that the date of completion must be clearly fixed, final reports received and examined, checks carried out and the accounts closed). Making decommitments too quickly could prevent a project from being resumed where the contractor had resolved the difficulties encountered.
- As regards direct action (JRC), the Commission considers that it has complied with the relevant rules. The remaining commitments were cancelled in the first weeks of 1984 after the 1980–83 programme had come to an end.
- (c) The legal obligation entered into under contracts of association falls within the tranche fixed in the budget. The real budget commitment is always equal to the total amount planned for the first three years, at the end of

which the programme is reviewed. Commitments for the last two years are also normally made within a new three-year framework. Unless the programme is amended, they are made as and when funds become available. If the budgetary authority does not authorise the full amount of the tranche, the Commission can refuse to approve the annual budgets, since its members on the steering committee have the right of veto. The Commission's binding obligations do not, therefore, exceed the funds available and it considers this procedure to be compatible with the Financial Regulation.

- (d) The Commission acknowledges that the multiannual programme in question ended with 1983. However, it would emphasize the need — in the interests of the Community — for a minimum degree of continuity in the management of an enterprise such as the JRC. For this reason it authorises commitments which are not strictly tied either to the end of the financial year or to the end of the current programme.
- (f) Improvements have been made at the JRC in this connection. The Commission considers that the decisions it has taken since the changes were made are in accordance both with the existing regulations and with the principles of sound management.
- (g) The Commission considers that financial commitments must cover the amounts contracted for and, where possible, any foreseeable increases at the time of signature.

Paragraph 9.5

The Commission will give careful attention to the question raised by the Court as to whether the rules are sufficiently comprehensive and detailed to deal with the varied and often complex situations faced by authorising officers.

Observations on coordination between the services of the Commission

Paragraph 9.6

The Commission would assure the Court that a considerable effort always has been and will be made to ensure internal coordination along the lines recommended by the Court.

Where differences of procedure exist, they are often a reflection of actual differences in the situation.

Energy

Follow-up of observations made in the Court's annual report on the financial year 1982

Management of contracts

Paragraph 9.7

(a) As stated in the Commission's replies to the Court's 1982 Report, the period of validity of the regulations does not restrict the period for carrying out the projects. When a contract is concluded pursuant to a decision taken during the period of validity of a regulation, a legal basis exists.

However, the Commission will examine the possibility of including certain changes in future proposals for decisions, in line with the Court's recommendations.

(b) The Commission does not share the Court's view of 'the continuing lack of information from many contractors' and, as stated last year, does not consider standardisation of the financial annex to be either absolutely desirable or even feasible, since, there being no Community law governing this matter, various national laws apply. It also considers that, provided it obtains all the information needed, variations in form are quite acceptable where this can reduce the amount of 'red tape' for the firms concerned.

Reimbursements

Paragraph 9.8

Experience has shown the value of including in contracts a clause providing for the payment of an advance into an interest-bearing account in order to enable the contractor to meet the major initial costs as and when they arise.

Direct action research — Joint Research Centre (JRC)

Observations arising from examination of the accounts

Research contracts

Paragraphs 9.11 to 9.14

The purpose of direct action research contracts is not the same as for indirect action contracts. Direct

action contracts are in support of or complementary to the JRC's own activities and are strongly influenced by the fact that each of them is just one part of the rigid structure constituted by the programme in question. There is thus very little room for flexibility in the content of the contract, in contrast with the case of indirect action.

In response to the concerns expressed by the Court, the Commission has instructed the JRC to seek ways of tightening controls to ensure that direct negotiations are justified and that the financial bases of contracts are sound.

Observations concerning the cancellation of the Super-Sara project

Paragraphs 9.16 to 9.18

The Commission does not accept the Court's view that the appropriations were diverted to other objectives. Pursuant to the decision reallocating the resources to nuclear safety operations, the appropriations in question were committed in full under budget Item 7300 (Nuclear safety). The payment appropriations were used in compliance with the Financial Regulation.

Paragraph 9.19

The Commission is pursuing this matter in contact with the Italian Government. The final decisions should be taken soon.

Indirect action research

Follow-up of previous observations

Management procedures

Paragraph 9.20

The Commission felt that it should await approval of the framework programme (June 1983) and the decision on structures and procedures (June 1984) before revising the internal procedures.

Once the second decision was taken, the Commission departments began updating the internal instructions on the preparation of research programmes.

Two working parties were set up for this purpose and they have recently delivered their initial conclusions.

Paragraph 9.21

A handbook of internal rules on the implementation of the budget is regularly published to assist departments. For the research side various directives exist for the management of contracts charged to research appropriations, which together constitute the vademecum for those managing contracts. There are also the operating manuals for the Diodon computerised system. Once this system is properly run in, all the available information could be consolidated.

Legal basis

Paragraph 9.22

As stated earlier, in the case of contracts having retroactive effect, the risk of starting work earlier is borne by the contractor and not the Commission.

The reasons why so much time is taken are as follows:

- the Council frequently approves programmes with retroactive effect;
- notices inviting applications to participate in research programmes have to be published in the *Official Journal*;
- three months have to be allowed for applications to be submitted;
- examination of the scientific aspects takes between two and three months;
- the opinion of the advisory committees has to be obtained;
- technical, financial and legal negotiations with applicants have to be completed;
- internal control procedures have to be respected;
- a substantial length of time is required for the signing of contracts. This depends on whether the contractor is a public body or a private firm and on the procedural requirements in the different Member States. But at all events the Commission will endeavour, in drawing up its new internal rules, to restrict the use of retroactive contracts to those cases where it is abso-

lutely necessary, notable in order to meet the deadlines laid down by the Council for the completion of programmes.

Observations arising from examination of the accounts

Association contract payments

Paragraph 9.26

The Commission considers that the control it exercises is adequate. On-the-spot checks are carried out at the end of three years and no payments (calls for funds authorised by the steering committee) are made before presentation of a statement of invoiced expenditure during the previous six months and an estimate of expenditure for the next six months. The Commission's files concerning on-the-spot checks, which show that these are carefully followed up, are at the Court's disposal.

Moreover, association contracts are generally awarded to public bodies, which are subject to regular checks at national level. The Commission therefore considers that the system has hitherto operated satisfactorily. Nevertheless it will bear the Court's recommendations in mind, in particular when drawing up and implementing its new internal rules.

Observations arising from examination of the functional accounting system

Paragraphs 9.27 to 9.30

The Commission agrees with the Court's view that the essential purpose of a functional budget is to determine the cost of achieving a research objective by accounting in principle for all the resources used in attaining that objective — including staff and administrative expenditure.

In budgetary terms it reflects the allocations for the objective in question and serves as a management tool for them.

However, for historical and institutional reasons and sometimes because of the very nature of the action concerned these multiannual allocations and their budgetary consequences do not make allowance for a number of general administrative and infrastructure factors relating to the general budget.

Paragraph 9.28

As regards the Court's criticism that data are incomparable, it has to be noted that these differences in practice are also to be found in the framework research programme itself, the figures for which are determined in the light of the *de facto* situations, which are known and accepted by the authorities responsible and are therefore hardly amenable to far-going change.

Paragraphs 9.29 and 9.30

The Commission believes that the new amendments to the Financial Regulation recently proposed, which include the establishment of an official analytical accounting system, as a tool for forecasting, management and reporting, will go a long way towards satisfying the Court.

JET Joint Undertaking**Paragraphs 9.31 and 9.32**

The Commission shares the Court's view and has conveyed its concern to the management of the JET Joint Undertaking. It has received assurances that these views will be taken into account.

Information market and innovation**Introduction****Paragraph 9.33****1. General comments**

The Court refers in paragraph 9.38 to the substantial growth of these sectors of activity in recent years. This growth saw the adoption of additional programmes, which raised commitment appropriations by some 410% between 1977 and 1983. However, there was no appreciable increase in the administrative resources used.

2. The 19 million ECU referred to by the Court include 7,4 million ECU carried over from 1982 owing to the timing of the Council decision on the third plan of action (referred to in paragraph 9.34) and on Eurotra. The remaining 11,6 million ECU

breaks down into 6,15 million ECU for additional programmes and 5,45 million ECU for the continuation of actions undertaken earlier.

This situation has meant a reduction in the time available for implementing the appropriations carried over and those for the current year. It has also put behind schedule the entire programme, which will ultimately have used up all the appropriations.

Observations arising from an examination of the management of contracts**Consultative machinery****Paragraph 9.34**

The outside consultations referred to here relate mainly to the three-year action plan for the information market (Item 7502). Under the relevant Council decision the Commission is required to consult the Scientific and Technical Information and Documentation Committee (STIDC). In view of the broad multidisciplinary nature of the programme, covering many areas of advanced technology, it was necessary to obtain the assistance of experts in all the fields concerned. In consequence the implementation and results of contracts have improved.

Award of contracts**Paragraph 9.36**

The public tendering procedure is regularly used where market conditions permit. However, the very technical or highly specialised nature of certain contracts, particularly in the area of advanced technology, limits the number of possible contractors and is thus not suited to this approach.

In the particular case of studies in areas of advanced technology the Commission has a duty to select the body most qualified, by reason of its know-how and previous experience, to produce high-quality work at a reasonable cost.

When purchasing or hiring hardware or software, the initial contract award — very often decided by public tendering — determines the choice of contractor for subsequent operations.

Execution of contracts**Paragraph 9.37**

The Commission would make the following replies to the Court's comments:

- the delays in the presentation of interim or final results and the extension of contracts in certain cases are due to the original or exploratory nature of the project in question and not to incompetence on the part of the contractor or omissions on the part of departments;
- costs are generally all-in estimates based on the previous experience of project leaders and their teams of experts; this avoids the need for *ex post* checks, which are not possible with present resources;
- as regards the execution of contracts and the release of payments, the Commission depart-

ments responsible ensure that the best possible guarantees are obtained without the need for systematic control visits or analysis of results;

- a sample of some 10 contracts were submitted to an on-the-spot financial audit by an outside firm of auditors. The firm's report, which has been sent to the Court, failed to reveal any evidence of anomalies in the execution of the contracts examined. This experiment also showed that the relatively modest sums involved in contracts awarded in the information market and innovation field does not justify the high cost of having such audits conducted systematically.

The intention in the future is to limit such external checks to very special cases where it is justified by the amount of the contract or the nature of the costs involved.

Internal procedures are also being adjusted in line with the Court's recommendations.

Replies of the Commission to Chapter 10

Cooperation with developing and other non-member countries

Implementation of the budget**Paragraph 10.4**

It is true that the overall rate of utilisation of appropriations in Title 9 was lower than in previous years. This was mainly because of the length of time required for a decision to be taken — a necessary precondition for the commitment of appropriations in many cases.

- In the case of Chapter 92 (Food aid), the proposal for a regulation transmitted by the Commission on 24 February 1983 was not adopted by the Council until 11 July (Regulation (EEC) No 1992/83).
- In the case of Chapter 95, 70 million ECU in non-differentiated appropriations, representing 65% of the appropriations for commitments

available and 47,3% of the appropriations for payments, could not be used until the Council had taken a decision in principle.

The headings concerned were Article 952 (Special aid for Lebanon — 20 million ECU) and Article 958 (Special programme to combat hunger in the world — 50 million ECU).

Paragraph 10.5

- (a) The Commission would point out that Article 102 of the 1977 Financial Regulation differs from Article 115 of the 1973 Financial Regulation in that it introduced a change in the way food aid commitments are to be contracted, stating that commitment shall take place as soon as possible after the adoption of a food aid programme. This enables the political and legal commitment involved in adop-

tion of the programmes to be expressed in budgetary terms.

Hitherto, appropriations in this sector have been non-differentiated. However, it has been found that the two years for which they are available (n and carry-over to n+1) are insufficient for actual implementation, which takes longer, for a variety of reasons.

This mismatch between the nature of the appropriations and real needs is the main reason for the slippage which has occurred over the years, leading to an accumulation of arrears of commitments. In its preliminary draft budget for 1985, the Commission has proposed that these appropriations should be differentiated; this will solve the problem.

(b) On non-inclusion of the arrears of commitments in the balance sheet, see the Commission's reply to paragraph 1.11.

Paragraph 10.6

(a) Supplementary and amending budget No 2/1983, adopted on 24 October 1983 contained 14 million ECU for aid to Poland. The operations covered by the first tranche (4 119 500 ECU) began in December 1983 and the remaining 9 880 550 ECU was spent in the first eight months of 1984.

(b) The budgetary authority did not see fit to enter appropriations in the 1983 budget under the new Article 952 (Special aid for Lebanon) since it considered that any needs could be met through transfers, as was done. The appropriations finally entered at this heading (20 million ECU) were committed when a financing decision on a water supply scheme for Beirut was adopted and were automatically carried over to 1984.

It was originally intended that this project would be carried out over 1983 and 1984, to be completed by the end of 1984. However, the state of war in Lebanon meant that the invitation to tender for supplies could not be published until 1 December 1983. Originally, tenders were to be delivered at Beirut by 20 February 1984. Closure of the airport and postal delays meant that this deadline had to be put back to 30 April and tenders were not finally opened until 21 May.

If appropriations lapse at the end of 1984 because of delays of this nature, it is clear that the Commission cannot be held responsible.

(c) Late adoption of the basic regulation on implementation of a special programme to combat hunger in the world is sufficient in itself to explain the slow rate of utilisation of appropriations. The regulation was not adopted until 11 July 1983 but the implementation procedure was still completed by December so that all the appropriations could be committed, although the aid was not actually implemented until 1984.

Paragraph 10.8

The Court's comments refer to inappropriate accounting techniques for the recovery of certain sums wrongly or provisionally paid and their reuse within the Financial Protocols with a number of Mediterranean countries.

It is true that application of the procedures laid down by the Financial Regulation poses some problems with regard to the reuse of sums recovered in this way.

After examining this problem, the Commission adopted the following measures in 1984 in an effort to avoid such difficulties as far as possible:

1. If the correction occurs during the life of the appropriations, the original payment order is corrected by a regularising order.

If the correction occurs after the appropriations have lapsed, the reuse procedure can be applied, provided this is for a specific purpose. If this cannot be done, the sums recovered are entered in the general statement of revenue.

2. The Commission has contacted the EIB concerning provisional payments to request that calls for funds be calculated as exactly as possible in order to keep amounts reused to a minimum.

This problem will not arise in connection with the Second Financial Protocols with the Maghreb and Mashreq countries since interest subsidies are payable at the time each tranche of the loan is disbursed, in accordance with the procedure adopted for EMS loans.

Amounts which have been entered as definitive expenditure but are then refunded to the Community are corrected as described above, either when the operation is regularised or when the sum involved is reused. There is therefore, strictly speaking, no irregularity in the accounts but there is a delay in correcting the entries. The Commission recognises that this accounting procedure is not entirely appropriate to the operations being financed. The rules being what they are, however, it has taken steps to lessen or eliminate the anomalies which occur.

Supporting documents and follow-up of operations

Paragraph 10.9

The Commission has all the relevant files available for the Court to inspect. If the Court finds the documents submitted inadequate in certain cases, it has only to use its rights under the last sentence of Article 79 of the Financial Regulation to ask the Commission for more information.

Paragraph 10.12

It is true that an interest-rate subsidy of 1 066 683,39 ECU paid to the EIB in March 1982 in connection with a loan from the Bank's own resources to Algeria for road improvement works had not at the time been used.

When the Court carried out its inspection in March, it was certainly told that, as a result of the long pre-qualification procedure following the call for tenders in December 1981, the Algerian authorities had only just accepted a tender for the work. The problem was therefore due to the slowness of the procedure, which could not be foreseen at the outset.

Food aid (Chapter 92) Budgetary position

Paragraph 10.14

The reason why substantial transfers of appropriations still have to be made from the headings for the current year to those for prior programmes is to be found in the fact that Chapter 92 appropriations are not differentiated and the Financial Regulation imposes special constraints on this chapter.

Article 102 of the Financial Regulation requires that for every food aid programme a commitment proposal be made as soon as possible for the whole programme. The budget headings for the current year's programme must therefore carry all the appropriations required for this global commitment.

Since the appropriations are not differentiated, this means that because of the commitment obligation more appropriations must be requested than would be strictly necessary to provide the quantities to be delivered under the current year's programme.

In an attempt to avoid inflating Chapter 92 unnecessarily, and because it knows that the appropriations at the headings for the current year's programmes have been overestimated, the Commission refrains from requesting appropriations for prior programmes which are not covered by carry-overs.

The Court criticises the practice of transferring appropriations which cannot be used for the current programme to the headings for prior programmes.

The Commission fully realises that this system has drawbacks which derive from the technical constraints and the rules in force.

It therefore decided to remedy the situation in its preliminary draft budget for 1985 by proposing that the appropriations should be differentiated and the headings for 'prior programmes' dropped. This proposal should satisfy the Court and Parliament and make it possible to enter as commitment appropriations the amounts needed to meet the requirements

of Article 102 of the Financial Regulation while limiting payment appropriations to the maximum required for deliveries during the year, whether under the programme for the year or prior programmes.

Paragraph 10.15

The rate of payments is dictated by the rate of mobilisations. Since these slowed down for the reasons given by the Court — the time taken by the Council and Parliament to approve the detailed implementing arrangements — total payments inevitably fell.

The execution in volume terms of food aid programmes

Paragraph 10.16

The Commission considers that normal implementation of basic Regulation No 3331/82 would improve the rate of mobilisation and so reduce the quantities still to be mobilised at the end of the year. The Commission does not, however, believe that the regulation was applied normally in 1983 since the annual implementing regulation was adopted late.

The date of adoption of the annual implementing regulation is of vital importance.

In 1983 the regulation concerning the annual implementation of the basic regulation was not adopted by the Council until 11 July. The Commission immediately, that is within three days of adoption of the regulation, took measures for the allocation of almost 70% of the total quantities to countries and organisations. However, the tendering procedures in force meant that mobilisation of these quantities could not begin until September.

The percentages in Table 10.3 therefore show the state of implementation for four out of 12 months and do not reveal any marked slackening in activity. On the contrary, all things considered, the monthly rate of mobilisation for cereals and milk powder in 1983 was slightly higher than in the previous year.

A comparison between implementation in 1983 and 1984 is instructive.

Products	Quantities implemented and being implemented	
	1983	1 January to 30 June 1984
Cereals	759 633	740 811
Milk powder	111 210	78 458
Butteroil	22 636	28 578

The quantities implemented during the first six months of 1984 are virtually the same as those implemented during the whole of 1983 in the case of cereals, and are even higher in the case of butteroil. This shows that 1983 was not a typical year with implementation concentrated in the last four months of the year and that a great effort to eliminate the backlog was made during the first half of 1984.

Since the Council adopted the annual implementing regulation much earlier in 1984 (on 7 May), all the appropriations available will probably be used by the end of the year. After a slowing down of activity in 1983, with payments running at 410,8 million ECU, 1984 will see a surge to around 700 million ECU.

In future, the Commission will send its proposals on food aid for the coming year in good time and before the beginning of the year concerned. The proposal for the annual implementing regulation for 1985 was sent to the Council and Parliament in September.

The Council should therefore be able to adopt the regulation as soon as the budgetary authority has fixed the appropriations for the year in question.

Certain aid deliveries

Planning and coordination

Paragraph 10.18

The rules then in force required food aid decisions for all recipients to be taken at the same time with the disadvantage that they could not take account of harvests in certain countries, which were known only some months later. In some cases, delivery

could not be made immediately after the decision because it would have coincided with the new harvest coming on the market.

The Commission therefore no longer draws up a single overall food aid programme for countries and organisations but undertakes single actions on a case-by-case basis. It considers that this procedure enables it to take more account of the real needs of recipients in the light of commercial imports and gifts, whether delivered or being delivered, and harvests, and therefore the exact level of local production. This means that the Commission will not be able to take decisions for certain countries at the beginning of the year.

Quality of the products

Paragraph 10.19

Different rules on quality control apply to the various traditional foodstuffs.

In the case of cereals, each lot tendered for is checked — by both parties if the recipient accepts the invitation to participate.

Checks on milk products are carried out only when the products are purchased on the Community market, those taken from intervention are exempt. Recipients are always entitled to have checks carried out at their expense at the time of loading.

The complexity of the rules means that the Commission can carry out only selective, rather than systematic, checks.

Its policy is therefore to conduct further checks where a particular product is shown to be substandard and to carry out counter-checks to ensure that the intervention agencies' inspections are adequate.

This was done recently in the case of maize and milk products supplied from intervention. A larger number of checks have been carried out in 1984 and 350 000 ECU was spent during the first six months.

The Commission would make the following comments on the cases mentioned by the Court:

- (a) The 974 tonnes of flour sent to Djibouti is not a typical case but an isolated example arising from the financial problems of a shipowner whose insolvency caused the ship, carrying goods from various countries, to be held in Mediterranean ports on a number of occasions. Prolonged storage in the ship's hold rendered the flour unfit for human consumption. As the Court notes, legal proceedings have been taken against the carrier and the Community is associated with these.
- (c) The Commission has protested vigorously to the intervention agency over the 15 000 tonnes of maize sent to Mozambique. The recipient was not represented at the quality control and the agency certified that the maize was merchantable.

Since that time, all deliveries of maize from the Member State in question have been systematically checked for quality by the Commission on behalf of the recipient but at its own expense. There have been no further problems of the kind noted by the Court.

Time taken to deliver food aid

Paragraph 10.20

As it stated in its replies to the Court's 1982 report, to which the Court refers this year, the Commission can only reiterate that the various lengths of time given in Table 10.4 should be considered in different ways. They fall into four separate categories:

1. **Time taken by Parliament and the Council** (195, 127 and 131 days)

This is the time taken to adopt the annual implementing regulation required each year pursuant to basic Regulation No 3331/82 of 3 December 1982.

Like the Court, the Commission can only regret that this takes so long.

2. **Length of time attributable to the recipients** (122, 225 and 307 days)

This reflects the urgency, or lack of urgency, with which recipients wish to receive Community food aid.

The Commission continues to stress to recipients that food aid should be mobilised as quickly as possible. However, it cannot make delivery until the recipient has given its agreement on the conditions of supply or where there is a risk of disturbing the local market because of imports from other sources.

It should be noted that these two reasons together account for more than two thirds of the total time taken. There is little the Commission can do to influence matters.

3. Time taken by tendering procedures (102, 174 and 140 days)

Discussions have been held between the Directorates-General concerned to reduce the time taken; they are still in progress. In any case the rules prescribe a procedure in which the main party involved, the intervention agencies of the Member States, is outside the Commission.

4. Time required by the successful tenderer (25 days). This is included in the time mentioned at 3 above; it is the time required for sea transport and is quite reasonable.

used in the first year. If this does not happen, the delay caused in one year for one programme has repercussions on the following year and programme.

The main reason for the under-utilisation of commitment appropriations is structural. The Court is well aware that between the beginning of the year and the commitment of appropriations, projects have to be examined, the Finance Committee consulted and a financing decision taken. It is scarcely surprising, therefore, that not all the commitment appropriations were used in a single year. If, in addition, co-financing negotiations are also involved, this becomes a practical impossibility.

The nature of the projects financed (usually complex multiannual projects in the agricultural and rural sectors) and the length of the decision-making process, both within the Community and for recipient countries and co-financers, do not fit easily into the structure of an annual budget.

Estimates of payment appropriations required are sometimes based on forecasts of when suppliers are going to present certain large invoices (e.g. for supplies of fertilisers to India). If these are not, in fact, presented, large amounts of appropriations may need to be carried over.

Cooperation with non-associated developing countries (Chapter 93)

Delays in financial implementation

Paragraph 10.21

Since the bulk of the appropriations in Chapter 93 are at Article 930 (Financial and technical cooperation with non-associated developing countries), the rate of utilisation for that article determines that for the chapter as a whole.

The reasons for under-utilisation of the appropriations in this chapter must therefore be sought in the circumstances surrounding implementation of Article 930.

The commitment appropriations remaining at the end of 1983 were indeed substantial. Although commitment appropriations have a life of two years, the Commission recognises that most of them should be

Apart from this general point, it should once again be borne in mind that, in 1983 as in 1982, payment appropriations were increased by 58 million ECU, which did not represent a real need (transfer of appropriations No 30/82).

The requests for extra appropriations for Article 930 in preliminary draft supplementary and amending budget No 1/1982 and transfer of appropriations No 30/82 concerned the launching of a special aid programme for Central America and the programme to combat hunger in the world. At this point, only extra commitment appropriations were required, since it was not intended to make any payments in respect of these projects during 1982, and in 1983 payments would amount to only a very small proportion of commitments.

Since, however, the appropriations were transferred from the EAGGF Guarantee Section, which has non-differentiated appropriations, for technical reasons the Commission and the budgetary authority had to transfer to Article 930, which has differen-

tiated appropriations, an equal amount of commitment and payment appropriations.

There was no desire to transfer payment appropriations to Article 930 and the effect of the transfer was artificially to depress the rate of utilisation of available appropriations in both 1982 and 1983.

Paragraph 10.22

Implementation of a number of projects is seriously delayed for reasons of which the Commission is aware and which it is remedying. It is significant that all these projects involve co-financing.

The specific projects involved are:

Pakistan

Two of the projects concerned are co-financed with the Asean Development Bank (lead manager), which issued new guidelines in 1983. A resumption of work is now awaited. Although the other projects now being implemented appear on the 1980 aid programme, financing agreements were not signed until the following year and so no significant payments could be made during 1981.

Bangladesh

The two projects, involving a total of 10,7 million ECU and co-financed with a Member State, are well behind schedule. This is particularly true of the tea project.

This is because of negotiating difficulties with the Bangladesh authorities. A fresh call for tenders was recently issued.

BCIE (Central American Bank of Economic Integration)

There have been problems and delays with this project, which is co-financed with the Inter-American Development Bank (IDB), arising from calls for tenders. The bank redefined the project in 1983 and active implementation should now be starting.

Technical assistance

Paragraph 10.23

It is true that the Commission has only four representatives in non-associated developing countries (Caracas, Bangkok, New Delhi and Dacca); two of these (Caracas and Bangkok) have regional responsibilities.

This is certainly less favourable than the situation for overseeing implementation of the European Development Fund in the ACP States. The Court's conclusions on the consistency of Community management are, however, excessive.

The Commission has full charge of the identification and examination phases of projects, although it sometimes uses experts to assist in the first phase. Monitoring of projects is carried out either by the Commission (staff on the spot and missions from Brussels) or, more rarely, by experts. Monitoring is still insufficient and could be improved, but this would require more staff on the spot.

Only a minority of the consultancy contracts made through the Confédération européenne des bureaux d'ingénierie (CEBI) concern assistance to Brussels departments in the identification and monitoring phases — most of them are to provide support for or to replace national departments in the recipient countries in the preparation of projects.

The Commission draws up precise terms of reference for these experts and their work is monitored in a uniform and standard manner (briefing before departure on mission, debriefing on return, study of the report and thorough discussions before preparation of the final version).

Paragraph 10.24

The purpose of the framework contract with the CEBI was to provide the fastest possible access to experts of various nationalities and specialities. This is particularly important because of the number of operations which have to be completed within a financial year and the limitation imposed by the principle of budget annuality.

The first contract provided for the Commission to bear the cost of a secretary and a coordinator, who would also carry out missions as an expert.

The cost, which was exactly 18%, does not appear excessive, given the comparatively low volume of business.

The new contract, signed in December 1983, involves a larger amount and requires the Commission to pay only a 5% fee.

Paragraph 10.25

Although periodic progress reports have been produced, it is true that no evaluation as such of the project has been carried out. Although the feasibility study on which the project was based provided for the Sri Lanka authorities to set up a monitoring unit, this has not yet been done. The project is not one of the government's priorities and, in an attempt to speed things up, the Commission arranged a mission at the beginning of 1984 to ensure that the project is completed by the end of 1985.

Granting of aid in the form of commodities

Paragraph 10.26

(a) The financing agreement provided for a Community official to be in India for scrutiny of the tenders. The experience of the previous year, when no irregularity was detected, suggested that this was unnecessary.

(b) The programme for India approved by the Member States in the Finance Committee provided for the recipient to undertake transport, the costs of which would be borne by the Commission. The requirements of the programme (lowest possible cost, availability of ships at the time deliveries were required, destinations, etc.) may have led India to have certain deliveries made by carriers who would not normally have been eligible.

(c) The lack of supporting documents for sea transport costs totalling 700 000 ECU for deliveries of fertiliser was spotted by Commission staff, and the Indian Embassy was asked to supply them. The

Embassy replied that they had been sent to the Commission with the other supporting documents.

The 'claims of freight', which include all the information needed to identify the means and dates of transport and were certified correct by the appropriate ministry before being sent to the Commission, confirm what the Embassy said. The Commission therefore decided to use them as supporting documents for payment of the originally disputed sums.

(d) Since this type of programme began, the Commission has noted the comparatively high concentration rate in the fertiliser industry.

The very slight variations in price can be explained by:

1. the transparency of the market, which is well aware of India's needs. These far exceed the quantities supplied under the Community programme;
2. the nature of the product, which does not permit large price variations.

It should also be noted that the Community programme has enabled non-traditional suppliers to participate.

Cooperation with the Maghreb countries (Chapter 96)

Rate of utilisation of appropriations and state of implementation of Protocols

Paragraph 10.29

The Court's comparison of the running costs of the delegations in the three Maghreb countries with appropriations actually used for operations in these countries between 1979 and 1983 is not very instructive.

The running costs of a delegation are more or less constant and rise only with inflation, which does not affect the appropriations for operations managed by the delegation over any particular period.

As the Court recognised in the preceding paragraph, the poor showing of Algeria compared with the

other two Maghreb countries is partly due to the slow utilisation of commitments and payments there.

In any case, the Court's figures do not reflect the important role played by the delegations in the southern and eastern Mediterranean in general policy, information and all the areas of the cooperation agreements outside the investment programmes.

Overestimated budget forecasts

Paragraph 10.30

The disparity between budget forecasts and actual utilisation of appropriations arises for a variety of reasons. The forecasts drawn up before implementation of the two protocols for each country necessarily involved a good deal of guesswork, since identification missions had not yet taken place. The slowness of some national administrations and the doubts expressed about many projects then delayed implementation of the aid programmes drawn up during the identification missions.

Aid of limited usefulness for the recipient countries

Paragraph 10.32

The Commission does not consider that it is the Court's job to make a political judgment on the amount of aid granted by the Community to any individual country, nor on its usefulness to that country as compared with the trade aspect of cooperation agreements.

Incomplete legal framework

Paragraphs 10.33 and 10.34

Following the comments made by the Court of Auditors in its report on the implementation of the conclusions of the European Council of 18 June 1983, and because of the various problems posed by the lack of standard general conditions of contract, the

Commission began negotiations on this point with the Maghreb countries.

Agreement *ad referendum* was reached with Tunisia in July 1984 on three sets of standard conditions (works, supplies and services) and this will be formally signed in the near future.

The Commission intends to undertake the same negotiations with Morocco in October and with Algeria and the Mashreq countries at a later date.

The conditions of contract which form the basis for negotiations are those used in the ACP States, with some amendments to take account of national law. The agreements between the Community and the Maghreb and Mashreq countries specifically permit such amendments.

Other observations

Content of certain contracts

Paragraph 10.35

Contracts with consultancy bureaux are inevitably more expensive than those with individual experts since they have to include general overheads, social security payments, the bureau's profit, etc.

In the particular case of the Moroccan Export Promotion Centre, it was discovered that the bureau had claimed a far greater payment than was being made to the expert. When the contract with the bureau expired, it was not renewed and the expert was recruited on an EAC contract.

Paragraph 10.36

The dispute mentioned by the Court is now being settled as a result of an agreement between the Tunisian authorities and the Community firm.

Observance of obligations entered into by the contractors

Paragraph 10.37

In reply to the Court's comment that certain supplies came from neither the Community nor Algeria, it should be noted that hitherto the Algerian authorities have not allowed the Commission delegation to be represented at the reception of goods.

Paragraph 10.38

The Court's criticisms apply to only a very small part of the contracts concluded (2% to 3%).

In the case of the Moroccan institutes of applied technology financed by the Community, the quantities of goods arriving were too great and the points of arrival too dispersed for the Commission delegation to be represented on each occasion.

Paragraph 10.39

The figures were supplied to the Commission delegation by the Algerian Ministry of Agriculture. The discrepancies may be explained by the different criteria used by the Ministry and the teaching establishment.

The technical assistants on the project for training agricultural engineering technicians were selected by the Algerian authorities from applications forwarded by the consultancy bureaux responsible for recruitment. These bureaux were selected by the Algerian authorities from a short list prepared by the Commission, which thus had no responsibility for the final choice of candidates.

With regard to checking the qualifications of the technical assistants, it is only when the action is implemented that a valid judgment on their work can be made.

Replies of the institutions to

Chapter 11

Staff expenditure

Economic and Social Committee

Staff

Paragraph 11.5

It will be seen that all ESC authorised posts are filled. The proportion of authorised posts filled has invariably been very high.

Paragraph 11.6

The number of auxiliary and local staff is very small — 6% of the basic staff complements — and represents the minimum required to ensure smooth operation of ESC departments. The Committee is bound to have to resort to auxiliary staff as long as the budgetary authority refuses as at present, to approve the creation of additional posts.

European Parliament

Appropriations for Members' travel and subsistence allowances

Paragraphs 11.8-11.10

Under Article 6 of the Financial Regulation, appropriations relating to remunerations and allowances of Members and staff of the institutions may not be carried over.

Member's travel and subsistence allowances do not in fact constitute flat-rate allowances related to salaries. They are *ad hoc* variable payments made on the basis of actual expenditure. They are therefore comparable to mission expenses for staff, as the Court justly acknowledges.

European Parliament (cont.)

To ensure that allowances of a comparable nature are treated in the same way ⁽¹⁾, the Authority is considering modifying the 'internal rules' by classifying the appropriations against Item 1004 as appropriations which may be carried over.

The Bureau of the European Parliament accordingly authorised the administration on 11 April 1984 to carry over these appropriations (Item 1004) from the financial year 1983 to the financial year 1984.

Moreover, the European Parliament will consider the possibility of making the budgetary nomenclature more specific so that it reflects the nature of the expenditure in question.

*Appropriations for freelance interpreters***Paragraphs 11.11-11.13**

Because of the failure in 1982 to commit 1,5 million ECU for the reimbursement of the Commission, this sum could not be carried over automatically to the financial year 1983. It was therefore paid out of 1983 appropriations topped up by a transfer at the end of the financial year.

The European Parliament has drawn the attention of those responsible for administering these appropriations to the need to comply with the principle of annuality in the application of the provisions of the Financial Regulation.

*Commission**Observations on the management of posts and staff***Distribution of budgetary posts****Paragraph 11.15**

The Commission is aware of the difficulties of assessing workloads which face any public administration. It is always trying to improve its performance in this area.

⁽¹⁾ The mission expenses of Members and staff of the Commission may be carried over.

Absence of information on staff mobility**Paragraph 11.16**

The Commission will improve its statistics on staff mobility in the light of the various relevant decisions.

*Observations relating to the determination of individual entitlements***Shortcomings in the keeping of personal files****Paragraphs 11.17 and 11.18**

The Court itself notes that the keeping of files opened since 1 January 1981 has improved. Files opened since the beginning of 1983 now comply fully with the rules on numbering. Instructions have been given to improve the situation with regard to supporting documents criticised by the Court.

Principal allowances**Paragraph 11.20**

The Commission notes that the Court found that in general allowances were granted in accordance with the Staff Regulations and the Financial Regulation. It will take particular note of the Court's comments in endeavouring to achieve further improvements in this field.

*Administrative monitoring of absences and leave***Monitoring of absences on account of sickness****Paragraphs 11.22 and 11.23**

Absences are recorded on manual index files as thoroughly as possible. The Commission agrees, however, that computerisation would reduce the risk of error.

The Commission agrees with the Court that the relevant rules and procedures should be followed. The administration has medical checks carried out whenever it considers this necessary.

Commission (cont.)

Suspension of flat-rate allowances (e.g. for drivers and teleprinter operators) in the event of prolonged sick leave will shortly be processed by computer.

Monitoring of leave**Paragraphs 11.24 and 11.25**

The Commission has considered the Court's comments and would make the following points:

- special training leave is only granted on production of supporting documents and in accordance with strict rules;
- excess leave is recouped by deduction from final salary or other payments due to the member of staff;

*Court of Justice***Grades attributed to translators****Paragraph 11.27**

According to the Court of Auditors' literal interpretation of Article 31 of the Staff Regulations, officials in the Language Service should be appointed to Grade L/A 8. However, no institution systematically recruits staff at that grade and, as a general rule, all the institutions organise open competitions with a view to recruitment in career bracket L/A 7-L/A 6. In common with the other institutions, the Court of Justice also holds open competitions for posts in career bracket L/A 7-L/A 6. It appoints lawyer-linguists to Grade L/A 6 only in order to take account of the dual qualifications required, namely a university degree in law and a thorough knowledge of languages.

Change of institution**Paragraph 11.29**

In the two cases in question, persons who had not completed the requisite minimum period in their grade to qualify for promotion passed an open competition for appointment at a higher grade than their grades at their original institutions, with the result that it was not possible to transfer them at the same grade and step and then promote them.

In the first case, the Personnel Division was misled for a short time by statements made by the person concerned, who had been a probationary official at his former institution. However, he was established at the Court only after having been required to resign from his original institution.

In the second case, the person concerned was appointed as a probationary official at the Court on the date when his resignation from his former institution took effect.

The period during which that person was linked *de facto* to two institutions was short and confined to the time necessary for him to tender his resignation to the first institution and for it to be accepted. The resignation was made retroactive and all the necessary action was taken with regard to the financial position and the requirements of the Staff Regulations.

Moreover, the Court of Auditors' contention that it is impossible for a person to be an official on unpaid leave on personal grounds from one institution and, at the same time, an official in active employment at another is not certain in law in the absence of a judgment on the point by the Court of Justice. Without making an exhaustive analysis of the Staff Regulations, it should be pointed out, however, that according to Article 4 thereof no appointment or promotion may be made for any purpose other than that of filling a vacant post as provided for in the Staff Regulations. Hence the relationship under the Staff Regulations is with a particular institution or equivalent body; under Article 7 each official must be assigned to a specific post in his institution. The relationship under the Staff Regulations is therefore not with all the institutions and equivalent bodies as a whole and, moreover, it relates to a specific post.

Conversely, unpaid leave on personal grounds implies a loosening of the relationship under the Staff Regulations with the institution, since another person may be appointed with immediate effect to the post occupied by an official on leave (Article 40 (4) (c) of the Staff Regulations) and an official on leave on personal grounds has no unconditional right to reinstatement (Article 40 (4) (d)).

Finally, quite apart from the contingency covered by Article 15 of the Staff Regulations, an official on leave on personal grounds is permitted, during that leave, to carry on a professional activity, which would probably be considered to be incompatible with Article 12 of the Staff Regulations were he in active employment within the meaning of Article 36 of the Staff Regulations.

Budgetary implementation procedure**Paragraph 11.30**

(a) The Court acknowledges the formal justification of the observation made by the Court of Auditors and observes that a Financial Controller was

Court of Justice (cont.)

appointed on 9 July 1984. He will take up his duties as from 1 January 1985 and will be completely independent of the Financial Division.

The Court of Justice nevertheless points out that its Financial Control has operated efficiently and has not been the subject of substantive criticism.

Furthermore, it has proved necessary to modify the budgetary implementation procedures currently applied at the Court. A number of steps have already been taken to that end. In addition, it is proposed to draw up new instructions before the end of the current year concerning the commitment, the validation and the authorisation of expenditure.

It should be added that in a small institution like the Court, whose chief function does not consist in financial and accounting activities, it is very difficult to break down administrative operations to any great degree given the limited numbers of staff in the various departments.

(b) Action will be taken on this observation.

(c) Although it is admittedly not rational that the administration of family allowances should be the responsibility of two different departments within a single division, depending on the type of allowance, the departments do liaise and certain checks can thus be carried out. An investigation will be undertaken with a view to rationalising the area in question.

Paragraph 11.31

A general systematic inspection of files was commenced well before the Court of Auditors expressed its criticism; it should be completed shortly.

Generally speaking it should be pointed out, however, that any assessment of the presence in personal files of documents relating to the requirements set out in Article 28 of the Staff Regulations must take account of the diverging practices in the various Member States.

Installation allowances**Paragraph 11.32**

The Court accepts the observation of the Court of Auditors.

Paragraph 11.33

Checks were in fact carried out in the cases in question.

*Court of Auditors***Paragraphs 11.35 and 11.36**

The under-utilisation of appropriations for staff expenditure is due not only to unforeseen delay in recruitment but also to the devaluation of the Belgian franc after the draft budget was drawn up.

Paragraph 11.37

The Court's Administration has taken steps to remedy this situation as from the beginning of 1984.

Replies of the institutions to**Chapter 12****Operational expenditure***Heating costs***Paragraphs 12.7-12.10***European Parliament (12.8-12.10)*

The temperature can in fact be reduced in the Schuman building in Luxembourg and the heating is turned down at weekends. Since the end of 1983 it

has also been turned down at night. However, the owner of this building has not taken any action on the European Parliament's proposals for making further energy savings. Parliament will resubmit its proposals to the appropriate Luxembourg authorities.

There is no provision for regulating the temperature in individual offices in the Remorqueur, Empereur and St Jean buildings in Brussels. The European Parliament is considering the possibility of making a

European Parliament (cont.)

technician responsible for such supervision as is necessitated by the irregular occupation of offices. However, it would point out that it will soon be leaving the latter two buildings. Notice of termination has already been given on the leases.

The appropriate department regularly issues instructions on energy savings to the occupants of all the above buildings.

Council (12.10)

As can be seen from the answers to the questionnaire on the control of water, gas, electricity and heating expenditure and from various further documents and information supplied to the Court during its check on heating costs, the measures taken by the Council on heating comprised the introduction of automatic operation and adjustment of heating installations so as to keep any further individual operation by staff to an absolute minimum.

Nevertheless, the Council has in the past drawn the matter to the attention of its staff. In response to the Court of Auditors' request, it is planning to do so more regularly in future.

The Council would also point out that during the frequent night-time sessions in its main building round-the-clock heating is required there.

Commission (12.9)

For quite some time now the Commission has been pursuing a general policy aimed at reducing its energy costs as far as possible. It has accordingly taken steps to adapt or modernise the heating and air-conditioning installations in a number of its buildings.

Following negotiations with the Belgian Ministry of Public Works, acting on behalf of the owner of the Berlaymont building, the Ministry agreed to the principle of technical modifications to reduce energy consumption in this building outside official Commission working hours.

The apparatus to be installed will make it possible to heat or cool the air in the building, not just wing by wing, but also by sections of three to five floors, instead of being obliged to handle all 13 floors together as before.

For technical reasons connected with the general design of the building's air-conditioning system it is

impossible to achieve the ideal situation of regulation for each individual floor rather than three to five floors together.

The works, whose cost will be borne entirely by the owner, started in May 1984 and are now in the process of acceptance.

With regard to the Jean Monnet building, the Commission is planning to install an automated control and management system in order to make savings on air conditioning and make the operation of the system more flexible. This work should be finished within two or three years.

Economic and Social Committee (12.7-12.10)

The Committee notes with satisfaction that compared to the other Community institutions its spending under Article 202 (water, gas, electricity and heating) per m² of occupied premises is among the lowest. Though such prudent spending reduces the possibility of making substantial energy cuts, the Committee will continue to concentrate on rational management of energy.

Court of Auditors (12.10-12.11)

The Court's Administration has taken appropriate action to deal with these observations.

*Commission**Statistical Office (SOEC) studies and surveys***Paragraph 12.13**

(a) The financial statement for study and survey contracts contains an entry reserved for a cost estimate. Evaluation of costs in terms of 'man-months' is one of the provisions of the coordinated directives for the management of study appropriations. This method is based on the probable time required to complete the work and applies particularly in cases in which experts' contracts are calculated on a period of full-time provision of services. As a general rule, the Statistical Office uses this method of evaluation of expenditure for work entrusted to experts responsible for computer applications or analysis under the direct control of Statistical Office staff.

An equivalent in terms of 'man-months' for the cost of studies cannot be applied systematically to all work for the Statistical Office. This is the case where a finished product with very specific characteristics is required, as it is not always a simple matter to eval-

Commission (cont.)

uate this in terms of the length of time it will take. This is in particular true for gathering and processing data and presenting survey findings, developing an analysis framework or putting together statistical documentation. Expenditure is therefore normally evaluated as an all-in amount. These all-in amounts are usually arrived at through negotiation with the Office's partners providing the statistical information.

(b) The evaluation of the number of 'man-months' given in the financial statement is merely an estimate and it may happen that negotiations with the contractors and examination of the implementation of the studies call for subsequent alterations to the conditions of performance of the contract. It is inevitable that the actual time required to complete the study will not always fit in with the theoretical and calendar-based approach of the 'man-month' standard. Not all experts are in a position to devote all their time solely to carrying out the studies involved.

Paragraph 12.14

The Commission, and the Advisory Committee on Commissioned Studies in particular, have always devoted a great deal of attention to this problem which falls within the scope of the monitoring duties conferred on the Committee. The highly specialised nature of the subjects handled has made it impossible for the Advisory Committee on Commissioned Studies to standardise or systematise the cost of these services since they vary widely both in their content and the demands imposed on the experts selected.

Since it was unable to lay down strict guidelines for determining fees, the Committee has taken the line that, in order to keep expenditure within reasonable bounds, fees should not exceed a given average figure other than in exceptional and duly substantiated cases.

Paragraph 12.15

The job of finding experts is not left almost entirely to the initiative of the officials responsible for the work.

For specific, one-off studies relating to the statistical field the work is very specialised and calls for highly qualified experts. In most cases there is no 'market' in the real sense and the Director-General of the Statistical Office, who knows what possibilities exist and acts on his own responsibility, selects and designates the very few people or bodies able to take on highly specialised statistical studies and surveys.

Initially there was no obligation to enter the name of the expert or the institute on the financial state-

ment. During 1983, the Advisory Committee on Commissioned Studies decided that the name must be entered. Work is in progress with a view to making greater use of competitive bids in awarding study contracts.

Paragraph 12.16

It should be pointed out that the special nature of statistical work means that implementation coincides with the submission of results. It would not therefore be of any use to draft an additional implementation report and, in view of the number of contracts managed, this would give the Statistical Office additional administrative work merely reduplicating information already supplied.

It should also be pointed out that the Statistical Office systematically draws up a statement before making the final payment of study costs which contains, in addition to the basic details of the contracts, the schedule for dissemination and application of the study findings. Within one year of completion of the study the Statistical Office also draws up a statement which is sent to the Computerised Documentation Service (Circe/Ecdoc) giving relevant information on the quality of the work, its findings and subsequent applications.

The objective pursued by the rules referred to by the Court is definitely not being overlooked.

Paragraph 12.17

On 27 July 1983 the Commission approved the setting up of a directorate within the SOEC to manage the processing and dissemination of statistical information. It is responsible for improving coordination between departments inside and outside the Statistical Office.

One task of the new directorate is to centralise all matters involving coordination between the Statistical Office and the Informatics Directorate. At the stage now reached in proposals for invitations to tender for data-processing services and supplies, a joint procedure is being envisaged.

Paragraph 12.18

A certain amount of study and analysis work is done outside the Office because in many cases the SOEC is not able to carry out these analyses in view of its limited resources or because of deadlines it has to meet (e.g. work for the GATT negotiations).

*Commission (cont.)**Information visits***Paragraph 12.20**

It should be observed that the rules on the reimbursement of expenses to persons called or invited to the Commission also apply to persons who come on information visits.

It should be pointed out that the entire policy on visits is being reappraised within the Commission. Matters covered are the selection of priority groups or individuals, management methods and the internal procedures and powers of the department responsible. This examination should lead fairly rapidly to the Commission laying down internal rules comprising a coherent set of standards to be applied to all the departments involved, with adjustments to structures where appropriate.

Paragraph 12.21

In order to look after the large number of visitors referred to in paragraph 12.19 the Commission has to use the services of hostesses who have been specially trained in reception techniques and have a good knowledge of a wide range of languages.

In order to provide for these needs with a suitable degree of flexibility the Commission has always considered that it can obtain an excellent guarantee of quality by having recourse to a well-known Brussels agency specialised in reception services with a staff of multilingual hostesses trained for work in an international environment and subject to top-level supervision. An invitation to tender was launched at the beginning of 1984 and the procedures are under way.

*Purchase of data-processing equipment***Paragraph 12.24**

It is only possible to assess results on the basis of reliable statistics. For this a significant set of results is required which must be spread over a reasonable length of time. This was the reason for the decision in June 1984 to set up a specialised department (Internal audit) within the Informatics Directorate with the task of widening the scope of observations already made and proposing possible improvements. It should be observed that real progress was made in 1983, since the overall productivity of the data-processing services rose by 32% while appropriations increased by only 4% (see the 1983 annual report on data processing).

Replies of the Commission to**Chapter 14****Loans, borrowings and interest-rate subsidies***Observations on the financial statement and the expenditure and revenue account for the NCI and Euratom mechanisms (paragraphs 14.7 to 14.13)*

The Commission has noted the satisfaction expressed by the Court of Auditors in paragraph 14.13 on the efforts it has made to improve the efficiency of the accounts department in DG XVIII. The Commission can confirm that it will be making further efforts.

In this context, the Commission agrees to the suggestion made by the Court in paragraph 14.11, which will provide further improvements.

The Commission can therefore limit its replies to the following paragraphs:

Paragraph 14.8

The Commission departments did indeed encounter a number of difficulties in drawing up the financial statements for the NCI at 31 December 1983, in particular because the mechanism was very new (see paragraph 14.21 of the Court's report), highly complex and the number of operations to be recorded had greatly increased. The Commission would, however, point out that a great many of the corrections made during the preparation of the NCI financial statements had also been noted by the relevant Commission departments simultaneously with the checks made by the Court of Auditors.

Paragraph 14.10

(a) It was the Commission's opinion from the outset that this loss, which the Court itself terms 'potential' and which the Commission departments themselves had discovered, should be entered over a period of time since it only occurs as and when payments fall due. In view of the Court's comment the Commission is prepared to set aside at 31 December 1984 a provision equal in amount to the sum outstanding.

The Commission would also point out that the entire loss can be made good by means of repurchases of EEC bonds.

(b) The Commission can assure the Court that its departments have carefully checked that there have been no other errors of this kind.

Observations on legality and sound financial management

A. Compliance with and monitoring of ceilings for loans and borrowings (paragraphs 14.14 to 14.17)

1. The Commission wishes to give a very clear answer to the main point made by the Court in paragraphs 14.16 and 14.17

It is true that, on 7 December 1983, the Commission overruled the Financial Controller's decision to withhold approval. It did so after discussing the matter and was fully aware of the implications of its action. The limit on loans taking up the EMS interest subsidies was exceeded so that the budget appropriations authorised could be used up completely. Fluctuations in the financial terms relating to operations of this type makes it extremely difficult to apply a predetermined ratio, such as the 1 to 5 between subsidies and loans laid down by Regulation (EEC) No 1736/79. The Commission accordingly opted to give priority to the political and budgetary commitments towards Italy and Ireland by paying in full the interest subsidies on total loans which exceed the above amount by only 0,7%, i.e. a very small margin, without occasioning any additional expenditure for the general budget.

2. Paragraph 14.15 and Table 14.5

(a) The Commission is quite prepared at any time to explain its internal rules on this matter.

(b) The Commission takes the view that none of the loan ceilings were exceeded, not even for the

operations relating to the Greek earthquake referred to by the Court, as column 2 of Table 14.5, would suggest, since for 1983, unlike earlier years, this column includes not just loans actually disbursed but also a percentage of the costs incurred on NCI operations.

These costs have to be covered over the lifetime of an operation by income from the interest paid by the borrowers. This is because interest and costs are specific items which have to be distinguished from the amount in principal laid down in the relevant decisions. With regard to the loan contract signed with Greece for 80 million ECU, the Commission merely applied Articles 1 and 3 of Council Decision 78/870/EEC of 16 October 1978⁽¹⁾, which led the Commission to borrow the same amount in principal. Costs for the borrowing operations concerned will be recovered gradually as interest is paid on the loan, regardless of the scale of these payments in relation to the capital sum to which they will be added. The Commission accordingly maintains that the ceiling, within the meaning of the provisions applying in such cases, was not exceeded.

B. NCI liquidity (paragraphs 14.18 to 14.25)

(a) Steps along the lines indicated by the Court in paragraph 14.23 (b) have already been taken in collaboration with the EIB with a view to reducing the average level of the NCI liquidity reserve without, however, jeopardising the effectiveness of the instrument.

(b) The Commission shares the concern expressed by the Court in paragraph 14.25. It would point out that cashflow studies had already been carried out, with EIB assistance.

(c) The Commission agrees with the Court that steps should be taken to ensure that loan terms are fixed in line with the Council Decision, viz. that overall they should cover costs and expenses incurred in contracting and carrying out both borrowing and lending operations.

It will bring this requirement to the attention of the Bank which, under the powers granted by the Com-

⁽¹⁾ Amended by Council Decision 81/1013/EEC of 14 December 1981.

mission, grants loans and fixes the terms, in accordance with the procedures laid down in its Statute and subject to its usual criteria.

C. Interest-rate subsidies (14.26 to 14.29)

The Commission recognises that the comments made by the Court in paragraphs 14.26 to 14.29 of its report are justified and will take steps to ensure much closer harmonization should any new interest-rate subsidy systems be planned.

The Commission would none the less stress that the EMS or 'earthquake' subsidies were purely temporary and applied to EIB and NCI loans, which are multipurpose instruments, while ECSC and Euratom instruments have sectoral aims. This was sufficient reason for some differences in approach.

It should also be observed that the cases mentioned by the Court of Auditors are negligible compared with the 5 000 million ECU in subsidised loans granted under the EMS.

Replies of the Commission to

Part II

European Development Funds

Financial aspects of the European Development Funds

Observations on the preparation and presentation of the accounts

Paragraph 15.3

It is true that the provisions of the Financial Regulations applicable to the various Funds not yet closed contain different dates for drawing up the balance sheet and the revenue and expenditure account. This is why the Commission has always applied the most recent regulations to the various Funds, in order to simplify the forwarding of documents and harmonise procedures.

The Court of Auditors' observation for 1983 are a tacit recognition of the lengths to which the Commission has gone to reduce the time taken to produce the end-of-year accounts. In any case, the Court's audit was not held up in any way, since it was able to go ahead at the end of March, i.e. before the deadline for forwarding the documents. It was only administrative and technical constraints (translation into seven languages, preparation for publication) which delayed by a month the official forwarding of the end-of-year accounts, which in all respects are identical with the accounts forwarded to the Court on 23 March.

The improvement on past years should therefore be emphasised.

Observations on the second and third EDF

Paragraph 15.4

During 1983 the Commission endeavoured to bring all projects under the second EDF to a final close. Of the 18 projects still outstanding at the end of 1982, all were closed except for the Garoua hospital project in Cameroon, where work under four contracts could not be finally accepted by the national authorities because of reservations expressed at the provisional acceptance in 1981. Since then, the hospital's director has assured the delegation that nothing stood in the way of final acceptance. In spite of this affirmation, the national authorising officer for the project had not reacted by the end of May 1984 to the appeals and reminders that the delegation had been issuing for more than a year. This is why the EDF's chief authorising officer, using the powers conferred upon him by Article 60 of the Financial Regulation, decided to take measures to finally close the project. It will therefore be possible to close the accounts for the second EDF during 1984.

Paragraph 15.5

The Court of Auditors' observation regarding the use of funds under the third EDF is ambiguous, in that it claims that 48,4 million ECU remained

unused at 31 December 1983. In fact, out of an overall appropriation of 915,76 million ECU, the Commission took financing decisions involving 902,18 million ECU, leaving only 13,58 million ECU still not allocated. Contracts were signed for 886,15 million ECU out of the 902,18 million, and 97,8% of them were performed (accounting for 867,32 million ECU). The Court of Auditors is therefore not correct in saying that the difference (48,44 million ECU) between the overall appropriation (915,76 million ECU) and the amount of payments made (867,32 million ECU) is 'unused', since a large proportion of this amount, namely 34,86 million ECU (48,44 less 13,58) has been allocated to projects currently being carried out. As regards the three new financing decisions in favour of Suriname, it should be pointed out that they were to make up for another project which had to be cancelled following a decision by the Suriname Government. Appropriations under the third EDF are being used first and foremost to meet expenses arising from current projects or for specific short-term projects. This balance should be transferred to the fourth or fifth EDF shortly, as soon as the financial operations for closing current projects have been completed.

Paragraph 15.6

Because of an excessive workload, the reasons for which are given in the reply to paragraph 15.16, the authorising departments gave priority in 1983 to commitments and payments relating to the implementation of current projects and programmes. With the exception of the second EDF, arrangements for closing projects had to be postponed. However, work resumed in the second quarter of 1984 to close projects under the third EDF; by 30 June, 21 projects had been finally closed, and 16 further projects are currently being closed. This has released balances totalling 732 000 ECU. It goes without saying that the Commission will do its best to speed up the release of balances remaining from completed projects so that they can be used productively elsewhere.

Paragraph 15.7

The repayment of the 4,5 million ECU balance of the advance granted to the Somali Government in 1975 for the National Banana Board has been causing the Commission concern for several years. Representations have so far been unsuccessful. The EDF's chief authorising officer suggested to the

Ministry of the Plan, in its capacity as national authorising officer, that the balance of 4 459 299,44 ECU be set off against unexpended appropriations allocated to Somalia under the fourth EDF. According to recent assurances from the Somali Embassy, the phased repayments will begin in the second half of 1984. The corresponding receivable order has been issued by the chief authorising officer.

Observations on the fourth and fifth EDF

Balance sheet of the fourth EDF

Paragraph 15.10

A detailed audit has been carried out on advances to the EAC in 1983 and their clearance. It was found that the corresponding entries in the EDF accounts for technical assistance tallied perfectly. As regards scholarships and training, where the EAC also acts as a management agency, the reconciliation of accounts brought to light some discrepancies which will be sorted out before the 1984 accounts are closed. In order to improve transparency and facilitate the reconciliation of accounts, the EAC has been asked to close them at 31 December and not at the end of each academic year, i.e. 30 September.

As regards the other agencies responsible for managing the programmes of scholarships and in-service training, the Commission would confirm its previous replies (Annual report 1982 — OJ No C 357, 31. 12. 1983, p. 239) namely that the financial operations of these agencies are closed at the end of each academic year and communicated to the Commission departments responsible for checking them. The result of this check is then forwarded to each agency for its observations.

Member States' contributions and cash at bank

Paragraph 15.11

The Commission shares the Court of Auditors' concern about past delays in payment by Member

States of contributions to the Fund. The Commission intends to introduce proposals for the next EDF involving penalties for delays in payment of contributions. It should, however, be noted that there has been an improvement as regards promptness of payment of contributions by Member States in 1984.

Paragraph 15.12

The Commission has recently carried out a detailed analysis of payment patterns and bank balances in respect of all EDF bank accounts, both the 14 accounts in Europe and the 61 accounts in ACP countries. The objective of this analysis was to reduce the balances in those accounts to levels corresponding more closely to payment needs. As a result, arrangements have now been introduced, limiting balances in European accounts to one month's payment needs and, in the case of accounts in the ACP countries, to six to eight weeks' requirements. Accounts will be automatically replenished when they fall below normal payments flow levels. As a result of these arrangements, it will be possible to scale down requests for contributions for 1985. Moreover, the special contribution of 30 million ECU approved by the Council in December 1983 in respect of 1984 will not now be sought. The consequence of these measures will be to reduce the average total balances in the EDF treasury with effect from the beginning of 1985.

Observations on the supporting documents

Paragraph 15.13

(a) It is true that supporting documents are often presented in the form of photocopies, which are illegible in some cases. It should be remembered, however, that the national departments responsible for drawing up these documents frequently have to work under difficult conditions (outdated equipment, shortage of supplies, etc.). Sometimes the delegations are even called upon in order to secure the documents. The Commission believes, however, that for reasons of speed and in the interests of the creditors and of the successful completion of the projects, it is preferable in some cases to obtain supporting documents which may be inferior in quality but are none the less probative. The fact that they sometimes contain amendments shows that they are scrupulously checked by the delegation, which would generally prefer to press ahead with the payment rather than begin the endless round of government approvals all over again. Furthermore, if photocopies had to be authenticated by the national

authorising officer, the process of settling payments would become even more unwieldy.

(b) The specific comments made by the Court of Auditors concerning the validity of bank guarantees call for the following explanations on the part of the Commission.

In two cases, the Commission drew the delegation's attention to the fact that the guarantee would have to be extended if it transpired that all the deliveries could not be effected within the time-limits laid down in the contract; this matter was raised in good time, long before the guarantee expired.

As regards the delivery of lorries to Madagascar, final acceptance of the spare parts was given on 25 July 1983. The guarantee did not, therefore, pose any problem. The lorries, on the other hand, were provisionally accepted on 3 June 1983; since the contract provided for a one-year warranty, final acceptance was to be given on 3 June 1984, while the bank guarantee in lieu of retention money expired on 1 March 1984.

In this case, the supervisor could have had the bank guarantee extended until final acceptance, which, according to information recently received, should be given shortly.

The last two cases can be explained as follows: in the first the progress report was received a month after the expiry date of the bank guarantee; in the second, in view of the delays in the performance of the contract (equipment and works), a request was made to renew one of the guarantees, which was due to expire on 30 June 1984, while the other was not renewed given the proximity of the date for submitting the progress report, the corresponding instalment not having been authorised until February 1983.

These few examples show that it is not always easy for the Commission to supervise the validity of bank guarantees. This is essentially the responsibility of the national authorising officers.

While central departments are responsible for ensuring that bank guarantees are provided — for the payment of advances, which is generally effected by the chief authorising officer or his delegates, is conditional upon such guarantees — the supervisor alone would appear to be competent to decide whether they should be released or extended, as

such a decision depends either on provisional or final acceptance, or on the recovery of the advances granted as the work progresses.

It was because of this situation and in an endeavour to resolve the difficulties indicated by the Court of Auditors that all delegates were instructed to keep a register of every guarantee of which they receive the original from the central departments. This procedure enables them to monitor the validity of guarantees at the same time as the national authorising officer and to keep the documents in all cases where the latter does not claim them; in this way, there are no problems about returning the documents to the beneficiaries when the guarantees are released.

(c) It is true that a payment of 915 471,78 ECU was made entirely in pula at the request of the firm awarded a road construction contract in Botswana. This departure from the terms of the contract was accepted by the works supervisor and the delegation on condition that, on completion of the projects, the overall proportion of payments in national currency and in ECU complied with the original terms of the contract, as set out in Annex G to the invitation to tender.

(d) The contract between the consultancy bureau and CTRC (Caribbean Tourism Research and Development Centre), signed on 25 October 1983 and approved by the Commission's delegate on 23 January 1984, states in paragraph 4.1.8 that payments shall be effected in fixed monthly amounts. This arrangement was adopted because, as provided for in the terms of reference, a large proportion of the operations are to take place in Europe over a two-year period, while many others are to be carried out in a dozen Caribbean countries and likewise entail travel. However, it is nowhere stated that supporting documents would not be requested and, in accordance with the agreements reached at several meetings in Brussels, the consultancy bureau has already sent the Commission departments an initial file of supporting documents dated 4 June 1984 which includes progress reports up to the end of April 1984, financial statements up to the end of March 1984 and other supporting documents. This file is currently being examined by the departments concerned.

The two organisations referred to by the Court of Auditors are ACP/EEC professional bodies. It should be noted that the amount indicated covers various contracts financed under this project which provide for the repayment, on production of supporting documents, of expenses incurred in performing the tasks specified, and also for flat-rate amounts covering all management expenses, includ-

ing those entailed in planning and preparing the programme previously agreed upon (secretariat, travel and administrative costs). The Commission checks the performance of the contract when it examines and adopts the final report.

Observations on the financial management of special loans

Paragraph 15.14

The Court of Auditor's observation on advances granted under two special loans to Zambia (102 702 ECU) should be assessed in the light of the following information.

- For the cotton development project: in order to back up his request to draw funds and in support of his application, the borrower submitted *pro forma* invoices in advance of the opening of a letter of credit. However, the relevant expenditure amounting to 87 180,45 ECU was not set off against the advance granted until a subsequent request to draw funds was submitted.
- With regard to the Kawambwa tea scheme: the 15 552,22 ECU payment should have been offset against the advance granted instead of being made in kwachas to the supplier's account. The reason for this is that at that time a new method of payment for special loans had just been finalised with Zambia in view of the difficulties encountered in implementing projects in the country. At all events there was no need for correction to be made to the accounts at 31 December 1983. Moreover any balance outstanding from advances granted will be cleared as the project is implemented.

Paragraph 15.15

The remarks made by the Court of Auditors call for the following clarification. Zambia did receive, under the fourth EDF indicative programme, special loans totalling 17 595 000 ECU. Of this 13 890 000 ECU was paid as advances and 11 091 000 ECU cleared on 31 December 1983. These figures show that 79% of the advances were granted for these projects and 80% of these advances had been cleared at the end of 1983. In addition there is a regional project also financed via a special loan which largely (6,2 million ECU) relates to Zambia. The relevant amount has been totally paid out and accounted for.

The Court's general observation, based on the specific case of Zambia, with regard to the clearance of advances on contracts comes as something of a surprise to the Commission. This is because the clearance of advances granted against a contract or estimate — whether under a special loan or subsidy — is one of the steps in the procedure for validation of expenditure laid down in Article 20 of the Financial Regulation. There can be no doubt that Financial Control also has powers to ensure that the figures have been checked by the authorising officer. In practice the Commission's authorising departments regularly check the clearance of advances granted and submit all the supporting documents to Financial Control for approval.

Observations on the time taken to implement financial operations

Paragraph 15.16

Before answering the general criticism expressed by the Court of Auditors, the following preliminary remarks need to be made:

- Firstly, attention should be drawn to the fact that the calculation of the time required for payment — as the Court in fact recognises — includes the time which elapses between the date on which the statement of the claim is dispatched and the date when it is received by the relevant departments. The terms of supply and service contracts provide that the time allowed for payment shall be calculated from the date on which the reports, invoices or other supporting documents are received. The average period which elapses between the date stated on the creditor's invoice and the document's arrival at its destination may be calculated quite simply. It is at least six to eight days for headquarters departments in Brussels and between 10 and 15 days for the delegations. It would therefore have been more accurate when calculating the time-limits to subtract an average seven or 12 days depending on the circumstances. The Commission accordingly considers that the conclusions to be drawn from the analysis made by the Court of Auditors need to be reviewed, with due allowance for this factor.
- Secondly, the Court of Auditors' remarks — based on its analysis of Tables 15.1 and 15.2 — about the time taken for payments are incomplete since they relate to only one of three possible hypotheses. But for the sake of objectivity, it ought perhaps to be admitted that, where pay-

ment orders are both issued and executed either in an ACP country or in Brussels, the average time required for execution is reasonable in most cases, particularly if the seven or 12-day period referred to above is taken into account. In addition, the Court of Auditors is wrong in adding together the time required to execute payment up to the point at which the recipient is credited with the amount and the time taken by the Commission's headquarters departments internally to settle the account for the operation or make an entry in the EDF accounts. The Commission considers that, in order to be more transparent, these tables ought to draw a distinction between these two stages in the execution of payments.

- Lastly, the large number of incomplete requests for payments submitted by contractors should be stressed. Causes of this are inconclusive documents, unacceptable bank guarantees, requests for further information etc., which, through the creditor's own fault, prevent payment from being made within the normal time-limits.

Obviously, in such cases, the calculation of the time required for payment should be made from when the request is considered admissible and not from the original date shown on the invoice or statement of claim.

Notwithstanding the above specific remarks, the problem of time-limits and the delays which may arise in executing payments is being given very close scrutiny by Commission staff, who will do everything in their power to speed up procedures while ensuring that the operations remain financially secure. In its communication to the Council on the situation at 31 December 1982 (COM(83) 421, 4. 7. 1983), the Commission mentioned a number of measures which had been taken to simplify procedures with a view to speeding up payment, in particular the single 60% instalment to be made on supply contracts, the drafting of a single document for payments issued and executed in Brussels and the abolition of the requirement to have the signature of project leaders or technicians in the area when the service rendered has already been approved by the delegation or where payments are involved in which proof of the service rendered is not required (advances, interest subsidies, risk capital).

In addition, despite a staff shortage which was particularly acute during the second half of 1983 because of a number of staff transfers, retirements or absences for sickness, the Commission was able to cope with its major, priority tasks of executing commitments and payments rapidly.

A survey carried out in February and March 1984 within the Directorate responsible for payments, covering the time required for payment and the percentage of complaints submitted by contractors, showed that, for 3 100 payment orders handled during the reference period, 45 complaints were received concerning late payment, of which after investigation only 17 (0,55%) were substantiated, i.e. involved some degree of responsibility on the part of the Commission. The Court of Auditors is welcome to examine the findings of this survey.

The Commission would readily agree that improvements can still be made to procedures in some cases, even though the financial security of the payments is another major factor which must also be taken into account. It is clear for example that the 60 day regulation time-limit on which the statistics are based should not prevent payment being made more rapidly wherever this is possible.

These general remarks clearly show that the conclusions drawn by the Court on the basis of the sample it selected should be tempered by the information contained in the Commission's reply.

Evolution of projects since the Court's first visit

Agriculture, fisheries and stockfarming

Paragraph 15.19

'Not one of the 12 agricultural projects examined is profitable and none can survive without technical assistance.' This once again confirms the view that agricultural projects cannot succeed and continue without technical assistance.

Paragraphs 15.20 and 15.21

Although the Court's comments are, in general, justified, the following additional information should be taken into account.

The only way of guaranteeing food production in the Sahel at present is through irrigation by water control. For example:

- all the areas covered by schemes of this type along the Senegal River on both the Senegalese and the Mauritanian side are fully utilised. On the Gorgol site there are more than 600 ha under cultivation, with not a single plot free, and yields are everywhere higher than 4 t/ha per crop;

- Mauritania's entire grain crop in 1983 was grown under irrigation, whereas none was grown under natural conditions;
- in Niger many irrigated areas have been introduced along the river with EDF assistance. They are all successful, with yields from the longest-established of over 8 t/ha a year (two crops) for almost 10 years.

The cooperative system works very well there.

In short, after 20 years of operations in the Sahel there is still no alternative to irrigation for intensive cereal production. In view of the climate, the traditional forms of cultivation will always remain extensive and precarious; they also use up large areas of land and consequently have a destructive effect on the soil and vegetation. All this clearly proves the need for irrigation.

Paragraph 15.22

The Court's comments call for the following replies:

- (a) **The number of cooperative workers involved in the project has fallen from 1 244 in 1980 to 1 037 in 1981 and 632 in 1982**

According to the half-yearly report on the project prepared by the agricultural adviser in the delegation, the number of cooperative workers was 619 for 1981/82 and 757 for the cold off-season of 1982/83.

- (b) **Because of the high costs they have to bear, farmers' average monthly incomes have fallen to 43 ECU**

The figure of 43 ECU does not include other income earned by the families concerned from traditional farming on seasonally flooded land in the Qualo and Dieri areas.

- (c) **Irrigation is used on only 53 ha**

It is not unusual to find that only a small part of the total area covered by the scheme (360 ha altogether) should be in use after the first winter season. Account has to be taken of the change in mentality required, the need for farmers to adapt to the new techniques and settlement of the land problem, which is always difficult. To overcome these difficulties farmers have to be allowed a certain period of grace depending on the location of the plots. These constraints are even stronger in the case of off-season cultivation, which involves more sophisticated techniques.

(d) The national rural development company (Sonader)

It has been common knowledge for some years that there are serious administrative, financial and operational shortcomings in Sonader's management. Consequently the Commission has insisted (as it stressed in the financing proposal) that project management should be decentralised as far as possible, in other words that it should, in practice, be entrusted to the Kaedi regional operations centre. Similarly, the Commission is actively involved in current discussions between lenders and the Ministry of Rural Development, with a view to carrying out a fundamental restructuring of Sonader and putting it back on a sound financial footing.

(f) The Community has to finance not just the works and equipment, costing 1,1 million ECU, but also technical assistance, support for Sonader and current operating costs

If certain starting-up costs were not borne by the EDF, Mauritania would be unable to pay them and there would be no project.

Paragraphs 15.23 to 15.26

The Commission accepts the validity of the Court's comments on the Ségou rice project. The constraints have been described; they had been known for quite some time, even without an evaluation, but Community financing was continued for various non-technical reasons: firstly, there were political reasons, then there was also the insistence of the authorities, and lastly there is the consideration that the 40 000 ha area concerned represents a significant potential source of cereal production.

Paragraph 15.27

The Court's comments on the fisheries development scheme in the Niger delta give the impression that the Commission and the delegation were unaware of the difficulties facing the project. This is far from the truth. The Commission has monitored the project very closely from the outset and analysed the results before proposing that it should be continued under the fourth EDF.

The Commission first requested the introduction of cost accounting in 1976 and in 1981 it also called for the marketing of fresh fish to be discontinued, as this had proved to be a loss-making operation.

Faced with the Malian Government's reluctance to carry out the necessary reforms, the Commission proposed that the project should be evaluated by an outside consultant, but the Malian authorities did not give the go-ahead until 1983. The conclusions of the evaluation, which backed up the Commission's stance, were accepted in their entirety at an extraordinary meeting of the Malian Council of Ministers held at the beginning of 1984 to consider the report. It is hoped that the re-orientation of the project will bear fruit.

Dams

Paragraphs 15.28 and 15.29

The difficulties encountered in raising the finance necessary for the major irrigation projects, in carrying them out and in managing the installations should not be allowed to obscure the fact that the only way to improve the ability of the Sahel countries — and Mauritania in particular — to feed themselves is by means of total water control and cultivation of irrigated land.

In the case of Mauritania the dam is all the more necessary because of the continued severity of the drought — which has now lasted for over six years — during the 1983/84 dry season. The Fom Gleita dam made it possible to store several hundred million cubic metres of water.

However, it has to be acknowledged — and Mauritania is now beginning to accept this — that management of the entire area by Sonader is not a viable solution and that the organisation should limit itself to managing the principal tasks of water storage and distribution, while the cost of the other inputs should continue to be borne by the farmers.

The various meetings of aid donors — including the most recent, in July 1984 — were held to deal with priority problems (evaluating the dispute with the enterprise, payment of arrears by certain donors, re-allocation of funds available but not yet called up), to define the role of Sonader and to provide it with the means to carry out its activities before embarking on new investments.

The calculation of the recurring costs made in November 1982 merely confirmed the Commission's original approach: it had always held reservations about the World Bank's scheme for Sonader to manage the irrigated area and, until now, has deliberately refused to become involved in schemes downstream of the dam.

The scheme for irrigated areas subdivided into autonomous production units all along the Senegal River would appear, in Mauritania's present situation, the best solution for developing the 3 600 ha.

Various infrastructures

Paragraph 15.32

The Court of Auditors criticises the lack of Mauritanian technicians who are able to maintain the equipment properly.

The Commission would point out that the establishment of a national department for managing and maintaining health infrastructures (670 000 ECU) is specifically designed to cater for the maintenance of and running repairs to buildings and equipment. These objectives should be achieved by providing technical and training assistance and supplying tools, equipment and spare parts.

Paragraph 15.33

The Court's description of the situation is no doubt an accurate reflection of what it found on the spot. It shows just how powerless the Commission is — and, incidentally, most other aid donors too — when confronted by the inadequacy of the public service management structures and the lack of political will on the part of the Mali authorities to help the most underprivileged sections of the population.

To start with, the project covered every opportunity for providing all sections of the population, even the most underprivileged, with access to drinking water; Mali was responsible for making people provide a financial contribution and overcoming the traditional view that water should be provided to people free of charge. Most of the Sahel countries — where water is a scarce commodity and the population sparse — now require a financial contribution from urban and rural populations; the Mali Government recognise this to be necessary but still encounter a number of difficulties in applying the national directives. The Commission is well aware of this situation and, through the delegation, has repeatedly asked the Mali authorities to make better use of the investments made from Community funds.

Paragraph 15.34

This project did indeed run into a number of difficulties when the equipment was put into operation in August 1981. These difficulties can be divided into three well-defined categories:

- Use of local firms in EDF contracts has the advantage of promoting national capacity and making a considerable contribution to development aid but involves the risk of bad workmanship due to an inability to deal with technical problems as in the case of the pumping station equipment covered by the project; in fact only this one out of four parts of the project has caused any problems.
- The project is only one part of the entire Dakar sanitation system which is very extensive, old and in poor condition; this affects the operation of the sewage plant, if only because of the silting-up of the networks and thus the pumping station; the fifth EDF project, the rebuilding of the Gueule Tapée canal, for which the financing decision was taken in July 1984, will improve the outflow of the area's rainwater and will also make a number of basic improvements to the previous project.
- The Senegal national water board (Sonees) responsible for running the Dakar sanitation systems had not been given sufficient funds for this new task; the sanitation charge already accepted in principle by the Senegal authorities in 1977 was not actually adopted until August 1983. This delay could explain though not excuse the lack of urgency which Sonees showed in ensuring normal operation of the equipment which, while complicated, is essential in a large city like Dakar.

In these circumstances, it could be foreseen that the Soumbédioune station would be subject to breakdowns until the technical and structural adjustments were made with funds supplied either from the fifth EDF or under the August 1983 Order introducing a sanitation charge of 15 FCFA per m³ to cover operating costs or as a result of a project to improve the financial position of Sonees. Sonees, which has up to now resolved technical and other difficulties involving Senegal's drinking water, can also be expected to solve the problems of sanitation.

The Commission's replies to the Court's earlier observations

Paragraphs 15.35 to 15.38

The diversity of the motor-driven pumps for irrigating small areas results from the procedure for concluding contracts but is not the cause of all the problems affecting these machines. The main constraint is the maintenance capacity of the departments responsible; this is a common feature.

Paragraph 15.40

The reply given by the Commission in 1982 is still valid although some success has been recorded in various places with some types of threshers, as the Court notes. The technical departments are continuing their inquiries on this matter.

Compliance with the Lomé Convention

Appraisal of projects and studies

Paragraph 15.46

Despite the difficulties encountered with the authorities, the Commission's technical departments were able to make a number of improvements to the preliminary draft to increase the suitability of sites (total reappraisal of the building as regards unit surface) as well as to reduce the cost (changes to roofing design and redimensioning of the thickness of the flagstones).

The shortcomings found by the Court's inspection team, despite the assurances given by the authorities before and during the project, can only be regretted. These shortcomings mainly concerned such aspects as the ventilation in general and the ladder for the multi-purpose hall.

Taxation

Paragraphs 15.47 to 15.49

The Commission shares the concern of the Court of Auditors as regards the extent of exemption of taxes on contracts financed from the EDF. With this in mind, it proposed to its ACP partners in the negotiations for a new Lomé Convention to replace Protocol No 6 by a simple provision that Community financing could not be used to cover tax costs.

In the negotiations, the ACP President stated the obligation of all the ACP States to comply with the provisions of Protocol No 6 and that the Community had to inform the ACP Group of instances of non-compliance with these provisions. Mr Pisani also indicated the Commission's intention to introduce a monitoring system to ensure that Protocol No 6 was properly implemented. In these circumstances the Commission withdrew its proposals for a revised formula to cover fiscality.

Payment of service contracts

Paragraph 15.50

In connection with the widespread use of the private treaty procedure, the First Lomé Convention had indeed provided for the establishment of general conditions of payment applicable to service contracts; this was repeated in the Second Lomé Convention. Together with experts from the Member States, the Commission conducted a study on this point with the aim of producing proposals for its ACP partners. However, the work of the group demonstrated the considerable difficulty involved in agreeing on common scales. The need to fix scales in advance is not so urgent now that increasing use is being made of tendering procedures for service contracts, enabling prices to be determined directly from competing bids. The Commission considers that the figures resulting from the general use of this procedure can be processed statistically and used in cases where the private treaty procedure is still justified.

Paragraph 15.51

As regards the Kawambwa tea project in Zambia, the Commission would point out in connection with the payments made to one bureau that this bureau had been entrusted not only with supervising installation of the machines but also with other very important duties consisting mainly of supervision of the various types of activity and equipment.

The Zambian Government also asked this bureau to help it in the redesigning of the civil parts of the factory after RDC reversal of the decision to install enclosed withering troughs and to complete tender documents for the supply and installation of mechanical and electrical components'.

As regards the high cost (17%) of supervising the work on the feeder roads programme, 'the report's observations on the supervision costs expressed as a percentage of the works' cost is misleading. The reference by the Roads Department to a figure of 10% for supervision costs relates to the situation where the cost of the supervisor's vehicles, office and residential accommodation is excluded from the consultant's contracts and included in the works contract. The inclusion of these services in the works contract has been the traditional approach but experience has shown that by including these services in the supervision contract cost savings have resulted and the supervision is more independent. In this project the consultant's contract included the provision of his own vehicles, accommodation and equipment. The figure of 17% is in line with other EDF-financed contracts in Zambia.'

Origin of supplies

Paragraph 15.52

The Commission has always considered it very important that the provisions concerning the origin of supplies be complied with. It carefully monitors application of the procedure provided for in the Lomé Conventions in cases where the rules of origin are exceptionally waived. Statistics up to 31 March 1984 show that the proportion accounted for by supplies from third countries under the fifth EDF amounts to less than 0,20% of the total amount of contracts of this type. However, it should be noted in connection with the procedures for Community approval of requests for derogations made by an ACP State that Article 30(6)(g) of Protocol No 2 to the First Lomé Convention and Article 122(4)(g) of the Second Lomé Convention state that the national authorising officer is himself competent for deciding on the purchase of goods, irrespective of their origin, on the local market. The Commission has always interpreted this competence as relating only to quantities which are marginal in comparison with the main object of the contract; this is the case in the two examples quoted by the Court.

Evaluation reports

Paragraph 15.53

The Court's comment would appear to suggest that each project should systematically be evaluated. This is not the opinion of the Commission and to date this has not been its practice. This method of evaluation would require extra staff, who are not available.

The following remarks can be made with regard to the specific cases quoted by the Court.

Ex post evaluations of projects are conducted from three different angles: sector (health, roads, irrigation etc.), instrument (food aid, sales promotion, technical assistance) or country or region. The evaluation will therefore be either sectoral, instrument-related or global depending on the case. This evaluation work leads to the development for each of the above fields of 'basic principles' which have to be accepted by the ACP-EEC Council.

The feature common to all these evaluation reports is that they are general and representative and cover on each occasion a large and significant range of operations. The criticism made by the Court of Auditors relating to a number of specific cases would appear to be irrelevant to this general evaluation exercise.

Paragraphs 15.55 and 15.66

The Court's report refers back to the initial objectives of the financing operations and briefly describes the present situation of the water supply systems for the towns of Bouar and Bambari, but does not place the project in the existing Central African context and takes no account of the political events which have been largely instrumental in slowing down that country's development and hampering the efforts made, either by the Commission or by Central African nationals, to provide its cities with an efficient national water service.

1. The initial studies relating to Bouar and Bambari were carried out in 1965-66, a period in which the population of those cities was expanding rapidly and when the region's economy ought to have been able to bear the cost of the public services proposed.

For example, the population of Bambari in 1965 was around 32 000. The forecast for 1975 was 45 000 and for 1985, 65 000. But in 1983 there were in fact barely 43 000 inhabitants in the city.

The cost of water was estimated at 50 CFAF/m³ while in 1966 the inhabitants, who were being supplied by water bearers or tankers, were already paying up to 80 CFAF/m³. It is true that this cost was higher than in Bangui (36 CFAF/m³ was the tariff applied at the time) but this is often the case for small towns and is the reason for the existence of a system to equalise water rates. The price certainly appeared at the time to be one which the population could easily afford.

The municipal authorities were supposed to bear the cost of the public service supply, water fountains and public buildings (schools, hospitals, etc.).

The broad lines of the Bambari water supply system were drawn up on the basis of documentation available at that time, the town plan and from an on-the-spot inspection by experts.

The investment programme was based on the assumption that, for a long time to come, expatriate managers would carry out the general administration of the public service and participate in the economic development of the region, thus ensuring that income would be available, particularly from cattle-breeding.

The Court's report does not mention that the general situation of the country has done nothing but worsen and that this has made it impossible to keep up the investment programme which no longer matches forecasts.

2. The Bouar project was designed with a view to uprating and improving the existing installations which, though obsolescent (more than 10 years old), were in sufficiently good condition to justify their being used in a programme extending to 1985.

Here too, however, there has been a general worsening of the region's economic situation, on top of which the town's authorities have been incapable of managing the investment programme and the central government has shown little interest in this town which is remote from Bangui (800 km of dirt track, which means two days' journey by Land Rover). In 1973-74, fuel shortages began to make themselves felt and this meant that the power and water supplies for the whole country were affected. Even when Bouar traders expressed a willingness to finance directly the body which manages the town's network, fuel did not reach Bouar.

3. The Société Nationale des Eaux (SNE: National Water Company) set up at the insistence of the Commission and other donor organisations, in particular the African Development Bank which is attempting to finance a sewage programme in Bangui, is unable to cater for Bouar and Bambari for a number of reasons:

- the company exists on paper only since no real organisation has been set up. This is why technical assistance was instituted in 1978, which has had a broadly positive effect on the company in the accounts department, the customer services department, the personnel department and the supplies department;
- the company is often, for internal reasons, required to recruit semi-skilled or unskilled staff;
- these rare competent counterpart staff in the company all leave. The managing director himself is an example of this. He has been given outside assistance in the form of a further training grant;

- the government does not back the company in making customers pay for its services or having the various ministries enter appropriations in their budgets to cover the payment of water charges.

The minimum solution — all that was acceptable to both the Central African Republic and the Commission — was to pay for two technical assistants in Bouar and Bambari, who can themselves do very little to help.

4. Under the circumstances, what is the outlook for the utilisation of investment financed by the EDF? The often unattainable objective of public water companies is to provide a minimum service — to meet basic needs — to the largest possible number of people — even the worst-off, who are often insolvent — without government aid, since the government itself has no funds available.

Temporary and diminishing Community aid could be granted from EDF funds to the Central African Republic in order to improve the functioning of water supply systems provided that the country's government agrees to give the National Water Company all that it requires to be able to carry out its task, by raising water prices, ensuring that solvent customers actually pay, providing personnel management, ensuring that trained staff remain with the company, etc.

In other words the *sine qua non* for an improvement in the use of investments already made from EDF funds would appear to be the acceptance by the government of a real policy dialogue on drinking water supplies with the Commission and other donors who could no doubt be found, particularly since this is International Drinking Water Supply and Sanitation Decade. In view of the present situation the Commission will probably decide to extend the technical assistance covered by contract No 170/SNE but refuse to extend contract No AT/1/82 which, because of the person concerned, has proved to be less than efficient and in any case will be taken over by the French bilateral aid programme under an operation relating to Bangui.

Paragraph 15.56

No major reservations were lodged by the Botswana Government in connection with the provisional and final acceptances of the Lobatse-Ramatlabama road. This is why no evaluation report was drawn up (see reply to paragraph 15.53) and the same applies to the University of Botswana, the Broadhurst water-supply project and the construction and fit-

ting out of the livestock management centre in Ramatlabama. With regard to the latter project, it should be stated that a final draft evaluation entitled 'An evaluation of livestock management and production in Botswana' was drawn up by a bureau of consultants and was submitted in January 1982.

The recipient countries' observance of their obligations

Paragraph 15.58

A rough and ready track did exist between Damara and Sibut before the Commission's first operation. As it was felt that a tarred road would be uneconomic, the project under the first EDF provided only for the construction of an earth road. Because the laterite road surface was being worn away at about 2 cm per year, and in particular because of the increase in traffic flows, the Commission decided to tar the road using appropriations from the third EDF. There would be no cause to criticise this policy if the Central African Government had subsequently carried out normal maintenance of this investment, which would certainly not then have required such substantial refurbishment.

Paragraph 15.59

The Court of Auditors' observations with regard to the Mpongwe development project calls for the following comment.

The financing agreement, containing two special conditions, came into effect on 2 June 1980. The consultants therefore had to fulfil a management role between June 1980 and June 1982, when the Mpongwe Development Authority was set up.

A management role was accordingly written into the terms of reference of technical assistance contract No 31.

A limited number of counterpart staff have been transferred to the project from within the government system. The project has been run by the Mpongwe Steering Committee, the chairman of which is the Director of Agriculture and which meets each month.

Attainment of objectives

Agriculture and the agricultural processing industry

Paragraph 15.61

There is no doubt that the results obtained from successive cotton development projects have been

disappointing. However, the relationship between output figures and social and political upheaval in the Central African Republic should be emphasised. Observations show that there was a significant increase in cotton production from 1966 onwards, as a result of major efforts in this direction, which were then followed by a rapid decline resulting from nationalisation of the cotton sector, repatriation of technical assistants, an anti-cotton campaign launched by a political opponent of the government and bad management by the Socada. It should be pointed out, however, that the present government has made cotton one of its priority objectives for agriculture and there has been a resulting rise in cotton production.

It ought normally to be possible, using the recommended farming methods and inputs, to exceed on a regular basis the 850 kg per hectare cotton yield threshold as results obtained by farmers in Cameroon, Chad and the Ouham region show. The recent increases in the price of cotton seed, coupled with the granting of a partial subsidy for inputs, ought to make possible a significant improvement in farmers' net incomes and hence the project's viability.

Communications and buildings

Paragraph 15.64

As the Court points out, repair work had to be carried out on the Bangui-Damara road in the Central African Republic 11 years after the initial construction work was done. It is clear that if the Central African Government had taken the necessary steps to provide regular upkeep for this structure, repairs would have been unnecessary or at all events less extensive.

In addition the cost comparison made by the Court could mislead readers because, on the one hand, it is not calculated in constant prices and, on the other, no reference is made to the large increase in the cost of inputs (bituminous products, fuel, etc.) which occurred during this period.

Water supplies

Paragraph 15.67

It is true that at the time of the audit of the project in November 1983 a number of shortcomings had been found in the equipment for the Mpika water supply project in Zambia. According to information obtained from the delegation it would appear, however, that in April 1984 a number of items of apparatus had been brought back into working order, either by being repaired or because missing parts had been delivered.

Financial and technical cooperation: main findings concerning projects visited for the first and second time

Paragraphs 15.68 to 15.70

It is quite true that, since the root causes are unchanging, the shortcomings which can be observed in the implementation of projects and programmes recur regularly. The Court of Auditors draws the conclusion that the Commission and its delegations on the spot learn nothing from these shortcomings and even go so far as to lose all interest in finished projects. This is an inaccurate and even unfair conclusion.

All the above remarks relating to the number and thoroughness of evaluation exercises prove this point. The Commission is one of the few organisations in the world which not only critically evaluates the projects it finances but does so in conjunction with recipient countries, establishes basic principles and draws conclusions from the evaluations for the future, discusses the basic principles with experts from the Member States and the recipient countries and submits them for approval to joint bodies.

It fully shares the Court of Auditors' opinion that in future greater emphasis should be laid on restoring projects or keeping them functioning. Such a policy, with its novel principle, is not authorised at present under the rules in force, which provide that the cost of administration, operation and maintenance should be the responsibility of recipient countries. They allow these costs to be borne by Community aid only in quite exceptional circumstances, governed by highly restrictive clauses. Drawing on its experience the Commission has included in the forthcoming Convention, on which negotiations are continuing, far broader and more closely defined provisions with regard to the refurbishing of projects, recurrent expenditure and maintenance. This is an innovative step and the Commission has been able to take it because the ACP negotiators have displayed a broadly similar approach which suggests that a much needed change of attitude is taking place.

In order to achieve this result the data bank on which the Court of Auditors has been insisting for the past three years was not required. The Commission has excellent records which contain reports from the Court of Auditors, internal audit, its own departments and delegations in the countries concerned. The critical and self-critical remarks they contain are common knowledge and are given their rightful place. But most of these observations relate to the quality of problems and projects, with all the

subtle differences that arise from the wide range of differing situations, and this means that they would be ill-suited to processing by computer. At all events such a data bank, even if it could actually be set up, would be more likely to contain an abundance of criticism and diagnostic analysis than real remedies.

Stabilisation of export earnings (Stabex)

Observations on the calculation basis for transfer rights

Paragraphs 15.72 to 15.75

The report suggests, by analogy and in line with the spirit of the Fiji Declaration of 14 April 1977, that attention should be focused on the possibility of ignoring exceptionally good years when calculating the reference level for each transfer.

The Commission is unable to accept this suggestion for the following reasons:

- firstly, since the report relates to activities in 1983, it must be stated that no transfers were made that year under the exception provisions for the Fiji Declaration. For information, this Declaration has to date benefited only three countries:
 - Guinea Bissau, a country for which the 'normal' reference levels have been taken since 1980;
 - Cape Verde, a country to which the Fiji Declaration has not been applied since 1981;
 - Dominica, a country in which only 1980 gave rise to a transfer on a corrected basis and to which the Fiji Declaration will no longer apply from 1984 onwards;
- contrary to what paragraph 15.73 of the Court's report would seem to suggest the Fiji Declaration (providing that exceptionally bad years would not be considered in calculating reference years) is not a general provision but covers only quite exceptional cases.

As the Fiji Declaration makes clear the difficulties giving rise to the bad results obtained must 'arise in a year which the international community acknowledges as being exceptionally serious'.

In other words this is a quite specific exception and not a general rule.

Leaving aside transfers for the three above-mentioned ACP countries, where the exception was in any case for a limited period only, exceptionally bad years (because of weather conditions or price variations) have always been taken into account in calculating reference levels for all other transfers.

In view of the fact that exceptionally bad years have — with the exception of very specific cases covered by the Fiji Declaration (10 transfers between 1976 and 1982 out of a total of 194 transfers during the same period) — always been taken into account, there is no point in planning the introduction of similar but opposite measures designed to neutralise the effect of which might be considered exceptionally good years.

This would in fact involve disturbing one of the points of balance on which the whole system operates. In addition, neither the Commission nor the Member States have put forward any such proposal during negotiations for the renewal of the Lomé Convention.

Aid to the mining sectors (Sysmin)

Paragraph 15.77

The Commission does not wholly agree with the view expressed by the Court of Auditors with regard to the relationship it establishes between the difficulties encountered by the mining sector and the unduly low percentage of foreign currency reinvested in the sector to ensure the maintenance and renewal of the production plant.

In fact non-renewal and insufficient routine maintenance of plant are largely and essentially due to the very low prices paid for copper on world markets and not just to the scarcity of foreign currency caused by the fact that the Zambian authorities have to use part of it for essential needs.

From the most recent official information available, it would seem that 35% of income would be sufficient to meet direct foreign currency requirements. Although the contractor feels that it ought to be receiving 42% of this revenue, it none the less considers that — in view of Zambia's shortage of foreign currency — the figure of 35% would be an acceptable compromise. In addition, it should be pointed out that the contractor also receives an indirect allowance of 18% representing the cost of imported products paid for in local currency. This mainly concerns petroleum products, freight costs for transporting copper from local suppliers, etc.