

EUROPEAN PARLIAMENT

Working Documents

1979 - 1980

12 November 1979

DOCUMENT 1-463/79

Report

drawn up on behalf of the Committee on Budgetary Control

on

- I. the accounts of the European Parliament and the discharge in respect of the 1977 financial year
- II. the discharge to be granted to the Commission on the implementation of the budget of the European Communities for the 1977 financial year and the report of the Court of Auditors (Doc. 500/78)
- III. the discharge to be granted to the Commission of the European Communities in respect of the utilization of the appropriations of the fourth European Development Fund in the 1977 financial year (Doc. 188/79)
- IV. the comments accompanying the decisions granting a discharge on the implementation of the budget of the European Communities for the 1977 financial year (Article 85 of the Financial Regulation of 21 December 1977)
- V. the discharge to be granted to the Commission of the European Communities in respect of the activities of the first, second and third European Development Funds for the 1977 financial year

Rapporteur: Mr Heinrich AIGNER

At its meeting on 4 September, 1979, the Committee on Budgetary Control agreed that its chairman, Mr AIGNER, should complete the work on . . . preparation of the report for submission to Parliament on the 1977 discharge.

The Committee considered the matter further at its meetings of 1/2 October 1979 and 29/30 October 1979 and adopted unanimously the proposed decisions I,II and III and the motion for a resolution V, and adopted unanimously with one abstention the motion for a resolution IV at the latter meeting and asked its chairman to draft certain paragraphs that were presented orally and accepted at that meeting.

Present: Mr Aigner, chairman and rapporteur; Mrs Boserup, vice-chairman; Mr Price, vice-chairman; Mr Antoniozzi; Mr Colla; Mr Gabert; Mr Gouthier; Mr Irmer; Mr Edward Kellett-Bowman; Mr Key; Mr Notenboom, Mr John Max . Taylor; Mr Wettig.

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A

I

The Committee on Budgetary Control hereby submits to the European Parliament the following proposed decision:

PROPOSED DECISION

on the accounts of the European Parliament and the discharge in respect of the 1977 financial year

The European Parliament,

- having regard to the interim report of the Committee on Budgets (Doc. 14/78),
 - having regard to its resolution of 11 April 1978¹
 - having regard to the revenue and expenditure accounts and the statements of assets and liabilities of the Communities for the accountancy procedures in respect of the 1977 budget and to the report of the Court of Auditors for the accounts for the 1977 financial year (Doc. 500/78),
 - having regard to the report of the Committee on Budgetary Control (Doc. 1-463/79),
1. Fixes the accounts of the European Parliament as at 31 December 1977 at a final figure of 60,619,804.56 u.a. including expenditure commitments incurred during that financial year of 55,378,770.30 u.a. actually spent and of 5,241,034.26 u.a. still to be paid out at the end of that financial year;
 2. Calls on its administration and the other institutions of the Community to take appropriate action on the comments of the Court of Auditors as regards operating expenditure;
 3. Points to the more detailed scrutiny made by it to reduce the estimates so that they correspond more accurately to realistic expenditure requirements;
 4. Instructs its administration to continue to seek ways of reducing administrative expenditure, especially that arising from the upkeep of premises and from recruitment, by means of cooperation with the other institutions and by rationalisation;
 5. Grants a discharge to its President and Secretary-General pursuant to Rule 50a (3) of its Rules of Procedure.

¹O.J. No. C.108 of 8 May 1978 p. 19

The Committee on Budgetary Control hereby submits to the European Parliament the following proposed decision:

PROPOSED DECISION

on the discharge to be granted to the Commission in the implementation of the budget of the European Communities for the 1977 financial year and the report of the Court of Auditors
The European Parliament,

- having regard to the Treaty establishing the ECSC and in particular Article 78g thereof,
- having regard to the Treaty establishing the EEC and in particular Article 206b thereof,
- having regard to the Treaty establishing the EAEC and in particular Article 180b thereof,
- having regard to the revenue and expenditure accounts and the financial statements for the accountancy procedures in respect of the budget for the 1977 financial year,
- having regard to the report of the Court of Auditors on the accounts for the 1977 financial year and the answers of the Institutions to the report (Doc. 500/78),
- having regard to the Council recommendation on the granting of a discharge to the Commission in respect of the implementation of the budget and of the amending and supplementary budgets for the 1977 financial year (Doc. 179/79),
- having regard to the report of the Committee on Budgetary Control (Doc. 1-463/79)

1. Notes that

(a) Estimates of revenue for the 1977 financial year totalled	<u>u.a.</u> 9,584,257,659.00
Made up as follows:	<u>u.a.</u>
Own resources	6,295,143,004.00
Contributions provided for in Decision of 21 April 1970	3,158,041,541.00
Other	131,073,114.00
(b) Estimates of expenditure for the 1977 financial year totalled	9,584,257,659.00

2. Notes that

(a) Expenditure to be met¹ from revenue for the financial year totalled u.a.
8,483,247,173.98

Comprised as follows:

Payments in the 1977 financial year u.a.
7,227,291,305.36

Carry-overs to 1978 financial year 1,670,497,751.68

Less: Lapsed carry-overs from 1976 financial year 414,541,883.06

(b) Appropriations (commitments) utilized during the financial year totalled 9,585,870,870.92

3. Grants a discharge to the Commission in respect of the following amounts shown in the revenue and expenditure accounts

(a) Revenue

- Entitlements established for the 1977 financial year 8,484,744,296.33

- Entitlements collected at 31 December 1977 broken down as follows: 10,331,503,807.12

1. Amounts collected from the entitlements for the financial year 8,832,219,048.60

Broken down as follows:

Own resources 5,688,712,821.08

Contributions under the Decision of 21/4/1970 2,867,641,190.28

Other 275,865,037.24

2. Amounts collected from entitlements carried forward from the preceding financial year 1,499,284,758.52

Made up as follows:

Own resources 1,049,590,541.45

Contributions provided for under the Decision of 21/4/1970 348,314,783.02

Other 101,379,434.05

(b) Expenditure (payments shown in the accounts for the financial year) 7,227,291,305.36

¹In accordance with Article 15 of Regulation 2891/77 OJ L 336, 27.12.1977, page 5.

4. Also notes that entitlements established for earlier years as at 31 December 1976 (1,497,122.34 u.a.) have been cancelled;
5. Draws attention to its resolution embodying the comments accompanying the decision granting a discharge and requests the Institutions to report on the measures taken following those comments in accordance with Article 85 of the Financial Regulation;
6. Instructs its President to communicate this decision and the attached comments to the Commission of the European Communities, to forward them to the other Institutions and to arrange for their publication in the Official Journal (L series).

III

The Committee on Budgetary Control hereby submits to the European Parliament the following proposed decision:

PROPOSED DECISION

on the discharge to be granted to the Commission of the European Communities in respect of the implementation of the activities of the fourth European Development Fund for the 1977 financial year

The European Parliament,

- having regard to the Treaty establishing the European Economic Community and in particular Article 206b thereof,
 - having regard to the ACP-EEC Convention of Lomé,
 - having regard to the internal agreement on the financing and administration of Community aid ,
 - having regard to the revenue and expenditure account, the balance sheet and the report on the activities of the fourth European Development Fund¹ adopted on 31 December 1977,
 - having regard to the report of the Court of Auditors on the accounts for the 1977 financial year and the answers of the Institutions to the report,
 - having regard to the recommendation of the Council of the European Communities (Doc. 188/79)
 - having regard to the report of the Committee on Budgetary Control (Doc.1-463/79) ,
1. Grants a discharge to the Commission in respect of the following amounts shown in the revenue and expenditure accounts for the 1977 financial year:
 - revenue: amounting to 319,546,526.24 EUA
 - expenditure (payments): amounting to 154,585,115.44 EUA
 2. Instructs its President to communicate this decision to the Commission of the European Communities, to forward it to the other Institutions and to arrange for its publication in the Official Journal (L Series).

¹ COM(79) 49 final

IV

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

MOTION FOR A RESOLUTION

containing the comments accompanying the decisions granting a discharge on the implementation of the budget of the European Communities for the 1977 financial year

The European Parliament,

1. Calls upon all the institutions to take the necessary measures to comply with the following comments, and asks them to submit a written report on these measures, pursuant to the provisions of Article 85, third subparagraph, of the Financial Regulation;
2. Considers that the justifications given by the Commission for not using the appropriations entered in the 1977 budget by Parliament's amendments are inadequate as an explanation of the fact that the decisions of the budgetary authority have been ignored; the more so in that the Council apparently felt no obligation to inform Parliament that the implementation of the budget had raised problems that would have warranted the initiation of a conciliation procedure;
3. Notes that in the 1977 budget, the failure to implement appropriations had a particularly adverse effect on new policies and points out that such failures are a built-in feature of many areas of the budget and lead to a diminution of the budgetary powers of the European Parliament;
4. Asks the Court of Auditors to describe in the annual report the state of cooperation with the national audit authorities ;
5. Asks the Commission to include in the financial analysis an examination of the results of Community financial outlay and a review of the economic impact of the budget;

Accounts - clarity of presentation

6. Notes that the accounts and analyses of financial management submitted by the Commission are neither readily comprehensible nor presented in a straightforward manner, and takes the view that these are two basic requirements for control by Parliament;

7. Notes that the Commission's accounts do not present figures for discharge, and that the Court of Auditors is consequently unable to express an opinion on proposals that have not been made; therefore takes the view that the Commission should in future submit such proposals;
8. Asks the Commission to annex to the financial accounts a table setting out particulars - both quantities and values - of stocks of agricultural products held in public and private storage arising from the operation of the Community intervention system in the agricultural sphere;

Revenue

9. Hopes that there will be stricter control in the area of revenue, because the uneven application of the common customs tariff in certain areas could place an unacceptable burden on other sectors and other Member States and would even cause distortions of trade;
10. Urges the Council to adopt as soon as possible the regulation¹ proposed by the Commission to combat the irregularities affecting own resources, as requested by Parliament in its decision of 7 July 1977² and approved by Parliament³ at its May 1979 part-session;
11. Urges the Commission to review at regular intervals all tariff preferences granted by the Member States and to take all appropriate political and juridical steps to secure their abolition;

Administrative expenditure and staff

12. Will express its views on the question of the financial management of appropriations to cover the Commission's entertainment and mission expenses when it deals with the 1978 discharge;
13. Favours greater internal flexibility and mobility of the staff of the Community institutions and bodies;
14. Supports the setting up of an internal screening group on the Commission's model in all institutions;
15. Urges the Commission to reduce its staff appointment costs by harmonizing its appointment procedures or organizing them jointly with the other institutions;

¹ COM(79) 111 final: Proposal for a Council Regulation on the measures to be taken in the event of irregularities affecting the own resources referred to in the decision of 21 April 1970 and the organization of an information system for the Commission in this field

² OJ No. L 229, 7.9.1977

³ Doc. 167/79

16. Asks the Commission to study the leasing procedure among others which could lead to a fundamental improvement in Community policy on office accommodation and deplores the absence of a single seat for all the institutions which gives rise to additional expenditure;
17. Proposes that, in view of the large proportion of the administrative budget required to cover the cost of working in all the Community languages, the Community institutions should consider jointly how the extra costs in the language service arising from enlargement can be kept as low as possible;
18. Takes the view that greater efforts should be made to promote inter-institutional cooperation, thus cutting the cost of purchasing furniture and equipment and hiring services;

Research, investment and energy

19. Notes that, in the past (a) planning in the energy and research field has been inadequate, (b) excessive use has been made of transfers of appropriations, and that (c) the Commission should in general lay more emphasis on ensuring that the funds devoted to research are well spent;
20. Will determine on the basis of a report by the Court of Auditors whether the arrangements for the temporary appointment of 70 additional staff members in the Joint Research Centre are working as planned;

Social Fund

21. Calls upon the Commission to draw up accounts for revenue and expenditure in accordance with the criteria suggested by the Court of Auditors;
22. Instructs its Committee on Budgetary Control to report on the slow rate of spending of Social Fund appropriations and, indeed, in all other areas where this problem is encountered;
23. Takes the view that staff and equipment should be deployed as effectively as possible and there should be a rationalization of the procedures;
24. Calls on the Commission to make greater efforts to coordinate Community appropriations and aids so as to avoid duplication of aids and to increase their effectiveness;

Regional Fund

25. Will satisfy itself as to the effectiveness of the controls carried out in the Member States and their harmonization as well as the effects of Community financing in relation to the objectives of regional policy, using for this purpose, in particular, the statistical data to be forwarded by the Member States;

26. Takes the view that Community regional policy serves a purpose as a back-up to and not as a substitute for national policies;
27. Urges the Commission to sustain its efforts to ensure that the principle of additionality is respected so that the effect of Community aid is not cancelled by the diminution of national aid;
28. Calls on the Commission to seek adequate publicity for Community finance given to projects in the regions;

EAGGF - Guarantee Section

29. Notes with regret that substantial transfers of appropriations from one chapter to another and from one financial year to another are a salient feature of financial management in this area;
30. Draws attention to the fact that the extent of transfers of appropriations and of balances remaining in the hands of the Member States has increased considerably, causing further dilution of the principle of an annual budget;
31. Deplores the apparent lack of urgency with which sums were recovered from certain Member States where irregularities have been detected;
32. Calls on the Commission to ask the Member States to follow up irregularities with appropriate vigour and to recover all amounts outstanding;
33. Notes that no real control of agricultural spending exists as a result of the small number of officials involved and of the size of the budgets that they are required to manage;
34. Calls on the Commission to investigate the possibility of simplifying the agricultural regulations without delay with a view to closing loopholes which are still giving rise to irregularities;
35. Takes the view that despite the scope of the EAGGF, its effectiveness, like that of the Common Agricultural Policy as a whole, is liable to be undermined by increased national aids which do not necessarily accord with, or perhaps even run counter to, the objectives of Community policy;
36. Notes that current practice and legislation have led to the situation where it is impossible to draw up definitive accounts for revenue and expenditure for the financial year in respect of which a discharge is to be granted, and calls on the Commission to draw up an analysis of financial management in the field of the EAGGF Guarantee Section containing as comprehensive and precise a statement of accounts as possible;

37. Calls on the Court of Auditors to consider the problems of the administration of the intervention and storage agencies;

EAGGF-Guidance Section

38. Notes the grave difficulties of implementation of the budget lines, and attributes these difficulties to the financing method;
39. Therefore proposes that the Commission should consider whether greater use cannot be made of the method of financing individual projects, and whether the method of financing by making refunds to the Member States can be avoided as far as possible;
40. Asks the Commission to propose appropriate amendments to the Community's structural regulations, as and when they present problems of implementation, in order to bring them more and more into line with the specific requirements of the less developed regions;
41. Urges the Member States to ensure that the socio-structural directives relating to agriculture are more fully implemented so that the intended reforms may proceed at a satisfactory pace;

Development aid

42. Notes that the following features are characteristic of financial management in the field of food aid:
- imprecise estimates of appropriations and unusually high transfers of appropriations;
 - delays in initiating and implementing aid;
 - deficiencies in the procedure for making aid available;
 - defects in the transportation of food aid;
 - failure to recover the cost of delays;
 - inadequate controls in relation to aid evaluation and the use of reciprocal services;
43. Expresses, once again, its concern at the massive delays in decision-making which hinder the effectiveness and continuity of food aid policies;
44. Draws attention to the criticism made by the Court of Auditors that the requirements of certain recipient countries have been seriously over-estimated;
45. Protests that the extra appropriations voted by way of modification to Chapter 100 and involving 14 million EUA were cancelled at the end of the financial year without any explanation;
46. Recommends that the Commission should only implement aid through non-Community organisations when the necessary controls are available.

EDF

47. Urges the Commission to give particular consideration to the problem of the low utilization rate for payment appropriations of the fourth European Development Fund;
48. Instructs its Committee on Budgetary Control to look into the operation of the STABEX system on the basis of the findings of the Court of Auditors and to report to Parliament;

Borrowing and lending operations

49. Regrets the absence of an overall view of financial requirements and the extent of the Community's lending operations, which makes Community political control impossible;
50. Instructs its Committee on Budgetary Control to take steps to make such control possible.

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

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the granting of a discharge to the Commission of the European Communities in respect of the activities of the first, second and third European Development Funds for the 1977 financial year

The European Parliament,

- having regard to the report of the Court of Auditors on the accounts for the 1977 financial year and the answers of the Institutions to the report (Doc. 500/78)
- having regard to the report of the Committee on Budgetary Control (Doc.1-463/79) ,

Invites the Council to grant a discharge to the Commission in respect of the financial management of the first, second and third EDFs during the 1977 financial year.

EXPLANATORY STATEMENT

1. With the entry into force of the Treaty of 22 July 1975, the European Parliament received responsibility for granting the discharge to the Commission of the European Communities for the implementation of the budget. This change from earlier procedure marked a major development in the arrangements for the political control of the general budget of the European Communities.
2. Article 85 of the Financial Regulation¹ sets out as follows the deadline for the granting of discharge:

"The European Parliament, upon a recommendation from the Council, which shall act by a qualified majority, shall, before 30 April of the next year, give a discharge to the Commission in respect of the implementation of the budget."
3. In the case of the 1977 financial year, however, it is to be noted that the recommendation from the Council² was not formally transmitted to Parliament until 10 May 1979. Moreover, the document in question was rather succinct and did not analyse either the accounts for the 1977 financial year or the report of the Court of Auditors for the year in question.
4. In considering the background to the discharge for the 1977 financial year, Parliament had available to it the very useful first report of the Court of Auditors³. This report of the Court of Auditors, the revenue and expenditure accounts for 1977 prepared by the Commission, and working documents drawn up by rapporteurs in respect of the various sectors of expenditure were examined by the Control Sub-Committee.
5. A working document⁴ drawn up by Lord Bruce of Donington was considered by the Committee on Budgets at committee meetings on 23 April 1979, 7 May 1979, 17 May 1979 and 6 June 1979. This working document incorporated the reflections of Lord Bruce of Donington, of your rapporteur and of Messrs. Bangemann, Cointat, Dalyell, Hansen, Notenboom, Shaw and Würtz. As well, it included, in lengthy annexes, supplementary explanatory material provided by the Commission - and by the Court of Auditors - in response to written questions regarding the implementation of the 1977 budget.

¹ OJ Vol. 20, No. L 356 of 31 December 1977

² Doc. 179/79

³ OJ Vol. 21 No. C 313 of 30 December 1978

⁴ Attached hereto

6. Having deliberated carefully on the documents before it and having thoroughly discussed the issues arising, the Committee on Budgets decided that a motion for a resolution approving the granting of discharge to the Commission should be presented at a special meeting of the old European Parliament that was to take place in June 1979. In the event, there was no sitting of the old Parliament in June. Because of the interruption of parliamentary activities prior to the direct elections, the Committee on Budgets agreed to defer the presentation of the resolution in relation to the 1977 discharge and decided that the working document prepared by Lord Bruce of Donington should be transmitted to its successor in the directly-elected Parliament.
7. As was the case with earlier reports¹ prepared for Parliament on the discharge for previous financial years, the working document drafted by Lord Bruce of Donington covers the broad extent of Community accounting and budgetary implementation problems. It includes the reflections of members of the Control Sub-Committee. Likewise, of course, the report of the Court of Auditors for the 1977 financial year touched on certain problems that were raised previously in earlier reports drafted by the Audit Board. In view of this availability of information and since it is desirable to keep the texts going before Parliament as free from duplication and repetitiveness as possible, it is not proposed to explore, in depth, in the present explanatory statement, all the issues set out in the other documents referred to.
8. In considering the matter of whether or not a discharge should be given in respect of the 1977 financial year, the Control Sub-Committee and the Committee on Budgets took a number of factors into account. First of all, no difficulty arose in regard to reaching a decision on discharge for the Parliament's part of the budget or for the fourth European Development Fund. The parts of the 1977 budget which related to the Council, the Court of Justice and the Court of Auditors likewise gave rise to no obstacle to the granting of discharge.

¹ For the 1976 financial year: The Cointat report Doc. 489/78
For the 1975 financial year: The Aigner report Doc. 165/77
For the 1972-74 financial years: The Bangemann report Doc. 460/76.

9. However, in regard to the Commission's part of the budget, the Control Sub-Committee deliberated, at length, on several fundamental issues - non-implementation of Parliament's amendments, the impact of carry-overs and transfers on the budget, the presentation and format of the Community accounts and so on - identified by its members and described in working papers. Having examined the individual points of detail, the conclusion of the specialised Committee of the old Parliament was that, while important issues were raised in regard to the responsibility of the Commission, it would not be timely, at this stage, to refuse discharge - especially as the end-April deadline had passed and as it could be hoped that the second annual report of the Court of Auditors could be expected to provide further material.
10. As regards the major points of a fundamental nature which were identified in the Control Sub-Committee and which were set out in the conclusions to PE 57.176, there was some hesitation, however. In reaching its decision to tend towards granting discharge, members were swayed by several considerations. Firstly, the Court of Auditors in its report on the 1977 financial year did not give a clear-cut opposition to some of the practices noted - and this attitude was understandable in view of the fact that the new Court of Auditors was presenting its first report and was thus breaking into uncharted territory. Secondly, the Council of the European Communities, in its rather tardy recommendations¹, explored none of the issues concerned.
11. At its meeting of 25 April 1979, the Control Sub-Committee considered that a discharge should be given to the Commission for the implementation of the 1977 budget and transmitted this recommendation and associated documents to the Committee on Budgets. As indicated at paragraph 5 above, the Committee on Budgets considered the issues at four meetings and favoured the granting of a discharge to the Commission for the financial year 1977.
12. Against this background, it is logical and consistent for the Committee on Budgetary Control to give a positive recommendation to Parliament in regard to granting a discharge for 1977. In doing so, the Committee takes account of the special circumstances outlined in the preceding paragraphs; moreover, the Committee will, over the months ahead, examine and pronounce on the fundamental questions now being left temporarily in abeyance.

¹ Doc. 179/79.

13. The Committee on Budgetary Control therefore transmits to Parliament
- (a) Three draft decisions
- granting discharge to the President and the Secretary-General of the European Parliament in respect of Parliament's part of the 1977 budget;
 - granting discharge to the Commission in respect of the implementation of the general budget of the European Communities for the 1977 financial year;
 - granting discharge to the Commission of the European Communities in respect of the activities of the fourth European Development Fund for the 1977 financial year;
- (b) Comments in accordance with the provisions of Article 85 of the Financial Regulation on which a written report is sought;
and
- (c) a recommendation to the Council that it grant a discharge to the Commission in respect of the financial management of the first, second and third European Development Funds during the 1977 financial year.
- (d) and, as well, for information, the working document prepared by Lord Bruce of Donington.
14. It is to be hoped that, from the procedural point of view, all that is necessary will be done over the months ahead to ensure that, for the accounts of the general budget for the 1978 financial year, Parliament may pronounce on the question of discharge at its April part-session. Meeting this deadline will require that the Council shall transmit its recommendation no later than at the beginning of March so that the Committee on Budgetary Control may take its contents into account when drawing up its report. For its part, the Committee on Budgetary Control will commence its work on the preparation of the discharge decision as soon as the report of the Court of Auditors comes to hand - which, under the provisions of Article 84 of the Financial Regulation, will be no later than 30 November.
15. The Committee on Budgetary Control will give, in separate reports, its position on the question of the discharge for the European Centre for the Development of Vocational Training which is located in Berlin and for the European Foundation for the Improvement of Living and Working Conditions which is located in Dublin.

A N N E X

Working Document drawn up by Lord Bruce of Donington
for the Committee on Budgets on the implementation of
the general budget of the European Communities and on
the accounts for the 1977 financial year.

The mandate of Lord BRUCE of DONINGTON as rapporteur for the discharge of the general budget of the European Communities for the 1977 financial year, was confirmed by the Committee on Budgets.

The report of the Court of Auditors on the 1977 financial year, the revenue and expenditure accounts prepared by the Commission together with working documents prepared by rapporteurs for the various sectors of expenditure were examined by the Control Sub Committee of the Committee on Budgets.

The Committee on Budgets considered the working document prepared by Lord BRUCE of DONINGTON at its meetings on 24 April 1979, 7 May 1979, 17 May 1979 and 6 June 1979.

Because of the interruption of Parliamentary activities prior to the direct elections, the Committee on Budgets agreed to defer the presentation of a resolution in relation to the discharge. at its meeting of 6th June 1979.

At the same meeting, the Committee on Budgets decided that the present working document should be transmitted to its successor in the directly elected Parliament.

This Annex includes the work of members of the Control Sub-Committee on administrative expenditure (pages 20-26), on research, investment and energy appropriations (paragraphs 27-35), the Social Fund (paragraphs 36-40 and pages), the ERDF (paragraphs 41-55), EAGGF (paragraphs 59-83), development aid (paragraphs 85-105) drafted by Mr Hansen, Mr Dalyell, Mr Notenboom, Mr Cointat, Mr Shaw and Mr Bangemann, respectively.

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EXPLANATORY STATEMENT

PART 1

INTRODUCTION

1. The Accounts under review are specially noteworthy in two important respects. They are the first to be prepared and published under the new Financial Regulation of 21 December 1977, and they are the first to be subject to detailed scrutiny and examination by the newly formed Court of Auditors set up under the provisions of the Treaty of 22 July 1975.

2. This latter factor has a considerable impact on the form and content of this present Report since, in its Annual Report for the financial year 1977 (Doc. 500/78) the Court of Auditors has presented a comprehensive review of the results of this examination of the Community accounts. It comprises some 233 pages of detailed comment on all the categories of Revenue and Expenditure, statistical tables in support and, pages 100-179, a series of Diagrams by way of graphic illustration of important trends and factors less easily assimilable by reference to statistical data in tabular form. It is thus a document of the highest importance which it is imperative to read in conjunction with the contents of the commentary set out in this paper.

3. Your rapporteur proposes, therefore, whilst reserving the right and, indeed, the duty to comment on the Auditors' Report itself and to discuss further many of the matters covered therein, to deal principally with the political aspects and implications arising from an examination of the Accounts and the Report of the Court of Auditors thereon.

THE ACCOUNTS AS PRESENTED

4. Whilst it may be true to say that the Accounts for 1977 under review are published in a form which reflects the breakdowns of transaction groupings in a manner which can be legislatively equated with the requirements of the Financial Regulation, they are quite unsuitable as an instrument for the information of those who are not conversant in detail with the Community's financial affairs. The nearest approach to an easily intelligible Revenue and Expenditure Account, taking into account both cash and accruals, is at Table 13. Even so the determination of the expenditure incurred in respect of any particular Chapter, Article or Item for the year necessitates

manuscript calculation by the interested person who may not always be competent in the mathematical procedure necessary to this end.

5. Indeed, simply in order to arrive at the total payments (as distinct from expenditure incurred) in respect of any particular item it is necessary to refer first to Column 7 of Table 3 under the appropriate item number and then to the same item number in Column 6 of Table 9 and bring the two figures together. The presentation is convenient for technical purposes, but is not readily comprehensible to those who are not experienced budget 'practitioners'.

6. Exclusion of Physical Assets from the Accounts and Balance Sheet of the Commission

In the five years 1973-1977 inclusive, the Commission has spent 13,053,427 u.a. in Movable Property and its Replacement made up as per the table reproduced here¹ and summarised as follows:-

(a) Office Machinery	1,346,208
(b) Furniture	5,464,453
(c) Technical Equipment & Installations	5,327,820
(d) Transport Equipment	914,946
	<u>13,053,427</u>

The value of this and of previous expenditure, after due allowance for depreciation, does not feature as an asset in the Balance Sheet at Table 11 and, as indicated by the Economic and Social Committee in its observations on the comments made by the Court of Auditors 1.23(ii), "Under the accounting practice followed stores and fixed assets are written off as expenditure on acquisition. The underlying value of the stocks and fixed assets owned by the Communities is not therefore reflected in the financial statements presented".

7. The Commission justifies this procedure on the somewhat quaint grounds that "the nature of a Balance Sheet is determined by the nature of the accounting system and should not show an asset or a liability which is not reflected in the account". Since however the whole purpose of the Balance Sheet is to show the total worth of an undertaking, including its physical assets, on a specific date, it follows that, on the contrary, the accounting system should be designed to meet this requirement. In your rapporteur's view, the provisions of Article 76 of the Financial Regulation which require the drawing up of a "Balance Sheet of the assets and liabilities of the Communities as of the 31st December of the preceding financial year" do not restrict the assets to financial assets only. Regulation 75/375/Euratom,

¹ See Page 13

COMMISSION EXPENDITURE ON MOVABLE PROPERTY AND ITS REPLACEMENT in units of account

Chap	Art	Item	1973	1974	1975	1976	1977	Total
22	220	<u>Office Machinery</u>						
		2200 New Purchases	224,679	132,604	63,361	70,252	77,304)	1,346,208
		2201 Replacements	119,022	196,438	65,880	309,919	86,749)	
	221	<u>Furniture</u>						
		2210 New Purchases	722,886	669,508	393,090	910,273	487,027)	5,464,453
		2211 Replacements	95,122	377,487	309,619	1,159,663	339,778)	
	222	<u>Technical Equipment & Installations</u>						
		2220 New Purchases	431,443	941,691	849,802	981,470	888,003)	5,327,820
		2221 Replacements	114,442	208,663	127,213	276,429	508,664)	
	223	<u>Transport Equipment</u>						
		2230 New Purchases	115,630	25,229	25,555	40,283	18,042)	914,946
		2231 Replacements	42,943	128,692	143,216	148,032	227,324)	
TOTAL			1,866,167	2,680,312	1,977,736	3,896,321	2,632,891	13,053,427

ECSC, EEC of 30 June 1975, which has not been specifically repealed, provides at paragraph 3 of Article 76¹ that:-

"The following types of account, at least, shall be kept".

"Type 1	Capital account
Type 2	Fixed assets accounts
Type 3	Stock accounts
Type 4	Sundry personal accounts
Type 5	Accounts for cash-in-hand and at bank
Type 6	Expenditure accounts
Type 7	Income accounts
Type 8	Outturn accounts".

The Commission, in not maintaining fixed asset accounts and stock accounts as an integral part of its accounting system, has infringed its own regulations ever since 1 July 1975, and apparently intends to continue to do so.

8. Stocks

The foregoing observations have become more apposite when, according to the Seventh Financial Report on EAGGF for 1977 (COM(78)633 final) Part I - Annex GX (but nowhere mentioned in the Commission's 1977 Accounts or Balance Sheet), the total value of products in public storage amounted to the staggering total of 2,299,342,895.46 u.a.! The details as per Annex GX are in the table overleaf.

9. The Commission's verbally expressed view is that these stocks do not belong to the Community. At the same time, it is unwilling or unable to give a view as to which other agencies/corporate bodies/government the stocks do belong. The rapporteur must express his astonishment and dismay that this vast amount of stock (of over 3 million tonnes) is apparently in 'limbo' so far as ownership is concerned. He therefore invites concurrence in his view that, in the absence of firm determination of ownership, these stocks should be brought fully into the Community's accounting system as "held on trust for the Commission". No data is apparently available as to the total stocks held in private (as distinct from public) storage.

10. Titular Description

The Accounts under review are described as "relating to the implementation of the budget for the financial year 1977". In fact they do nothing of the kind. So important, indeed, is this aspect of the matter, that the

¹O.J. No. L 170, Volume 18 of 1 July 1975

Products in public storage on 31.12.1977

PRODUCT	QUANTITY (TONNES)	VALUE (u.a.) (1)
COMMON WHEAT	985,730.786	146,172,986.84
BARLEY	68,861,568	8,693,210.34
RYE	429,593.142	58,274,791.34
DURUM WHEAT	211,175,739	47,656,493.56
MILK POWDER	987,589.650	904,374,668.05
BUTTER	142,130.253	307,207,896.28
OLIVE OIL	49,446.210	66,957,490.97
OILSEEDS	1,401.511	405,943.69
FROZEN BEEF	214,726.700	373,517,079.54
BONED BEEF	102,106.227	248,240,827.50
PRESERVED BEEF	53,017,959	98,890,492.78
TOBACCO	16,384.984	38,951,014.57
EEC TOTAL	3,162,164,929	2,299,342,895.46

(1) The value has been obtained by in all cases applying the intervention price applicable on 1 January 1978. Values in national currencies have been converted into Agricultural units of account.

Products in private storage in 1977

PRODUCT	QUANTITY (TONNES/ HECTOLITRES)	APPROXIMATE VALUE (u.a.) per tonne/ hectolitre	ESTIMATED VALUE
PORK	33,000	1,202.0	39,666,000
BEEF	147,000	1,106.1	162,596,700
SUGAR	9,000,000	328.3	2,954,700,000
BUTTER	170,000	2,309.5	392,615,000
CHEESE	67,000	2,237.2	149,892,400
WINE	12,500,000	difficult to estimate value	difficult to estimate value

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rapporteur discusses it in detail later in the Report under a section "THE RIGHTS OF PARLIAMENT UNDER ATTACK". It is to be hoped that as a consequence the new directly elected Parliament will not commence its duties under the hitherto prevailing illusion that its budgetary decisions are of any material consequence in the financial or budgetary policies actually carried out by Commission and Council.

11. The next succeeding paragraphs, therefore, touch upon specific aspects of Community Revenue and Expenditure actually eventuating in the year 1977 - in contradistinction to any 1977 Budgetary illusion.

Revenue

12. The revenue side of the budget is as important as the expenditure side - particularly since the second subparagraph of Article 199 of the EEC Treaty stipulates that

"The revenue and expenditure shown in the budget shall be in balance."
(Later in this explanatory statement, the rapporteur will return to the issue of the control over capital transactions).

13. The annual budget as adopted by the budgetary authority shows particulars of the revenue at the outset. This is so, not merely because of the consideration expressed in the preceding paragraph but also because revenue is a charge on the Community taxpayer. Parliament has a special duty to the taxpayer: the charge levied must be the minimum necessary to carry out Community policies effectively and evasion must be rigorously pursued.

Should there be, for instance, an under-application of the Common Customs Tariff in one Member State, the shortfall would have to be made good by applying a higher VAT rate to the Community as a whole. Moreover, there could well be an appreciable deflection of trade as Community importers got wise to the situation. Such under-application is, unfortunately, only too feasible and the Court of Auditors should endeavour - by way of statistical analysis of trade flows rather than solely by way of visits to ports - to check thoroughly on such potential frauds.

14. The rapporteur was surprised to find that the section in the report of the Court of Auditors dealing with revenue was given relatively little prominence - being in chapter 12 rather than at the outset - and was largely recitative in nature. Several columns were devoted to a summary of the basic legislation and to tabular presentation of the relative shares, by Member States, of the budget.

15. The Court of Auditors appears to have carried out two audits of own resources in respect of the financial year 1977. When Mr Aigner, the Chairman of the Control Sub-Committee, questioned this aspect, a Member of the Court of Auditors indicated that the responsibilities in so far as the audit of revenue is concerned is set out in the first two indents of Article 206(a) (2) of the EEC Treaty which states:

"The Court of Auditors shall examine whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound.

The audit of revenue shall be carried out on the basis both of the amounts established as due and the amounts actually paid to the Community."

16. The member went on to explain that, because of a statement annexed to the Treaty, the Court of Auditors is specifically barred from having access to the taxpayer. This means that the Court of Auditors can only work on documentary evidence and it cannot examine substantive transactions that give rise to revenue. A similar restriction does not apply to the expenditure side. This represents a grave limitation on the powers of the Court of Auditors to go about its work and to follow through investigations of possible irregularities. Should the Court of Auditors concur in this interpretation, the matter could be one which the Parliament could rightly seek to have revised as soon as possible. (Of course, the provision does not prohibit the Court of Auditors from operating through the national control bodies.)

17. The provisions setting up the Court of Auditors should be interpreted in as dynamic as possible a manner by that body in carrying out its duties. Where a doubt as to the interpretation existed, it should be looked at in a positive way; if the text should prove to be too limiting or restrictive, amendments should be sought - but there should be no doubt as to the need for full control.

18. Mr Aigner, the Chairman of the Control Sub-Committee, was astonished to hear the confidence being expressed in the national audit services of the Member States - particularly by the representatives of the Commission. The difficulties that can arise with the services of the Member States were highlighted during the various phases of the "Como" case. Moreover, the following quote from a Commission text is interesting in this context (relative to VAT):

"It will also be desirable to try to reduce the incidence of tax evasion which is known to be different in different Member States and which can therefore give rise to distortions"¹

19. Among the specific matters to which the Court of Auditors draw attention in the revenue sector are:

- the problems created by the individual exemptions from customs duties granted by Member States. However, the Commission has pointed out that any autonomous alteration or suspension of duties in the Common Customs Tariff must be decided unanimously by the Council under Article 28 of the EEC Treaty and that Member States are not entitled to make unilateral exemptions. The rapporteur concurs with the Court

¹"Financing the Community budget: the way ahead"
Supplement 8/78 of the Bulletin of the European Communities, para. 41

of Auditors in its call on the Commission to review all such exemptions and to pursue the Member States applying them - invoking the Court of Justice as necessary.

- the urgency which attaches to the adoption of a regulation providing for the exchange of information between Member States as regards frauds and irregularities in the customs field. The rapporteur agrees that the rapid adoption of this regulation is desirable because the prompt and full exchange of information would help to enable fraud to be repressed on a systematic basis.

- the need to enable a proper assessment to be made of the financial management of the sugar storage scheme by having annual accounts of the compensation scheme for sugar storage costs, made up to the 30th June, presented as an annex to the accounts of the Commission. The rapporteur concurs.

Administrative expenditure

20. Administrative expenditure,¹ although it accounts for less than one-twentieth of the entire budget, is of considerable interest to the Parliament. The reasons for this are threefold: firstly, it is non-compulsory in nature and therefore fully within the control of the budgetary authority; secondly, the effectiveness of the Communities turns, to a considerable extent, on the quality and efficiency of the staff; thirdly, because this outlay is directly controlled by the institutions of the Community, shortcomings can be identified more readily - and ironed out more rapidly - than in the case of expenditure incurred in Member States and which can be verified at one remove only.

21. Unlike some critics who write on the basis of hearsay, the rapporteur is satisfied that, overall, the staff of the Community institutions, in their totality, dealing with a very wide range of activities, having to contend with six working languages, and based in widely-separated places of work, do an excellent job in an efficient manner. Nevertheless, as pointed out in the reports on the 1977 draft budget² and on the 1978 draft budget³, even within this administrative machine, there are possibilities for improvement. Above all, however, the Commission must be given adequate staff to carry out its responsibilities when asked to take on new tasks; as well, certain undesirable procedures and practices that have been brought to notice over the years need to be set right. Also, as in the past, Parliament must continue to insist on clear and adequate justification being given in support of demands for new posts in the staff charts of the institutions. "Screening" work should continue and its results should be communicated to the budgetary authority on a regular basis.

22. Mobility should be the password within and between the Community institutions. No official should be kept on in the same post for too long a period. After ten years, at most, his individual contribution would have been made and he would be likely to benefit from the stimulation of a new posting. The Community needs dynamism and fresh ideas; lest the bureaucracy should grow stale, some movement within and between institutions is essential. As well, the vast reservoir of talent outside the institutions should be tapped. Access to new ideas as well as cross-fertilisation of thinking could be secured by wider use of the expert contract technique adapted to suit the needs of the JRC.

¹The rapporteur appreciates the work done by Mr Frankie Hansen on this area of expenditure (PE 57.657)

²Doc. 363/76

³Doc. 341/77

After making a three-year contribution to the work of a particular institution, the expert could return to his previous posting to be replaced by a new expert. However, as pointed out by Mr Shaw in his report on the 1978 draft budget, this flexibility should not open a back door into the permanent service of the Communities. Movement within and between the institutions could be expected to break down artificial barriers without causing any blurring of inter-institutional autonomy.

23. The case for inter-institutional recruitment competitions on a unified basis appears to be highly justifiable. It would improve the image of the institutions which, after all, constitute a single family.

As well, this course would lead to a less expensive procedure, reduce the costs to candidates, and make for a more professional approach to recruitment. Therefore, the possible creation of a Community recruitment agency warrants further attention.

24. Language costs figure high in the running of the institutions. In the case of the Parliament, these account for about 55 per cent of the total. Therefore, every effort should be made to minimise them. Here, a pooling of the translation services would, prima facie, seem to offer considerable possibilities for economy that would warrant being investigated by the Court of Auditors.

25. The costs resulting from the absence of a single seat for all the Institutions are appreciable. Apart from travel costs, there is the sheer inefficiency aspect, wastage of time and, particularly, the losses due to the renting of buildings in "temporary" work places. Rents escalate and the possibilities for buying or building are passed over - though this course is clearly justifiable. The Court of Auditors could continue to comment on this aspect of Community expenditure so as to keep the matter clearly in focus.

26. In the section of its report on 1977 dealing with staff and operational expenditure, the Court of Auditors found itself obliged to repeat many of the criticisms advanced by the Audit Board in the past. In particular, it appeared to the Court of Auditors that the principles of sound financial management were not always followed and that there were obvious failings of both the budgetary and financial control systems to restrain expenditure. As well, the report urged the institutions to continue to operate careful internal control so as to ensure that economic use is made of property and facilities. A more harmonised approach to the interpretation of the staff regulations together with a tightening up on the calculation of payments and the use of forms seem to be necessary.

Research, Investment and Energy Appropriations

27. In view of the opinion of the Committee on Energy and Research¹, the BESSBOROUGH opinion on Doc. 508/78², the BESSBOROUGH opinion on COM(79) 121 final³, and Mr DALYELL's working document⁴, this section can be relatively brief. Incidentally, the rapporteur welcomes particularly the opinion of the specialised Committee and hopes that, in future years, other specialised Committees will follow up closely the outcome of the budget and the report of the Court of Auditors.

28. The rapporteur is aware of the repeated criticisms made of various aspects of the JRC and appreciates the care with which the Court of Auditors has gone into this sphere of expenditure. He would ask that, in particular, the staff aspect of the JRC at Ispra be looked at insofar as its work concerns thermonuclear research. This matter came up for consideration at recent meetings of the Committee on Budgets when the fear was expressed that there might be some overlapping with work done in the JET context. Such overlapping would, of course, be wasteful and undesirable; moreover, it could be detected more easily by the Court of Auditors during the course of on-the-spot audits than by Committees of Parliament operating at meetings far removed from the centres in question.

29. A second issue to which the attention of the Court of Auditors is drawn is that which relates to the multiannual research programme of the JRC, where the Committee on Budgets reluctantly agreed to allow a temporary increase of seventy staff, as a transitional arrangement, so that certain reforms could be effected and so that greater flexibility could be given to the research effort by widening the prospects for the use of the temporary research worker contracts.

1 PE 57.490

2 Doc. 581/78, page 31

3 PE 57.988

4 PE 57.682

30. Problems which prevail in research centres continuously are the continuation of lines of research beyond the point at which it can be reasonably seen to be a dead-end project or the continuation of research into refinements of a solution which has been found already. While the human aspect of the attachment of researchers to the pursuit of especially favourite studies is understandable, financially it is a waste of effort which should be halted. These are technical control problems to which, it is to be hoped, the Court of Auditors will devote attention.

31. The objective of the research effort is very succinctly put, at paragraph 6.8, by the Court of Auditors in its summary as being directed towards:

" . . . a better utilisation of capacity in terms of staff and technical resources."

However, this is an objective to be pursued - not yet having been attained - as the comments of the Court of Auditors on the execution of the 1977 budget indicate.

32. The rapporteur endorses what the Court of Auditors has to say regarding the possible usefulness of activity sheets as an additional tool in the task of controlling the progress of research projects.

33. In the ESSOR complex, the Court of Auditors found several grounds for concern.

The Commission decided to spend 450,000 u.a. on the transfer of the 'Euracos converter' to Pavia. Also Ispra pays the university 16,000 u.a. annually for 900 hours use of the converter; yet, Ispra used the facility for only 27 hours in 1976 and for only 71 hours in 1977.

The rapporteur concurs with the view of the Court of Auditors that, before embarking on the expenditure involved, the Commission should have taken more effective steps to ascertain their probable rate of usage of this facility (paragraph 6.18).

The 'Rabbit' circuit was installed in the ESSOR reactor at a cost of 603,000 u.a. but up to the end of 1977 no use had been made of this circuit.

The rapporteur concurs with the view of the Court of Auditors that having such expensive equipment standing idle for long periods is reprehensible. Similarly, he agrees with the comment of the Court of Auditors regarding the stock of heavy water (paragraph 6.19).

34. The rapporteur found this section of the report on the 1977 accounts to be particularly lucid and considers that the Commission should constantly keep before it the criteria set out at the end of paragraph 6.27 that the Commission has a general responsibility for encouraging value for money from research expenditure in the Community and that, further, the Commission has a direct responsibility to promote the good reputation of the Ispra research centre.

35. Finally, the conclusions reached by the Committee on Energy and Research, to the effect that

- there has been inadequate planning within the energy and research sectors,
- some of the problems which have arisen should have been foreseen and thus certain expenditure could have been avoided,
- the Commission interprets its responsibilities too narrowly as regards the operation of the ESSOR complex,
- both the energy and research budgets show an excessive degree of carry-over of resources,

will give food for thought to the rapporteur on the draft budget for 1980.

The Social Fund

36. The Commission, the Control Sub-Committee and the Court of Auditors all agree that 1977 can be considered to be a transitional year in so far as the Social Fund is concerned because of the changeover to the new budgetary system of commitments and payments - which brought out the multi-annual nature of the Social Fund - and because of the new provisions in the financial regulations.

37. The Court of Auditors (i) has questioned the use of the term "re-entry" by the Commission (paragraph 4.8), (ii) has stated that the overlapping of three different financial regimes "has led to a confusing and erroneous situation in the revenue and expenditure account" (paragraph 4.9), has suggested a clearer analysis of the situation (paragraph 4.10), has pointed out that "No alignment has been made between the accounts and the sums which, according to the files, still remain to be paid. In particular, certain appropriations have not been cancelled". (paragraph 4.11). As well, the slow pace of payments comes in for criticism. For obvious reasons, no on-the-spot audits were carried out by the Court of Auditors which also drew attention to the very late arrival of certain documents necessary for the audit.

38. The following table¹ highlights the delays in the making of payments. (The table shows the trend in payments by country and the year in which the operations were carried out.)

Million u.a.

Member State	1973	1974	1975	1976	1977	Total
Belgium	4.11	4.53	5.67	5.89	0.01	19.92
Denmark	4.66	11.79	8.49	9.36	--	34.30
Germany	16.16	25.08	39.17	28.66	--	109.07
France	26.60	38.49	30.47	8.79	--	104.35
Ireland	8.68	13.04	16.35	16.77	3.87	58.71
Italy	32.48	59.63	62.74	68.47	0.91	224.23
Luxembourg	--	0.01	0.04	--	--	0.05
Netherlands	5.96	5.47	7.71	7.85	--	26.99
United Kingdom	52.95	58.19	88.25	63.32	--	262.71
Total	151.61	216.23	258.89	208.81	4.79	840.33

¹Source: Sixth report on the activities of the Social Fund.

39. Time and again, Parliament has criticised the delays that arise in the making of payments out of the Community budget. These delays are objectionable for several reasons - not least because they take from the transparency of the budget. Government departments are involved and so also are regional bodies in some cases. Parliament having voted funds to meet the cost of helping out those experiencing social difficulties finds its intentions frustrated if action does not take place fairly promptly. The impact of the assistance is also diminished - and promoters of projects are discouraged - if delays become too lengthy. Some delay is, of course, unavoidable because of the need to process applications and to arrive at decisions and it is to be hoped that the new procedures, by adding flexibility and efficiency to the management of the Social Fund, will lead to an early improvement.

Some extra staff as well as improved computer facilities could help to ameliorate the position.

40. Quantification of the results of the activity of the Social Fund is a matter which warrants special study. Also, the coordination of this Community instrument with other policy instruments needs to be carefully examined so as to ensure that efficient use is being made of resources and that the management is improving.

As indicated above, however, the transitional nature of 1977, so far as the Social Fund was concerned, means that a thorough analysis of the new situation can only be made on the 1978 accounts.

The task of the rapporteur in dealing with this part of the accounts was rendered easy by the excellent working document (PE 57.485) prepared by Mr Notenboom.

The European Regional Development Fund

41. It is not necessary to recite once again all the ground covered, in some cases in a detailed fashion, by the Court of Auditors in the section of its report dealing with the 1977 activity of the European Regional Development Fund. Moreover, it is not necessary to go into the background of the fund because this aspect was covered in the 1975⁽¹⁾ and 1976⁽²⁾ reports of the Committee on Budgets on the discharge for those financial years.

Use of commitments

42. Of the 512,475,165 u.a. available in 1977, 501,781,350 u.a. or 97.86% of the total was committed during the year. However, it is noted that 42% of this amount was committed in the last month of the financial year which shows evidence of an uneven pattern in the process of commitment.

Payments

43. The following table shows the difference between the level of payments made and the amounts of payment appropriations available in the first three years of the operation of the European Regional Development Fund.

	(1) Payment <u>Appropriations</u>	(2) Actual <u>payments</u>	(3) (2) as percentage <u>of (1)</u>
	<u>m. u. a.</u>	<u>m. u. a.</u>	<u>m. u. a.</u>
1975	150	90.67	60.48
1976	300	277.33	92.44
1977	<u>400</u>	<u>372.51</u>	93.13
Total 1975/77	<u>850</u>	<u>740.51</u>	<u>87.12</u>

(Source: paragraph 65 of COM(78)310 final)

This indicates that an improvement took place in 1977 - although this improvement was less pronounced than that of 1976 over 1975.

44. It is noted that the greater part of requests for payments was received in December in which month, according to paragraph 5.18 of the report of the Court of Auditors, 54% of the requests were received. This bunching of requests does not appear to be in any way desirable.

(1) Doc. 165/77

(2) Doc. 489/78

Spread of projects

45. The European Court of Auditors states, at paragraph 5.14 of the report on the 1977 financial year, that "41.3% of commitment appropriations were for industrial projects and 58.7% for infrastructure. These figures show a marked change from 1976 when the figures were 25% and 75% respectively." It is noted that no comment is made by the Court of Auditors on the significance of this shift, or the reasons leading up to it, or on the future implications.

Are the criteria appropriate and relevant?

46. At paragraphs 5.2 and 5.4, the Court of Auditors lists the criteria which apply. However, the Court did not comment on these. In reply to the rapporteur's query, it states that it is "still examining the question of criteria and has no specific suggestions to make at this stage". Nevertheless, it has suggested that a more thorough assessment by the Commission is desirable.

Choice of projects for control

47. The following table shows the "on-the-spot" checks carried out in 1977 by the Commission:

	<u>Industry</u>	<u>Infrastructure</u>
Denmark	-	2
France	13	7
Germany	6	6
Ireland	3	6
Italy	12	19
U.K.	<u>14</u>	<u>31</u>
<u>Total</u>	<u>48</u>	<u>71</u>

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48. The Court of Auditors has no observation to offer on the rapporteur's query as to whether the criteria laid down by the Commission in selecting its samples are satisfactorily judicious. This is an aspect to be followed up.

No irregularities

49. The Commission has indicated that no irregularities were found during the course of the 250 checks conducted by it. The fact that so many checks were carried out without revealing any irregularities may, or may not, be

significant. The question is, have the checks been sufficiently thorough?

Harmonising of auditing

50. It would appear to be most important that the auditing procedures in the Member States for the handling of Community funds should be harmonised.

The Court of Auditors accepts that the Commission has made every effort to harmonise audits but goes on to say that, at present, there are no data available from which an assessment of the actual results can be made. This would appear to be a matter which warrants further examination.

ERDF effectiveness

51. In reply to question No. 111 from your rapporteur, the Court of Auditors indicates that it intends commissioning studies to analyse the impact of Community aid. It is a matter which might be considered further whether studies of this nature might be undertaken by the Court itself rather than farmed out to other bodies. Clearly, the effectiveness of the Regional Fund is a key matter and one which warrants considerable attention. The gauging of the impact would appear to be something which Community instances should undertake.

Additionality

52. The Committee on Budgets - and indeed Parliament as a whole - has attached considerable significance to the importance of the concept of additionality. The problem of additionality is a matter which, apparently, the European Court of Auditors will deal with at some later stage when examining the compatibility of the interventions of the Fund with the objectives of the regional development programmes.

Publicity

53. The Committee on Budgets has attached significance to the assuring of adequate publicity for Regional Fund investments so that the public at large and the European taxpayers should be aware of the efforts being made on their behalf within the Community budget. It is understood that some improvements have been made in this regard. However, importance continues to attach to ensuring that Regional Fund monies are not confused with funds being provided from other sources.

Need for adequate basic data

54. When the Committee on Budgets examined the Commission's report on the Regional Fund for the 1977 financial year, it deplored the fact that the statistical summaries needed by the Commission did not enable it to check the results obtained in each region in the preceding year. The Committee's protest at the inadequacy of these statistical summaries and at the lateness of their submission, would appear to warrant being re-iterated at the present juncture.

Regional gaps widening

55. In considering the use made of funds in a particular budgetary year, it is appropriate to look at the results insofar as they are reflected in various statistics.

It is apparent from the following table that the economic imbalance between the Member States of the Community has widened considerably over the past decade and must reflect a corresponding tendency within the regions concerned.

Index of GDP in EUA per head at current prices

	<u>1970</u>	<u>1974</u>	<u>1978</u>
Germany	124.4	137.4	140.5
Denmark	128.5	134.3	137.4
Belgium	106.5	120.5	133.7
Netherlands	98.8	115.2	125.9
Luxembourg	127.3	137.0	124.2
France	112.9	113.4	113.2
United Kingdom	89.1	76.3	75.0
Italy	70.3	61.7	55.8
Ireland	53.8	48.6	50.5

(Base: EEC = 100)

This widening gap shows that the hope expressed that the Regional Fund would help to achieve the Community goal of drawing the regions closer together has not been fulfilled.

56. The rapporteur is particularly grateful to Mr COINTAT who prepared this passage on the ERDF for the Control Sub-Committee.

EAGGF GUARANTEE SECTION

Use of appropriations

57. The following table sets out, in summary form, the level of EAGGF (Guarantee) appropriations available in the financial year 1977 and the use made of them.

(i) Appropriations available

	<u>million u.a.</u>
Initial budget appropriations	6,167.4
Supplementary budget	934.2
Transfers	<u>1.5</u>
	7,103.1
Automatic carry-overs	585.4
Non automatic carry-overs	<u>92.4</u>
	<u>677.8</u>
Total	7,780.9

(ii) Use of appropriations

Payments	5,570.9
Automatic carry-overs	999.1
Non automatic carry-overs	23.7
Cancellations	<u>509.4</u>
	7,103.1
Carry-overs used	595.9
Carry-overs cancelled	<u>81.9</u>
	<u>677.8</u>
Total	7,780.9

The total of appropriations available for Titles 6 and 7 in the 1977 financial year showed an increase of 26% over the level for 1976.

Significance of agricultural expenditure

58. Outlay in relation to agriculture accounts for some three-quarters of Community budgetary expenditure. Being compulsory in nature, this area of expenditure does not come under final parliamentary control at the time the budget is adopted; moreover, when the annual price review takes place, Parliament's lack of control becomes further evident. Despite the lack of possibilities for disciplining this area of expenditure at the early stages, Parliament, through the discharge, should have ample possibility for ensuring that this part of the budget is spent for the purposes envisaged, that value is had for money and that irregularities are identified, curbed and eliminated. To do this, however, the full assistance of the Court of Auditors will be required.

Carry-over aspects

59. Over the years, the Committee on Budgets has expressed its concern over the size of carry-overs. The excessive use of this particular mechanism could have the effect of distorting the budget. Moreover, the carry-over of appropriations and their subsequent transfer to other lines would have the effect of undermining decisions taken when the budget was being adopted. This concern was eased somewhat when the Financial Regulation was amended in the conciliation procedure⁽¹⁾ and it was agreed that Parliament would have the last word, under Article 21 of the revised version⁽²⁾, insofar as non-compulsory appropriations are concerned, leaving the last word, insofar as compulsory appropriations are concerned, with the Council. Nevertheless, despite this compromise, it is now observed that balances available to Member States are rising and carry-overs are rising steeply also.

60. The following table shows the strong upward movement in balances with Member States:

	<u>million u.a.</u>
1.1.1976	8.6
1.1.1977	137.9
1.1.1978	508.8

Following are the figures for carry-overs:

	<u>million u.a.</u>
1975 to 1976	332.8
1976 to 1977	585.4
1977 to 1978	999.1

A continuation of this trend would gravely distort the budgetary pattern and undermine the concept of annuality.

Irregularities

61. An aspect of agricultural outlay to which the Committee on Budgets has always attached importance has been the frauds and irregularities problem. Irregularities are doubly objectionable: they reflect a breach of the provisions of the budget as adopted and, secondly, they render it difficult to persuade taxpayers of the security of community expenditure programmes.

(1) Doc. 434/77

(2) O.J. Vol.20, No.L.356 31.12.1977

62. Identifying frauds and irregularities is, therefore, a matter of major responsibility for the control authorities. However, as pointed out in the report on the 1976 discharge⁽¹⁾, under Community law, Member States are required to take the necessary steps to prevent irregularity and to recover sums where irregularities have occurred.

63. In past years, the Committee on Budgets deplored the fact that certain Member States would appear to have failed to pursue effectively the detection of irregularities involving Community funds and to submit returns in good time. The number of cases of irregularities reported vary significantly from one Member State to another as the following table shows.

Cases of irregularities reported in 1977²

Germany	61
United Kingdom	58
Denmark	16
Netherlands	9
France	8
Italy	7
Ireland	6
Belgium	4
Luxembourg	<u>0</u>
Total:	<u><u>169</u></u>

64. There is, clearly, an unevenness in the pursuit of irregularities in certain Member States. Moreover, some of the irregularities would appear to arise because of the incorrect application of highly complicated Community regulations and procedures. Parliament has called for the simplification of these measures so as to make it less likely that errors would occur that would cause a loss of Community funds.

1977 Irregularities

65. For the year 1977, the number of cases of irregularities reported in respect of the guarantee section totalled 169. This represented a drop of 88 from the number of cases communicated in 1976. On the other hand, however, the amount involved in units of account rose from just under 6 million to slightly over 8½ million. The following table shows the pattern for the cases of irregularity over the 7 years 1971-1977.

(1) Doc. 489/78, page 92

(2) Annex G XIII of Com (78) 633 final

EAGGF GUARANTEE SECTION - CASES OF IRREGULARITY 1971-1977⁽¹⁾
AND SUMS RECOVERED
(Amounts in u.a.)

<u>Year</u>	<u>Cases communicated</u>		<u>of which, recovered</u>	
	<u>No.</u>	<u>Amount involved</u>	<u>No.</u>	<u>Amount involved</u>
1971	8	8,234,436	7	8,027,225
1972	20	2,077,562	14	695,981
1973	51	1,399,829	37	598,466
1974	93	4,721,165	46	849,564
1975	139	2,547,582	81	834,065
1976	257	5,984,664	104	2,211,059
1977	169	8,539,419	45	1,580,188
<u>Total</u>	<u>737</u>	<u>33,504,657</u>	<u>334</u>	<u>14,796,548</u>

66. In the following table, particulars of the cases reported in 1977 are set out.

EAGGF GUARANTEE SECTION - CASES OF IRREGULARITY 1977⁽²⁾
AND SUMS RECOVERED (Amounts in u.a.)

	<u>Cases communicated</u>		<u>of which, recovered</u>	
	<u>No.</u>	<u>Amount involved</u>	<u>No.</u>	<u>Amount involved</u>
Belgium	4	1,250,358	*	44,647
Denmark	16	342,334	9	264,991
Germany	61	1,870,768	22	571,625
France	8	22,232	1	3,572
Ireland	6	30,505	-	-
Italy	7	1,176,209	-	-
Luxembourg	-	-	-	-
Netherlands	9	1,393,151	7	11,741
United Kingdom	58	2,543,862	6	683,612
<u>Total</u>	<u>169</u>	<u>8,629,419</u>	<u>46</u>	<u>1,580,188</u>

* partial recovery in one case

Your rapporteur hazards the view that the number of cases reported by Germany and the United Kingdom is an indicator of the relative efficiency in detection and reporting in these two countries and that the table as a whole should not be taken as indicative of the national record of irregularities actually occurring.

(1) Source: page 47 - COM(78) 633 final

(2) Source: page 92 - COM(78) 633 final

Number of cases

67. The preceding figures call for certain comments. It is noteworthy that two major agricultural states - France and Italy - reported only a fraction of the cases that the two other major Member States (Germany and the United Kingdom) reported. Moreover, the amount involved in the case of France (22,232 u.a.) seems to be particularly small. A number of factors - not all of which are readily evident - have contributed, no doubt, to these wide variations in national patterns.

68. Clearly, these are matters which greatly perturb Parliament. As to the ways in which a tightening up could be effected, the Commission and the Court of Auditors should be called on to put forward early suggestions. Admittedly, the responsibility lies primarily within the spheres of influence of the Member States. However, the Commission - as the body responsible for managing the funds of the Community - and the Court of Auditors - as the Community's audit body - must put forward certain suggestions for tackling the situation.

69. The table in paragraph 65 reveals that the pace of recovery of sums involved in cases where irregularities have actually been detected is relatively slow. Of the sums concerned in Ireland and Italy, nothing was recovered during the year. Moreover, the percentage recovered in the case of both Belgium and the Netherlands was quite small.

70. While it could be understandable, in some cases, that full - or even partial - recovery could not be effected within the year, it is not so easy to explain away the slow pace of recovery for earlier years. Of the cases of irregularity communicated for 1972, 1973, 1974, 1975 and 1976, the recovery rate, as reported in COM(78) 633 final, was 33.5%, 42.8%, 18%, 32.7% and 37%. Attention was drawn to this phenomenon in the past and must be drawn again on the present occasion.

Rate of utilisation of funds

71. The seventh financial report on the EAGGF for the year 1977¹ shows the following figures for the mean percentage utilization of Community funds:

¹COM(78) 633 final - Table 6

Member State	Mean Percentage utilization
	%
Belgium	89
Denmark	96
Germany	81
France	65
Ireland	100
Italy	30
Luxembourg	57
Netherlands	88
United Kingdom	71
EEC	64

72. The mean balance available after one month's expenditure was particularly high in the case of Italy, Luxembourg, France and the United Kingdom.

The position of the United Kingdom was influenced by the receipt of MCAs at an unexpectedly high level. Special factors relating to the transfer of 12,000 tonnes of butter affected the situation in Luxembourg; the advances requested by France were substantially in excess of requirements - but the reason for this has not been indicated; in Italy, the situation was particularly unsatisfactory, due largely to the system used for the administration of funds made available to that country.

In all the circumstances, your rapporteur considers that there is much merit in the proposal being considered by the Commission to charge interest on any excessive working capital that member States may hold.

State aid to agriculture

73. As is stated on many occasions, expenditure in relation to agriculture accounts for some three-quarters of the Community budget. Large though this amount is as a share of the general budget, it is dwarfed by the considerable sums that the national authorities invest in agriculture. The following table sets out the latest figures available:

National and Community expenditure on agricultural policies
in 1975

1	2
A - National expenditure	<u>mua</u>
Production, processing and marketing	5,972.3
Consumption	1,116.9
Research and advisory services	410.7
Social insurance	1,730.9
Total	9,230.8
B - Community expenditure	
Guarantee	4,727.3
Guidance	<u>257.9</u>
Total	14,216.0
Source: Table II.E/3.1 of Doc. 510/77	

74. The Control Sub-Committee has remarked in past years that this vast amount of national aid must represent a danger to the effectiveness of the common agricultural policy. Whilst some of this outlay represents the national counterpart of Community measures, some could well run counter to Community agricultural objectives. Certainly, it would be most objectionable if some of this large outlay were to hinder the functioning of the common agricultural policy and to thwart the operation of the Community budget. Control and auditing operations, in the future, must entail scrutinising the extent to which these national outlays dovetail with - or run counter to - Community budgetary expenditure.

Obstacles to trade in agricultural products

75. Certain obstacles to trade in agricultural products persist within the Community. These take a variety of forms: animal and plant health measures, controls over infectious diseases, steps relating to labelling, preserving and colouring agents, and so on. It is evident that those measures which are protective in nature and which obstruct the free flow of agricultural products should be identified and eliminated as rapidly as possible so that the full effectiveness of Community expenditure in this sphere may not be undermined.

Economic impact

76. More and more in the future, now that the Court of Auditors has been set up, it will be possible to consider the economic impact of Community policies and to gauge the effect of budgetary outlay. As was pointed out in the report on the 1976 discharge¹

¹Doc. 489/78, page 91, paragraph 47

"it is not enough to check that the expenditure occurs on the lines shown in the annual budget. A special effort must be made to ensure that economic management, in the broadest sense, is sound and that wasteful or unproductive outlay is avoided."

Community intervention activities

77. Last year, the Committee on Budgets examined the subject of intervention activities, in some detail, in the context of the adoption of the Ryan report¹. The need to ensure budgetary transparency in this domain was stressed and three elements were highlighted for identification:

- the capital gain or loss arising from the buying in and selling out of commodities;
- the actual storage cost, broken down into its key constituent elements; and
- the interest on capital involved.

Continuing and intensified study of these aspects remains a vital matter for the control authorities.

EAGGF GUIDANCE SECTION

78. In view of the extensive analyses made by the Committee on Budgets in four recent reports² which touched on the Guidance part of the EAGGF, this part of the working document can be relatively compact.

79. The sum of commitment appropriations available in 1977 was 325 million u.a. and this total stood unchanged at end year. However, the percentage share by chapter altered appreciably during the year as the following table shows: (source: O.J. C.313, 30/12/78, Court of Auditors' report 1977)

Chapter	Heading	% at outset	% at end year
80	Individual projects	28.06	68.21
81	Common measures for the reform of agricultural structures	30.25	23.49
82	Common measures for the marketing and processing of agricultural products	24.92	1.86
83	Common measures in particular sectors	12.15	5.48
89	Special measures	4.62	0.96
		100.00	100.00

¹ Doc. 78/78

² Doc. 165/77 - Mr Aigner's report on the 1975 discharge;
 Doc. 441/77 - Mr Shaw's report on the 1978 draft budget;
 Doc. 400/78 - Mr Bangemann's report on the 1979 draft budget;
 Doc. 489/78 - Mr Cointat's report on the 1976 discharge.

80. In addition to the sum of 325 million u.a. referred to in the preceding paragraph, further amounts of 22,163,894 u.a. and 25,605,819 u.a. were available because of commitment appropriations being carried forward from 1976 and released funds. The following table shows the breakdown by member State of the use of commitments:

Country	Investment projects	Common measures UA	Special measures UA
Belgium	12,336,079	1,617,415	1,000
Denmark	9,824,359	1,877,217	750,226
F.R. of Germany	44,492,739	17,492,340	-
France	46,439,689	18,718,637	-
Ireland	18,030,037	9,475,831	-
Italy	77,450,872	424,523	3,822,731
Luxembourg	68,112	409,890	-
Netherlands	11,300,000	3,169,314	-
United Kingdom	27,356,747	42,976,535	-
TOTAL	247,298,634	96,161,702	4,573,957

Shortcomings in the implementation of the socio-structural directives¹

81. In the working paper prepared in the context of the 1976 discharge, the shortcomings noted by the Commission in the implementation of the socio-structural directives were set out. Also, the problems facing structural reform in agriculture were analysed². In particular, the importance of getting value for money spent was underlined. From the report of the Court of Auditors (paragraphs 3.43 - 3.48) it is apparent that these aspects will need to be kept under continuing review.

Overall review of guidance outlay

82. In the context of future discharge reports, it would be desirable to undertake in-depth studies, based on analyses prepared by the Court of Auditors, of the effectiveness of the management of Guidance funds, their impact on agricultural efficiency, the interplay of the various development instruments, the extent to which national and Community measures dovetailed, and whether budgetary policy objectives were best served by existing enabling legislation.

¹72/159/EEC, 72/160/EEC, 72/161/EEC and 75/268/EEC.

²Doc. 489/78, pages 82/3

Final settlement of accounts

83. Parliament has been, for long, gravely concerned about the delays in the final settlement of the EAGGF accounts. Progress is still slow. The final settlement for the periods 1967/68 to 1970 was made by payments to the creditor member States - France and the Netherlands - on 27 September 1978. The Court of Auditors indicated that the documents relating to these operations as well as to the corresponding debit transactions have not yet been received by it and the Court of Auditors has undertaken to examine them at the same time as the papers relating to the implementation of the 1978 budget.

As regards the challenge by three member States - France Germany and the Netherlands - concerning disputed sums amounting to 24.6 million u.a. for 1971 and 1972, the Court of Auditors has explained that the Court of Justice has delivered judgements on these cases and the former is in the process of studying them and has undertaken to draw any necessary consequences.

84. The rapporteur thanks Mr SHAW for the consistently valuable work that he has put into the preparation of the material on the EAGGF.

APPROPRIATIONS FOR DEVELOPMENT AND COOPERATION AID¹

85. The Community's development aid policy consists of an extremely wide range of measures which differ in the way they are decided and the manner in which they are administered at budgetary and administrative level.

I FOOD AID

86. Parliament has always taken the view that the purpose² of the food aid provided by the Community should not be to dispose of agricultural surpluses. It has objected to budgetary procedures being used to forge a link between the malfunctioning of the agricultural policy and food aid. The cases of misuse noted in previous years, when the food aid budget was used either to mop up surpluses in the EAGGF Guarantee Section, or, on the contrary, to provide it with additional appropriations where needed, ceased in 1977, according to the Court of Auditors (point 7.11).

87. However, substantial payments, sometimes accounting for almost the entire full amount of appropriations (147.8 m EUA out of an initial appropriation of 156 m EUA in the case of dairy products), were still being made in the course of the 1977 financial year as appropriations originally earmarked for refunds on food aid were transferred to other items in the EAGGF Guarantee Fund. In the previous year, transfers on the same scale took place in the opposite direction. Again, in the previous year, the appropriations in Chapter 92 had been increased by a transfer from Chapter 62 and then largely cancelled, while in the 1977 financial year a substantial proportion (54 m EUA) of the appropriations automatically carried forward from the 1976 financial year were also cancelled.

¹In this section, the rapporteur relies on the thorough analysis made by Mr Martin BANGEMANN.

²This does not exclude, of course, the possibility of having food aid provided, primarily, from the agricultural production of the Community.

	EAGGF Guarantee Fund		Food aid
	agricultural markets support policy	refunds food aid	
1974		transfer of 65 m EUA →	62.3 m EUA automatically carried forward ↓
1975	←		transfer of 60 m EUA 59.1 m EUA automatically carried forward ↓
1976	transfer of surpluses from Chapters 60, 61, 63, 64, (52.3 m EUA) →	transfer of 48.5 m EUA → non-automatic carry forward of 63.2 m EUA ↓	cancellation of appropriation of 47.6 m EUA → 172 m EUA automatically carried forward ↓
1977	←	transfer of 75 m EUA	cancellation of appropriation of 54.3 m EUA →

88. The above table shows that there is unfortunately no reason to suppose that the criticisms of budgetary management made by Parliament in previous years are no longer valid.

89. The second important problem is that of the Commission's responsibility for the decisions to grant food aid. In several cases where the Court of Auditors considers that the needs of the recipient countries have been over-estimated - Niger, India - the Commission takes refuge behind the decisions of these countries or the commitments of the Community.

Furthermore, the implementation of food aid action suffers serious delays - particularly reprehensible in this field - caused by the Council's inability to take prompt decisions.

The answer here would be to overhaul the decision-making machinery by assigning greater responsibility to the Commission for the spending of funds and thus for the classification of appropriations as non-compulsory expenditure.

90. The third problem is that of fraud and irregularities and how they can be checked and controlled. The case of the disappearance of the ship transporting rice to the Comoro Islands shows how ill-equipped the Commission is to supervise what takes place thousands of miles away. The subcommittee has already raised this problem on several occasions and might be given the task of drawing up proposals in this field.

91. In the light of the Court of Auditors' findings and the frequently evasive replies by the Commission ('the Commission is looking into the question of ...'), the conclusions of the former Audit Board on the management of food aid should clearly be re-emphasized viz.:

- inaccurate estimates of appropriations
- delays in the initiation and implementation of aid projects
- shortcomings in the procedures for release
- incidents affecting the transportation of aid
- failure to recover costs incurred through delay
- inadequate control over the utilization of aid and the application of reciprocal arrangements.

92. Finally, an appropriation of 14 m EUA entered by Parliament in Chapter 100, by way of a modification, intended for Item 9211 was not utilized and was cancelled without further explanation.

93. The Court of Auditors concludes that the purpose of food aid has changed: it is no longer used principally to relieve CAP surpluses but has come to be a sort of contractual arrangement between the producer and recipient countries. This development is in no way positive: Community food aid is merely tagged on to national policies, whereas they should not only be coordinated but also welded into an effective Community policy.

o o o

94. The problems raised by the UNWRA, the EAC and NGOs have already been dealt with by the subcommittee and some of them are still under special scrutiny.

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II. FINANCIAL AND TECHNICAL COOPERATION WITH NON-ASSOCIATED DEVELOPING COUNTRIES

95. This was initiated on a proposal from Parliament in 1976. Cooperation was continued in 1977, and Parliament increased the relevant appropriations from 20 to 45 m EUA. It was clear from the outset that the appropriations entered by Parliament were to be implemented directly by the Commission without the need for a decision by the Council.

96. It is therefore quite incomprehensible that the Court of Auditors should refer to 'the uncertainty of the legal basis of this operation' and maintain that this uncertainty justified the Commission's delay in using the appropriations. These delays are due solely to the Commission's reluctance and fear of accepting its own responsibilities without the protection of the Council.

III. DEVELOPMENT FUNDS

97. Certain delays and difficulties in regard to the transmission of the various accounting documents have been noted.

98. Apart from the budgetary situation of the EDFs, which, it must be hoped, will very soon show a clear improvement it must be pointed out that cooperation between the Community and the ACP states has been exemplary. Based on the experience of the Commission, a system has been established bringing together over 50 nations representing some of the poorest and richest countries in the world under which the former receive effective aid without forfeiting their independence.

99. Such a system naturally raises complex problems. The Court of Auditors has distinguished between problems concerning the first three EDFs and those concerning the fourth. This distinction has a counterpart in the difference between Parliament's responsibilities, which were purely consultative as far as the discharge for the first three EDFs was concerned but involved decision-making in the case of the fourth.

100. As regards the fourth EDF, the Court of Auditors points out that the spending rate is somewhat lower than at the same stage of the third EDF. However, it qualifies this comment by remarking that 'as regards the OCT-FODs, the utilization rate is still only 10.4%'.

This situation is disturbing and should not be played down. In any case, the share of the OCT-FODs is too small to have a significant effect on the total percentage.

101. The Commission provides justification for the low spending rate only in the case of the OCT-FODs and does not refer to the overall situation.

The problem is disturbing¹, and the causes of these delays seem deep-reaching: the difficulties stem from the fact that the ACP states are more actively involved in the larger-scale management of projects funded etc.

Parliament should bear these difficulties in mind now that the negotiations for the renewal of the Lomé Convention are on the point of completion. The Commission is aware of these problems; it is preparing the necessary measures and has noted an improvement in the system of payments.

102. As regards the management of the various categories of aid financed by the fourth EDF, the Court of Auditors concentrated on training programmes, measures to promote trade, STABEX and industrial cooperation.

103. Aid granted in the form of investment accounts for 2.3% of the action taken under the fourth EDF. Reference should be made here to the opinion delivered by Parliament in previous financial years on this fundamental area of financing:

- the listing of the difficulties and irregularities discovered by the control body may give a false impression of management if it is not accompanied by an overall assessment of the impact of completed actions;
- the Commission must pursue its efforts to ensure a better balance in the allocation of supplies and services contracts according to the nationality of undertakings;

¹ In 1978 the Commission did not call up part of the contributions from the Member States

- there is a certain danger in entrusting a single planning office with all the various stages of a project, from its conception to supervision of its implementation.
- the success of a project depends as much on its proper implementation as on the measures taken to ensure its utilization following completion.

104. Parliamentary control is mainly concerned with the political aspects of budgetary management. In this connection, one of the subcommittee's tasks must be to consider to what extent Community aid is compatible with respect for human rights. The draftsman has begun a study of this question based on the example of Ethiopia.

105. As regards STABEX, the Court of Auditors' assessment diverges somewhat from the Commission's views as regards both the operation and the control of the system, and the utilization of sums transferred. Before expressing a final opinion, Parliament should wait for the ad hoc report now being drafted by the Court of Auditors.

BORROWING AND LENDING

In production

106. The loan policy is a vital aspect of the financial management of the European Community to which Parliament has paid constant attention. In its 'report on the inter-institutional dialogue on certain budgetary questions' - for example - in the section on 'information on the implementation of the loan policy'¹, it states:

'This management should be subject to the political control of the budgetary authority and it is therefore essential that that authority be informed in advance of the most important borrowing and lending operations which the Commission intends to undertake within the framework of the ceilings authorized in the Budget'.

107. If the budgetary authority wishes to consider operations 'in advance', to ensure effective political control, it is even more important that it be informed about and express its opinion on, the results of past management.

108. The Committee on Budgets, noting that in the annual report of the Court of Auditors on the 1977 financial year there was no reference to the Community loan policy, not even as regards the machinery for which the Commission is directly responsible, decided to include a chapter on this subject in the 'report on the discharge to be given to the Commission for the implementation of the 1977 budget'.

Types of loan in force in 1977

109. In 1977 the following loan machinery was in operation in the European Community:

- European Investment Bank loans
- European Coal and Steel Community loans
- Euratom loans
- Community loans.

110. The aim of the following paragraphs is to outline for each of these forms of loan the salient features of the operations which have been concluded, with particular reference to the use of available finance, and the operational and decision-making powers of the various Community bodies.

¹ Doc. 150/78, p. 16, paragraph 18

Financial Operations of the EIB

111. Article 130 of the EEC Treaty states:

'The task of the European Investment Bank shall be to contribute, by having recourse to the capital market and utilizing its own resources, to the balanced and steady development of the common market in the interest of the Community'.

The Board of Governors (consisting of the Finance Ministers of the Member States) lays down the general directives for the loan policy, while the Board of Directors decides on individual borrowing and lending operations. Day-to-day management is the responsibility of the Bank's Management Committee.

Resources

112. At 31 December 1977, the Bank's total resources amounted to 6,430.9 million units of account, showing an increase of 820.6 units of account over 1976 resulting for the most part from a net increase in borrowed funds. According to the Bank, 'as a result of abundant liquidity on most financial markets, the Bank was able to keep up a sustained level of activity on national and international capital markets'¹.

The following table gives the number and size of loans raised in 1977, showing the currency in which the operation was carried out.

No. of loans	Subscription currency	Amount in national currency (million)	Amount in u.a. (million)
3	F1	225	80.8
3	Sfrs	150	55.5
8	DM	435.2	164.7
10	\$	535	472.4
2	Yen	25,000	82.0
1	Lfrs	500	12.2
1	Bfrs	1,500	36.7
1	Lit	25	38.2
29	-	-	942.5

It should be noted that during the financial year 'the downtrend in Bank interest rates reflected the lower cost of long and medium-term borrowings'².

¹ See 'Annual Report 1977' of the European Investment Bank, p. 53

² 'Annual Report 1977', p. 54

Utilization

113. In 1977 the EII signed financing contracts for a total of 1,571.5 million u.a. compared with 1,273.3 million in 1976 and 1,000.5 in 1975.

It should be recalled here that on the basis of Article 130 of the EEC Treaty the Bank can participate in the following projects in all sectors of the economy:

- projects for developing less-developed regions;
- projects for modernizing or converting undertakings, or for developing fresh activities;
- projects of common interest to the Member States.

It also operates in a number of non-member countries, in application of the Community's economic and financial cooperation policy.

Breakdown of finance granted in 1977 according to the type of intervention and the location of projects (ordinary operations):

Location	Number	Amount in million u.a.	%
within the Community	82	1,401.3	89.2
outside the Community	20	152.0	9.6
Total	102	1,553.3	98.8

114. As regards operations within the Community, the Bank draws attention to the following features¹:

- projects contributing to the developments or conversion of regions in difficulty represented almost 70% of total lending;
- three-quarters of the loans in favour of projects of common interest to several Member States went towards investment projects improving energy supplies;
- a substantial increase was recorded in loans for industrial projects - including global loans for small and medium-sized businesses;
- total operations during the year helped to create almost 17,000 permanent jobs and 100,000 temporary jobs.

¹ 'Annual Report 1977', p. 21

115. The following table gives the breakdown of finance with particular reference to regional development projects. It is to be noted that, as the Bank points out 'certain sectors of industry in the Community are for various reasons facing difficulties that hold serious implications for many regions'¹. Financing of industrial investment, however, totalled 426.2 million u.a., or 30.4% of total finance. Of these, global loans, signed with intermediary institutions in Italy, Denmark and the United Kingdom, totalled 91.3 million u.a., funding in 1977 133 small and medium-sized ventures.

In million u.a.

Member State	Regional development projects	Other projects	Total	
			amount	%
Belgium	-	-	-	-
Denmark	19.9	12.8	32.7	2.3
Germany	-	28.4	28.4	2.0
France	76.7	219.8	296.5	21.2
Ireland	79.7	-	79.7	5.7
Italy	378.5	47.2	425.7	30.4
Luxembourg	-	-	-	-
Netherlands	-	-	-	-
United Kingdom	409.6	79.9	489.5	34.9
Non-member countries	-	48.8	48.8	3.5
Total	964.4	436.9	1,401.3	100.0

Results for the year

116. The operating profit, after amortisation of issuing charges and redemption premiums (13.2 million u.a.), amounted to 94.4 million u.a.

The Board of Directors of the Bank has recommended that 50 million of this amount be appropriated to the statutory reserve, and 44.4 million to the supplementary reserve.

¹ 'Annual Report 1977', p. 33

Operations of the European Coal and Steel Community

117. The borrowing and lending activity of the European Coal and Steel Community is governed by Articles 49 to 51 of the ECSC Treaty, and is intended to be used principally for 'the financing of works and installations which contribute directly and primarily to increasing the production, reducing the production costs or facilitating the marketing of products within its jurisdiction'¹. The Commission (High Authority), while not itself engaging in 'the banking operations which its financial tasks entail'², has both decision-making and management powers. It issues loans on the capital market, decides their amount and their nature, and grants loans in accordance with the conditions obtained.

Resources

118. The total amount of loans raised by the ECSC from the start of its operations to 31 December 1977, has reached 4,734,000 million EUA of which 729.41 are in respect of the 1977 financial year.

Loans raised in 1977 financial year

Number	Subscription currency	Amount	
		in national currency	in EUA
2	FF	360,000,000	62,486,548
11	USD	477,000,000	389,368,682
12	DM	382,430,000	148,195,369
1	LFR	500,000,000	12,390,499
1	CAD	25,000,000	18,647,671
3	SFR	165,000,000	67,155,614
1	UKL	20,000,000	31,169,544
0	-	-	729,413,927

¹ Article 54, second paragraph

² Article 51 (4)

Utilization

119. The funds available to the Commission in 1977 for lending to undertakings totalled 852.58 million EUA¹.

These funds were used to contribute to financing the following projects:

- industrial loans granted on the basis of the second paragraph of Article 54. It is important to stress here that 'certain loans for the financing of capital projects judged to be of particular advantage to the Community enjoyed a reduced rate of interest (3 points below the normal rate) applicable for the first five years of the loan'¹;
- loans to facilitate the creation of new activities capable of reabsorbing into productive employment workers in ECSC industries (Article 56). These loans, too, enjoyed the reduced interest rates mentioned in the preceding paragraph;
- loans for the building of workers' housing (Article 54, second paragraph) generally granted at the rate of 1% per annum over a long term.

120. The following table shows the breakdown of loans granted in 1977 between the above three categories by Member State of the beneficiary:

in million EUA

Member State	Loans			Total	
	Industrial	Conversion	Housing	amount	%
Denmark	-	-	0.50	0.50	-
Germany	109.65	-	5.86	115.51	15.6
Belgium	15.01	-	0.86	15.87	0.2
France	158.19	15.45	0.87	174.51	23.5
Italy	170.14	0.72	2.69	173.55	23.5
Luxembourg	-	-	0.56	0.56	-
The Netherlands	-	-	0.51	0.51	-
United Kingdom	260.12	0.20	-	260.32	35.1
Ireland	-	-	0.19	0.19	-
Total	713.11	16.37	12.04	741.52	100

¹ ECSC - Financial Report 1977 - page 19.

In 1976 loans granted totalled 1,064 million EUA. The decrease observed in 1977, according to the Commission, 'reflects not only the fall in investment activity but also the more selective approach of lending policy'¹.

The operational budget of the ECSC for the 1977 financial year

121. In 1977, income from the levy, which has been fixed at a rate of 0.29% since 1 January 1972, totalled 86.84 million EUA, of which 20.23 was levied on coal production and 66.61 on steel production. Taking into account the results of financial management, the operational budget of the ECSC for the year in question totalled 114.1 million EUA, distributed as follows²:

Administrative expenditure	17.9
Aid to resettlement	25.0
Aid to research	38.4
Interest subsidies for investment and redevelopment	19.8
Aid for coking and coal	6.0
Aid for Friuli victims	5.0
Effect of variation in conversion rates	2.0
Total	<u>114.1</u>

Euratom loans

122. On 29 March 1977 the Council empowered the Commission to issue loans on behalf of the European Atomic Energy Community, to finance 'investment projects relating to the industrial production of electricity in nuclear power stations, and to industrial fuel cycle installations'³.

The Commission decides on the granting of loans but the European Investment Bank is responsible for preparing and managing projects. Relations between the Commission and the Bank are governed by a cooperation agreement.

¹ ECSC Financial Report 1977 - introduction by Mr Francois-Xavier ORTOLI

² See also:

- Aide-memoire on the fixing of the ECSC levies and on the drawing up of the operational budget for 1977 (Doc. 475/76)
- Aide-memoire on the fixing of the ECSC levies and on the drawing up of the operational budget for 1978 (Doc. 413/77)
- Aide-memoire on the fixing of the ECSC levies and on the drawing up of the operation budget for 1979 (Doc. 497/78)
- Report on the aide-memoire on the fixing of the ECSC levies and on the drawing up of the operational budget for 1977 (Doc. 476/76)

³ OJ No. L 88, 6.4.1977

Resources

123. The Council's authorization is limited to a first tranche of 500 million EUA. At 31 December 1977 the following loans had been raised:

<u>Number of loans</u>	<u>Currency</u>	<u>Amount in national currency</u>	<u>Amount in EUA</u>
1	DM	200,000,000	54,644,808
1	DM	18,000,000	4,918,032
1	DOLL.	18,000,000	13,333,333
3	-	-	72,896,173

Utilization

124. According to the 'first report on Euratom borrowing and lending activities'¹, three projects located in France, Italy and Germany have been financed so far, all relating to nuclear power stations. In addition the Commission has decided on four other projects, and has granted loans payable in the first quarter of 1979.

¹ COM (79) 26 final, p. 1

125. The following table shows the figures for loans granted at 21 December 1977.

Number	Currency	Amount in the currency of the operation	Amount in u.a.
1	DM	193,300,000	52,814,207
1	DM	17,900,000	4,890,710
1	DOLL.	17,500,000	12,962,962
3	-	-	70,667,879

126. It should be noted that:

- in all the applications processed so far, the Euratom loan has been accompanied by part-financing or by a guarantee by the EIB.
- interest in financial assistance has increased for projects which are excluded on the basis of the Council decision of 29 March 1977 (nuclear installations for heat production, financing for fuel inventories, transportation systems, etc.).
- when the limit of 300 million EUA is reached, authorization by the Council is needed for a new amount of credit. The volume of loan applications handled shows that this limit will be reached in 1979.

Community loans

127. These loans, decided on the basis of the Council Regulation of 17 February 1975¹, are aimed at helping Member States which are experiencing balance of payments difficulties as a result of the increase in oil prices.

The opening of negotiations necessary for each lending operation, the total amount of which is limited to 3,000 million dollars², is decided upon by the Council at the request of the Member State concerned. The Council decides on the conditions for borrowing and lending. The implementing regulation³ provides that the Commission, in cooperation with the Monetary Committee, ensures that the economic conditions accepted by the beneficiaries are respected.

¹ OJ No. L 46/1, 20.2.1975

² OJ No. L 46/1, 20.2.1975 - Article 5

³ OJ No. L 46/3, 20.2.1975 - Article 6

The role of the European Monetary Cooperation Fund
(FECOM) and the Bank for International Settlements

128. The European Monetary Cooperation Fund¹ acts as the agent of the Commission in managing Community loans. Set up on 6 April 1973 by a Council decision² it has fulfilled the following main tasks:

- direct intervention to guarantee the functioning of the 'snake' in order to maintain the margin of fluctuation of the currencies within a fixed bracket of 2.25%;
- short-term monetary support operations.

The Bank for International Settlements in Basle has acted as a technical agent for the FECOM from its inception. As such it has fulfilled two functions, on the one hand an accounting function relating to the operation of the exchange system in force in the Community since 1972, and on the other hand the implementation of financial transactions linked to Community borrowing and lending operations.

129. More particularly, as regards the management of the Community's borrowing and lending operations, carried out in application of regulations adopted by the Council, it:

- executes payment;
- keeps account of financial operations;
- ensures that the time limits laid down in contracts are observed;
- informs the Commission on the progress of operations.

At 31 March 1978 the Bank had carried out operations totalling approximately 1,800 million dollars of which 1,500 million had been loaned to Italy and 300 million to Ireland³.

130. Without going into the technical details it should be pointed out that the management of Community loans (and possibly short-term monetary support) should be the subject of a report by the Commission illustrating the practical relationships between the Commission, the European Monetary Cooperation Fund and the Bank for International Settlements, and clarifying the types of control to which the three institutions are subject.

¹ The Board of Governors of the Fund is composed of the Community issuing authority and by a representative from Luxembourg and from the EEC Commission

² OJ No. L 89/2, 5 April 1973

³ Annual report of the Bank for International Settlements in Basle, for 1977/1978

General remarks

131. Consideration of the borrowing and lending operations of the European Community, although included in the discharge for 1977, cannot serve as a basis for a judgment on the efficient management of the different bodies of the EEC responsible for the various operations. The aim is rather to provide a sufficiently complete description of the financial instruments available in order to inform the Assembly about a fundamental aspect of Community policy.

In previous documents of the European Parliament, and in particular in the 'report on the inter-institutional dialogue on certain budgetary questions'¹ reference is made to the fact that the absence of an overall Community policy on recourse to capital markets causes problems which should be remedied. Among these are:

- the lack of an overall view of financing requirements and the extent of Community borrowing,
- dispersal of responsibilities for decision-making and management,
- an uncoordinated approach to the capital markets.

132. Although the analysis in the above paragraphs justifies these comments, at the same time it attempts to provide an initial response to Parliament's claim for a greater role, expressed in the 'report on the inter-institutional dialogue' where it states:

'Parliament feels that the Community's borrowing and lending activities should be placed under political control and that this control should be exercised by the budgetary authority'².

Both the Commission, within the limits of the financial activities for which it is responsible, and the Court of Auditors, for all the borrowing and lending operations of the Community, should devote a chapter in their respective annual reports drawn up for the discharge procedure³, to this aspect of Community policy.

¹ See 'Budgetization of loans' - Doc. 150/78, p.10

² See Doc. 150/78, p.12

³ For the Commission this concerns particularly the analysis of the financial management of the revenue and expenditure accounts of the European Communities for the 1977 financial year.

133. The two institutions should, in these reports, not only provide an interpretation of the figures so as to allow the Assembly to assess their financial management, but also provide suggestions for an effective rationalization of the loan policy.

Conclusions on the borrowing and lending operations

134. On the basis of the above remarks, the rapporteur:

- notes the basic figures for 1977 relating to the borrowing and lending activities of the four European institutions (EIB, ECSC, Euratom, Commission) responsible for the Commission's financial management;
- asks the Commission to specify the relations between it, the European Monetary Cooperation Fund and the Bank for International Settlements in Basle, mentioning specifically in what way the necessary controls are carried out.

This point could be included in the analysis of the financial management of the revenue and expenditure accounts of the European Communities for the 1978 financial year.

- Calls upon the Court of Auditors to devote special attention to the loan policy in the discharge procedure for the 1978 financial year.

PART II - THE RIGHTS OF PARLIAMENT UNDER ATTACK

135. The story of the 1977 budgetary procedure and implementation of the 1977 general budget provides important lessons for the directly elected European Parliament as to the exercise of Parliament's budgetary powers and to the attitude of the other institutions.

136. These institutions, whilst paying lip service to the importance of Parliament, its views and responsibilities, actively connive to reduce Parliament's rights to the barest minimum.

137. They do this in several ways. During the procedure for the adoption of the annual budget, the Commission and, particularly, the Council seek to mesmerize the European Parliament by concentrating the discussion on minute amounts for increasing appropriations in the so-called non-compulsory sections of the budget, as well as by focussing attention on the various aspects of the Treaties and the financial regulations that are, at times, of little relevance to the preparation of the budget which ought to be, primarily, a fiscal policy document. Parliament is permitted to use its last word to make token increases during this rite, which satisfies honour on all sides. During the 1977 procedure, as the rapporteur will explain, even these elementary courtesies were not respected when a coalition of forces, working on the basis of national sympathies, succeeded in reducing the budgetary procedure to a travesty, with Parliament obliged to abandon its rights in the full public gaze.

138. After these proceedings have been concluded, the Commission and Council proceed to do as they please. On the basis of spurious legal arguments and as a result of inertia, Parliament's amendments are almost systematically not implemented. Vast movements of funds within the budget knock it out of recognition as regards the budget as originally adopted. Sums are added, subtracted and transferred, with the barest Parliamentary involvement and the sums concerned are far greater than the minute amounts over which Parliament went into battle during the original procedure.

139. This results in the budget, as implemented, bearing little relationship to the budget as approved, the principal areas which suffer being those to which Parliament has attached priority rating.

140. This forms part of a general picture of ill-disguised contempt for Parliament manifested by Commission and Council. Parliament gives its opinions on every single proposal having financial implications - opinions for the most part being completely ignored. Parliament participates in the conciliation procedure which is increasingly becoming merely the theatre for the surrender of cherished Parliamentary positions.

141. At the end of the budgetary year when, according to the principles of the Treaties, Parliament should be exercising its one exclusive power, the decision as to the granting of the discharge for the previous year's budget, circumstances and institutions conspire to devoid this procedure of any significance. It is plain that there is a fundamental difference of view between Parliament and the other institutions as to the system of control which should be applied to Community finance. The curious situation has developed whereby custom indicates that the discharge be given before the accounts for 75% of the budget are closed. Indeed, the time-lapse between the discharge and the closing of the accounts exceeded, in one case, more than a decade.

142. The Court of Auditors, which was set up to assist Parliament and to strengthen Parliament's control powers, is being organised in such a way that only a small proportion of its staff will have anything whatsoever to do with auditing. In fact, the actual number **now involved in auditing** scarcely exceeds the number employed by the old Audit Board, which was judged to be totally unsatisfactory as an organ of control.

143. Already, the Commission in particular has begun an important rear guard action to limit the investigatory role of the Court of Auditors to those areas **predetermined** by the Commission. At present, the Court of Auditors is showing a lively resistance to this intolerable and hypocritical attitude adopted by the Commission. It remains to be seen, however, whether that **body** has at its disposal the qualified audit staff necessary for an **adequate and thorough approach to the inadequate control work undertaken by the Commission itself.**

144. The effect of this pincer movement on Parliament's powers of authorisation, scrutiny and control can be seen in the impact - or lack of impact - of the budget. Parliament has been almost unanimous in demanding that, through the budget, resources be redistributed to the weaker economies in order that economic integration can proceed apace. Whatever individual attitudes to European integration may be, it is generally held that, unless there be some convergence and redistribution, the prospects for integration are extremely dim and, indeed the future viability of the European Community may well be called into question if the regions continue to drift apart inexorably.

Ineffectiveness of the budget

145. Yet the budget, which should be the principal element in this redistributive strategy, is in fact distributing wealth from the poorer to the richer regions. This absurd result is the consequence of the weakness of the social and regional instruments in the budget - a weakness due to opposition to any attempt by Parliament to increase their effectiveness and scope, and to the positively pernicious effects of the Common Agricultural Policy which is a perfect instrument of negative redistribution and which, through its impact on the price level, hits worst those poorer economies with high inflation rates, thus making economic integration more and more difficult to achieve.

146. The budget as a whole, by its limited size¹ - a size dictated by the reluctance of both the Commission and the Council to permit rational development - would in any case have an extremely restricted opportunity to provide for positive redistribution. In practice, that limited effect works in the other direction.

147. Your rapporteur believes that the detailed examination of the 1977 accounts, the Court of Auditors' first report and the history of the 1977 budget, must serve as a brutal warning to the directly elected Parliament that its powers are under systematic attack and that it must rally to defend them - a warning that should be - but will not be - superfluous, in view of the attempts to torpedo the 1979 budget, which presented a small but significant advance in the capacity of the Community to strengthen its intervention policies.

148. The President of the European Commission, in his inaugural speech to Parliament, stated that the Commission intended to treat the present Parliament as it would treat the directly elected Parliament. Since this ringing declaration, the Commission he presides, and the Council have scarcely ceased to undermine the meagre rights of Parliament. As it transpires, this sounds an alert for the directly elected Parliament and appropriate action must be taken as a result. The Parliament must remain eternally vigilant and jealously guard its prerogatives in the budgetary sphere.

¹Equivalent to about 0.8% of the combined GNP of Member States and to about 2½% of the budgets of Member States.

PART III - THE IMPLEMENTATION OF THE BUDGET AND THE POWERS OF THE EUROPEAN
PARLIAMENT

(a) The 1977 budgetary procedure

149. The rapporteur has already had the occasion of making a number of observations concerning the end of the 1977 budgetary procedure. He drew up a working document⁽¹⁾ for the attention of the Budgets Committee which was discussed at its meeting of 18 January 1977. The principal theme of this document was that a great deal of pressure was exercised on Parliament by the Council and the Commission to cut back on this modest figure, despite the clear Treaty position whereby Parliament's full margin for increasing non-compulsory appropriations by 245 m.u.a. was still intact in the last stage of the budgetary procedure, and despite the moderation of the Budgets Committee at its meeting of 1 and 2 December 1976 at which amendments totalling 140 m.u.a. were tabled.

150. The delegation, aware of this pressure which had sapped the will of a certain number of members of Parliament, reluctantly agreed to cuts of 41 m.u.a. from the proposed figure. Even this was not enough to satisfy Council, which was so intent on extracting the last possible concessions from Parliament that it uprooted itself during the December plenary session, descended upon Luxembourg and sought yet further cuts.

151. "Conciliation proceedings", in completely irregular circumstances, took place at the last minute. After a great deal of further pressure, the Committee on Budgets, on the insistence of the then President of Parliament, acceded a further 5 m.u.a. which was considered necessary to make up the total necessary to appease Council. Further amendments, with this effect, were tabled out of time but were accepted by the Presidency and approved by Parliament.

152. The rapporteur protested at that time at the dangerous precedent that was being created and underlined the fact that Parliament was being impeded from using its full rights in the budgetary procedure. The consequence was that the progression of the budget and its potential impact on the European economy was limited and inadequate from the outset.

(1) PE 47.498

153. As the following table shows, the increase in the budget was not sufficient to keep up with the rate of inflation. Most of the increase was concentrated on the agricultural titles of the budget.

appropriations in mua

1976 general budget: Commission	8,343
1977 general budget as adopted on 16 December 1976 : Commission	8,651
% increase	3.5%
Titles 6 and 7 : total 1976	5,837
Titles 6 and 7 : total 1977	6,167
% increase	5.4%

Main heads of the 1977 budget as adopted

	Budget adopted by Parliament on 16 December 1976	
	Appropriations for payment	%
COMMISSION		
Intervention appropriations		
Agriculture	6,021,503,500	68.43
Social	189,597,000	2.15
Regional	400,000,000	4.55
Research, energy, industry, transport Development cooperation	236,625,188	2.69
Repayments and aid to Member States and miscellaneous	269,688,200	3.06
	560,000,000	6.36
Administrative appropriations	385,934,740	4.39
Contingency reserve	4,000,000	0.05
Repayment of the Member States of 10% of own resources	584,578,912	6.64
Commission total	8,651,927,540	98.32
OTHER INSTITUTIONS	148,099,329	1.68
Grand Total	8,800,026,869	100.00

Source: Bulletin of the European Communities, December 1976

(b) The implementation of Parliament's amendments

154. As the material in paragraphs 50-58 on the implementation of the 1977 general budget based on the revenue and expenditure accounts shows, Parliament's amendments adopted during the October and December part sessions added 154,412,400 ua to the budget. The most important amendments concerned the energy sector (hydrocarbon exploration and development, uranium prospection) and aid to developing countries (particularly to the non-associated ones in the context of Article 930). **This modest total of twenty-nine** amendments, well within Parliament's margin for manoeuvre, vastly reduced as a result of pressure from the other institutions, represented the barest minimum increase in the potential economic impact of the budget. In so doing, Parliament had the support of the two institutions constituting the budgetary authority and the Commission, which is responsible for implementing the budget.

155. At no stage did the Commission say that this package presented difficulties as regards its implementation.

156. What in fact emerges from the annual accounts of revenue and expenditure is that the amount of payment appropriations actually paid in 1977 was 4,583,000 ua or approximately 3% of the total amendments voted. Twenty-one of the 29 amendments were not implemented at all. Five further amendments were implemented by less than half of the amount voted.

157. It is true that, because of the sloth characteristic of Community payment mechanisms, certain amounts had to be carried forward and were not cancelled. This applies to the majority of the 145 mua not spent within the year.

158. However, the rapporteur believes that the sense of Article 203 of the Treaty can only be understood if it applies to payment appropriations within the year. When Parliament adopts an amendment for year X it is Parliament's intention that the expenditure be incurred and in most cases "injected" into the Community economy in year X. Parliament's will is thus frustrated if the payments are not made until succeeding years.

159. Furthermore, there is no guarantee that the appropriations carried over will be implemented in the year to which they have been added. The reasons - spurious in the view of the rapporteur - for non-payment in 1977 apply with equal invalidity to 1978.

160. As can be seen from 1977's experience, the rate of cancellation amongst appropriations carried forward from 1976 is extremely high. Of course, by that stage, the submersion of these appropriations in the general mass makes it much more difficult for Parliament to detect whether or not there has been any implementation of its original amendments. In this particular case, the rapporteur will leave it to the rapporteur for the discharge for the 1978 accounts, to see if the Commission fared any better with the 1977 amendments a year late than it did at the appropriate time.

161. The arguments advanced by the Commission for non-implementation of these amendments are spurious and deceitful. Parliament has already made its views clear on the question of the legal basis for appropriations. The legal basis is the budget, which is not an instrument inferior in law to legislative acts. When the Commission really wants to spend money it does not wait for legislative decisions - the example of the non-associated developing countries expenditure for 1976, 1977 and 1978 holds good. The reason why the Commission spent this aid money, despite the absence of a legal basis, and refused to spend other appropriations voted by the Parliament, again lacking a separate legislative basis, is simply because the Commission believed that it could get away with spending this money without getting into trouble with Council which would, in the case of aid, be too embarrassed to draw attention to its own failure to decide on the programme. It clearly believed it would have a more difficult run, particularly on energy spending.

162. The rapporteur uses the word "deceitful" advisedly. If the Commission was going to have trouble spending appropriations voted as part of Parliament's margin, it should have informed Parliament at the time of the vote on the budget so that Parliament could have used its margin in other areas where "legal" considerations were less problematic. Furthermore, if, during the course of the financial year, problems arose, the Commission could have drawn these problems to Parliament's attention so that all the institutions involved could have overcome these problems in the context of a conciliation procedure.

163. Council is equally at fault. Council assented to the budget as adopted and to the exact level of appropriations resulting from Parliament's amendments. If it intended to exercise pressure on the Commission not to spend these appropriations because of lack of separate legislative instruments, it should have made this clear from the outset.

164. For the sake of anecdote, it is worth recalling that the deal hatched in December 1976 in order to appease Council involved Chapter 32 - energy expenditure and particularly hydrocarbon exploration and development. It is also worth recalling that of the 15 mua added to Item 3200, "Hydrocarbon development", and of the 9 mua added to Item 3201, "Oil prospection", and of the 1 mua added to Article 321, "Prospecting for uranium", through Parliamentary amendment and with the assent of Council, not one unit of account was spent in 1977. This is an indictment of the scandalous duplicity of Council and Commission in wilfully undermining Parliament's budgetary rights. When all the excuses and alibis are set on one side, it becomes clear that both these institutions never had the slightest intention of implementing the amendments voted by Parliament. We shall not know for some time whether the same attitude has prevailed as regards amendments voted in the 1978 and 1979 budgetary procedures. Nonetheless, the Control Subcommittee would be well advised to keep a monthly check on the rate of utilisation of Regional Fund appropriations for 1979 to make sure that the hard won rights of Parliament are not subverted once again.

165. The rapporteur proposes that running totals of expenditure under the different chapters of the budget be provided regularly to the Committee on Budgets and its Subcommittee. There is no reason why these figures should not be readily and regularly available. If the Commission is not in a position to do this, it is clear that it has no control over the management of the budget. The provision of these regular bulletins would enable Parliament to be able to check immediately on the fate of its own amendments.

166. The current system of three-monthly reports¹, which generally arrive very late, is completely inadequate as a means of control.

167. Furthermore, the Commission should systematically report to Parliament, at any stage, when problems are occurring in the implementation of the budget. They should not wait for Parliamentary investigation.

168. Finally, the Commission, during the budgetary procedure, should state for each and every amendment where there may be difficulties of implementation, that it cannot guarantee spending the amounts suggested by Parliament. Silence is deemed to be assent.

¹Under Article 29 of the financial regulation OJ No.L356, Vol. 20, 31.12.1977

(c) Movements of funds and Parliamentary control

169. The following table shows the implementing of the 1977 budget as voted:

SECTION III - COMMISSION

THE IMPLEMENTING OF THE 1977 BUDGET AS VOTED

1.	Budget adopted December 1976		8,651,927,540
2.	Carry-overs 1976 to 1977		
	(a) automatic	2,529,236,979	
	(b) non-automatic	248,471,850	
		<hr/>	2,777,708,829
3.	Supplementary budgets 1977		
	(a) No. 1	781,180,252	
	(b) No. 2	- 2,736,549	
		<hr/>	778,443,703
4.	Appropriations available		12,208,080,072
5.	Transfers within the budget (Chapter to Chapter)		
	(a) non-dissociated appropriations	322,572,625	
	(b) payments	53,652,276	
		<hr/>	376,224,901
6.	Carry-overs 1977 to 1978		
	(a) automatic	1,623,510,000	
	(b) non-automatic	35,339,000	
		<hr/>	1,658,849,000
7.	Cancellations		
	(a) of 1977 appropriations	659,787,000	
	(b) of 1976 appropriations (carried over from 1976)	1,240,068,000	
		<hr/>	1,899,855,000
8.	Expenditure incurred in 1977		
	(a) Expenditure for 1977	7,104,764,032	
	(b) Expenditure against appropriations carried forward from 1976	1,469,803,885	
		<hr/>	8,574,567,917

170. As the table shows, the most dramatic feature of the implementing of the annual budget is the vast change in that budget which takes place during the course of the financial year. The budget is supplemented by major carry-overs, both automatic and non-automatic, from the previous year. Supplementary budgets completely distort the balance within the budget because they usually increase significantly the preponderance of agricultural expenditure. Within the budget, and notably in the agricultural sector, major transfers take place from chapter to chapter. It is worth recalling that, in the agricultural sector, Parliament is only informed subsequently of the changes which usually strengthen the sectors within agriculture already supported by massive outlays in the budget. For example, for dairy products, (Chapter 62), where a total of 2,000 mua was voted in December 1976 (more than four times the appropriations for regional or social spending), the final level of appropriations amounted to 2,536,683,000 ua as a result of transfers and of the supplementary budgets. This represents an increase of 25% in appropriations, and an increase which was larger than the total outlay for regional spending that year.

171. As the table concerning the implementation of Titles 6 and 7 shows, the transfers and changes to appropriation levels during the course of the year are massive.

172. Vast sums are also taken out of the budget as a result of carry-overs and cancellations. Of the total budget as voted (8,651 mua), 1,659 mua was carried over from 1977 to 1978 with no guarantee that it would be implemented in 1978. A further 1,900 mua was cancelled (660 mua from 1977 and 1,240 mua or 50% of the carry-overs from 1976). Thus, approximately 30% to 40% of the budget is not implemented in the course of the financial year and vast movements of funds affect up to 85% of the budget.

173. These movements take place with little or no Parliamentary control. Most of the carry-overs are automatic - Parliament having a consultative role on 10% of carry-overs. As regards supplementary budgets, these are presented to Parliament as a *fait accompli*, resulting from the agricultural price review on which Parliament's influence is negligible. Transfers within the budget (chapter to chapter) only really involve Parliament if they concern moves from the reserve chapters which represent a minute proportion of the total.

174. As regards carry-forwards and cancellations of unused amounts, Parliament only receives the information, by the earliest, in the middle of the year following the financial year in question.

175. So Parliament is cut off to a very large extent from the control of the management of the budget, and it is through the mismanagement of that budget that Parliament's limited powers on a small proportion of the budget are usurped.

176. It is worth keeping a sense of proportion. Parliament's amendments, after a bargaining process which could be described as "bitter", totalled a meagre 154 mua. The central item of this was 5 mua for hydrocarbon development (and in the end, nothing was spent) which Council made Parliament believe was "the breaking point". And yet this same Council, which streams into Luxembourg to berate Parliament over 5 mua, sanctions the management of the budget which permits uncontrolled transfers within it of 376 mua, supplements to it of 2,278 mua (from carry-overs) and 778 mua (from supplementary budgets) and cancellations at the end of the day of 1,900 mua. These are the real problems of budgetary management. They show more clearly than anything else that Parliament is left to fight for control of the petty cash while the Commission and Council are free to determine without any democratic control the use or misuse of thousands of millions of units of account.

177. More and more, the rapporteur believes that the legacy of budgetary powers given to the directly elected European Parliament will not be sufficient to ensure adequate democratic control of the taxpayers' money.

(d) Parliament's role in scrutinising proposals with financial implications

178. The consequence of this insufficiency in Parliament's budgetary powers would not be such a serious matter were it not for the lack of Parliamentary influence on legislative decisions. Not all Parliamentary institutions hold sway over the budget. Their powers arise mostly from their power of last word over legislative acts, which have financial implications. This is true, for example, of the American Congress, where it is the power of Congress over Appropriation Bills rather than its budgetary power, which makes it such a potent force.

179. Mr Bangemann, in his report on the 1979 draft budget (Doc. 400/78) drew attention to this dichotomy which exists in the Community decision-making procedure where there is an attempt, at any rate in theory, to associate Parliament with the adoption, management and control of the budget whereas during the legislative procedure Parliament's role is minimal. It is consulted for its opinion and, where the proposal has financial implications, Parliament can invoke the conciliation procedure if major differences emerge with Council. We have seen, as regards the conciliation procedures concerned with the "Ortoli loans" and over the revision of the Regional Fund rules and of the programme for aid to non-associated developing countries, that these conciliation procedures do not automatically lead to a convergence of the positions of Council and Parliament. Council believes that it is sufficient simply to sit back and wait for the three months deadline to expire without making any genuine attempt to negotiate. Parliament is in a position of weakness because its only power is one of delay and even that power is circumscribed. In fact, delay is such a recurrent factor, indeed the essential feature, in the Community decision-making process that it is very much a double-edged weapon for the Parliament. Where that weapon could be particularly savage would be during the agricultural price review, but Parliament has, as yet, shown itself to be reluctant in this area to incur the wrath of the farming Community, which would undoubtedly take to the streets were there to be a serious delay in the ineluctable upward progress of agricultural prices.

180. In the long-term, it would undoubtedly be necessary for the European Parliament to seek legislative influence commensurate with its theoretical budgetary powers. In any case, some kind of co-decision at the end of the legislative process needs to be set up, even on the basis of a "gentleman's agreement".

181. In the short-term, and in order to hasten the strengthening of Parliament's financial rather than purely budgetary powers, it is necessary for Parliament to be extremely firm in insisting upon the full conciliation procedure whenever the need arises and to follow through the opinions adopted by Parliament on legislative proposals when it comes to tackling the budget. Where satisfaction is not obtained in the conciliation procedure, funds should be automatically withheld. In fact, the negative powers of the European Parliament leading to decreases in compulsory and non-compulsory expenditure are far greater than the powers for increase. Parliaments are not traditionally on the side of expansion of the budget, unless it is fully justified. The directly elected European Parliament should wield the axe more freely so that the changes effected to the budget work in both directions.

182. Internally, the weight given to the opinions of the Committee on Budgets on the financial consequences of Commission proposals must be strengthened. It should be possible for that Committee to prevent any item being considered on the floor of Parliament until full financial information is given by the Commission. One Committee in particular, the Committee on Agriculture, has tended to comply rather too frequently with requests for urgent procedure by the Council and has, on some very sensitive issues involving considerable sums, allowed items to be taken in plenary without consideration from the Committee on Budgets being possible.

183. Further, a renewed strengthening of the coordination between the committees involved in conciliation procedure is required. This strengthening must be undertaken at an administrative level. Whilst the Committee on Budgets will not always take the lead in these conciliation procedures, the presence of its members will be the consistent factor in all conciliations and therefore it is appropriate that the administrative responsibilities be conferred on the Committee on Budgets' Secretariat within the Directorate-General for Committees and Interparliamentary Delegations.

Details of the overall implementation of the 1977 budget

184. The following tables constitute an essential part of the basic material for considering the overall implementation of the 1977 budget and these are of tremendous importance since they concern appropriations available, transfers, carry overs and cancellations.

185. Parliament believes that the budget, as adopted by it, is not simply an "indicative" act but an instruction to the Commission to implement. This is particularly the case as regards Parliament's own amendments. Each year, in the October and December part-sessions, and after an extremely close scrutiny of the draft budget, and frequently following extensive negotiations with the Council, always in the presence of the Commission, Parliament adopts, within the limits set down in Article 203 of the Treaty, amendments adding amounts to particular items of the budget.

186. As regards the carrying out of these amendments, the Commission is not a free agent. It must spend the money voted wherever possible: and where, for particular reasons, it is not possible, it must provide explanations in good time, so that alternative arrangements may be reached before the end of the financial year.

187. It is not sufficient for the Commission to say that it has not been able to proceed because of the absence of a necessary legal justification. The budget in itself provides the necessary legal basis.

Therefore, the rapporteur has produced three tables

- Table 1 shows the implementation of Parliament's amendments;
- Table 2 shows the implementation of each budgetary chapter;
- Table 3 provides a summary of transfers within the 1977 budget.

188. As regards Table 1, the rapporteur has concentrated on payments rather than commitments because, up until the 1978 budget, most budgetary lines were not dissociated into payments and commitments. Furthermore, in the relatively few cases where Parliament amended the commitments, the pattern is very much the same as for payments. A distinction has not been drawn between the carrying forward of unused appropriations into 1978 and the cancellation of those appropriations. What is being studied here is the implementation of the 1977 budget in 1977. When Parliament has amended the payments side of the budget it is Parliament's intention that the payments be made in the financial year, not carried over to be lost sight of in the 1978 accounts, where it will be more difficult to hold the Commission accountable for its actions.

189. The following facts emerge from an examination of these tables: of the 29 amendments to the payments side of the budget, increasing payments,

- 21 were not implemented at all,
- 5 were implemented to a small degree (less than 50%) and
- 2 were more fully implemented
- only 1 out of 29 was implemented fully.

190. In terms of budgetary payments, the total voted in these 29 amendments was 149,042,641 u.a. The total actually paid (and, therefore, not carried forward or cancelled) was 4,583,000 u.a. The rapporteur will draw his own conclusions on this subsequently. He will also, at that point, refer to the discussions that took place within Parliament on the size of the extra amount to be added on by Parliament.

191. It would have been appropriate for the Commission to make comments on each of the 21 amendments that if failed completely to implement, as well as the 5 which it implemented to less than 50%, and comments were given by the Commission in reply to a written query from the rapporteur.

192. These tables are based on the "revenue and expenditure accounts and balance sheets relating to the implementation of the budget for the financial year 1977" and the Official Journals of the European Communities¹. Certain changes to the accounts and balance sheets have been communicated by the Commission but these - though noteworthy - are not of such a magnitude as would drastically change the pattern shown in the following tables.

¹OJ No. 208, October 1976 Annex and OJ No. 210, December 1976 Annex.

TABLE 1

(in u.a.) Implementation of Parliament's amendments (payments) for the financial year 1977 by the Commission

Budget item	Effect of EP amendments (payments)	Total appropriations available for the financial year (payments)	Total payments effected	Total unspent (either carried forward or cancelled)	% of EP amendment implemented in 1977
2243/Data processing	+500,000	3,453,000	565,000	2,888,000	0
254/Action for young people	+ 60,000	190,000	70,600	120,000	0
2653/Nuclear fuel	+ 60,000	100,000	24,600	75,300	0
2729/Information EP elections	+600,000	1,000,000	454,000	545,700	9
282/Economic Analysis and Research Institute	+1,000,000	1,000,000	0	1,000,000	0
291/Subsidies to European movements	+ 3,600	136,700	126,900	9,800	0
3031/Action for migrant workers	+500,000	500,000	12,600	487,400	2.5
3050/Employment analysis	+130,000	400,000	79,100	320,800	0
316/Vocational Training of farmers	+ 60,000	100,000	100,000	-	100
3200/Hydrocarbons	+15,000,000 (12,000,000 frozen)	23,000,000	2,743,000	20,257,000	0
3201/Oil prospecting	+9,000,000	9,000,000	0	9,000,000	0
321/Prospecting for hydrocarbons	+2,000,000	2,000,000	0	2,000,000	0
3380/Euratom	+139,800	17,400 ⁽¹⁾	15,200	2,200	0
3383/JRC operations	+53,746,241	0 ⁽¹⁾	0	0	0

⁽¹⁾ After transfers and supplementary budgets.

TABLE 1 (cont'd)

Budget item	Effect of EP amendments (payments)	Total appropriations available for the financial year (payments)	Total payments effected	Total unspent (either carried forward or cancelled)	% of EP amendment implemented in 1977
3390/JRC staff	2,344,000	0 ⁽¹⁾	0	0	0
351/Health and water safety	+ 40,000	480,000	202,800	277,200	0
3540/Environmental studies	+112,000	1,412,000	445,600	966,300	0
3541/Environmental studies	+ 30,000	150,000	62,400	87,600	0
3550/Consumer protection	+ 20,000	180,000	56,600	123,300	0
3551/Consumer projects	+ 30,000	240,000	0	240,000	0
356/Humanizing of work	+ 50,000	50,000	20,000	30,000	40
3621/Scientific information	+500,000	500,000	144,900	355,100	28.9
3701/Second transport programme	+2,836,000	2,836,000	0	2,836,000	0
3710/Basic transport research	+8,000,000	8,000,000	0	8,000,000	0
393/Architectural heritage	+100,000	100,000	91,200	8,800	91.2
59/Aid to disaster victims	+5,000,000	5,000,000	4,000,000	1,000,000	80
930/Coop with non-associated developing countries	+45,000,000	45,000,000	0	45,000,000	0
931/Trade with non-associated developing countries	+1,500,000	5,000,000	1,815,000	3,185,000	0
9431/Commission delegations in Maghreb countries	+681,000	681,000	200,000	481,000	30

(1) After transfers and supplementary budgets.

Implementation of the 1977 Budget, Section III "Commission"

TABLE 2

TITLE 1 - Expenditure relating to persons working with the Institution

(In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appro- priations financial year 1977*	Payments						Total	Utilization of appropriations carried over from financial year 1976				
	1976	1977		Effected		Carried over		Cancelled			Payments effected 1977		Cancelled		
				absolute value	%	absolute value	%	absolute value	%		absolute value	%	absolute value	%	
10 - Members of the Institution	1,982	2,513	2,465	2,333	94.6	--		131	5.4						
11 - Staff	201,229	222,962	260,413	236,200	90.7	1,189	0.4	23,024	8.9	518	488	94.2	29	5.8	
12 - Allowances on entering and leaving the service and on transfer	15,133	13,257	15,785	11,669	73.9	219	1.4	3,896	24.7	253	226	89.2	27	10.7	
13 - Expenditure on missions and duty travel	6,475	7,000	7,000	5,017	71.7	1,450	20.7	532	7.6	1,179	1,148	97.2	31	2.6	
14 - Social welfare	2,018	1,111	1,111	905	81.5	188	16.9	16	1.6	429	422	98.4	7	1.6	
15 - Organiza- tion of training courses	1,030	1,400	1,400	955	68.2	150	10.7	293	21.1	112	101	90.2	11	9.8	

* Changes brought about by transfers or amending or supplementary budgets

TITLE 2 - Buildings, equipment and miscellaneous administrative expenditure

(In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appropriations financial year 1977*	Payments						Utilization of appropriations carried over from financial year 1976			
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		Cancelled
				absolute value	%	absolute value	%	absolute value	%		absolute value	%	
20 - Immovable property investments	t.e.	t.e.	300	292	97.5	3	1.0	4	1.5	--	--	--	--
21 - Rental of buildings & associated expenditure	29,313	33,220	32,564	29,819	91.6	1,533	4.7	1,213	3.7	2,196	1,756	80.0	440
22 - Movable property & associated expenditure	9,281	10,436	11,992	7,503	62.6	4,371	36.5	117	0.9	2,537	2,374	93.5	163
23 - Current administrative expenditure	10,983	12,180	11,180	9,437	84.4	1,247	11.2	495	4.4	1,686	1,609	95.4	77
24 - Entertainment & representation expenses	400	425	425	331	77.9	87	20.5	5	1.6	60	60	100.0	--
25 - Meetings	7,920	8,625	8,625	6,207	72.0	718	8.3	1,698	19.7	552	505	91.4	46
26 - Studies, surveys and consultations	10,580	12,432	12,589	5,109	40.6	7,358	58.4	124	1.0	6,131	5,884	95.9	247
27 - Publishing and information	14,140	16,354	16,154	9,980	61.7	5,871	36.3	301	2.0	4,807	3,282	68.2	1,524
28 - Subsidies for balancing budgets	16,938	19,797	23,055	21,841	94.7	7	0.03	1,206	5.2	--	--	--	--
29 - Subsidies and financial contributions	866	1,025	1,047	745	71.1	251	23.9	50	5.0	314	247	78.6	67

* Changes brought about by transfers or amending or supplementary budgets

TITLE 3 - Expenditure on specific projects undertaken
by the Institution

In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appropriations financial year 1977 *	Payments						Utilization of appropriations carried over from financial year 1976				
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		Cancelled	
				absolute value	%	absolute value	%	absolute value	%		absolute value	%	absolute value	%
30 - Expenditure in the social sector	6,730	6,155	4,985	2,596	52.1	1,595	31.9	792	16.0	3,481	1,950	56.0	1,530	44.0
31 - Agricultural sector	5,162	5,303	5,303	1,898	35.7	3,199	60.3	205	4.0	3,528	2,532	71.7	995	28.3
32 - Energy policy	30,000	34,000	34,000	2,743	8.1	31,256	91.9	--		25,680	6,472	25.5	19,208	74.5
33 - Research and investment	135,182	183,337	180,870	103,258	57.0	70,540	39.0	7,071	4.0	28,261	21,470	75.9	6,791	24.1
34 - Safeguards	630	715	815	417	51.2	394	48.4	2	0.4	204	190	93.1	14	6.9
35 - Protection of man and his environ- ment	4,820	5,872	5,872	2,867	48.8	2,003	34.1	1,000	17.1	1,502	1,446	96.3	55	3.7
36 - Scientific and technical information	3,370	3,082	1,332	713	53.5	518	38.9	99	7.6	2,474	2,376	96.0	98	4.0
37 - Industrial and transport sectors	90	3,485	8,850	36	0.4	8,812 ¹	99.6	--		--	--		--	
38 - Loans between Institutions	--	--	--	--	--	--	--	--		17	17	100	--	
39 - Other expenditure	2,220	3,105	3,355	868	25.8	1,989	59.2	497	15	1,090	1,031	94.5	58	5.5

¹ Of which 8,068,989 u.a. carried over on the basis of Article 6 (1)(b) of the Financial Regulation

* Changes brought about by transfers or amending or supplementary budgets.

TITLE 5 - Social Fund

(In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appropriations financial year 1977	Payments						Utilization of appropriations carried over from financial year 1976			
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		
				absolute value	%	absolute value	%	absolute value	%		absolute value	%	Absolute value
500 - Aid to agriculture	66,115	13,000	12,900	10,982	85.1	1,918	14.9	zero		60,635	21,130	34.8	39,504
501 - Aid to young people	37,780	24,000	20,000	13,170	65.9	6,830	34.1	"		56,989	20,160	30.0	46,829
502 - Aid to handicapped persons	17,001	5,000	5,000	2,810	56.2	2,190	43.8	"		16,903	13,758	18.4	3,145
503 - Aid to migrant workers	20,779	6,500	10,500	10,094	96.1	406	3.9	"		20,570	8,576	41.7	11,993
504 - Regions affected by the crisis	28,325	t.e.											
510 - Aid to employment	241,071	110,000	105,500	63,815	60.4	41,684	39.6	"		24,083	122,493	52.3	111,590
511 - Handicapped persons not eligible under Article 11	28,929	13,500	18,000	14,081	78.2	3,918	21.3	"		29,400	14,800	50.3	14,600
520 - ESF	1,000	440	540	421	77.9	119	22.1	"		651	597	91.7	53.7

(In 1,000 u.a.)

TITLE 5 - European Regional Development Fund

Budget line Chapter	Payment appropriations entered in the budget		Financial appropriations financial year 1977	Payments						Utilization of appropriations carried over from financial year 1976				
				Effected		carried over		Cancelled		Total	Payments effected 1977		Cancelled	
	1976	1977		absolute value	%	absolute value	%	absolute value	%		absolute value	%	absolute value	%
550/European Regional Development Fund	300,000	400,000	400,000	290,507	72.6	109,492	27.4	-	-	82,000	82,000	100		

TITLES 6 AND 7 - European Agricultural Guidance and Guarantee Fund
Guarantee Section

(In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appro- priations financial year 1977*	Payments				Utilization of appropriations carried over from financial year 1976						
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		Cancelled	
				Absolute value	%	Absolute value	%	Absolute value	%		Absolute value	%	Absolute value	%
72 - Alcohol	t.e.	t.e.												
73 - Other sectors	67,900	58,000	54,400	49,230	90.4	2,150	3.9	3,019	6.1	2,168	2,064	95.2	103	4.8
74 - Refunds	40,000	48,000	128,000	124,147	96.9			3,852	3.1					
75 - ACAs	392,000	250,000	200,000	174,929	87.4			25,070	2.6					
76 - Discharge liabilities from account- ing periods prior to 1 Jan.	t.e.	t.e.												
78 - MCAs	610,700	582,000	970,000	859,937	88.6			110,062	11.4					
79 - Exp. resul- ting from application of different exchange rates	377,000	532,000	603,500	236,804	39.2	272,685	45.6	92,092	15.2	53,099			53,099	100

* Changes brought about by transfers or amending or supplementary budgets

**TITLE 8 - European Agricultural Guidance and Guarantee Fund
Guidance Section**

(In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appro- priations financial year 1977 *	Payments						Utilization of appropriations carried over from financial year 1976 (1)				
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		Cancelled	
				Absolute value	%	Absolute value	%	Absolute value	%		Absolute value	%	Absolute value	%
800/Improving structures under Art 13, Reg.17/64	141,200	6,000	54,492	nil		54,492.0	100.0							
8100/Modernization of farms	29,000	18,800	14,827	12,403.0	83.6	2,424.0	16.4							
8101/Cessation of farming	6,000	1,400	95	92.4	97.2	2.6	2.8							
8102/Vocational guidance and training	6,000	3,800	673	639.5	95.0	33.5	5.0							
8103/Mountain farming	50,000	74,300	60,732	59,222.0	97.5	1,509.0	2.5							
8104/Affores- tation	t.e.	t.e.												
8105/Aid to young farmers	t.e.	—												
8200/Producers' groups and associations	t.e.	500	5,114	nil	100.0	5,114.0	100.0							

(1) This title contains, in almost all chapters, appropriations carried over on the basis of Article 6(1) (b) of the Financial Regulation. Almost all these carry-forwards, generally of a limited amount, were utilized in the financial year 1977, with the sole exceptions of item 8300, which shows a cancellation of appropriations of 600,000 u.a., item 8340 which shows a cancellation of 513,738 u.a. and Article 891, against which the cancelled appropriations amount to 164,906 u.a.

**TITLE 8 - European Agricultural Guidance and Guarantee Fund
Guidance Section**

(In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appro- priations financial year 1977 *	Payments						Utilization of appropriations carried over from financial year 1976 (1)				
	1976	1977		Effected		Carried over		Cancelled		Total	Payments eff- ected 1977		Cancelled	
				Absolute value	%	Absolute value	%	Absolute value	%		Absolute value	%	Absolute value	%
8201/Groups of hop producers	1,500	500	945	56.4	6.0	888.9	94.0							
8202/Marketing of agricultural products	t.e.	8,000	nil											

(1) This title contains, in almost all chapters, appropriations carried over on the basis of Article 6(1) (b) of the Financial Regulation. Almost all these carry-forwards, generally of a limited amount, were utilized in the financial year 1977, with the sole exceptions of item 8300, which shows a cancellation of appropriations of 600,000 u.a., item 8340 which shows a cancellation of 513,738 u.a. and Article 891, against which the cancelled appropriations amount to 164,906 u.a.

TITLE 8 - European Agricultural Guidance and Guarantee Fund
Guidance Section

(In 1,000 u.a.)

Budget line Item or Article	Payment appropriations entered in the budget		Financial appropriations financial year 1977 *	Payments						Utilization of appropriations carried over from financial year 1976				
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		Cancelled	
				absolute value	%	absolute value	%	absolute value	%		absolute value	%	absolute value	%
8300/Conversion cod- fishing	1,300	--								2,945	1,274	43.2	(1)	
8301/Fishing t.e.		--												
8302/Fishing t.e.		5,000	nil											
8310/Beef and veal	16,000	11,000	7,719	1,308.7	16.9	6,410.5	83.1							
8311/Livestock	45,300	--												
8320/Fruit trees t.e.		--												
8321/Horticult- ural product- ion.	3,500	--												
8322/Fruit product- ion	--	5,500	341.8	314.8	100.0									
8340/Agricultural holdings	5,200	--												
8350/Wine	--	8,000	nil											
8360/Milk	--	t.e.	9,752											
893/Citrus fruit	7,000	15,000	3,107	2,876	92.5	231.0	7.5							

(1) 1,670,292 u.a. of unused appropriations, representing 56.8% of those carried over, were maintained for the next financial year, pursuant to Article 108(3) of the Financial Regulation.

(x) Changes brought about by transfers or amending or supplementary budgets

TITLE 9 - Cooperation with developing countries,
food aid and other expenditure

(In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appro- priations financial year 1977*	Payments						Utilization of appropriations carried over from financial year 1976				
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		Cancelled	
				absolute value	%	absolute value	%	absolute value	%		absolute value	%	absolute value	%
92 - Food aid	289,630	178,400	178,400	52,644	29.5	123,818	69.4	1,937	1.1	172,152	117,850 ⁽³⁾	93.4	54,302	6.6
93 - Financial coop. with non-assoc- iated developing countries	24,600	50,375	50,375	1,925	3.8	47,935	95.2	513	1.0	2,342	2,193	93.6	149	6.4
94 - Special coop- eration measures	7,262	9,392	10,152	4,095	40.3	5,052 ⁽¹⁾	49.8	1,003	9.9					
95 - Exceptional measures	600	800	1,700	800	47.1	900	52.9	-						
96 - Aid to non- member countries	14,105	15,895	16,786	11,123	66.3	2,220 ⁽²⁾	13.2	3,441	20.5					

¹ of which 2,678,571 u.a. committed pursuant to Article 6(1) (b) of the Financial Regulation

² of which 891,000 u.a. not committed pursuant to Article 6(1) (b) of the Financial Regulation

³ 17,150,000 u.a., pursuant to Article 6(1) (b), were almost all utilized

TITLE 8 - European Agricultural Guidance and Guarantee Fund
Guidance Section

(In 1,000 u.a.)

Budget line Item or Article	Payment appropriations entered in the budget		Financial appropriations financial year 1977 *	Payments						Utilization of appropriations carried over from financial year 1976				
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		Cancelled	
				absolute value	%	absolute value	%	absolute value	%		absolute value	%	absolute value	%
8300/Conversion cod- fishing	1,300	--								2,945	1,274	43.2	(1)	
8301/Fishing	t.e.	--												
8302/Fishing	t.e.	5,000	nil											
8310/Beef and veal	16,000	11,000	7,719	1,308.7	16.9	6,410.5	83.1							
8311/Livestock	45,300	--												
8320/Fruit trees	t.e.	--												
8321/Horticult- ural product- ion.	3,500	--												
8322/Fruit product- ion	--	5,500	341.8	314.8	100.0									
8340/Agricultural holdings	5,200	--												
8350/Wine	--	8,000	nil											
8360/Milk	--	t.e.	9,752											
893/Citrus fruit	7,000	15,000	3,107	2,876	92.5	231.0	7.5							

(1) 1,670,292 u.a. of unused appropriations, representing 56.8% of those carried over, were maintained for the next financial year, pursuant to Article 108(3) of the Financial Regulation.

(x) Changes brought about by transfers or amending or supplementary budgets

TITLE 9 - Cooperation with developing countries,
food aid and other expenditure

(In 1,000 u.a.)

Budget line Chapter	Payment appropriations entered in the budget		Financial appro- priations financial year 1977*	Payments						Utilization of appropriations carried over from financial year 1976				
	1976	1977		Effected		Carried over		Cancelled		Total	Payments effected 1977		Cancelled	
				absolute value	%	absolute value	%	absolute value	%		absolute value	%	absolute value	%
92 - Food aid	289,630	178,400	178,400	52,644	29.5	123,818	69.4	1,937	1.1	172,152	117,850 ⁽³⁾	93.4	54,302	6.6
93 - Financial coop. with non-associ- ated developing countries	24,600	50,375	50,375	1,925	3.8	47,935	95.2	513	1.0	2,342	2,193	93.6	149	6.4
94 - Special coop- eration measures	7,262	9,392	10,152	4,095	40.3	5,052 ⁽¹⁾	49.8	1,003	9.9					
95 - Exceptional measures	600	800	1,700	800	47.1	900	52.9	-						
96 - Aid to non- member countries	14,105	15,895	16,786	11,123	66.3	2,220 ⁽²⁾	13.2	3,441	20.5					

¹of which 2,678,571 u.a. committed pursuant to Article 6(1) (b) of the Financial Regulation

²of which 891,000 u.a. not committed pursuant to Article 6(1) (b) of the Financial Regulation

³17,150,000 u.a., pursuant to Article 6(1) (b), were almost all utilized

TABLE 3

COMPLETE SUMMARY OF TRANSFERS BETWEEN CHAPTERS
WITHIN THE FRAMEWORK OF THE 1977 BUDGET

1. NON-DIFFERENTIATED APPROPRIATIONS

CHAPTERS TO WHICH TRANSFERS WERE MADE	AMOUNT	CHAPTERS FROM WHICH APPROPRIATIONS WERE TRANSFERRED
20. Immovable property investments	300,000	21. Rental of buildings and incidental expenditure
22. Movable property and associated expenditure	1,556,000	21. Rental of buildings and incidental expenditure: 356,000 23. Current administrative expenditure: 1,000,000 27. Expenditure on publishing and information: 200,000
26. Expenditure on studies, surveys and consultations	157,518	101. Contingency reserve
28. Subsidies for balancing budgets	490,107	100. Provisional appropriations
29. Subsidies and financial contributions	22,000	101. Contingency reserve
34. Expenditure relating to safeguards	100,000	101. Contingency reserve
37. Expenditure in the industrial and transport sectors	8,200,000	100. Provisional appropriations
39. Other expenditure on specific projects undertaken by the Institution	250,000	101. Contingency reserve
62. Milk and milk products	51,783,000	60. Cereals
64. Sugar	131,500,000	60. Cereals: 85,000,000 56. Pigmeat: 45,000,000 101. Contingency reserve: 1,500,000
68. Fruit and vegetables	40,000,000	63. Oils and fats
70. Tobacco	6,000,000	63. Oils and fats

TABLE 3 (cont'd)

74. Refunds on certain goods obtained by processing agricultural products	80,000,000	60. Cereals: 20,000,000 63. Oils and fats: 10,000,000 75. Accession compensatory amounts granted in respect of intra-Community trade: 50,000,000
94. Special measures for financial and technical cooperation with developing countries	423,000	100. Provisional appropriations
95. Exceptional measures to assist developing countries and non-member countries	900,000	101. Contingency reserve
96. Cooperation with non-member countries	891,000	101. Contingency reserve
TOTAL	<u>322,572,625</u>	

2. DIFFERENTIATED APPROPRIATIONS

TABLE 3 (cont'd)

in u.a.

CHAPTERS TO WHICH TRANSFERS WERE MADE	AMOUNT		CHAPTERS FROM WHICH APPROPRIATIONS WERE TRANSFERRED
	COMMITMENT APPROPRIATIONS	PAYMENT APPROPRIATIONS	
52. Social Fund - pilot schemes and preparatory studies	200,000	100,000	50. New Social Fund - expenditure provided for under Article 4 of the Council decision of 1 February 1971
80. Plans for improving the structure of agriculture provided for under Article 13 of Regulation No. 17/64/EEC	130,492,815	48,492,815	81. Joint structural schemes (under the Council resolution of 25 May 1971) 21,972,570 82. Joint schemes for the marketing and proces- sing of agricultural products (under the Council resolution of 25 May 1971) 80,000,000 83. Joint schemes in particular sectors 21,686,819 89. Special measures 6,833,426 81. Joint structural schemes (under the Council Resolution of 25 May 1971) 21,972,570 82. Joint schemes for the marketing and proces- sing of agricultural products (under the Council resolution of 25 May 1971) 8,000,000 83. Joint schemes in particular sectors 11,686,819 89. Special measures 6,833,426
82. Joint schemes for the marketing and proces- sing of agricultural products (under the Council resolution of 25 May 1971)	5,059,461	5,059,461	89. Special measures
TOTAL	135,752,276	53,652,276	

PART IV

NEED FOR A REVENUE AND EXPENDITURE CONTROL COMMITTEE

193. Much of what has been said in the preceding paragraphs highlights the necessity for much more Parliamentary oversight of the Commission's activity in connection with the implementation of the Budget. The failure of Council and Commission to implement amendments voted by Parliament; the vast movements - carry forwards, transfers and cancellation - of appropriations; the running tendency for extensive use of commitment appropriations - these, together with the introduction of Supplementary and/or Rectifying Budgets present an ever-changing and complex pattern of Community financial intervention and policy pursuit within and between the Nine Member States. Moreover, the essentially intricate nature of much of the EEC's financial legislation and the varying degrees of effective legislative enforcement within Member States has presented - inevitably - opportunities for fraud and irregularity which frequently come to light too late for either restitution or prompt future preventive action. Many members feel that the frauds and irregularities actually detected are but a small fraction of those actually committed.

194. Moreover, the Commission itself, very naturally perhaps, tends to be very sensitive of what it regards as intrusions into its own affairs, forgetting sometimes that there are Community and, further, Parliamentary matters in which the proper representatives have an over-riding and decisive interest. Those who have had the opportunity of reading the Commission's replies to the various relevant sections of the Report of the Court of Auditors cannot fail to note the scarcely concealed resentment of the Commission at the nature and set-out of many of the observations directed to it; and the existence of an underlying tension which seems to have been engendered in the Court's successful resistance, aided by Parliament, to initial Commission endeavours aimed at limiting the Court's complete independence. This tension will undoubtedly fade as time passes but it will not cease until the Commission regards the Court of Auditors as an ally to be called on immediately in time of difficulty or trouble.

195. But the Commission's sense of omniscient isolation, of which its curious complaint concerning the nature and extent of your rapporteur's questionnaire is but a symptom, is due in the main to its awareness of the lack of effective supervision by Parliament. There can be no doubt that the Control Sub-Committee of the Budgets Committee, operating under the firm chairmanship of Mr AIGNER, has performed its functions as effectively and efficiently as its numbers and facilities have permitted. Nevertheless, it must be clear that the time has now come for it to be expanded into a fully independent Parliamentary Revenue and Expenditure Control Committee with

its own secretariat. The closest liaison should be established with the Court of Auditors who should provide a permanent representative (additional to officials who attend for specific reasons) as a close advisor to the Committee Chairman and, under his direction, to the Committee secretariat. A two-way initiative would then be effectively established: the Court bringing forward specific matters and areas of interest to the Committee for political inquiry and debate and the Committee, for its part, directing the Court's attention to matters deemed to be of Parliamentary concern.

Not the least important consequence of this step would be the relief afforded, in terms of time and effort, to the continually hard-pressed Budgets Committee who would then be afforded the time to examine the whole question of forecasting inadequacies and to pay even closer attention to multi-annual forecasts - both a matter of vital Budget significance.

PART V

THE COURT OF AUDITORS

196. The Court of Auditors exists mainly because of the pressure exerted by the European Parliament to have set up an adequate body to support it in the exercise of its democratic control over Community expenditure and over the handling of the European taxpayers' money. Indeed, Mr AIGNER, Chairman of the Control Sub-Committee, has described the Court of Auditors as the daughter of the Parliament: the text introduced by Mr AIGNER, "The Case for a European Audit Office", describes the background against which Parliament operated when the need for a transition from the part-time Audit Board to a full-time Court of Auditors became apparent.

197. Under the Treaty of 22 July 1975, Parliament had its responsibilities in the budgetary control sphere increased in two ways: (i) it was entrusted with final responsibility for giving the discharge and (ii) its material and technical possibilities for doing this were strengthened by the setting up of the Court of Auditors. A principle embodied in the Treaty of 22 July 1975 was that the Court of Auditors would help Parliament and the Council to carry out their supervisory functions in respect of the implementation of the budget.

198. Parliament has always regarded the rôle of the audit body as being capable of being summarised under four key headings:

- (i) verifying as far as possible that all expenditure is incurred as intended by the budgetary authority;

- (ii) identifying irregular procedures and infringements of proper accounting methods and suggesting ways in which they could be set right;
- (iii) drawing attention to inefficiencies, extravagance and waste of Community money; and
- (iv) checking that the highest standards of responsibility are applied to the management of the general budget of the European Communities¹.

Thus, the greatest importance attaches to the detection of frauds and irregularities, the uncovering of evidence of waste of taxpayers' money and the ensuring that economic use is made of Community funds. A premium attaches to practical, down-to-earth control work without frills and without theoretical mumbo-jumbo.

199. Ideally, the findings of the Court of Auditors would have a crisp clarity about them that would enable the political authority to see the nub of the problem. A good example of the kind of drafting desired is found at the end of the chapter on the general accounts:

"The Court maintains its view that the provision of the Financial Regulation quoted was not complied with, since the balance sheet shows an unsettled amount which, according to this provision, should have been settled."²

However, the effectiveness of the clarity of this particular observation was rather diminished when its significance was played down by officers of the Court of Auditors at the meeting of the Control Sub-Committee on 9 April 1979.

¹ The Bangemann Report (Doc. 460/76)

² Doc. 500/78, page 116.

200. As the rapporteur understands it, some 60 officers of the Court of Auditors are actually engaged in full time, active auditing. This is approximately one-third of its total strength. It should however be borne in mind that a further number (approximately ten) of administrative staff themselves participate in audit work on a part time basis as opportunity serves or the occasion demands. The Court aims to increase its full time audit staff to 94 as soon as it becomes possible, without further increases in its non-auditing staff component. The apparent imbalance between 'vertical' (on audit) and 'horizontal' (administrative etc) staff must of necessity take into account, in the case of the latter, of:-

- (a) the 19 personnel engaged in the translation service necessitated by the Nine Member States being 'represented' in its structure
- (b) the necessity of complete inter-Member liaison, accomplished by skilled assistants, so that each Member is continuously informed of the activities of each of his eight fellow-Members - an indispensable prerequisite to the Court's correct and successful functioning as a collegiate body.

Moreover, skilled audit staff (who must be at minimum bilingual) are extremely difficult to recruit, notwithstanding the attractive financial rewards generally obtainable in the Community Institutions. Most audit personnel, after attaining their qualifications, can look forward after five years' experience (or less) to partnership (or equivalent industrial or commercial) status with the prospect, within a few years, of financial rewards - increasing with the passage of time - significantly exceeding the highest grade Community rates. In addition, there is a marked disinclination, in a professional field where legislative and technical parameters extend year by year, for accountants to be out of touch with what are highly complex developments in their own countries for too long.

201. The necessity for the determination of common audit standards amongst an audit staff drawn from the new Member States where audit standards vary sharply also presents some problems since, quite naturally, each auditor tends to think that his own country's standards are the most practicable! A 'neutral' training programme is thus a paramount necessity and, inevitably, time consuming. A good progress has been made in these areas but it will be appreciated that the mastery of Community regulations additional to the establishment of audit standards and programmes does not lend itself to anything other than gradual development.

202. Within the foregoing context the Court has established its own priorities for work and, in the rapporteur's view, are to be commended on their first report covering 1977. It is to be hoped that the Council, Commission and Parliament will approve such requests as the Court may wish to make during the period of the build-up of audit staff to full strength, for recourse to outside firms of accountants or individual accountants on contract - a course it will be recalled which was approved by Parliament in regard to the Joint Research Centre where technical experts were in similar demand. Provided that such a course is adopted it ought to be possible for adequate audit and accounting coverage to be deployed in order that the audit requirements of the Treaty may be fully satisfied.

203. The report of the Audit Court on the 1977 Accounts is self-explanatory and requires little general comment from your rapporteur. He feels, however, that future reports might be adapted:-

- (a) So that all matters concerning which the Court still had reservations after replies from the Institution concerned were abstracted from the text and listed briefly in a separate section for easy reference.
- (b) To permit the addition of a formal Letter of Recommendation addressed to any particular Institution comprising the Court's suggestions for improving internal procedures and checks in appropriate instances.

In addition, and in view of the fact that the provisions of the Treaty do not specifically require the Revenue and Expenditure Accounts and Balance Sheet to be certified by the Court of Auditors, a procedure should be agreed between the Commission and the Court whereby the Court is brought into consultation with the Commission to ensure that these accounts and balance sheets are published in a form satisfactory to the Court. Alternatively, less preferably, the Court should - notwithstanding the lack of specific provisions in the Treaty - append its own certificate, qualified as necessary, to the published accounts.

204. Against this background, the rapporteur draws the attention of his colleagues to the 'share out' of auditing and administrative responsibilities of the Members of the Court of Auditors which are broken up into the following nine sectors:

Mr M N MURPHY, President

Audit Sector:

External organizations

Administrative Sector:

Secretariat of the Court, Financial Control, Rules of Procedure, organization, internal and external procedures.

Mr A ANGIOI

Audit Sector: EAGGF Guidance (European Agricultural Guarantee and Guidance Fund), European Regional Development Fund

Administrative Sector: Studies and documentation, Legal Service.

Mr P GAUDY

Audit Sector: Social Fund, ECSC (European Coal and Steel Community)

Administrative Sector: Budget - accounting - missions

Mr A K JOHANSEN

Audit Sector: Operational expenditure of the Institutions, Publications Office, Statistical Office, Press and Information Offices, European Export Bank

Administrative Sector: Liaison with national audit bodies

Mr A LEICHT

Audit Sector: Staff expenditure of the Institutions, Energy

Administrative Sector: Staff management and administration of the Court

Mr P LELONG

Audit Sector: EAGGF Guarantee (European Agricultural Guarantee and Guidance Fund)

Administrative Sector: Work programme of the Court

Mr M MART

Audit Sector: Cooperation with States associated with the EEC (European Development Fund - European Association for Cooperation), Cooperation with non-associated developing countries, Cooperation with third countries, Food aid

Administrative Sector: Relations with the other Community Institutions, Public relations

the operations of fellow humans where possibilities for fraud and irregularities abound and who yet manage to keep their report book clean of all and any detection will have some difficulty persuading the inspectors or supervisors that everything in the garden is rosy, and that the work of preventing fraud is going ahead merrily - even though no actual cases whatsoever have been detected.

207. The intensification of effort in this field is, of course, a matter for the Court itself, in the first instance. Nevertheless, the rapporteur would venture to suggest that most of the reapers should be directed to those fertile fields where stalks most abound. There the big results could be expected. In the sphere of Community expenditure, that area is the common agricultural policy. Whilst the primary rôle of the national audit bodies is recognised, attention should be paid to the disturbing conclusions reached by Mr SHAW in the context of the discharge reports for the years 1975 and 1976¹.

Those texts leave little doubt as to the wide extent of fraud and irregularities in the sphere of agricultural expenditure and also as to (i) the apparent unevenness of detection as between various Member States and (ii) the slow pace of the recovery of funds.

Fraud investigative effort should

be concentrated in those spheres where fraud is most likely to abound and the line which covers smaller sections of the budget - likely to be fraud - free and where the only detections likely to be made would be of the nit-picking variety - should be more thinly drawn.

It is recognised, of course, that certain arguments can be advanced insofar as obstacles to the carrying out of effective anti-fraud auditing is concerned: however, these would carry little political weight in a situation where the Court of Auditors - fully backed up by the European Parliament - sought such modifications as would enable it to tackle fraud effectively.

Whilst double-controlling must be avoided where the checking of the budget is concerned, gaps must not be allowed to develop either: in future reports, the Court of Auditors could scrutinise the internal auditing arrangements of the institutions and could also comment in depth on the coordination of work with the national audit bodies.

208. No attempt should be made to place artificial obstacles in the way of those bodies carrying out control work. The Commission's attempt to establish a doctrine whereby it can dictate which documents the Court of Auditors is entitled to have sight of or how the Court of Auditors should present its own report will not be tolerated by Parliament.

The Committee on Budgets firmly declares that the only interpretation of the Treaty that is legally and politically acceptable gives to the Court the right of access to any document in the hands of the Community institutions or of the member States that it deems necessary in the pursuit of its control activities.

¹Doc. 165/77, page 75 et seq. & Doc. 489/78, page 79 et seq

PART VI

CONCLUSIONS

209. The key legal provision as regards the granting of the discharge is the following set out at Article 85 of the Financial Regulation:

"The European Parliament, upon a recommendation from the Council, which shall act by a qualified majority, shall, before 30 April of the next year, give a discharge to the Commission in respect of the implementation of the budget. If that date cannot be met, the European Parliament or the Council shall inform the Commission of the reasons for the postponement."¹

The following paragraphs summarise the key issues discussed in this Explanatory Statement.

210. Accounts

- (a) The Commission should review entirely the presentation of its accounts so that all relevant information can be gleaned from them without undue complications;
- (b) The Commission should present succinct and functional summaries of all major heading of expenditure;
- (c) The Commission should declare, for future discharge procedures, which figures it is proposing for discharge; the Court of Auditors should declare whether it accepts these figures and Parliament should then decide the basis on which to consider, in the light of Council's recommendation, granting of discharge;
- (d) In future, the Commission should complete its accounts by including the value of stores and fixed assets thus fully reflecting the underlying value of these items owned by the Community;
- (e) As at 31 December 1977, the value of agricultural products in public storage amounted to 2,299,342,895 u.a. and in private storage to over 4,000 million u.a.;
- (f) In the absence of an agreed legal interpretation as to the status of these stocks, they should be brought fully into the Community's accounting system as 'held in trust for the Community';
- (g) The Commission should annex to its accounts the annual accounts of the compensation scheme for sugar storage costs;
- (h) The delays which have characterised the closing of EAGGF accounts for the past 12 years are excessive and represent a major weakness in the discharge procedure which currently entails the granting of a discharge before the accounts are closed for the bulk of the budget.

211. Revenue

- (a) Special significance attaches to the control of the revenue side of the budget because under-application of certain elements would lead to transfer of an undue burden to other sectors and member States and even,

¹OJ Vol. 20 No. 356 31.12.1977

- should the common customs tariff be concerned, to a deflection of trade;
- (b) The Court of Auditors should intensify its 'on-the-spot' checks on the raising of revenue and check thoroughly on potential frauds using, as well, statistical analysis for trade flows;
 - (c) It cannot be accepted that the Court of Auditors could be barred from having access to the taxpayer and the member States should modify their attitude;
 - (d) It is suggested to the Court of Auditors that it should minimise, to the greatest possible extent, its reliance on the work of national audit bodies in the revenue field;
 - (e) The Commission should review, by 1 October, all exemptions from customs duties granted by the member States and use all appropriate political and legal means of ending them;
 - (f) An end should be put to the delays in adopting a regulation for the full exchange of information between member States and the Commission as regards frauds and irregularities in the customs field and the initiative of the Commission in putting forward its proposal - COM(79) 111 - in response to Parliament's decision of 7 July 1977¹ is approved;
 - (g) The strongest possible measures should be taken by Community institutions and bodies, in the wake of the 'Como' affair which has cast such a damaging light upon the management of the Community's own resources, in order to discourage future infringements of this kind.

212. Administrative Expenditure and Staff

- (a) The institutions of the Community must stimulate internal mobility in order to regenerate enthusiasm and efficiency; it is regrettable that the institutions have not paid sufficient attention to the comments on the reports on annual budgets and on discharge procedure;
- (b) All institutions should set up 'screening groups' along the lines of the one operating in the Commission;
- (c) Immediate progress should be made towards inter-institutional recruitment, in order to avoid excessive and wasteful administrative spending by the institutions organising similar open competitions concurrently;
- (d) The absence of a single seat for all the institutions adds an unnecessary and unjustifiable extra cost to the budget and the institutions should seek an acceptable agreement on this prior to the final decision of the Governments and member States;
- (e) In this context, the institutions should be empowered to purchase their own administrative buildings in order to cut down the continually expanding annual rent bill;
- (f) In view of the large proportion of the administrative budgets allocated to cover the costs of working in all Community languages, the institutions should assess jointly the means of minimising extra linguistic costs resulting from enlargement;
- (g) Greater efforts should be made in inter-institutional cooperation

¹O.J. L 229, 7 September 1977

to reduce expenditure on the purchasing of equipment and furniture and the hiring of services;

- (h) The heads of administration should amend the implementing rules as regards the 'treatment of persons as dependent children' to make sure that the discriminations pointed out by the Court of Auditors in its annual report are eliminated;
- (i) The Commission should take note of the anxiety frequently expressed by members of Parliament concerning the disequilibria which exist in recruitment as between nationals of different member States;
- (j) The provisions of the financial regulation and the staff regulations should be applied fully to all the external offices.

213. Research, Investment and Energy

- (a) The Commission should pay particular attention to avoiding any wasteful overlapping between the JET project at Culham and the work conducted in thermonuclear research in the Joint Research Centre at Ispra;
- (b) The Commission is asked to avoid paying large sums for expensive equipment such as at the ESSOR complex which subsequently stands idle for long periods;
- (c) The conclusions of the Committee on Energy and Research - that (i) there has been inadequate planning within the energy and research sectors; (ii) there has been excessive recourse to the carry-over of resources and, (iii) in general, the Commission should put greater emphasis on encouraging value for money for research expenditure - should be pursued by Parliament in its deliberations on the 1980 general budget;
- (d) The Commission is advised to reflect as to whether it is dispersing funds and efforts too widely in its research projects;
- (e) The Court of Auditors is asked to check that the arrangement in regard to the temporary use of 70 additional head of staff in the Joint Research Centre is working as intended.

214. The Social Fund

- (a) The slow rate of payment from the Social Fund, which continues to undermine the effectiveness of Community social policy, needs urgent attention;
- (b) Extra resources in terms of personnel and equipment should be employed to facilitate the streamlining of procedures;
- (c) The Commission should introduce new proposals for simplified payments and checking procedures;
- (d) The Commission should step up its work of coordinating Community funds and intervention in order to avoid the overlapping of aids and enhance effectiveness;
- (e) Certain regions should be selected for the concentration of different Community aids to be administered locally.

215. Regional Fund

- (a) The principal factor militating against the effectiveness of the Regional Fund in 1977 is its inadequate size;
- (b) Since the setting up of the Fund, the gap between the richer and the poorer regions of the Community, as measured in terms of GDP per head, has increased significantly;
- (c) Such a gap could only be overcome by really substantial increases in the transfer of resources far beyond the size of present funds;
- (d) No major progress towards economic integration in the nine, or in the enlarged Community, can be achieved until the central issue of regional disparities is recognised and dealt with;
- (e) The Court of Auditors should keep under constant review the need to ensure that the principle of additionality is respected so that the effect of Community aid is not cancelled by the diminution of national aid;
- (f) The Commission must sustain its efforts to ensure that adequate publicity is given where the Community finances projects in the regions;
- (g) The Court of Auditors should examine the procedures at national level whereby certain projects are pre-selected before being examined by the Regional Fund Committee;
- (h) No irregularities were found by the Commission during the 250 checks conducted by it; the Court of Auditors should verify that these checks are conducted in a sufficiently thorough manner;
- (i) Statistical summaries supplied by the member States did not enable the Commission to check the results obtained in each region in the preceding year; this matter must be set right without further delay.

216. EAGGF - Guarantee Section

- (a) The vast movement of funds in this sector between one chapter and another and between one financial year and another is the major feature of budgetary management in this sector;
- (b) The 1977 experience demonstrates the inability of the Commission to make even remotely accurate forecasts; a study should be made as to the best means of improving forecasting;
- (c) No real control of agricultural spending exists as a result of the small number of officials involved and of the size of the budgets that they are supposed to manage;
- (d) The scale of transfers, carry-overs and balances remaining in the hands of the member States has increased considerably and this tends to a further weakening of the principle of the annuality of the budget;

- (e) The number of irregularities reported varies widely from State to State: this reflects a lack of vigour in the pursuit of irregularities by certain member States;
- (f) The Commission should investigate urgently the simplification of agricultural regulations and in particular those governing MCAs, in order to close some of the loopholes currently giving rise to irregularities;
- (g) The apparent lack of urgency with which sums were recovered from certain member States where irregularities have been detected is a cause for concern;
- (h) The Commission should take up with the Italian Government the problem of excessive advances being paid but unused amounting to three times the amounts required: the root of the problem may lie with the system under which these funds are disbursed nationally;
- (i) Despite its size, the EAGGF and Community agricultural policy in general may be being undermined by even larger national aids which may not dovetail with - and may even run counter to - Community policy objectives;
- (j) Certain improvements in transparency as regards the breakdown of storage costs which demonstrate the vast losses involved for the Community have been achieved as a result of the efforts of the Committee on Budgets: these improvements should be sustained;
- (k) ~~The EAGGF Guarantee~~ Section now poses a major problem for political accounting because of its uncontrollable nature and only through the placing of a ceiling on such expenditure and through the freezing of agricultural prices in sectors where surpluses exist can it be brought back into control;
- (l) The significant increase in the amount involved in the irregularities recorded is not matched by a proportionate increase in the sums recovered;
- (m) The Court of Auditors, in examining expenditure in relation to agriculture, should endeavour to gauge its economic impact and should include a section on this aspect of the budget in its next annual report;

217. Guidance Section - EAGGF

- (a) Substantial transfers of funds took place between chapters during the course of the financial year, mostly at the expense of common measures to reform agricultural structures;
- (b) The need to ensure that value for money is obtained from projects involving structural aids is increasingly evident;
- (c) The Commission should propose appropriate amendments to the Community's structural regulations as and when they present problems of implementation in order to bring them more and more into line with the specific requirements of the less-developed regions;
- (d) Member States should ensure that the socio-structural directives relating to agriculture are more fully implemented so that the intended reforms may proceed at a satisfactory pace;
- (e) The Court of Auditors should undertake an analytical in-depth study of the effectiveness of the management of the Guidance funds, their impact on agricultural efficiency, the interplay of the various development instruments and whether budgetary policy objectives are best served by existing enabling legislation.

218. DEVELOPMENT AID

(a) The Court of Auditors - as its predecessor the Audit Board - still finds the management of food aid marred by:

- inaccurate estimates of appropriations
- delays in the initiation and implementation of aid projects
- shortcomings in the procedures for release
- incidents affecting the transportation of aid
- failure to recover costs incurred through delay
- inadequate control over the utilization of aid and the application of reciprocal arrangements.

The Commission should take steps to set these matters in order without any further delay;

- (b) The substantial movement of funds between Titles 6 and 9 camouflages a reduction in the Community's aid effort and a further swelling of expenditure to finance the Community's agricultural surpluses;
- (c) A very high proportion of food aid appropriations voted for 1977 was either transferred to market support items or cancelled;
- (d) The Committee on Budgets has frequently expressed concern at the massive delays in decision-making which hinder the effectiveness and continuity of food aid policies;
- (e) The Council should speedily approve proposals for procedural reform;
- (f) Attention is drawn to the criticism made by the Court of Auditors that the requirements of certain recipient countries have been seriously over-estimated;
- (g) The Commission, at the moment, is unable to deal with the control problems posed in this sector whether within the recipient countries or in transit;
- (h) The Court of Auditors should concentrate on achieving a far greater degree of control in this sector, particularly as regards the transport of goods;
- (i) It is a matter for vigorous protest that the extra appropriations voted by way of modification to Chapter 100 and involving 14 million EUA were cancelled at the end of the financial year without any explanation;
- (j) The major threat to the effectiveness of this policy resides in its being regarded as a mere accessory to national policies, thus posing serious problems of coordination;

- (k) The Control Sub-committee should persevere with investigations into the support received from the Community by UNWRA, the EAC and the Non-Governmental Organisations;
- (l) The Court of Auditors was in error in questioning the legal basis of aid to non-associated developing countries as this basis exists in the budget itself which is a legislative act.

219. DEVELOPMENT FUNDS

- (a) The slow-down in the rate of spend in the fourth European Development Fund is noted and the Commission is asked to pay particular attention to this point;
- (b) The Court of Auditors' assessment of the results of STABEX diverges from that of the Commission as regards both the operation and the control of the system and Parliament should pronounce on the matter in the light of an ad hoc report which is being drafted by the Court of Auditors;
- (c) Parliamentary control is largely concerned with the political aspects of budgetary management and, in this connection, Parliament should consider, in the context of a future report, the extent to which Community aid is compatible with respect for human rights.

220. LENDING AND BORROWING OPERATIONS

- (a) The proliferation of Community lending and borrowing activities necessitates complete information for Parliament so that a measure of political control on all these operations can be achieved;
- (b) The lack of an overall view of financial requirements and the extent of Community borrowing compounded by disparate management systems and by an uncoordinated approach to the capital markets, could lead to severe control problems, inefficiency and overlapping;
- (c) The Commission should report to Parliament on relations between itself, the European Monetary Cooperation Fund and the Bank for International settlements in Basle, indicating the way in which verifications are effected;
- (d) The Court of Auditors should draw up a special chapter in its annual report on the 1978 accounts on all Community lending and borrowing activities.

221. GENERAL CONTROL QUESTIONS

- (a) The role of the Court of Auditors can be summarised as embracing the following five principles:

- (i) verifying as far as possible that all expenditure is incurred as intended by the budgetary authority,
 - (ii) identifying irregular procedures and infringements of proper accounting methods and suggesting ways in which they could be set right,
 - (iii) drawing attention to inefficiencies, extravagance and waste of Community money,
 - (iv) checking that the highest standards of responsibility are applied to the management of the general budget of the European Communities,
 - (v) assisting Parliament in the assessment of the soundness of the management and of the economic impact of Community policies;
- (b) Any attempt to curtail the investigatory rights of the Court of Auditors from national bodies or from the Commission or from the Administrations of European Institutions should be resisted: the Court of Auditors should report promptly to the Committee on Budgets on any obstacles being placed in its way so that an appropriate remedy can be sought;
 - (c) The Court of Auditors should determine which documents it requires from the Institutions or from the national bodies in the pursuit of its investigations;
 - (d) The comments of the Court of Auditors on the Commission's replies to its original points should indeed be included in the body of the annual report of the Court of Auditors, and have this year been of service to Parliament in the highlighting of the essential political points arising from the 1977 accounts;
 - (e) It is of vital importance to have a greater proportion of full time audit staff at the Court of Auditors' disposal, even on a temporary basis, and Parliament should look favourably on requests for such staff during the 1980 budgetary procedure;
 - (f) The Court of Auditors should, above all, concentrate its efforts on the detection and prevention of fraud of agricultural funds in the principal beneficiary Member States;
 - (g) The Council's attention should be drawn to the fact that its recommendation under Article 85 of the Financial Regulation on the 1977 discharge contained nothing of substance and it should be reminded of its obligations in regard to the effective supervision of Community expenditure;
 - (h) The appropriate parliamentary bodies should receive constant privileged information as to the rate of implementation of the principal lines of the budget each month and of current investigations into frauds and irregularities;

- (i) In view of the inadequacies mentioned above, and of the need to scrutinize the multiannual forecasts, it will be necessary to strengthen the secretariat of the Committee on Budgets so as to transform it, over a period of time, into a Parliamentary Office of the Budget, working along the lines of the equivalent body for the United States Congress and guaranteeing the independence of the institution.

222. GENERAL ASSESSMENT OF THE IMPLEMENTATION OF THE 1977 BUDGET

- (a) During the 1977 budgetary procedure, an agreement of both parts of the Budgetary Authority was reached by which a much smaller increase in non-compulsory expenditure was accepted than that originally sought by the European Parliament and than that by which it was entitled to increase such expenditure;
- (b) The total amount added by Parliament to the 1977 budget was far exceeded by the vast movements which took place within the budget between chapters over which Parliament has no power whatsoever;
- (c) The budget represents a legislative act of equal legal status with Regulations;
- (d) At the time of the adoption of the amendments to the 1977 budget, neither Commission nor Council indicated any difficulties about implementation on the grounds of the lack of a legislative decision;
- (e) During the 1977 financial year, neither Council nor Commission, at any time, stated that political problems requiring conciliation existed with regard to the implementation of the budget;
- (f) The Commission itself felt able to commit appropriations for aid to the non-associated developing countries despite the absence of a Council decision on the draft regulation thus conceding the legislative status of the budget for an important item of policy;
- (g) The only basis on which Parliament can assess the implementation of amendments involving payment appropriations in a given year is by examining the rate of spend of those payments for that year;
- (h) The postponement of payment to the subsequent year or beyond represents non-implementation of that amendment for that year and causes the budgetary impact for the original year to be significantly weakened, with the effect of the increase being seriously diminished by inflation;
- (i) On this basis, of the total 29 amendments voted by the European Parliament in its second reading, only one was fully implemented and the vast majority were not implemented at all in 1977;

- (j) This failure to implement payment appropriations for the 1977 financial year affected notably certain new and expanding sectors, such as energy and industry, which have been starved of Community funds;
- (k) Some of these amendments, and the policies that they were intended to support, were abandoned altogether subsequently and, therefore, the political will of Parliament, endorsed by large majorities, was not implemented;
- (l) Even where some commitments have been made for the payments voted, these have been characterised, nearly always, by major delays with frequent recourse to carryovers;
- (m) The general problem of the implementation of the 1977 budget was that 30%-40% of the total was not implemented and vast movements of funds affecting 85% of the total budget took place;
- (n) Even had the budget been fully implemented, its size would have prevented it from having little more than a marginal effect on the European economy;
- (o) As regards its economic impact, the budget tends to be anti re-distribution and regressive and thus aggravates problems of economic divergence;
- (p) There is now an overwhelming need for a major expansion of the Community budget if it is to become a force for redistribution and economic convergence. This will apply only if the expansion occurs in regional social and industrial sectors to counter-balance the present agricultural predominance.

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223. In the light of all the circumstances, and in view of the fact that no further plenary session of the European Parliament is to be held during the life of the current Parliament which expires on 16 July 1979 at midnight, your rapporteur recommends to the Committee on Budgets that it should defer deciding whether or not to grant discharge to the Commission on these accounts until the newly elected European Parliament has had an opportunity of examining this report and of taking into account the views and the recommendations of the new Committee on Budgets or whichever new committee that Parliament decides to set up to supervise Community expenditure.

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Remarks by Mr Christopher TUGENDHAT, Commissioner responsible for the budget,
at the meeting of the Committee on Budgets on 17 May 1979

Mr Chairman, I have on earlier occasions commented before the House on the importance of the discharge procedure. And the fact that it is the Parliament which is now responsible for giving this discharge underlines the Parliament's undoubted rôle in budgetary matters of the Community. Our discussion today is therefore important.

The importance of the occasion is matched by the effort that Lord BRUCE has put into the report which is now before the Committee. The report is clearly an elaborate and technical affair, though I note that Lord BRUCE's splendid oratorical style nevertheless comes through.

Unfortunately, the Commission cannot agree with certain of the conclusions in this report. Because of the importance of the discharge procedure, I hope that the Committee will carefully consider the comments which I am going to put forward. This is not a matter which should be dealt with lightly, and I believe there are important arguments which have not yet been adequately considered.

I do not intend to mention each point in the body of the report with which the Commission does not agree. That would take much too long. I intend rather to concentrate on the main issues which figure in the draft Resolution.

One point in the draft Resolution concerns the balance sheet of the Community which the Commission has an obligation to produce. The report considers that this balance sheet is inadequate because, it is argued, it does not include all the fixed assets of the Community.

There are two rather different points which arise. The first is the handling of research equipment and of office machinery, furniture and such like. The second concerns agricultural stocks.

On the first point there is a degree of uncertainty which arises from the Financial Regulation itself. As the report points out, we are required to produce a balance sheet which shows the assets of the Community. On the other hand - and for the Commission this is the determining point - the Financial Regulation requires us to write off at the time of purchase expenditure on stocks and fixed assets. It follows from this latter requirement that under the Financial Regulation we are dealing with current expenditure which cannot give rise to an entry of assets in the balance

sheet. The Commission did, however, attach to its balance sheet a statement of these assets. It is also relevant that the Audit Court has not criticised the Commission on its presentation of the balance sheet on this point although it did mention that under current accounting practice stocks and fixed assets are written off as expenditure on acquisition.

The second matter concerns agricultural stocks. Of course the amount of these is very large. We are not dealing with a problem of transparency, for the amount of the stocks and their value is published in the annual FEOGA reports. We are, therefore, dealing with a legal and accounting question. I have to say that the present legal position is clear, that the stocks do not belong to the Community as such but are bought - under Community rules - by member States or other organisations. Given the clear present legal interpretation of ownership, it would be incorrect to include them in the ~~balance~~ sheet.

There is a further point in the draft resolution which deals with the revenue and expenditure account. The reference to a 'confused and erroneous situation' in this account relates in fact to one item of expenditure alone, the Social Fund. The Commission has already accepted the need for a correction of the 1977 revenue and expenditure account and last December sent an appropriate table to the Audit Court and to the Council and the Parliament as the Budgetary Authority. This correction did not call for any comment from the Audit Court, but we believe that the situation is now completely clear.

I now turn to the main point in the Resolution, which appears at least four times in the document before the House - the question of implementation of the budget by the Commission.

Let me say very clearly that the Commission believes there are problems about the execution of the budget, and the interpretation of Article 205. I will come back to these.

But I must reject completely the presentation of the report before the House which accuses the Commission - in complicity with the Council - of cancelling Parliament's modifications or of not carrying out Parliamentary amendments.

Let me deal first with the alleged cancellation of a modification which is the subject of Article 6 of the draft Resolution. The history of this affair is that in the preliminary draft budget for 1977 the Commission proposed an amount of 59 MEUA in Chapter 92 for food aid in the form of dried milk. Council in its first reading reduced this to 41 MEUA but at second reading accepted a modification of Parliament to put an additional 14 MEUA into Chapter 100. As you can see from paragraph 92 of Lord BRUCE's report, it is this which is the subject of Article 6 of the Resolution.

What happened in 1977 was that the Commission proposed in May a programme which would have used all the credits - those on the line and those in Chapter 100 which it proposed should be transferred to Chapter 92. Council did not accept this programme or the transfer of the 14 MEUA from Chapter 100 - may I remind you that we are talking here about obligatory expenditure. But at a meeting of the Development Council on 28 November 1977 there was a majority agreement to carry out the whole programme in 1978, including the re-inscription of the 14 MEUA on the line. This was confirmed by the Budget Council on 7 December 1977 and the whole facts were, of course, known to Parliament before the 1978 budget procedure had been completed. The cancellation of the 14 MEUA was an automatic result of the fact that these credits still remained in Chapter 100 at the end of 1977 because of a decision of Council. In this case, therefore, it is not correct to say that the Commission cancelled the appropriations; nor is it correct to say that no explanations were given.

I now turn to the main point of the report which is the claim that 21 of the 29 amendments voted by the Parliament through the 1977 budget remained unexecuted in that year. I do not of course contest the facts set out in Table 1 on page 72 of the document before me. But the presentation in this Table is extremely misleading. What it does is to take the Parliament's amendment as an addition to the credits agreed by the Council to each of the lines in question - which I believe to be correct - and then to see whether these extra amounts approved by the Parliament were indeed spent - I emphasise, physically handed over - in the course of 1977. In other words, the Commission is being judged against whether the last slice of final expenditure has occurred within the twelve-month period in question. As the Committee knows, there is often a gap between knowing that you can spend money and actually spending it. Projects have to be identified, consultants sought, contracts prepared and work carried out. The Commission frequently - and I believe rightly - does not pay in anticipation of work but for results or on the basis of progress payments. This is simply good financial management, frequently imposed on us by the Financial Regulation itself.

If we look at the 29 items listed in Table I, only 6 are of a nature to be really suited to immediate total expenditure. 4 are cases in which the absence of action by the Council or another body prevented Commission action. The remaining 19 cases are of a nature of the activity itself - studies, research projects, development projects, on which payment must be linked to execution. The Parliament cannot have wished that its amendments on these points should have led to immediate expenditure, though it would be right to insist on speedy commitment and efficient management; most of the actions involved are not such as to lead on an injection of economic activity, unless we are worried about the depressed sector of economic consultants!

If then, in the light of this, we look at the real execution of the 29 items identified in Table I, what do we find? On the first, 100% of the funds were committed within the course of the year. On the second, the Commission is not in control, for it is an independent organisation which determines the pace of expenditure. On the third, 99% was committed, on the fourth - in which we were associated with the Parliament - 95% was committed, on the fifth, the Council took no decision, on the sixth 97% was committed, on the seventh, 100% was committed, as on the eighth and ninth. On the tenth, despite the fact that the Council was involved in the process of expenditure, the funds were very largely committed. The eleventh is the second case in which a Council decision lacked. But on the twelfth again 100% was committed, on the thirteenth 84.5% committed and on the fourteenth and fifteenth, which have to be taken together, 90% was committed.

We then come to a block of studies, where it is perhaps more convenient to measure progress on the basis of funds spent. Line 351 - the sixteenth on this list - was actually spent as to 42% with most of the balance in the following year, the 17th, 32% was spent in the year, on the 18th 42% and the 19th 32% in each of these three cases the total of the balance being spent in 1978.

The twentieth - line 3551 on consumer projects - is the first case that we have come to where the Commission performance is in line with Lord BRUCE's comments. On this occasion nothing was indeed spent in that year, though 100% was spent in 1978. I repeat, that makes one out of nineteen on the present score.

But to continue the list, the 21st was spent as to 40% in the year and the 22nd as to 28% again in both cases the remaining balance being spent completely in 1978. The 23rd case is one - one of the few in the list we have been discussing - in which a late decision by the Council made it very difficult to spend in 1977, whereas the 24th case again I feel the Commission does not have a completely clean bill of health for the proposal on the basis of which expenditure could be undertaken was submitted to the Council rather late in the year.

The 25th case - Article 393 - is one of which expenditure in the course of the year was very satisfactory, as - alas! - is the case for the 26th (aid to disaster victims).

Twenty seventh comes 'cooperation with non-associated countries'. This is a classic example of the error of ignoring the difference between payments and commitment. 100% of the funds were indeed committed in that year, but on projects and in circumstances which of course prevent spending at the same time. The 28th case is one of 91% commitment in the course of the year and the 29th case is another on which I feel the Commission does not avoid all criticism although the main reason for

delay was because of problems with the member States.

I am sorry to have had to take you through such detailed comments. But I believe that they clearly demonstrate that the Commission has tried, and tried hard, to implement the amendments passed by the Parliament. I should add that, where I have said that there were commitments during the year, there was of course also in most cases expenditure, though of a smaller proportion^{*}. Certainly in the light of my comments, the remark that the Commission has totally failed to implement the Parliament's amendments, seems to me without any foundation. I very much hope that in the light of this explanation the Budget Committee will not today adopt Lord BRUCE's report in its present form. I regard it as a very valuable and thought-provoking document but I think it gives a wrong impression of the Commission's approach to the execution of the budget.

Having said that, I repeat that there is a problem over the implementation of Article 205. The Commission is as anxious as the Parliament that this matter should be aired. The thesis of the Parliament is in general that inscription in the budget is in itself a basis of expenditure. As you know, the Council takes a very different position, that inscription in the budget is an accounting matter but that for every expenditure by the Commission there has to be a separate legal base.

The position of the Commission has been clearly stated by myself before the Parliament, in particular in 1977. There is certainly no advantage to any of us in leaving this matter in its present state of uncertainty. The result can only be recrimination and discord. The Commission has therefore urged that there should be discussion between the Council, the Parliament and the Commission about the interpretation of Article 205. This I consider has been approved at various moments both by the Council and by the Parliament, though the moments have not always coincided. I would suggest that this matter should be considered as now being urgent and requiring the attention of the Parliament this Autumn.

To conclude, Mr Chairman, I must urge that the right action by Parliament would be to grant a discharge and that the report and the draft resolution need to be changed to reflect the true situation as I have outlined it to you today.

^{*}See attached table

IMPLEMENTATION OF THE 1977 BUDGET APPROPRIATIONS AS AMENDED BY THE PARLIAMENT

FUNCTION	Initial appropriations voted for 1977 in EA	Final appropriations available for 1977 in EA	Utilization of appropriations in 1977		Cancelled appropriations at the end of 1977 in EA	Percentage of utilization in 1977		Utilization of appropriations carried over 1977 to 1978 in EA	Percentage of utilization of the appropriations carried over (1)	Carried over appropriations cancelled at the end of 1978 in EA (1)
			Commitments in EA	Payments in EA		Commitments	Payments			
2243 - Finding data processing applications	1 340 000	3 453 111	3 453 111	564 813	0	100	16	3 603 370	100	0
21 - Campaign on behalf of young people	190 000	190 000	70 000	70 000	120 000	37	37	-	-	-
2153 - Studies on nuclear fuel cycle	100 000	100 000	99 176	24 588	824	99	25	98 705	100	0
2729 - Information projects relating to direct elections to the EP	1 000 000	1 000 000	949 565	453 972	50 435	95	45	499 775	95	26 560
262 - European Communities Institute for economic analysis and research	1 000 000	1 000 000	-	-	1 000 000	0	0	-	-	-
28 - Subsidies to European Movements	153 600	136 700	132 900	126 900	3 800	97	93	5 230	97	170
3071 - Contribution to pilot projects on better housing for migrant workers	500 000	500 000	499 983	12 567	17	100	2,5	485 000	92	41 410
2750 - Research and social action programme on labour market trends	400 000	400 000	395 816	79 054	4 184	99	20	277 512	88	35 702
315 - Community action relating to the vocational training of farmers	100 000	100 000	100 000	100 000	0	100	100	-	-	-

(1) As the 1978 figures are expressed in EAs they do not correspond precisely with the carry-overs from 1977. Where commitments have been made, any outstanding payments at the end of 1978 have to be made against the credits of future years. See particularly items 3200 and 930.

IMPLEMENTATION OF THE 1977 BUDGET APPROPRIATIONS AS AMENDED BY THE PARLIAMENT (continued 1)

Article 1174	Initial appropriations voted for 1977 in EA	Final appropriations available for 1977 in EA	Utilization of appropriations in 1977		Cancelled appropriations at the end of 1977 in EA	Percentage of utilization in 1977	Utilization of appropriations carried over 1977 to 1978 in EA	Percentage of utilization of the appropriations carried over (1)	Carried over appropriations cancelled at the end of 1978 in EA (1)
			Commitments in EA	Payments in EA					
3200 - Community technological development projects in the hydrocarbons sector	C. 50 000 000 P. 23 000 000	50 000 000 23 000 000	19 048 886	2 743 108	-	38	27 933 102 16 327 487	100 90	0 1 743 928
3201 - Joint projects in prospecting for hydrocarbons	C. 25 000 000 P. 9 000 000	25 000 000 9 000 000	0	0	-	0	0 0	0 0	25 000 000 9 000 000
321 - Prospecting for uranium	C. 5 000 000 P. 2 000 000	5 000 000 2 000 000	5 000 000	-	0	100	2 169 973	100	0
3280 - Expenditure on training programme	C. 201 800 P. 201 800	17 400 17 400	15 218	15 218	2 182 2 182	87	-	-	-
3383 - Expenditure which may be necessary to the operation of the JRC	C. 75 054 321 P. 69 358 472	0 (2) 0	-	-	-	-	-	-	-
3390 - Provisional appropriations for certain adjustments to JRC staff expenditure	C. 7 374 000 P. 7 374 000	0 (2) 0	-	-	-	-	-	-	-
351 - Health and safety in respect of air and water	480 000	480 000	439 452	202 750	40 548	91	232 520	90	24 282
3540 - Environmental studies	1 442 000	1 442 000	1 364 411	445 570	47 589	97	1 045 524	100	0
3541 - Environmental projects	750 000	150 000	149 907	62 400	93	100	82 063	99	911
3550 - Consumer protection studies	180 000	180 000	179 998	56 605	2	100	129 523	100	0

(1) As the 1978 figures are expressed in ECU they do not correspond precisely with the carry-overs from 1977. Where commitments have been made, any outstanding payments at the end of 1978 have to be made against the credits of future years. See particularly items 3200 and 930.

(2) These credits were transferred by supplementary Budget n° 2/77 to Articles 330, 331 and 332. On these lines the credits were used in 1977 as to 93 % in commitments and 78 % in payments. Of the remaining payments 97 % were made in 1978.

IMPLEMENTATION OF THE 1977 BUDGET APPROPRIATIONS AS AMENDED BY THE PARLIAMENT (continued 2)

BUDGET ITEM	Initial appropriations voted for 1977 in UA	Final appropriations available for 1977 in UA	Utilization of appropriations in 1977		Cancelled appropriations at the end of 1977 in UA	Percentage of utilization in 1977		Utilization of appropriations carried over 1977 to 1978 in EUA	Percentage of utilization of the appropriations carried over (1)	Carried over appropriations cancelled at the end of 1978 in EUA (1)
			Commitments in UA	Payments in UA		Commitments	Payments			
3551 - Consumer projects	240 000	240 000	240 000	-	0	100	0	298 447	100	0
356 - Organisation and humanizing of work	50 000	50 000	50 000	20 000	0	100	40	28 700	99	191
3621 - Scientific information Activities supplementary to the 3-year project	C. 650 000	*650 000	464 938		0	71		185 063	100	0
	P. 500 000	500 000		144 875	0		29	412 006	100	0
3701 - Data-processing sector - Second programme	C. 9 000 000	9 000 000	0		0	0		0	0	9 000 000
	P. 2 835 800	2 835 800		0	0	0	0	0	0	2 835 800
3710 - Aerospace sector - Basic research	8 000 000 (chap. 100)	8 000 000	0	0	0	0	0	0	0	8 000 000
353 - Expenditure on the preservation of the architectural heritage....	100 000	100 000	99 896	91 236	104	100	91	9 672	100	0
59 - Aid to disaster victims	5 000 000	5 000 000	4 000 000	4 000 000	1 000 000	80	80	-	-	-
970 - Financial cooperation with non-associated developing countries	45 000 000	45 000 000	44 965 206	0	34 794	100	0	4 609 884	11	36 344 054
931 - Promotion of trade relations between the Community and non-associated developing countries	5 000 000	5 000 000	4 577 710	1 814 301	422 290	91	36	1 798 504	60	1 176 309
9431 - Subsidy to the EAC for the Commission delegations in Maghreb countries	423 000 (chap. 100)	423 000	423 000	200 000	0	100	47	277 553	100	0

(1) As the 1978 figures are expressed in EUAs they do not correspond precisely with the carry-overs from 1977. Where commitments have been made, any outstanding payments at the end of 1978 have to be made against the credits of future years. See particularly items 3200 and 930.

RAPPORTEUR'S REJOINDER TO THE REMARKS MADE BY Mr TUGENDHAT in ANNEX I(a) As regards the Commission's non-implementation of amendments to the 1977 budget which provided for increased expenditure in 1977

It emerges that the Commission does not contest the figures provided in the section of the report dealing with the overall implementation of the 1977 budget (paragraph 184, page 70 onwards).

However, the Commission does not accept the basis for assessing the implementation of the budget.

One can summarize the different approaches of the two institutions as follows:

- (i) The Commission looks at the totality of the line, while the rapporteur looks at the additions to the line made by Parliament, (for example, if there were 90 EUA on the line and Parliament added a further 10, making 100 EUA, and if the Commission spent 92%, Parliament would consider that only 20% of its own amendment had been spent).
- (ii) The Commission considers what is important is what is committed for each line: Parliament believes that the basis of the budget, particularly for 1977, is payment appropriations.
- (iii) The Commission seems to believe, according to its replies, that the timing of expenditure is relatively unimportant - if the spending is spread over 2 or 3 years this seems satisfactory for the Commission: Parliament believes that such an approach breaches the principle of the annuality of the budget.
- (iv) The Commission believes that the budget is a necessary but insufficient legal basis for expenditure: Parliament believes that the budget is a necessary and sufficient legal basis.

JUSTIFICATION OF PARLIAMENT'S APPROACH

It should be recalled that the margin for increasing non-compulsory expenditure, which forms the core of the entire budgetary debate, applies to payment appropriations and not to commitments. The whole sense of Article 203 and the limits set on increasing expenditure concentrate on payments.

It should also be recalled that this margin for increasing payments is strongly contested each year.

From the taxpayer's point of view, payments are more relevant than commitments because payments have to be covered from revenue.

From an economic point of view, payments are more relevant than commitments. If the budget has any economic effect, it is through the injection of funds for specific purposes into the European economy. The postponement of those payments hence postpones the economic impact of the budget.

The postponing of payments, however, hinders effective budgetary impact. Because of inflation, a 100 EUA voted by amendment in December 1976 became worth less than 75 EUA if not spent until the end of 1978 or later.

Commitments may or may not lead to payments and, therefore, are not an entirely reliable guide to the implementation of the budget.

The postponing of payments to future financial years make it almost impossible for Parliament to check that the payments have been affected. They are "lost in the mass". If 100 EUA is voted for 1977 and 80 EUA is carried over to 1978 to add to another 100 EUA voted, specifically for 1978, and if, say 120 EUA is spent in 1978, who is to say if Parliament's original vote has been implemented.

This problem is aggravated by excessive carryovers, not just from one year to another but over several years. In the case of the non-associated developing countries (Article 930), the Commission committed 100% of the line in December 1977 (12 months after the original vote), it spent only 10% by December 1978, so it will be 1979 or 1980 at the earliest before any view as to the implementation of that line is possible.

As regards the legal argument, Parliament is confronted with a breakdown of trust between the institutions. At no stage did the Commission or Council draw attention to these real problems of implementing the budget. In the 1977 budgetary procedure, if Commission or Council had advised Parliament that voting appropriations for particular lines might not lead to spending because of this problem,

Parliament might well have decided to use its margin in another fashion. Instead, the Commission actively solicited Parliament's support for amendments to lines where it knew that there would be considerable difficulties in getting Council agreement to the

regulations proposed. Furthermore, it actively discouraged Parliament from a major increase in social funds where no legal question was posed.

Council and Commission invoke this legal argument when it suits. The non-associated developing countries case is proof of this; the Commission merely informed the institutions as to the projects it intended financing; no decision on the basic regulation was taken by the time it committed appropriations. In other words, the Commission felt that, politically it had to provide some aid and, legally, the budget sufficed.

Parliament remains convinced of this point concerning the budget as legal basis: for the 1979 budget it altered the remarks column of the budget in order to prevent the Commission or Council wriggling out of implementing the budget - not because of any second thoughts on its own part.

Below is summarised the position as regards each amendment for both spending and commitments. This does show that for a majority of these amendments commitments were made to a considerable extent. However, if one takes the most politically important and significant amendments (Items 3200, 3201, 3701, 3710, 930) dealing with energy, industry and aid, and totalling not more than 90 MUA in payments - not one unit of account of which was actually spent in the year - the picture for commitments is almost equally unsatisfactory. Item 3200 was partially committed. Items 3201, 3701 and 3710 were not committed at all and Article 930 was committed only at the tail end of the year, with major delays in payments as a consequence.

It is not the number of amendments therefore that counts but the particular amendments of political substance. Parliament was more successful in its amendments which added a few thousand UAs to innocuous lines (studies, etc.) than it was with amendments to sectors of economic priority to which it attached great importance.

THE FACTS ABOUT AMENDMENTS ITEM BY ITEM (Pages 70 - 73 of report refer)

Modification on food-aid (Chapter 92):

Despite the Commission's explanation, the fact remains that these appropriations (14 MUA in Chapter 100) to finance food-aid were cancelled (automatically, with no prior warning to Parliament) despite the fact that Council's original acceptance of this modification had been hailed as a step forward in Parliament's budgetary powers and was part of the compromise of December 1976.

LINE, HEADING and EFFECT OF EUROPEAN PARLIAMENT'S AMENDMENTS:

- (i) Item 2243 Development of data processing applications + 500,000 ua

The Commission committed in 1977 - but paid out only in 1978.

- (ii) Article 254 Measures for young people + 60,000 ua

The Commission says that "there has been some delay in starting up the forum for youth affairs". "Some delay" is right. The original proposal was launched following the 1969 Summit at the Hague. Detailed proposals were considered by Parliament in 1973. Appropriations have been entered regularly - often with the encouragement of the Commission. Even by the end of 1978, this body had not got off the ground.

- (iii) Item 2653 Studies in the nuclear fuel cycle + 60,000 ua

The Commission committed 99% of appropriations in 1977: it does not state if it has succeeded in making any payments as yet.

- (iv) Item 2729 Information projects relating to direct elections to the European Parliament + 600,000 ua

Ninety-five percent of the appropriations were committed in 1977. In 1978, the carryovers were entirely utilised.

- (v) Article 282 European Communities Institute for Economic Analysis and Research + 1,000,000 ua

No appropriations spent or committed. The Commission seems to have abandoned this project - no appropriations were voted in 1979. No progress seems to have been achieved.

- (vi) Article 291 Subsidies to European movements + 3,600 ua

Parliament voted a small extra and specific subsidy for this line which was not in any way utilised. The Commission says it committed 97% of appropriations, the 3% uncommitted and cancelled contained Parliament's specific amendment

- (vii) Item 3031 Action for migrant workers + 500,000 ua

This amendment was 100% committed, but only 2.5% was paid

- (viii) Item 3050 Employment analyses + 130,000 ua

This amendment was 100% committed, but none of that part of the amount placed on the line by Parliament was paid out.

- (ix) Article 316 Vocational training for farmers + 60,000 ua

This amendment, for agricultural purposes, was 100% committed and paid.

LINE, HEADING and EFFECT of EUROPEAN PARLIAMENT'S AMENDMENTS:

- (x) Item 3200 Community technological development projects in the hydrocarbon sector + 15,000,000 ua (12 m.frozen)

Appropriations resulting from this important amendment were only partially committed, no payments made. No sense of urgency as regards this basic energy priority.

- (xi) Item 3201 Joint projects in prospecting for hydrocarbons + 9,000,000 ua
The Commission just abandoned this line (25 MUA in commitments) simply because Council did **not** react to the Commission's proposals.

- (xii) Article 321 Prospecting for uranium + 2,000,000 ua

No appropriations were spent until the following year, when all were used up.

- (xiii) Item 3380 Expenditure on the project on training + 139,800 ua

- (xiv) Item 3383 Possible JRC operating expenditure + 53,746,241 ua

- (xv) Item 3390 Provisional appropriations for certain JRC staff expenditure adjustments + 2,344,000 ua

As, during the course of 1977, there were so many different transfers involving JRC expenditure, the fate of Parliament's amendments is practically impossible to ascertain. The overall rate of utilisation (90% for commitment and 77% for payment) seems relatively satisfactory.

- (xvi) Article 351 Health and safety in respect of air and water + 40,000 ua

Over two years eventually reached the total of 90% utilisation: (42% in first year) not enough to cover Parliament's amendment which had added an extra 5% to the total appropriations available.

- (xvii) Item 3540 Environmental studies + 112,000 ua

The Commission states that "nearly all" was spent in 1978: (32% in first year) again, it is not clear if Parliament's amendment which added to the line was implemented.

- (xviii) Item 3541 Environmental projects + 30,000 ua

The majority of appropriations were carried over into 1978. (58% spent in the first year). No explanation is given as to why it was not possible to spend the money in 1977.

LINE, HEADING and EFFECT of EUROPEAN PARLIAMENT'S AMENDMENTS:

- (xix) Item 3550 Consumer protection studies + 20,000 ua
The same remarks apply as above. 32% was spent in the first year. + 20,000 ua
- (xx) Item 3551 Consumer projects + 30,000 ua
Nothing was spent in the first year
- (xxi) Article 356 Organisation and humanising of work + 50,000 ua

40% spent in 1977, fully implemented in 1978.

- (xxii) Item 3621 Activities supplementary to the three year project (data-processing) + 500,000 ua

72% was carried over to 1978.

- (xxiii) Item 3701 Second data-processing programme + 2,836,000 ua

The Commission states that it was "jointly agreed that the appropriations entered in the 1977 budget would not be used, as this action could only be implemented in 1978". "Jointly agreed" by whom? Nothing was committed or spent in 1977.

- (xxiv) Item 3710 Basic research in the aerospace sector + 8,000,000 ua

Another important amendment on which no action has, as yet, been taken. The Commission states simply "it will not be possible to implement the projects until 1979". Why did the Commission not take the initiative on this point? Why did they not involve Parliament in the general problem? Nothing was committed or spent in 1977 or 1978.

- (xxv) Chapter 59 Aid to disaster victims + 5,000,000 ua

The Commission quite rightly points out that ideally no expenditure should be made from this line. It is somewhat disquieting that of all Parliament's amendments this one has the second highest rate of utilisation.

- (xxvi) Article 930 Cooperation with non-associated developing countries + 45,000,000 ua

Possibly the most important amendment passed by Parliament. The Commission did not conclude the financing agreements until 15 December 1977 because it had timorously held back to avoid incurring Council's wrath. By 31 December 1978, the total payments made of the original 45 MUA voted amounted to 10% - i.e. after two years of implementation.

LINE, HEADING and EFFECT of EUROPEAN PARLIAMENT'S AMENDMENTS:

(xxvii) Article 931 Trade with non-associated developing countries
+ 1,500,000 ua

A very low rate of implementation - 36% - sustained at this level even into 1978.

(xxviii) Item 9431 Commission delegations in Maghreb countries
+ 681,000 ua

Mr Tugendhat, in a masterly understatement said that "the Commission does not avoid all criticisms" on this amendment. In other words, nothing was spent or committed: the delegations were not installed, and the Commission carried over and later cancelled the remaining appropriations. Parliament was not associated with this.

(b) Shortcomings in the accounts

General lack of clarity

As expressed in some detail in the opening part of the Explanatory Statement to this draft report - paragraphs 4 to 10 above - the Community accounts, as presented by the Commission, fall far short of what is required of a basic tool for analysing the fiscal activities of the Community in the context of the annual discharge.

A greater transparency and a more effective presentation of the Community's transactions is essential for several reasons:

- the European taxpayer is entitled to know what is done with the proceeds of own resources;
- the beneficiaries should be fully informed;
- members of Parliament, the Council and the Community officials themselves should be able to peruse rapidly a clearly presented text and readily find the statistics they need.

In that way, all interested parties could gauge the impact of Community operations and perceive the real worth of Community property and of the stocks accumulated as a result of the operation of Community policies. This is simply not possible under the existing presentation.

Court of Auditors' complaint

The rapporteur is not alone in saying that the accounts of the Community leave much to be desired. This is also the view of the Court of Auditors which stated at paragraph 4.9 of its 1977 report, apropos the Social Fund accounts, that:

'the overlapping of the three different financial regimes.....
..has led to a confusing and erroneous situation in the revenue and expenditure account.'

Later, the Commission gave the impression that this particular difference of views had been smoothed over. But this is not so, as transpired from the contribution of a representative of the Court of Auditors at the meeting of the Committee on Budgets on 17 May to the effect that the sections of the Court responsible for this part of the annual report are still not entirely satisfied with the presentation of figures and they intend to pursue the matter in discussion with the Commission with a view to dealing with it further in the 1978 report. Now that both the Parliament and the Court of Auditors have highlighted this problem the opportunity to revise the present unclear situation should be taken.

Major omission of stocks and fixed assets

Apart from the lack of clarity in presentation, there is also the matter of the major omission of particulars of stocks and of fixed assets from the Community's annual accounts. In the opening section of his report, the rapporteur pointed out the position insofar as fixed assets are concerned.

Here again, the rapporteur's viewpoint is shared by the Court of Auditors which states at paragraph 1.24(i) of its report on the 1977 financial year:

'the summarised balance sheet included in the accounts does not adequately present the assets and liabilities of the Community, as required by the Financial Regulations.'

The Commission has insisted that it is appropriate to write off fully - immediately on acquisition - fixed assets. This procedure lacks clarity because it conceals the real worth of the Community; it does not ensure full revelation of assets held and it is not endorsed by the Court of Auditors. Moreover, the Financial Regulations in requiring the drawing up of the "balance sheet of assets and liabilities of the Communities" (Article 76) would indicate that a more meaningful statement should be produced. To continue with what has been euphemistically called the "traditional practice" would be to continue to deprive the Parliament and the Court of Auditors of useful basic information.

The major issue is, of course, the colossal Community holdings of agricultural stocks - both public and private. The Commission makes the point that, for these stocks, "a traditional procedure has been followed"; that is, they have been simply omitted from the documents which constitute the basis for the consideration of the annual discharge. Moreover, the Commission further explains that, since in its view these stocks are not Community property, they are extraneous to the formal accounts.

Your rapporteur contends that, as these stocks literally reflect the fiscal expenditure of the Community's major policy (agriculture), they should be published in the annual accounts - if only as an annex - so that the various interested parties could note their vast extent and their development from year to year.

The bodies - 'intervention agencies' - responsible for administering these stocks might appear, at first sight, to be national bodies having a special rôle and status. Functionally, they carry out a Community task which is absolutely vital to the operation of the Common Agricultural Policy as it now exists. They ensure the functioning of the prices policies and they use Community funds (as well as other funds) for their operations. In fact, they are indisputably key Community organs. Moreover, they account for their management to the Commission, which examines their records (Article 5 (2) (b) of Regulation 729/70).

Your rapporteur maintains that the actual ownership at a particular point in time is not a dominant factor: even if Community ownership were to be disputed, then, at least, the information rôle of the accounts should be respected and the quantities and values of these stocks clearly presented in the annual balance sheet.

After all, the basic question is not who owns the stocks but how great they are and how much they cost and, as is apparent from the table at paragraph 10 above, the quantities and values involved are great indeed. The general public, the taxpayers and members of the European Parliament are entitled to have this information on what is a major aspect of Community policy. Therefore, the data should appear in the annual balance sheet.

Working Document drawn up by Mr Notenboom on
the preparation of the discharge for 1977 in
respect of the Social Fund.

I. Introduction

1.1 - The objective of the European Social Fund, set up in principle by Article 3 and administered in accordance with Articles 123 to 128 of the EEC Treaty, is 'to improve employment opportunities for workers and to contribute to the raising of their standard of living'¹.

Throughout the 12-year transitional period, the operation of the Fund was governed by the provisions of Regulation No. 9 of 1960, and it was only after the reform of 1 February 1971 that the present method of administration was adopted.

Further modifications to the Fund, required to 'adapt the Fund regulation as a whole to the new employment situation and simplify and render more efficient its management'², were brought into force on 1 January 1978.

1.2 - On 1 May 1972 the 'new Fund' became operational and it became possible to finance:

- direct interventions designed to cope with employment problems resulting from special measures adopted by the Council or else needed to maintain balance between supply and demand on the Community labour market (Article 4), and
- operations intended (in certain regions, areas of activity of groups of undertakings) to deal with difficulties associated with the Common Market or likely to impede the development of the Community (Article 5).

1.3 - As a general rule, the Fund finances some 50% of eligible expenditure, the one proviso being that its contribution must not exceed the total amount of the expenditure incurred by the national public administrations.

¹ Article 3 of the Treaty

² Sixth report on the Activities of the European Social Fund - 1977 financial year (COM(78) 476 final) - page 50.

2. Management of the Fund in 1977 - general observations

2.1 - In the Sixth Report on the Activities of the Social Fund, the Commission draws attention to a number of factors that are fundamentally important for an accurate assessment of the Fund's role, taking into account the prevailing socio-economic climate. In particular:

- In 1977 the employment problems confronting the Social Fund were even more severe than in 1976, since the number of unemployed had risen by more than half a million to reach a total of 6 million;
- Although allocations to the Fund were 40% higher than in 1976, the total volume of applications exceeded available appropriations by 50%. Consequently, while all 'first priority' applications were granted, the 'linear reduction system' introduced in 1976 had to be applied in various spheres to 'second priority' applications.

Applications for assistance from the European Social Fund
submitted in 1977

Member State	In m u. a.			
	Amount applied for	Non-eligible amounts	Linear reduction	Contributions made
Belgium	13.29	--	3.96	9.33
Denmark	25.16	4.15	7.23	13.78
Germany	112.49	33.78	19.42	59.29
France	175.40	22.58	27.08	125.74
Ireland	49.13	2.16	--	46.97
Italy	150.06	7.34	22.72	120.00
Luxembourg	0.05	0.03	--	0.01
Netherlands	23.38	4.15	6.97	12.26
United Kingdom	389.09	68.49	92.35	228.25
Total	938.05	142.68	179.74	615.63

- About one million persons benefited directly from the programmes adopted in 1977, while a further 250,000 persons received assistance under earlier programmes.

Recipients of Social Fund aid by intervention sector

Intervention sector	Recipients under programmes adopted in 1977	Recipients under programmes adopted earlier but applicable in 1977 and later
Persons leaving agriculture	20,000	18,000
Persons working in the textile and clothing sector	19,300	10,000
Migrant workers	233,250	180,000
Young persons	486,000	60,000
Handicapped	30,450	3,000
Crisis regions	292,000	132,000
Technical progress and groups of undertakings	5,000	22,000
Total	1,086,000	425,000

- Payments in 1977 amounted to 316.8 m u.a., an increase of 29% on the previous year. Of this amount, however, only 4.79 m u.a., almost all of which was earmarked for projects carried out in Ireland, were paid in respect of the commitments made (616 m u.a.) in the reference year.

Utilization of appropriations in the 1977 financial year

in m EUA

Budget heading	Commitments		Payments			Appropriations carried forward automatically Art.6(2)(b)F.R.)
	Available approps.	Commits. made	E f f e c t e d			
			from 1976 carry-overs	from 1977 approps.	Total	
Art. 500 Agric. + textiles	50.70	50.65	21.13	10.98	32.11	1.91
501 Young persons	174.10	174.01	20.16	13.17	33.33	6.82
502 Handicapped	21.90	21.90	13.76	2.81	16.57	2.18
503 Migrant workers	26.10	26.10	8.58	10.09	18.67	0.40
505 Women	--	--	--	--	--	--
510 Regions - Tech. prog. & groups of comps.	310.00	309.97	122.50	63.82	186.32	41.68
511 Handicapped	33.00	33.00	14.80	14.08	28.88	3.91
520 Pilot schemes + prep.studies	1.30	1.28	0.58	0.42	1.00	0.11
Total	617.10	616.91	201.51	115.37	316.88	57.06

- Outstanding commitments at the end of 1977 amounted to 1,261 m u.a., 'of which 879 m u.a. related to commitments made for 1977 and 1978 for which no claims had been received'¹.

2.2 - In the light of these factors, your rapporteur, confronted with the problem of determining the most important issues with a view to drawing up an opinion on the management of the Fund during 1977, concluded that three matters warranted special attention, namely:

- payments,
- objectives of the programmes,
- implementation and structure of control mechanisms.

It should, moreover, be pointed out that the Court of Auditors, in its first year of operation, has concentrated almost exclusively on accounting and administrative matters in the survey of the Social Fund in its annual report on the financial year 1977. In other words, while it has given ample coverage to matters relating to the drawing up and presentation of the accounts, because of lack of time and a shortage of staff it was unable to carry out a satisfactory appraisal of the content and objectives of the programmes. As far as it goes, however, its study of the Fund is extremely valuable, partly because it can be taken as the basis for more thorough investigations, and partly because it goes some way towards dispelling the confusion created by the introduction in the budget of a distinction between commitment appropriations and payment appropriations.

3. Payments

3.1 - The following table, taken from the Sixth Report on the Activities of the Social Fund, shows the trend in payments made in the years 1973-77, by country of origin of promoter and the year in which operations were carried out.

¹ See Sixth Report, page 44.

Member State	1973	1974	1975	1976	1977	Total
Belgium	4.11	4.53	5.67	5.89	0.01	19.92
Denmark	4.66	11.79	8.49	9.36	--	34.30
Germany	16.16	25.08	39.17	28.66	--	109.07
France	26.60	38.49	30.47	8.79	--	104.35
Ireland	8.68	13.04	16.35	16.77	3.87	58.71
Italy	32.48	59.63	62.74	68.47	0.91	224.23
Luxembourg	--	0.01	0.04	--	--	0.05
Netherlands	5.96	5.47	7.71	7.85	--	26.99
United Kingdom	52.95	58.19	88.25	63.32	--	262.71
Total	151.61	216.23	258.89	208.81	4.79	840.33

The figures in this table, in particular those for 1977, point clearly to a familiar, but as yet unresolved, problem, viz. the delays in making payments. Even the Commission, in its document analysing the financial management for the 1977 financial year, admits that, with every year that passes, the low level of the payments for operations carried out is becoming more and more marked¹.

3.2 - Your rapporteur considers that he now has enough evidence to show that there are two distinct reasons for these delays.

(A) Delays attributable to the national administrations

Here the delays are caused partly by the dilatoriness and inefficiency of certain government departments (the regional authorities sometimes play a decisive role), partly by the failure to carry out projects for which appropriations have already been committed by the Fund, and partly by the fact that some programmes were on a smaller scale than was planned.

It should be pointed out that, although in some quarters this phenomenon is considered to be the result of a normal and almost inevitable tendency for projects to become obsolete because of the ever-changing state of the labour market, the fact remains that some of the causative factors can within limits be controlled. Furthermore, a substantial proportion of the programmes submitted for approval by the Fund relate to requirements which are imposed by specific contingencies and which can be met only if it can be guaranteed that the necessary assistance is granted in good time. In other words, delays in the approval of applications tend to lead to a loss of interest on the part of promoters.

¹ Analysis of the financial management of the revenue and expenditure accounts of the European Communities for the 1977 financial year - p.92.

(B) Delays attributable to the management of the Social Fund

From the information that it has been possible to obtain, it is evident that, at present, the time required to complete the various stages of processing applications for assistance (scrutiny of applications, opinion of the Fund Committee, decision by the Commission and notification of that decision to the national administrations of the Member States) is likely to vary between a minimum of three and a maximum of five months. Allowing also for the time needed for the taking of decisions on the payment of advances, which from 1 January 1978 replaced the old system of payments, it is obvious that further efforts must be made to eliminate the delays that still occur during the examination of applications.

It would seem that one of the main causes of such delays is the build-up of projects at certain times of the year, which cannot be coped with because of the chronic shortage of staff and technical machinery complained of by the Fund administration.

3.3 - On the basis of the foregoing observations, your rapporteur would take this opportunity to re-emphasize the need to urge the Member States to expedite the submission of applications for assistance (in this regard, the decision to publicize details of the amounts not yet collected by each country is most certainly worthwhile), and to express the hope that the new procedure for processing applications, which is to be introduced in the autumn of next year, will achieve its objective, i.e. to bring more flexibility and efficiency to the management of the Fund.

Your rapporteur also takes the view that sympathetic consideration should be given to the requests for extra staff and appropriate technical machinery (a computer for centralizing data), with a view to speeding up the decision-making procedures and making it possible for programmes to be thoroughly appraised and subjected to more stringent control as regards their implementation.

4. Objectives of the programmes

4.1 - Before discussing the problem of verifying the compatibility between the objectives specified in the projects and those actually pursued, your rapporteur considers it worthwhile recalling that, unlike other Community instruments, the Social Fund administration is required

to make a selection from among the applications received that is bound to take into account the results already obtained. Consequently, any lack of Community control or, as has been recommended, any delegation of supervisory powers to the national administrations, would be tantamount to restoring authority in this area to the Member States, which cannot be condoned by Parliament.

4.2 - Although this is not the place for an appraisal of the technical work undertaken prior to the approval of applications for assistance submitted to the Social Fund, it is essential to underline the importance of the checks carried out during and on completion of the projects.

In the course of 1977, 91 on-the-spot inspections were made. Unfortunately, however, as has already been said in paragraph 2.2, the Court of Auditors was not in a position to give an opinion on the conduct or the effectiveness of these checks. Moreover, the Fund administration itself was unable to provide even a rough indication of the employment prospects of the 1,250,000 persons who benefited from the projects financed.

- 4.3 - That having been said, your rapporteur
- is convinced that, while bureaucratic and administrative powers of control may be delegated to the national authorities, on-the-spot checks must continue to be carried out by representatives of the appropriate Community departments;
 - wonders whether it would not be appropriate to set up a task force with responsibility for supervising the implementation of projects;
 - approves the recommendation made to the Member States that they include in their annual reports statistical data on the results achieved in the employment sector.

5. Other control aspects

5.1 - In addition to the checks on programmes which the Fund helps to finance, there are other control mechanisms which should be examined with a view to their rationalization, namely:

- the 'financial control' carried out by the Commission,
- the investigations conducted by the Court of Auditors when drawing up its annual report,
- the political control exercised by the European Parliament, with particular reference to 'the discharge to be given to the Commission in respect of the implementation of the budget'.

5.2 - Accepting that, after the initial 'running-in' period, i.e. after 1978, the Court of Auditors will be able to be far more specific in its evaluation of the important issues discussed in the previous paragraph, and in view of the need to avoid carrying out several checks in the same operation, consideration must be given to the possibility of simplifying the existing procedures. In particular, the 'financial control' functions exercised by the Commission - according to the administrators of the Social Fund - by reason of their complexity, have aggravated the problem of staff shortages and do nothing to speed up the decisions on applications for assistance. It is therefore desirable for the Social Fund and the Court of Auditors to set out their views on this matter in their respective reports.

6. Conclusions

In the light of the foregoing observations, your rapporteur:

- would point out that, like the 1976 financial year, the 1977 financial year must be considered a transitional period;
- expresses the view that the effectiveness of the amendments made to the Fund regulation will have to be carefully reappraised in connection with the discharge to be given for 1978;
- expresses the hope that, unlike this year, the Court of Auditors will be in a position next year to produce a detailed analysis of the Fund's selection, management and verification procedures, and urges the Court to submit observations on the structure and application of the various control mechanisms;
- calls upon the Social Fund administration to examine more thoroughly the applications for assistance submitted to it and to supervise the implementation of the projects approved in such a way as to ensure that the results obtained are consistent with the objectives specified;
- considers that the maximum pressure should be brought to bear on the Member States (in part through the publication of data relating to amounts of aid not yet collected) to persuade them to expedite applications for payment;
- recommends that, with effect from the next financial year, the reports on the activities of the Social Fund should include statistical data which illustrate the impact on the employment situation of the projects undertaken and so permit the objectives and the value of these projects to be evaluated;

- considers that the persistence of considerable delays in the Fund's management is in large measure attributable to staff shortages and the lack of adequate technical machinery, and recommends that the requests made by the Fund's administration should be given sympathetic consideration;
- express a favourable opinion on the management of the Social Fund for the 1977 financial year.

EUROPEAN PARLIAMENT

COMMITTEE ON BUDGETS

WORKING DOCUMENT

on the
implementation of the general budget of the
European Communities and on the accounts for the
financial year 1977

PART II

(Annexes IV, V and VI, pages 128-246)

Rapporteur: Lord BRUCE of DONINGTON

20 June 1979

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REPLIES to Questionnaire on the basis of the annual report of the Court of Auditors concerning the financial year 1977 and on the replies of the Institutions

GENERAL CONSIDERATIONS

Question 6

Why does the Commission believe it necessary to limit the supply of documents and information to the Court to the extent that it would seek to define what information was necessary to the fulfilment of the tasks of the Court? (Commission, paragraph 1.6)

Question 7

Does the Court of Auditors accept this restrictive interpretation by the Commission? (Court of Auditors paragraph 1.6)

Answer

The Court of Auditors does not accept the interpretation placed by the Commission on the Treaty of 22 July 1975 concerning the conditions under which the Institutions have an obligation to supply information to the Court of Auditors. In the opinion of the Court of Auditors, based on Article 206(a) of the Treaty and on Articles 80 and 82 of the Financial Regulation of 21 December 1977, only the Court has the right to judge what information it considers necessary for the performance of its task.

Question 8

What is the breakdown between staff involved in horizontal and vertical tasks? (Court of Auditors, paragraphs 1.10 and 1.11)

Answer

As at 31 December 1978 the posts available to the Court were broken down as follows:

Vertical sectors	:	58
Horizontal sectors	:	29
Language services	:	25
Cabinets	:	36 ⁽¹⁾
Special services sector	:	16 ⁽²⁾
		<hr/>
<u>TOTAL</u>		164
		<hr/>

- (1) Two personal assistants and two secretaries for each Member. The personal assistants are involved in work in the vertical and horizontal sectors.
- (2) Nine drivers and seven porters or messengers.

Question 9

Can the Court supply to the Subcommittee its organizational chart, accompanied by job descriptions of all administrative units? (Court of Auditors, paragraph 3.11)

Answer

Information is attached at Page 153.

Question 10

What practical suggestions can the Court and the Commission put forward as regards improvements in the timetable? (Court of Auditors and Commission, paragraph 1.13)

Answer

The Court has no specific suggestions to make on this matter at the present time. The problem is under active consideration and it is hoped that proposals can be made in a subsequent report.

Question 11

Can the Court specify the number of spot checks carried out by its officials or by those of the Audit Board concerning the implementation of the 1977 budget? (Court of Auditors, paragraphs 1.14 and 1.15)

Answer

The Court carried out 15 on-the-spot audits in the Member States concerning the implementation of the 1977 budget plus one audit in an ACP country. In addition numerous checks have been carried out at Community Institutions in Brussels and Luxembourg.

Question 12

During the 1979 financial year, how many staff within the Court will be directly employed in audit - and how many on-the-spot checks will it be possible to undertake? (Court of Auditors, paragraph 1.15)

Answer

The Court is still considering the allocation of posts during the 1979 financial year, bearing in mind that not all of the posts it sought for this year were granted by the budgetary authority. No figure can be given for on-the-spot audits to be carried out in 1979: the work programme for the year is not yet complete.

Question 14

Can the Court say what progress it has made in making recommendations to improve the efficacy of the various systems of financial control? (Court of Auditors, paragraph 1.19)

Answer

In examining the draft Financial Regulations transmitted to it by the Council under Article 209 (as amended) of the Treaty of Rome, the Court keeps in mind the need to improve the efficacy of financial control. The Court has also set in hand an enquiry into the systems of control in the Member States, to obtain information which may be used to that end. Chapter 11 of the Report under consideration also contains suggestions for improving control in general accounting matters.

Question 15

In the first twelve months of its existence, can the Court give a brief account and tentative conclusions of its work in detecting fraud? (Court of Auditors, paragraph 1.20)

Answer

No cases in which fraud was detected as a result of the Court's audits came to light in the first twelve months of its existence. This was hardly to be expected given the problems involved. As stated in paragraphs 1.16 to 1.21 of the Report on the 1977 Accounts, the Court's main attention is directed at the prevention of fraud.

Question 16

According to what criteria will the Court base its selective approach as regards the examination of individual documents, etc.? (Court of Auditors, paragraph 1.20)

Answer

In the Court's view it would be imprudent to indicate in advance what criteria it will be adopting in its method of selecting individual documents.

Question 17

Can the Court state what progress it has made in improving liaison with the national audit organisations? (Court of Auditors, paragraph 1.21)

Answer

During 1978 the Court visited the headquarters of all the supreme national audit bodies and participated in a meeting at Copenhagen with the heads of these audit bodies. Each body has nominated a liaison officer for coordinating contacts with the Court. In December 1978 the Court chaired a meeting of these liaison officers in Luxembourg. These useful discussions covered among other matters: the procedures to be followed when arranging the Court's audits in the Member States; the supply of documentation and information by the national audit bodies to the Court under Article 206(a), paragraph 3 of the Treaty, as amended; the exchange of audit working programmes; and an exchange of views on ways to audit financial management in administration. The Court proposes to hold further meetings with the liaison officers and to develop its professional relationship with all the supreme national audit bodies.

Question 18

Is the Court satisfied with the cooperation of national authorities in detecting fraud? Have there been any instances of conflict as regards expenditure in the 1977 financial year? (Court of Auditors, paragraph 1.21)

Answer

No problems arose for 1977.

Question 19

Does the Court not agree that the existence of national auditing and control procedures does not, in any way, diminish the responsibility of Community audit authorities to submit the Community expenditure to strict control, even where national procedures exist side by side. (Court of Auditors paragraph 1.21)

Answer

The Court agrees that its responsibilities are not in any way diminished by the existence of national auditing control procedures. Its duties and powers are derived from the Treaty of 22 July 1975, and the statements annexed thereto, which do not qualify them in any respect by reference to the national audit bodies.

The Treaty does, however, oblige the Court to act in liaison with the national audit bodies in the exercise of its functions. The Court has already made the necessary arrangements to implement this requirement (c.f. answer to question 17).

THE GUARANTEE SECTION OF THE EAGGF

Question 27

Has the Court noted any improvement in the respecting of the deadlines laid down or does it intend to publish a separate Report on the Guarantee Section in the future? (Court of Auditors, para. 2.10)

Answer

There will be little improvement for 1978 as regards the delays noted by the Court in the commitment and detailed allocation of expenditure and consequently in the forwarding of the relevant supporting documents. Delays have also been noted in respect of the statutory deadlines for the decisions to transfer and to carry over appropriations. It is therefore the whole system which is in question and which could warrant the procedure envisaged by the Court in paragraph 2.10 of the Annual Report.

Question 28

Has final settlement been made for the accounts 1967/68 - 1970? (Court of Auditors, para. 2.13).

Answer

The final settlement for the periods 1967/68 to 1970 was made by payments to the creditor Member States, i.e. France and the Netherlands, on 27 September 1978. The documents relating to these operations as well as to the corresponding debit transactions have not yet reached the Court. The Court will examine them at the same time as those relating to the implementation of the 1978 budget.

Question 29

What has been the outcome of the challenge by three Member States - Germany, France and the Netherlands, concerning disputed sums amounting to 24.6 MUA for the accounts 1971 and 1972? (Court of Auditors, para. 2.15).

Answer

The Court of Justice has delivered judgements on these cases. The Court of Auditors is in the process of studying these judgements and will not fail to draw any consequences which may be necessary for its work.

Question 30

Have the two outstanding Member States now supplied the supporting documents for the financial year 1976? What was the reason for the other delays? (Court of Auditors, para. 2.17 iii)

Answer

At the end of April 1978, two Member States had not yet forwarded the documents stipulated in Reg.1723/72 relating to the settlement of the 1976 accounts, which should have arrived by 31 March 1977 at the latest. Ireland sent them to the Commission on 24 October 1978 and Italy, which had previously forwarded the documents concerning l'Itendenza di Finanza et la Casa Congliolo Zuccherio, sent the documents relating to AIMA on 2 December 1978.

Question 37

At the close of the financial year, why did Italy hold a balance amounting to more than 50% of the total funds available at year end? (Court of Auditors and Commission, para. 2.49)

Answer

In its seventh financial report relating to EAGGF - 1977 (Doc. COM (78) 633 final) of 24 November 1978, the Commission gave the following reply (p.27).

"As regards Italy, the rate of utilization is not wholly satisfactory; it results largely from the system used for the administration of funds made available to that country. Although the situation had improved in 1975 and 1976, it got very much worse in 1977. Even though the financial benefits which resulted from transfers of produce in intervention have themselves helped to reduce the mean rate of utilization an analysis of the situation shows that during the first eleven months of the year Italy had at its disposal a very substantial working capital, sufficient to cover expenditure for upwards of fifty days. Accumulated delays in the payment of claims (amounting to about 500 M ua) and certain administrative and financial practices have together created this situation. The Commission has stressed the need to reduce such delays but does not wish later on to reduce the amount of advances which have been requested, in order not to put any obstacle in the way of improving the situation.

The Commission has in mind the possibility of charging the Member States interest on any excessive working capital that they may hold."

Question 47

Can the Court elaborate on its linking of the question of the delays as regards the presentation of detailed statements with the general problem of the delays in finalising accounts? (Court of Auditors, page 2.27)

Answer

The delay on the part of the Member States in presenting detailed statements is an important element in the delay in finalising accounts. This point is dealt with in the Court's comment on the reply of the Commission concerning paragraphs 2.11 to 2.21 of the Report.

Question 54

As regards particular cases of fraud from 1971 to 1976, the Court says that legal proceedings are still going on for most of the cases; for some, Member States indicate that they have sought reimbursement. Would the bodies concerned care to comment on the enforceability, before national courts, of agricultural regulations? Have any particular problems arisen in any Member States as regards domestic legal proceedings? (Court of Auditors and Commission, para. 2.72)

Answer

The Court has not yet addressed itself in detail to the subject of the legal proceedings used in the Member States in pursuit of cases of breaches of Community legislation relating to EAGGF - Guarantee. Nevertheless, these regulations are directly applicable in the Member States and, therefore, constitute suitable grounds for legal proceedings.

Question 60

Is the Court satisfied with the Commission's reply concerning the closing of the gap between purchase price and selling price by the action of intervention agencies which the Court judges to have no incentive to reduce this gap to a maximum, and the controls which the Court claims do not exist? Is the general experience that the intervention agencies "act" commercially? (Court of Auditors, paragraph 2.96)

Answer

The Court deals with this point in its comment on the Commission's Reply (page 37 of the Report as published in the Official Journal). It intends to assess the conduct of the intervention agencies as regards the rational management of stocks.

Question 62

For the invitation to tender for sales for export, is it correct to say, as the Court of Auditors does, that "there is no publication in the strict sense of the term"? (Court of Auditors and Commission, para. 2.101)

Answer

This remark applies to the Intervention Agencies in the Member States, not to the Commission, which, as the Court indicates in paragraph 2.99 of its Report, is responsible solely for publishing the decision to open tendering procedures in the Official Journal. It is the Intervention Agencies which thereafter do not provide "publicity in the strict sense of the term".

Question 64

The Commission states that the time limit of ten days for the submission of tenders is sufficient. The Court maintains that it is not always observed and is insufficient. Would not both parties agree that a slightly longer time limit would permit more adequate publications? (Court of Auditors and Commission, paragraph 2.104)

Answer

This question is related to that of publicity (Question 62). The Court thinks this points to a need for a study on the conditions of access to Community activities which European enterprises have to meet.

Question 65

As regards the delays once the export licence is granted, there is a difference of opinion as to whether or not the EAGGF bears the cost. The Commission states that the EAGGF does not bear the additional storage cost caused by protracted intervention storage. The Court maintains that the EAGGF pays as compensation to the same (intervention) agency a sum exceeding the monthly increase in respect of the storage and financing expenses incurred by the agency for goods sold. What is the reason for this excess? (Court of Auditors and Commission, paragraphs 2.105 - 2.110)

Answer

This is principally a question for the Commission. It will be noted however that the sum of the monthly increase is fixed by the Council for each year at the time when the agricultural prices are determined. The amount of storage and financing expenses is, however, fixed by the Commission, after consulting the EAGGF Committee, at a much later stage, retrospectively for the financial year. In recent years this latter amount has exceeded the former. Nevertheless, as far as the Court is aware, the Commission has never invoked its powers under Reg. 376/70 of making a higher charge on the purchaser than the amount originally fixed by the Council.

Question 67

As regards tendering for export refunds, it appears that there is no guarantee of further publicity for the issuing of tenders in the Member States, with the exception of France. Why not? Furthermore, it appears that the period of 15 days laid down in the basic regulation between the publication of the notice of invitation to tender and the first date fixed for the submission of tenders is not always respected. Why not and how widespread is this practice. (Court of Auditors and Commission, paragraph 2.117)

Answer

Regulation 279/75 does not lay down any obligation on the Member States in this respect. The problem of deadlines is dealt with in the reply to Question 64.

THE GUIDANCE SECTION OF THE EAGGF

Question 71

The Court cites five instances where payments were made to concerns which held dominant positions in the market.

The Commission maintains that this claim is not always valid because the dominance is not established or because of the limited nature of the market.

Does the Court accept this rebuttal? (Court, paragraph 3.26 and reply)

Answer

The Court does not believe that the reply of the Commission amounts to a rebuttal of the arguments expressed in paragraphs 3.26 and 3.27 of the Report. The Commission does not contest that in the cases quoted the Community aid was granted to concerns which have a dominant position in their respective market (or part thereof). The Commission's argument is that this does not alter the conditions of competition in such a way as to be incompatible with the principles contained in the Treaty.

The Court recognises that in exceptional cases the requirements of economic policy may override those of competition. But such a decision must be taken in full awareness of the facts and following a careful study of the effect which the decision to grant the aid will have on the market in question.

Question 74

As regards project F.34/74, the Financial Controller of the Commission has noted that "prices set out in the past are not an appropriate guide to the policy to be adopted in the future" (paragraph 3.29). The Commission overruled his refusal maintaining that in the absence of contracts the only indicator can be the policy pursued in the past. Would the Court care to comment on this rebuttal? (Court, page 3.14)

Answer

The Commission's approach is of limited value and can be confirmed or denied only in the light of the beneficiary's subsequent actions.

Question 76

As regards the training of people engaged in agriculture, does the Court accept the Commission's interpretation that the ceiling of 1 500 u.a. applies to each trainee rather than to the course as a whole? (Court, page 3.16)

Answer

Yes.

Question 77

As regards the Council directive on mountain and hill farming, and the expenditure arising therefrom, it appears that certain of the ceilings as regards grazing areas have been overlooked (paragraph 3.48). The Commission states that these shortcomings do not require subsequent reimbursements and that they have introduced changes to the individual ceilings so as to ellicit the extra information. Is the Court satisfied with this reply? (Court page 3.20)

Answer

The adoption of new individual slips, which give data on the use of collective mountain or hill pastures, may remedy the disadvantage pointed out, to the extent that it will allow the auditors to check whether the ceiling relative to the grazing area has been observed.

THE EUROPEAN REGIONAL DEVELOPMENT FUND

Question 100

Does the Court of Auditors wish to make any specific comments, from the auditing and control point of view, on the appropriateness and relativeness of criteria listed at paragraph 5.47? (Court)

Answer

The Court is still examining the question of criteria and has no specific suggestions to make at this stage. In general, however, it is of the opinion that a more thorough assessment of projects by the Commission is desirable.

Question 104

At paragraph 5.20, it is indicated that the checks on projects are organised by the national authorities at the request of the Commission. Is the Court of Auditors satisfied that the choice of projects for checking is satisfactorily judicious? (Court)

Answer

The Court accepts that the Commission has to check these projects on the basis of a representative sample. At this stage the Court has no comment to offer on the criteria laid down by the Commission in selecting its samples but will keep the matter under review.

Question 106

Is the Court of Auditors satisfied with the degree of cooperation extended by the national auditors to the Commission and to ECA auditors - carrying out or participating in - such checks? (Court)

Answer

Owing to the shortage of staff the Court of Auditors was not able to carry out any autonomous visits in the Member States for 1977. It is therefore not able to comment on the degree of cooperation of the national audit bodies.

Question 109

At paragraph 5.27, the Court of Auditors suggested that the Commission should make an effort to establish a system to secure uniformity in the carrying out of checks in the various Member States. Replying to these remarks, the Commission suggested that, effectively, inspections are adapted and now follow a harmonised system. Is the ECA now satisfied with the position? (Court)

Answer

The Court accepts that the Commission has made every effort to harmonise audits undertaken in the various Member States. At present there are no data available from which an assessment of the actual results can be made.

Question 110

As regards the point made in paragraph 5.31, to the effect that not enough basic data is available to the Commission on proposals in all cases, is the Court now satisfied with the position as set out in the Commission's reply? (Court)

Answer

See reply to Question 100.

Question 111

Has the ECA endeavoured - or does it intend to endeavour - to form an opinion of the effectiveness of the Regional Fund as an instrument of Community policy in regard to the achievement of the objectives of the Regulations? (Court)

Answer

Yes. The Court is of the opinion that the analysis of the impact of Community aid should be carried out, at least at the initial stage, with the cooperation of qualified national study and research centres and intends commissioning studies to this effect.

Question 112

What are the views of the European Court of Auditors on the degree of coordination of the various policy instruments - additional to the Regional Fund - which affect the the regions? (Court)

Answer

The opinion of the Court on the problem of coordinating the various structural policies and financial instruments is given in paragraph 5.30 of the Annual Report.

Question 114

Has the Court of Auditors any comment to make on the subject of additionality as a result of its checking on the Regional Fund? (Court)

Answer

The problem of additionality of Community aid in relation to national aid could be dealt with at the same time as the examination of the compatibility of the interventions of the Fund with the objectives of the regional development programmes.

Question 115

Does the Court of Auditors wish to comment on the adequacy of the number of officials available to the Commission for its work in regard to the Regional Fund and on the way in which they are divided up as between different aspects of the conducting of regional policy? (Court)

Answer

The Court is not yet in a position to give an opinion on this matter.

COOPERATION WITH DEVELOPING COUNTRIES AND NON-MEMBER STATES

Question 135

As regards the delays in the execution of budget appropriations for food aid, does the Court not consider that these arise as a result of the cumbersome procedure in the management of food aid programmes? Does the Court take the view that the recent proposals from the Commission to improve this management procedure, amended by the European Parliament, would go a long way to speed up execution of the budget? (Court, paragraph 7.9 onwards)

Answer

Yes.

Question 139

As regards the supply of sorghum to Niger in quantities which were not wanted by the recipient country, there seems to be a contradiction as regards the facts between the comments made by the Court and the Commission. Can a full statement be made on the exact history of this subject? (Court and Commission, paragraph 7.21)

Answer

There is no disagreement as to the facts between the Court and the Commission.

In paragraph 7.21 of its Report, the Court points out that the Commission continued to supply European sorghum to Niger although certain regions of that country had, in the past, complained about the quality of the product. The Commission's reply is that the choice of the product was decided upon by the beneficiary country itself.

As regards skimmed milk powder, the Court states that the quantity stipulated in the 1976 programme had been reduced in September 1977 from 3 200 to 1 500 tonnes. The Court also refers to the results of an enquiry carried out on the spot by Commission officials which estimated the annual skimmed milk powder requirements of Niger at 500 tonnes. The Commission does not question these facts but points out in its reply that when the annual programme was drawn up the needs of the country were great. The distribution of the aid allocated had, however, met with difficulties. The Commission may wish to enlarge on this explanation.

Question 141

Further to the noted deficiencies in mobilising and transporting aid, does the Court accept the Commission's opinion that the most important task is to accept the most favourable offer irrespective of its breakdown? (Court, paragraph 7.25)

Answer

It is true that the regulation on public tendering lays down that the tender should be awarded to the lowest bidder. The Court considers, nevertheless, that the Commission - as the Court itself - should be in a position to assess the details of the prices offered and should not leave everything up to the national intervention agencies.

Question 151

The Court refers to the "usual late submission of accounts" by the European Association for Cooperation. Why "usual"? (Court, paragraph 7.45)

Answer

Although the EAC accounts should be submitted by 31 March at the latest, this dead-line has not been observed for years, (c.f. the Audit Board Reports for the years 1972, item 77, 1973, item 140, 1974, item 130, 1975, item 120 and 1976, item 145). Hence the term "usual".

STAFF EXPENDITURE

Question 159

As regards reinstatement after leave on personal grounds, the Commission is criticised for belated reinstatements which have led to major sums being paid as compensation to officials. As the Court points out, it should be possible, in an institution as large as the Commission, to reinstate officials speedily. Does the Court believe that the measures now taken by the Commission to speed up reinstatement are sufficient? (Court, page 8.13)

Answer

The Court is of the opinion that the measures taken by the Commission to speed up reinstatement should solve or at any rate reduce the problem. A final opinion cannot be given, however, until the results of the measures which have been introduced are known.

Question 160

As regards the payment of overtime to drivers, the Court concludes, after receipt of the reply from the Commission, that the payment of the allowance is excessive since the basis for the allowance is a salary - the level of which is only received by a very small number of the recipients of the allowance. Does the Court take on board the point that it would follow from this criticism that a whole range of allowance levels would have to be introduced, thus complicating the system? (Court, page 8.15)

Answer

The Court believes that the calculation of the remuneration should take into account the number of hours overtime worked and the grading of the drivers concerned. The Court admits this would complicate the present arrangements but believes this would be justified on the grounds of sound financial management.

OPERATIONAL EXPENDITURE

Question 168

Does not the Court on reflection consider that the entry of appropriations into Article 254 for youth activities was a sufficient authorisation for payment for youth activities? (Court, paragraph 9.8)

Answer

The remarks entered in the budget concerning Article 254 (Campaign on behalf of Young People) specified that the credits were to finance expenditure under the Commission's proposal of 7 March 1975 (doc. COM (75) 27 fin.) concerning the establishment of a Forum for Youth Affairs. In the Court's view, the payment made to a temporary secretariat was incorrectly charged to this Article because these activities went beyond the scope of the specified purposes of the Article.

Question 170

As regards telephone expenditure per head of staff, what explanation can the Court suggest as to the major difference between the institutions? (Court, paragraph 9.12)

Answer

The Court deliberately avoided drawing any conclusions from this table because of the variable factors that could have had an effect on the expenditure levels per head. Some of these were identified in the Report. The Court is still of the view that there is no simple answer to the differences. However, its suggestions for common rules and controls over the private use of telephones, and for more uniformity in budgetary imputations (some action on this is resulting from paragraph 9.5 of the Report) would make such a table more meaningful in the future. The Court included the table in its existing form partly to indicate to the Institutions that the differences were large enough to warrant further steps and partly to emphasize its repeated view that comparisons between the Institutions should become a regular internal practice in many of the administrative fields.

Question 171

Does not the Court think that further controls on the use of telephone might (a) give rise to accusations of excessive surveillance and (b) might hamper officials in the due course of their work? How do these figures compare with some other international organisations? (Court, page 9.12 onwards)

Answer

The Court agrees that the balance between useful and excessive controls is not easy to define, and is conscious of the need to avoid unproductive expenditure. However, it believes that the known existence of some measure of control, varied as necessary with the local circumstances of each Institution, would convey to the staff a concern for good economic management. Such measures, however limited, can frequently have a preventive effect far beyond their immediate application.

The Court welcomes as a useful contribution the decision of the Economic and Social Committee to fit locking devices to its open lines. The Court noted that while this Committee took the view that sample checks on the basis of the detailed statements provided with the bills by the Belgian authorities would be practical, the Commission on the other hand did not. It considers that limited but well publicised checks of this nature would have a salutary effect.

The Court has not asked for access to information about other international organisations.

Question 172

As regards the conclusion of study contracts, the Court formulates five criticisms:

1. that commitments are sometimes entered into before the contract is signed by the contractor;
2. that contracts are sometimes signed some time after the work is supposed to have commenced;
3. that the contract date is sometimes expired before such extensions are approved;
4. that very frequently, major delays in the completion of work occur without reasons being given;
5. that practice as regards the payment of instalments varies widely.

Finally, the Court finds that due regard is not paid to the normal principle of seeking competitive quotes. Can the Court provide examples of these anomalies? (Court, page 9.16 onwards)

Answer

The criticisms formulated by the Court arose out of a detailed examination of a large sample of study contracts charged to Chapter 26 of the 1977 Budget. Details of some of these cases are appended at Page 185.

Question 173

Does the Court accept the Commission's interpretation of Article 33 of the Financial Regulation that the appropriations must be committed before the contract is signed by the contractor? (Court, page 9.17)

Answer

In the light of the reply, the Court accepts the Commission's interpretation for commitment of appropriations during the course of the year. Further consideration is being given to the position in respect of commitments for carry forward at the year end.

THE GENERAL ACCOUNTS

Question 183

The Court considers that the regular and systematic reconciliation by the Commission of bank accounting and bank statements is inadequate. What improvements does it suggest? (Court, paragraph 11.3(v)).

Answer

As already stated in its comments on the Commission's reply, the Court would like to emphasise that its original comment was not limited to the specific problem of reconciling bank accounts, which was given as an example only. The Court wished to indicate that optimal use should be made of the possibilities of separating duties within the administration. The accounting system should produce totals or subtotals which are logically related but built up independently from each other to the maximum possible extent. Such relationships within the system should be identified and used as a means of control.

One possibility is the adequate use of "clearing" accounts, a number of which can be found in the Commission's chart of accounts. Provided that these are correctly operated they can provide a valuable supplementary means of control.

In carrying this out, the following requirements should be observed:

- a list should be prepared regularly (e.g. monthly) of the items comprised in the closing balance on all "clearing" accounts,
- the reasons why each outstanding item has not been cleared should be ascertained,
- the balances on these "clearing" accounts should be authorised in writing by an official who is not responsible for making entries in these accounts,
- a formal decision, again by an official not responsible for making entries in these accounts, should be taken as to how outstanding items should be cleared,
- the subsequent clearance of outstanding items in accordance with the decision made in the procedure above should be properly controlled,
- these procedures should be fully documented to assist both efficient management and audit of the accounting system.

Had these procedures been followed, it is unlikely that the error referred to in paragraph 11.3 ii would have occurred.

Question 184

The Court shows that the Commission does not inspect furniture after issue from stock and relies on maintenance technicians in verifying assets. Should it not urgently pursue this matter rather than postponing further considerations? (Court, 11.3 (vi))

Answer

The Court agrees that this is a matter for urgent follow-up. It decided to include in its 1978 audit programme a systems-based examination of the related operations of purchasing, inventory and stock controls, and disposals, particularly of furniture. This has now been carried out in respect of all the Institutions, and the Court will shortly be presenting its detailed conclusions to the Institutions, and subsequently to the budgetary authorities.

Question 185

The Court and the Commission differ as regards the checks carried out on the amounts of loans raised and granted by the different Directorates-General of the Commission. Can both sides give a full statement of the position as they see it? (Court and Commission, paragraph 11.3(vii))

Answer

No accounts are kept for loan operations in the accounting system of the Commission. The figures and synopses given in the revenue and expenditure account and balance-sheets (volume 2, section III, tables 10 and 14) are drawn up on the basis of information received by DG XIX from DG II and DG XVIII. DG XIX does not carry out any check on the figures.

Similarly DG II only processes the financial information relating to the loans managed by FECOM (European Monetary Cooperation Fund), without carrying out any check on these figures, which are received in the form of an annual report for FECOM.

The Court is of the opinion:

- (a) that all financial information connected with the loan operations should be included in the general accounts
- (b) that this accounting for loan operations should be supported by adequate measures of internal control.

Question 186

Does the Court accept the Commission's explanations as regards the charging of the exchange difference concerning the Joint Research Centre at Ispra to 1977? (Court, paragraph 11.4)

Answer

The facts are as follows:

1. the exchange difference resulted from a transaction carried out in 1976
2. the date of the daily bank statement on which the exchange difference appears is 31.12.76.

The Court is consequently of the opinion that the exchange difference in question should have been charged to the financial year 1976.

Question 188

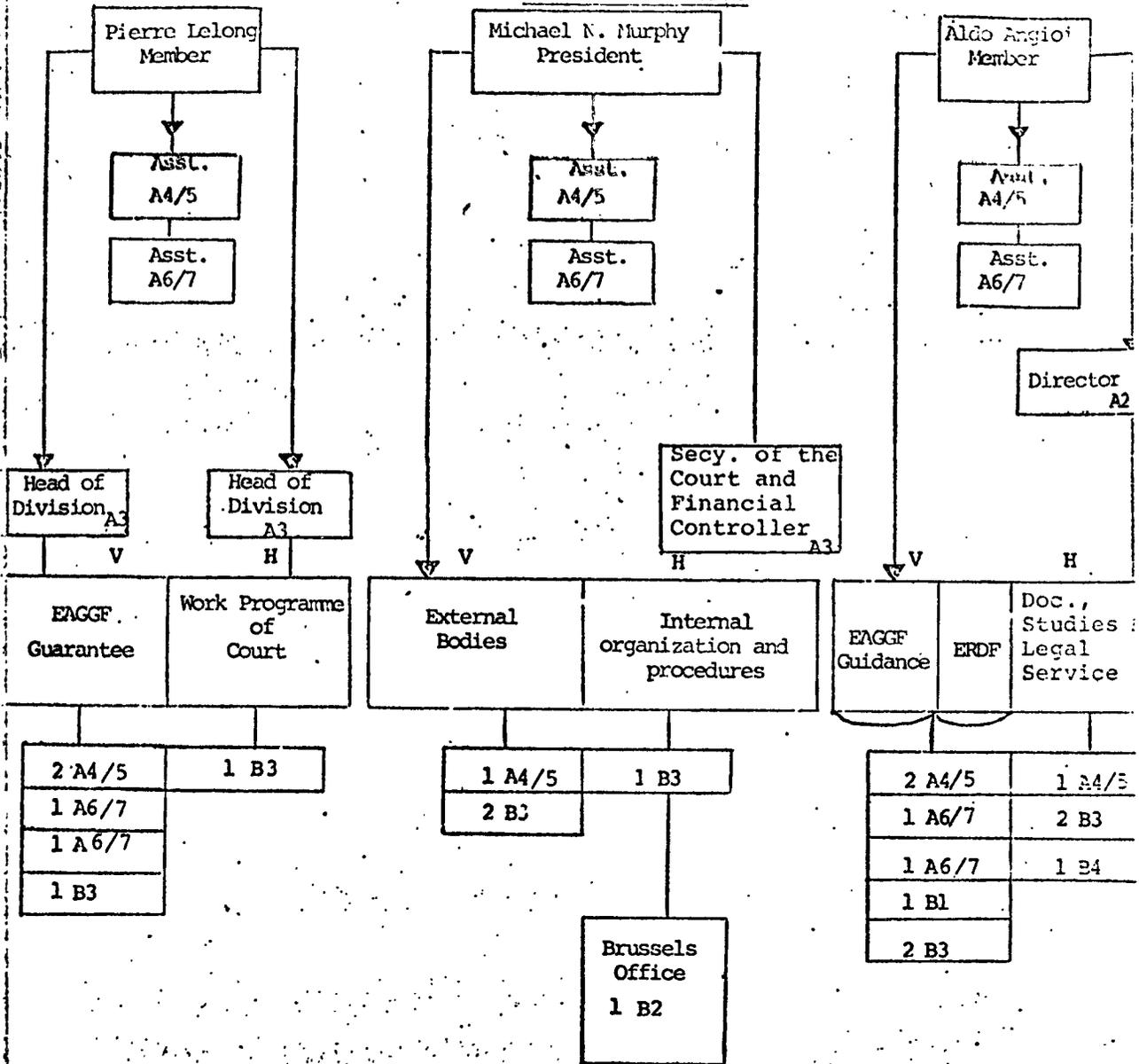
The Commission answers the point concerning the recovery in respect of the publications office by stating that for practical cash reasons the Commission settles the bills of the Official Journal with a breakdown of costs being made between the institutions afterwards. Does the Court disapprove of this practice? (Court, 11.4 (iii))

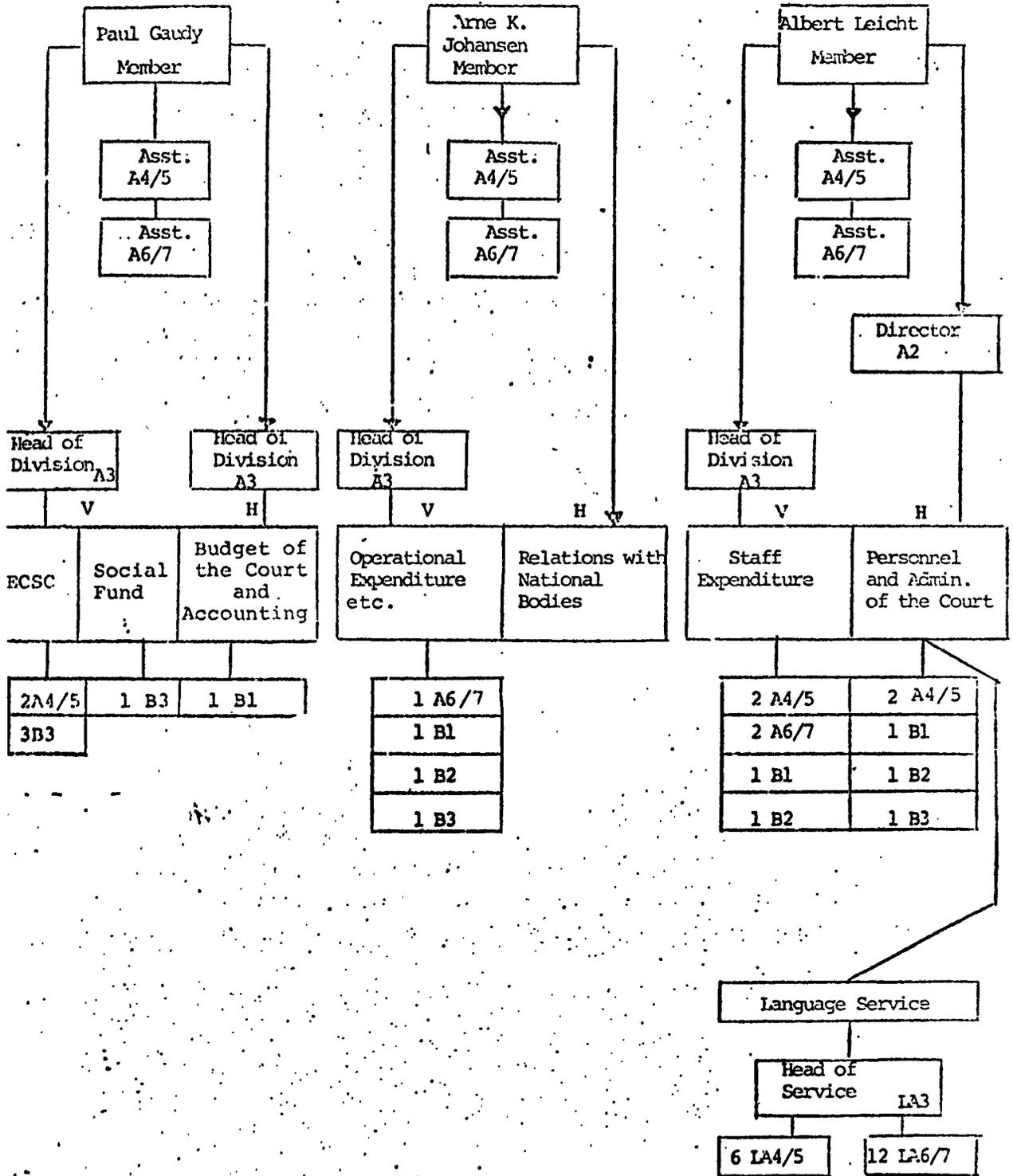
Answer

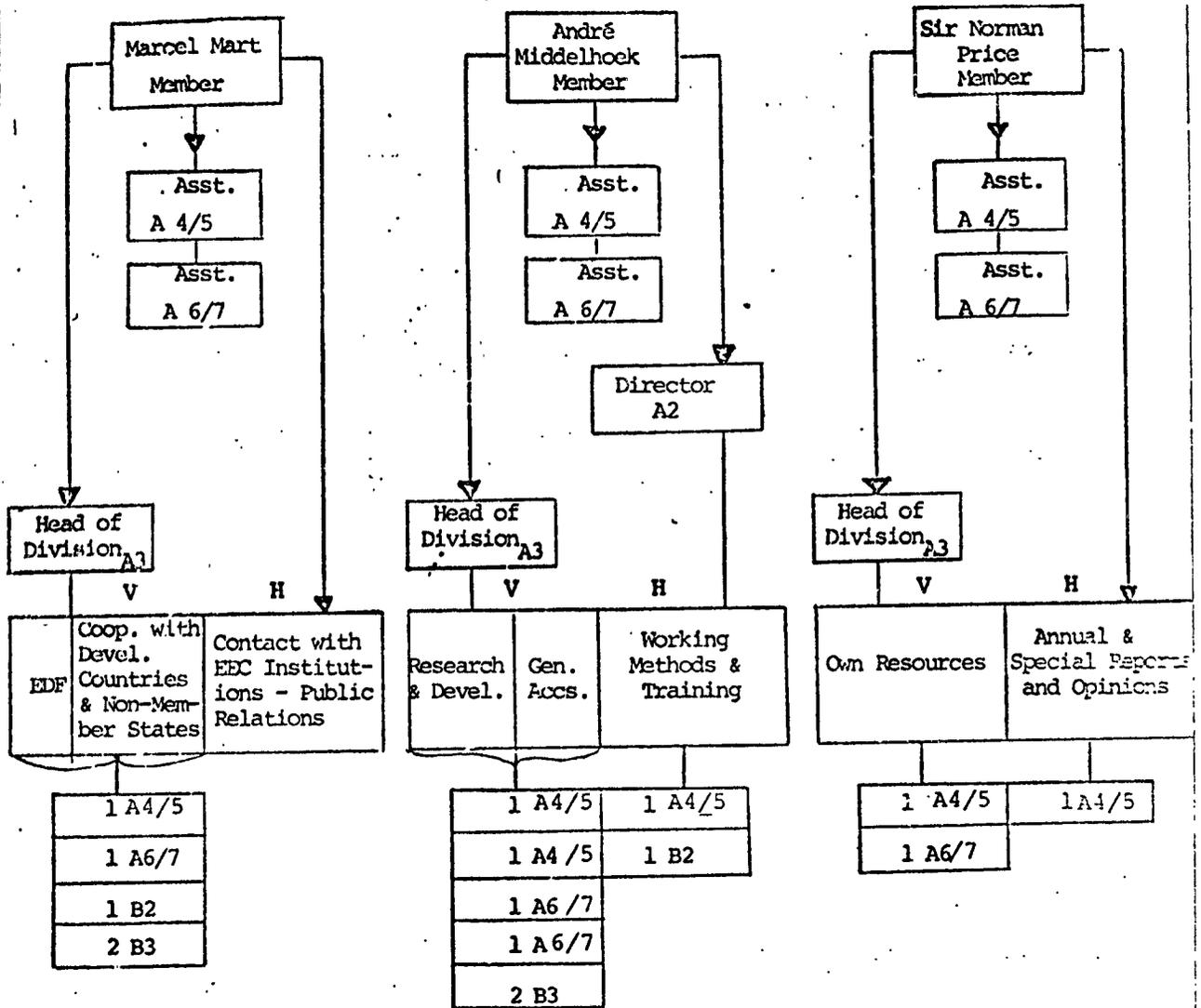
The Court understands why the Commission, for practical reasons, proceeded as described in its reply. It felt obliged, however, to draw attention to the lack of conformity between this practice and the relevant provision of the Financial Regulation of 25 April 1973.

COURT OF AUDITORS - ALLOCATION OF A & B POSTS:

31 December 1978







EXAMPLES OF CASES NOTED IN THE COURT'S WORKING PAPERS

1) Commitments are sometimes entered into before the contract is signed by the contractor

This aspect has been further considered in Question 173, and there appears to be no need to identify cases.

2) Contracts are sometimes signed some time after the work is supposed to have commenced

- i) Contract 766147 (budget item 2620, commitment no. 17/76 - UA 12,000) showed work scheduled for the period 1.7.1976 to 31.1.1977, but the contract was not signed and despatched by the Commission until 17.9.1976.
- ii) Contract 229-76-2-ECID (item 2651, comm. 2/76 - UA 14,000) showed work scheduled from 1.2.1976 to 28.2.1977, but was signed by the Commission on 17.8.1976.
- iii) Contract 245-76-VII-ECID (item 2651, comm. 11/76 - UA 8,100) showed the final report to be supplied by 23.12.1976, but the contract was not signed and despatched by the Commission until 13.12.1976.

3) Contract date expired before extensions are approved

- i) Contract (item 2640, comm. 124/75 - UA 15,750) required a final report by 30.9.1976, but this was deferred to 15.5.1977 by an amendment dated 8.6.1977.
- ii) Contract (item 2620, comm. 58/75 - UA 5,554) required a final report by 1.9.1976 but this was delayed to 15.10.1977 by an amendment dated 6.10.1977.
- iii) Contract (item 2646, comm. 150/76 - UA 3,825) required a final report by August 1975, but this was delayed to December 1976 by an amendment dated 12.10.1976. The contract required 3 months work before production of an interim report.

4) Major delays in the completion of work occur without reasons being given

- i) Contract (item 2600, comm. 81/76 - UA 16,400) showed a date for final report of 15.2.1977, but this was not registered until 14.10.1977.
- ii) Contract (item 2620, comm. 14/76 - UA 876) showed 31.10.1976 but achieved 5.10.1977.
- iii) Contract (item 2660, comm. 6/76 - UA 31,560) showed 30.10.1976 for draft of the final report, but this was not registered until 12.12.1977.
- iv) Contract (item 2600, comm. 24/76 - UA 5,600) showed 31.1.1977 but achieved 15.12.1977.

5) Practice as regards the payment of instalments varies widely

Taking for example only contracts for statistical surveys, charged to budget item 2640 :

- i) Several contracts under reference no. 1/77/107/272 (amounts for example of UA 190,000; 276,110; 429,000) allowed for payments to be made of 50% on signature of contract, 50% 30 days after acceptance by the Commission of the report.
- ii) 9 other survey contracts (amounts varying from UA 30,000 to UA 300,000) offered 80% on signature, the balance to be paid when requested by the contractor - in fact after the work was completed.
- iii) Certain others, reference 1/77/103/264 (UA 12,010 to UA 59,994) afforded 30% on signature, and the balance on completion.

6) Due regard is not paid to the normal principle of seeking competitive quotes

This more general comment derived from the experience that there appeared to be no requirement to evaluate the proposed price against other alternative sources. Whilst the Court realises that studies of the nature involved frequently require special expertise, the absence of any standards against which to measure prices/charges would appear to warrant occasional efforts to compare prices at sources..

REPLIES to Questionnaire concerning the section of the report of the Court of Auditors for the 1977 financial year relating to the European Development Fund

Question 3

Can the Court of Auditors indicate who was responsible for the severe criticism, mentioned in point 15, concerning the report submitted by the consultancy office in connection with project 3122.172.17.15?

(Court of Auditors)

Answer

The reports submitted by this consultancy office required lengthy and laborious discussion before they were finally approved. The estimate of the cost of the work to be performed had clearly been inadequate, so that the ultimate charge on the EDF was much greater than had been anticipated. The Commission decided as a result, that this office should not in future have sole responsibility for any operation relating to associated technical assistance. The Court agrees with the Commission.

Question 4

Can the Court of Auditors indicate to what extent 'some operations seem to have been decided upon without an adequate analysis having been made of the situation beforehand' (point 16)? (Court of Auditors)

Answer

As part of its on-the-spot audits, which got underway in 1978, the Court is examining the projects particularly from the point of view mentioned in this question.

It is too early to draw conclusions on the basis of the audits already carried out. But it is already clear that the example cited in the report does not represent an isolated case.

Question 5

The Court of Auditors draws attention to differences between the revenue and expenditure account and the balance of the administrative accounts (point 34). Are these differences likely to call into question the accuracy of these accounts and balances and give rise to rectification prior to Parliament's discharge decision? (Court of Auditors)

Answer

In its reply, the Commission explained how the differences arose and pointed out that the rectifications had been entered in the accounts in March 1978. Now that these corrections have been made there is agreement between the relevant accounts.

Question 7

The Control Subcommittee having asked the Court of Auditors for a report on the STABEX system, should points 66 to 81 of the report of the Court of Auditors be taken to constitute the latter's compliance with the Subcommittee's request? (Court of Auditors)

Answer

In its Annual Report, the Court pointed out the problems which it faced during the audit of transfers to the benefit of the ACP States within the framework of STABEX. In this connection, paragraphs 66 to 81 of its report comprise a partial reply to the Subcommittee's request. The Court will give a complete opinion on the operation of the STABEX system as soon as possible.

Question 8

What is the Court of Auditors' assessment of the annual reports of the STABEX beneficiary ACP States as regards the utilization of the funds allocated (point 76)? (Court of Auditors)

Answer

On the basis of (a) the annual report of the STABEX beneficiary States for 1975 and (b) the audits which it has carried out, the Court's preliminary impression is that a significant part of the funds transferred have not been utilized for interventions in the sectors or for the products concerned or for actions to promote diversification. The main part of its forthcoming opinion on STABEX will take the form of a thorough assessment of the situation.

Replies of the Commission of the European Communities to the questionnaire on the basis of the annual report of the Court of Auditors concerning the financial year 1977 and on the replies of the institutions

Introduction

1. Your rapporteur has drawn up the following questionnaire on the basis of the 1977 report of the Court of Auditors and of the replies from the institutions to that report. The questionnaire is, therefore, addressed to both the Court and other institutions - it being specified, for each question, to whom it is addressed. Each question is also associated with a mention to the precise paragraph in the Court of Auditor's report to which it refers.
2. The rapporteur requests that the replies to all these questions should be made available by the institutions and bodies to whom they are addressed, in all Community languages, by the end of February.

QUESTIONNAIRE

General Considerations

1. As regards administration and general accountancy, the Court of Auditors has dealt with the institutions together rather than separately. Why do the Commission and Council not approve of this practice? (Commission and Council, paragraph 6)

The Commission thinks that the way in which the Court of Auditors has decided to present its observations does not take sufficient account of the autonomy of the Parliament, the Council, the Commission and the Court of Justice in the field of general accounting and expenditure on administration; it makes it very difficult, if not impossible, to perceive accurately the problems and responsibilities of each of the Community institutions and could give the impression that the Commission has some responsibility for the financial management of the other institutions.

2. What is the attitude of the other institutions on this point?
(Parliament's administration, Court of Justice, paragraph 6)

No reply

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3. Given that the Treaty does not rule out counter replies by the Court of Auditors to the institutions' replies, what is the basis for the assertion by the Commission that the Court has no right as regards this practice. Does not the fact that the Commission attends all meetings of the Subcommittee indicate that it is entitled to provide its comments on any counter replies in any case? (Commission, paragraph 9)

The drafting of observations by the Court of Auditors is part of a more general procedure which culminates in the decision giving discharge for the Budget. The Treaty of 22 July 1975 (first subparagraph of Article 206a(4)) states: "The Court of Auditors shall draw up an annual report after the close of each financial year. It shall be forwarded to the institutions of the Community and shall be published, together with the replies of these institutions to the observations of the Court of Auditors, in the Official Journal of the European Communities."

This provision thus lays down that the Court of Auditors shall draw up an annual report and send it to the institutions, that the institutions shall draw up replies to the observations of the Court of Auditors contained in this report and, finally, that the report, together with the replies of the institutions, shall be published in the Official Journal. It does not provide for a reply by the Court of Auditors to the replies of the institutions. Furthermore, such a reply would constitute a new observation to which the institutions must also be able to reply.

The opportunity for the Commission to present and defend its assessments at the meetings of the Parliament's Sub-Committee on the Budget of the Communities (Control of Implementation) is not in itself sufficient. The right and the duty of the institutions to reply to the report of the Court of Auditors, as provided by the Treaty and the Financial Regulation, must be exercised fully - not merely partially.

4. Why does the Commission wish to limit the activities of the Court of Auditors to those areas covered by the Audit Board? (Commission, paragraph 10)

The Commission does not wish to limit the activities of the Court of Auditors to the fields for which the Audit Board was responsible.

5. Does the Commission accept that the Court of Auditors is expected "not only to assess the soundness of the operations actually carried out but also whether the means employed to do so were the best in the sense of being the most economical and efficient?" (Commission, paragraph 1.5)

The Treaty of 22 July 1975 enjoins the Court of Auditors to examine the legality and regularity of revenue and expenditure and to satisfy itself that there has been good financial management. The interpretation of the concept of "good financial management" by the Court of Auditors constitutes a definition, whose exact scope and degree of conformity with the Treaty can only be assessed case by case.

6. Why does the Commission believe it necessary to limit the supply of documents and information to the Court to the extent that it would seek to define what information was necessary to the fulfilment of the tasks of the Court? (Commission, paragraph 1.6)

As required by the Treaty of 22 July 1975, the Commission forwards to the Court of Auditors all documents or information which the Court needs to carry out its task.

7. Does the Court of Auditors accept this restrictive interpretation by the Commission? (Court of Auditors, paragraph 1.6)

No reply

8. What is the breakdown between staff involved in horizontal and vertical tasks? (Court of Auditors, paragraphs 1.10 and 1.11)

No reply

9. Can the Court supply to the Subcommittee its organisational chart, accompanied by job descriptions of all administrative units? (Court of Auditors, paragraph 1.11)

No reply

10. What practical suggestions can the Court and the Commission put forward as regards improvements in the timetable? (Court of Auditors and Commission, paragraph 1.13)

The Commission is studying the possibility of extending the deadlines for the Commission's revenue and expenditure account, the annual report of the Court of Auditors and the replies of the institutions to that report (see also reply to Question 53).

11. Can the Court specify the number of spot checks carried out by its officials or by those of the Audit Board concerning the implementation of the 1977 budget? (Court of Auditors, paragraphs 1.14 and 1.15)

No reply

12. During the 1979 financial year, how many staff within the Court will be directly employed in audit - and how many on-the-spot checks will it be possible to undertake? (Court of Auditors, paragraph 1.15)

No reply

13. As working document no. 1 shows, the Commission has not succeeded in implementing in 1977 the majority of Parliament's amendments: the payments voted were either cancelled or carried forward to 1978. Can the Commission supply, for each of the following budgetary lines,⁽¹⁾ a detailed explanation as to its failure to implement the 1977 budget? (Commission)

- (i) 2243 Data processing
- (ii) 254 Action for young people
- (iii) 2653 Nuclear fuel

- (iv) 2729 Information EP elections
- (v) 282 Economic Analysis and Research Institute
- (vi) 291 Subsidies to European movements
- (vii) 3031 Action for migrant workers
- (viii) 3050 Employment analysis
- (ix) 3200 Hydrocarbons
- (x) 3201 Oil prospecting
- (xi) 321 Prospecting for hydrocarbons
- (xii) 3380 Euratom
- (xiii) 3383 JRC operations
- (xiv) 3390 JRC staff
- (xv) 351 Health and water safety
- (xvi) 3540 Environmental studies
- (xvii) 3541 Environmental studies
- (xviii) 3550 Consumer protection
- (xix) 3551 Consumer projects
- (xx) 356 Humanizing of work
- (xxi) 3621 Scientific information
- (xxii) 3701 Second transport programme
- (xxiii) 3710 Basic transport research
- (xxiv) 930 Cooperation with non-associated developing countries
- (xxv) 931 Trade with non-associated developing countries
- (xxvi) 9431 Commission delegations in Maghreb countries

The Commission is unable to accept the position set out by the rapporteur in the introduction to working document No 1 to the effect that "Parliament believes that the Budget, as adopted by Parliament, is not simply an 'indicative' act, but an instruction for the Commission to implement. This is particularly the case as regards Parliament's own amendments ... it is not sufficient for the Commission to say that it has not been able to proceed because of the absence of a necessary legal justification. The Budget in itself provides the necessary legal basis."

(1) Lines where the Commission spent less than 50% of that part of the appropriations voted by the European Parliament in the form of an amendment, during 1977.

The Commission's position on the powers of implementing the Budget conferred upon it by Article 205 of the EEC Treaty was set out by Mr Tugendhat in the statement he made on 11 October 1977 to the Parliament and in which he pointed out that "the Budget ... provides the legal basis for the use and expenditure of the appropriations ... However, this basis is not sufficient in every circumstance to allow the expenditure. The Community can only work within the defined powers of each institution or the framework of regulations and decisions on each Community policy." The conciliation committee which met to revise the Financial Regulation applicable to the General Budget took note of this statement on 7 December 1977.

Furthermore, during the budgetary procedure for 1979, the Parliament showed itself ready to accept the proposal of the latter's rapporteur, Mr Bangemann, that the Budget comments should clearly show which appropriations could be implemented with no further condition beyond the fact that they are entered in the Budget and to what conditions the implementation of the other appropriations was subject.

Nor does the Commission share the rapporteur's position on the discharge when, in an assessment of the implementation of the Budget, he concentrates on payments rather than commitments and makes no distinction between the carryover to 1978 of unused appropriations and the cancellation of these appropriations. Commitments are the expression of the launching of operations and the commitment undertaken by the Commission to finance them, while payments are made as the operations are carried out. Where the operations have followed a pattern such that the sums provided for in the Budget are not used up before the close of the financial year, the total appropriations for payments are carried over to the next financial year; where operations are not begun, the non-differentiated appropriations are cancelled and the appropriations for commitment remain available for the launching of the operations in the next financial year. It is thus the commitments which condition the implementation of the Budget. Furthermore, a distinction must be made between the carryover and cancellation of appropriations, since the carryovers merely reflect a postponement of the final implementation of the operations in question, while cancellations represent a non-implementation of the Budget.

The following comments on the Budget headings to which the question specifically refers should be understood in the light of the developments described above.

Item 2243: development of data-processing applications

The appropriations entered under this Budget heading were committed totally, that is to say that, as at 31 December 1977, service contracts, duly concluded and signed, were being implemented. The payments related to them were made during the 1978 financial year and charged to appropriations carried over from 1977.

Article 254: measures for young people

There has been some delay in setting up the Forum for Youth Affairs: after meeting several times during 1976 and 1977, representatives of youth movements and organizations met in a general assembly on 12 and 13 December 1977, which decided to set up three specialized political, economic and educational committees.

Only the third of these committees began its work in 1978 - and not very intensively at that.

The temporary secretariat set up consisted of ten members of national and international youth movements exercising their functions on a somewhat irregular basis.

The general assembly, which met on 21 June 1978, decided to set up a permanent bureau made up of three members.

At its meeting on 22 and 23 November 1978, the general assembly adopted the statute of the Forum and appointed the secretary-general and deputy secretary-general.

Because of these delays, expenditure during the 1977 financial year amounted to only 70 000 u.a.

Item 2653: studies on the nuclear fuel cycle

For 1977 the appropriations allocated to this budget heading amounted to 100 000 u.a., and the appropriations committed on the basis of the study programme drawn up by the Commission to 99 176 u.a.; the appropriations were thus utilized almost fully (99.18%).

Item 2729: information projects relating to direct elections to the European Parliament

As laid down in the Budget comment on this Item, these activities were coordinated with the Parliament. As at 31 December 1977, a sum corresponding to 95% of the appropriation of 1 000 000 u.a. was committed. Slightly more than half the amount was carried over to the 1978 financial year. The appropriations carried over (526 375 EUA) were entirely utilized in 1978.

Article 282: European Communities' Institute for Economic Analysis and Research

For lack of a Council decision on the financing, the institute could not be set up. The appropriation of 1 000 000 u.a. entered in the 1977 Budget was cancelled.

Article 291: subsidies to European movements

The consumption of the final appropriations amounted to 97.2% in commitments. Admittedly, the initial appropriation was reduced by a transfer of 16 900 u.a. (11%), but the utilization of this amount under other budget headings in Chapter 29 nevertheless benefited matters of European interest (congresses, scholarships, European prizes).

Item 3031: contribution to pilot projects on better housing for migrant workers

The portion of the appropriation which was not spent in 1977 (487 400 u.a. out of 500 000) was carried over in full to the 1978 financial year, during which 92% of it was consumed. Because of the destination of the appropriations of this Item, more than two years may go by between commitment and settlement. It was for this very reason that - thanks to an amendment by the Parliament - this Item was included among the differentiated appropriations as from 1978.

Item 3050: research and action programme on labour market trends

For 1977, the appropriations allocated to this heading amounted to 400 000 u.a. Since 320 800 u.a. were not spent during the financial year, 316 760 u.a. were automatically carried over to the 1978 financial year. Of that amount 88.5% was used in 1978. The difference was caused by the fact that two of the studies financed with the help of appropriations under this Item were not completed.

Item 3200: Community technological development projects in the hydrocarbon sector

The appropriations entered for the 1977 financial year amounted to 50 000 000 u.a. in appropriations for commitment and 23 000 000 u.a. in appropriations for payment. Adding the non-differentiated appropriations carried over from the preceding financial year, the Commission had a total of 53 425 275 u.a. in appropriations for commitment at its disposal in 1977. On 25 October 1977, the Council granted financial support amounting to 53 406 611 u.a. for 40 projects. Thus, not all of the appropriations corresponding to these contracts could be committed (19 000 000 u.a.); the balance was committed in toto in 1978. As for the appropriations for payment carried over to the 1978 financial year, they were used normally in accordance with the financial provisions of the contracts.

Item 3201: joint projects in prospecting for hydrocarbons

On 29 November 1974, the Commission submitted to the Council a proposal for a Regulation and, on 21 October 1977, a proposal for support for three projects amounting to 24 800 000 u.a. of the 25 000 000 u.a. entered as commitments in the 1977 Budget. As the Council did not act on these proposals, the appropriations were cancelled.

Article 321: Prospecting for uranium

The appropriations for commitment, 5 000 000 u.a., have all been used. They were to be used to provide Community financial support for uranium prospecting projects in Member States and designed to reduce Community dependence on the producer countries. The appropriations for payment, carried over into 1978, were all used up during that year.

Item 3380: Expenditure on the project on "training"

While awaiting a decision on the new programme proposed by the Commission on this subject, the appropriations had been provisionally entered under Items 3380 (201 800 u.a. including the Parliament's amendment of 139 800 u.a.) and 3393. As the decision was taken on 21 December 1976, the appropriations required for the implementation of this action in 1977 were transferred - in the Second Supplementary and Amending Budget for 1977, which was approved on 27 November 1977 - to Item 3330, which was intended for the implementation of this programme in the 1977 Budget. Of the total amount of the appropriations for commitment available under Item 3330 after this operation - 1 186 983 u.a. - a total of 1 003 326 u.a. had been committed by 31 December 1977; in the Commission's opinion, this represents normal implementation of the Budget, making due allowance for the exceptional circumstances mentioned above. The same goes for appropriations for payment, where 177 543 u.a. of the 257 100 u.a. available were utilized by the end of 1977.

Item 3383: Possible JRC operating expenditure

The appropriations were entered under this heading provisionally pending a Council decision on the new JRC programme for 1977-80. As this decision was taken on 18 July 1977, the appropriations were transferred by the Second Supplementary and Amending Budget for 1977 to Articles 330 to 332, which were the operational headings reserved in the 1977 Budget for the implementation of this programme. In all, 90% of the appropriations for commitment and 77% of the appropriations for payment under these headings were utilized in 1977.

Item 3390: Provisional appropriations for certain JRC staff expenditure adjustments

As with Item 3383 above, the appropriations under this heading were transferred by the Second Supplementary and Amending Budget for 1977 to Articles 330 to 332 to deal with the financial effects of the Council decisions on adjustment of remunerations.

Article 351: Health and safety in respect of air and water

A total of 202 800 u.a. of the 480 000 u.a. entered in the 1977 Budget were spent during the year. The sum of 236 700 u.a. were carried over into 1978 during which only 90.3% were spent, as several of the studies charged to this article had not been completed by the end of that year.

Item 3540: Environmental studies

In all, 445 700 u.a. of the 1 412 000 u.a. entered in the 1977 Budget were spent during the year. The sum of 918 840 u.a. were carried over into 1978, and nearly all spent.

Item 3541: Environmental projects

Except for about 100 u.a., the 87 600 u.a. not spent in 1977 (out of a total of 150 000 u.a.) were all carried over into 1978 and spent.

Item 3550: Consumer protection studies

The 123 400 u.a. not spent in 1977 (out of 180 000 u.a.) was all carried over into 1978 and spent.

Item 3551: Consumer projects

The 240 000 u.a. entered in the 1977 Budget was all carried over into 1978 and spent.

Article 356: Organization and "humanizing" of work

The 30.000 u.a. not spent in 1977 (out of 50 000 u.a.) was all carried over into 1978 and spent.

Item 3621: Activities supplementary to the three-year project (data-processing)

A preliminary set of contracts was signed in 1977 in the framework of the programme on the second three-year action plan, which enabled 72% of the appropriations for commitment to be utilized, the balance being spent in 1978. Of the 500 000 u.a. entered as appropriations for payment, 145 000 u.a. were spent in 1977 and the balance was carried over and all utilized in 1978.

Item 3701: Second data-processing programme

As the Council gave its agreement on 27 September 1977 on the implementation of part of the second programme submitted by the Commission and as this action could only be implemented in 1978, it was jointly agreed that the appropriations entered in the 1977 Budget would not be used.

Item 3710: Basic research in the aerospace sector

On the basis of the Council declaration of 14 March 1977, and after consulting the industry, research establishments and government authorities, the Commission submitted to the Council on 2 August 1977 a proposal for two projects in this field. As the Council had not taken a decision by 31 December 1978, the appropriations in the 1977 Budget lapsed. It will not be possible to implement the projects concerned until 1979.

Chapter 59: Aid to disaster victims in the Community
(5 m u.a. in 1977)

The appropriation of 1 m u.a. not spent in 1977 has been cancelled. However, it must be borne in mind that the normal management criteria do not apply to the appropriations in this Chapter because of the extremely unpredictable factors concerning the relevant forecasts and utilization. Ideally they should remain untouched.

Article 930: Financial cooperation with non-associated developing countries

In November 1977, Parliament and Council agreed on the 1977 programme presented by the Commission, as a result of which twenty financing agreements were concluded on 15 December 1977. Of course, no payments were made in 1977. By 31 December 1978 the sum of 5 m u.a. had been paid, out of the 45 m u.a. included in the 1977 Budget; the projects financed are carried out over several years.

Article 931: Promotion of trade between the Community and non-associated developing countries

The low rate of expenditure in 1977 (36%) was due to the commitment of many of the appropriations late in the year. The type of operations financed entails a variety of files which cannot be processed any faster because of administrative difficulties in the recipient States and for the Commission (small number of staff assigned to these duties). The appropriations not used in 1977 were carried over to 1978 and were used at the same rate in that year.

Item 9431: Commission delegations in Maghreb countries

In 1977 it was impossible to set up any of the three Commission delegations in the Maghreb countries. This explains the carryover to 1978 of almost all the relevant appropriations included in the 1977 Budget.

14 - 19 no reply

Fraud

14. Can the Court say what progress it has made in making recommendations to improve the efficacy of the various systems of financial control?

(Court of Auditors, paragraph 1.19)

15. In the first twelve months of its existence, can the Court give a brief account and tentative conclusions of its work in detecting fraud?

(Court of Auditors, paragraph 1.20)

16. According to what criteria will the Court base its selective approach as regards the examination of individual documents etc?

(Court of Auditors, paragraph 1.20)

17. Can the Court state what progress it has made in improving liaison with the national audit organisations? (Court of Auditors, paragraph 1.21)

18. Is the Court satisfied with the cooperation of national authorities in detecting fraud? Have there been any instances of conflict as regards expenditure in the 1977 financial year? (Court of Auditors, paragraph 1.21)

19. Does the Court not agree that the existence of national auditing and control procedures does not, in any way, diminish the responsibility of Community audit authorities to submit the Community expenditure to strict control, even where national procedures exist side by side?

(Court of Auditors, paragraph 1.21)

Auditing practices

20. What are the objections to the presentation of a consolidated balance sheet? (Commission, Council, Parliament's administration, Court of Justice, paragraph 1.24)

Arrangements have already been made to introduce a consolidated balance sheet in the 1978 accounts.

21. Why has the 1.7 m.u.a. being the balance of the COST⁽¹⁾, been included in the Commission's balance sheet, incorrectly, according to the view of the Court? (Commission, paragraph 1.24)

The financial transactions of the COST II programme are integrated into the Commission's general accounting operations; it seems to be sound accounting practice to reflect the balances on these accounts in the Commission's balance sheet.

(1) Committee of Scientific and Technical Organisation

22. What contacts have taken place between the different institutions to standardise the translation to units of account? (Commission, Council, Parliament's administration, Court of Justice, paragraph 1.24 (ii))

In this respect the Commission keeps the other institutions informed of decisions it has made and periodic meetings have taken place between the Accounting Officers to discuss such matters.

[The replies of the Commission published in the body of the Court's Report states an incorrect date of application of actualised rates by the Commission. The date should read 1 November 1974 not 1977 (page 1.12 of final report). The reply of the Commission in its statutory form shows the correct date (page 3 of the Commission replies)].

23. Under what professional accounting criteria applicable in any Member State is the assertion made by the Commission that "the nature of a balance sheet is determined by the nature of the accounting system and should not show an asset or a liability which is not reflected in the accounts" justifiable? (Commission, paragraph 1.24 (iii))

Is not the Commission aware that it is required by law, through the Financial Regulation, to state the true amount of its assets and liabilities irrespective of whether they emerge from the accounting system?
(Commission, paragraph 1.24 (iii))

The contents of the Commission balance sheet are not determined by professional accounting criteria applicable in Member States; they are determined by the provisions of the Financial Regulation and the Treaties. The budget adopted in accordance with these provisions treats the cost of purchase of capital assets as current expenditure. The accounts are kept and the balance sheet is drawn up in accordance with this decision and therefore do not show capital assets.

The Commission acknowledges nevertheless that the value of such assets should be communicated to the Budget Authority and did therefore annex a statement of fixed and moveable assets to the letter of 31 May 1978 accompanying the annual accounts and balance sheets. The Commission is willing to annex such statements to the Balance Sheet in future, if the Budgetary Authority so desires.

The Guarantee Section of the EAGGF

24. Can the Commission provide a full explanation as regards the delays of its accounting departments in supplying supporting documents?
(Commission, paragraph 2.1)

The delays are occasioned in part by the time taken by the Member States to send their statements to the Commission and by the subsequent accounting transactions.

The transmission of the supporting documents to the Court of Auditors suffers a further delay in so far as the staff of the Commission is obliged, for budgetary and auditing purposes, to keep these documents for a certain time.

Arrangements have now been made at staff level to eliminate or to cut this further delay to a minimum.

25. Can the Commission react to the severe criticism of the control procedures as regards the Guarantee section of the EAGGF which points to delays which diminish the significance of the discharge decision?

(Commission, paragraph 2.2)

Answers Nos 25, 31 and 51

There is one particular feature about the EAGGF Guarantee Section expenditure which has to be included in the Financial Regulation governing the general budget of the European Communities. This expenditure is effected by the departments authorized by the Member States in such a way that the Commission acts as authorizing officer at one remove. The Community has therefore had to provide a special mechanism for entering such expenditure in the accounts.

The mechanism enables expenditure to be entered in the accounts on the basis of the paying departments' declarations sent by the Member States to the Commission. This process of booking must be completed within three months of the payment, and is without prejudice to the final clearance of the accounts.

Clearance of the accounts cannot be carried out in time for the results to be integrated in the annual revenue and expenditure account for the financial year in which the expenditure was incurred.

This is why the Commission's task with regard to the implementation of the Budget in a given financial year means, where the EAGGF Guarantee Section is concerned:

- (a) entering in the accounts expenditure which has been paid out by the authorized departments in any one financial year (Articles 97 and 98 of the Financial Regulation), and
- (b) entering in the accounts the differences between the expenditure entered in previous financial years and that which was finally acknowledged as the responsibility of the EAGGF Guarantee Section in the clearance decision adopted by the Commission during the financial year in progress (Article 99 of the Financial Regulation).

Thus, both the Court of Auditors and the discharging authority have two opportunities to give their opinion on the expenditure paid out by the authorized departments during any one financial year.

The first occasion arises when the revenue and expenditure account for the financial year in question is finally cleared, and the second when the revenue and expenditure account for the financial year in which the Commission takes its clearance decision is checked.

It is therefore important, in the Commission's view, that both the Budgetary Authority and the Court of Auditors should fully understand this process, which is governed by purely objective constraints.

26. As regards detailed comments, the time limits laid down by the Financial Regulation have not been respected on many occasions. Why not?
(Commission, paragraphs 2.8 and 2.9)

The answer to this question is to be found in the Commission's replies to the Court of Auditors' report, OJ No C 313 of 30 December 1978, p. 26, "Expenditure declared each month", first three paragraphs.

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27. Has the Court noted any improvement in the respecting of the dead-
lines

laid down or does it intend to publish a separate report on the Guarantee section in the future? (Court of Auditors; paragraph 2.10)

28. Has final settlement been made of the accounts for 1967/68 - 1970? (Court of Auditors, paragraph 2.13)

29. What has been the outcome of the challenge by three Member States - Germany, France and the Netherlands - concerning disputed sums amounting to 24.6 muu for the accounts 1971 and 1972? (Court of Auditors, paragraph 2.15)

30. Have the two outstanding Member States now supplied the supporting documents for the financial year 1976? What was the reason for the other delays? (Court of Auditors, paragraph 2.17 iii)

31. What is the view of the other institutions of the assertion by the (See ~~above~~) Court that closing the EAGGF accounts after the discharge decision undermines the purpose of the discharge procedure? (Council, Commission, paragraph 2.21)

32. What were the reasons for the under-estimation in Chapters 62, 64, 68 and 74 and the over-estimation in relation to cereals, oil fats, pig-meat and ACAs? (Commission, paragraph 2.30)

The 7th Agricultural Financial Report explains on page 14 the gaps between the budgetary allocations and the expenditure in the different chapters. These can be summed up as follows:

A. Chapters where the budgetary allocation was not sufficient.

Milk

The development of sales outlets on the world market has resulted in a large increase in the number of exports; coupled with the efforts to use milk powder as animal feed, this has also meant that skimmed milk powder and butter stocks had decreased by the end of the financial year, despite the growth in milk production.

Sugar

The increased expenditure in this sector is primarily the result of the sharp drop in world prices during 1977, and also of the fact that the tonnage of sugar available was greater than forecast.

Fruit and Vegetables

The increase in expenditure over the initial appropriations is the result of a short-term increase in production which has meant much bigger withdrawals on average than in previous years.

Products not included in Annex II

The large increase in expenditure on these products, i.e. chocolate, biscuits, etc., is the result of the growth of exports and the drop in the world prices of the basic products, notably sugar; this drop

requires rebates to be increased as well.

B. Chapters where expenditure has been lower than the budgetary allocation

Cereals

Expenditure in this sector are governed by world price levels and the level of Community production in the last two cereal years covered by the financial year in question. Since the cereal years generally start on 1 August, the expenditure in one financial year goes to two different marketing years. The reason for the low expenditure for this sector in 1977, when compared with the forecasts, is to be found in the drop in production in 1976 and 1977, which is especially remarkable when compared with the trend in production. In 1976 production - particularly as a result of the drought - was roughly 15 million tonnes lower than the estimate based on the trend and the 1977 figure was 7 million tonnes lower. Gaps like this were not foreseeable when the Budget was drawn up.

Oils and fats

The gap here is due partly to the continuing high price of colza on world markets and, in particular, to the failure to catch up with the payments for olive oil, which had been expected when the Budget was drawn up.

Pigmeat

The saving here is due to lower exports and interventions than forecast, particularly as the domestic consumption of pigmeat has increased.

Accession compensatory amounts

The reduction in expenditure on accession compensatory amounts, compared with the estimates, is the result of the drop in United Kingdom imports, especially of cereals, following the very large British barley harvest in 1977; butter imports, too, have dropped following the upturn in UK production.

33. What are the comments of the institutions concerning an irregular transfer of 21.783 mva made, concerning the coresponsibility levy, after the deadline laid down in the Financial Regulation? Why did the Financial Controller not exercise his responsibility in this domain? (Council and Commission, paragraph 2.34) **No reply**

34. Why was there such an extensive delay as regards the carry-forward of appropriations from 1976 to 1977? (Council and Commission, paragraph 2.37)

The delay in the Commission's submission of the list of non-automatic carryovers of appropriations from 1976 to 1977 was due to the fact that, according to the provisions of Article 109 of the old Financial Regulation (Article 98 of the revised Financial Regulation), accounts relating to the EAGGF Guarantee Section are not closed until 31 March of the following year. As a result, because of material constraints (e.g. the final compilation of statistics, their use in the accounts, preparing proposals and translating them) it is extremely difficult to abide by the 1 May deadline laid down for the submission of the list of non-automatic carryovers, whenever it includes requests for carryovers relating to the Guarantee Section. (The Council has been informed of this and will give its opinion on the delay in its final decision on requests for automatic carryovers.)

35. Can the Commission provide a detailed explanation as to the reason for the growth in the total appropriations carried forward to 1978 from 1977, in comparison with the previous year? (Commission, paragraph 2.38) **see p.178**

36. What measures do the institutions suggest to improve their performance as regards the respect of the deadlines laid down in the Financial Regulation for transfers and carry-forwards? (Council and Commission, paragraph 2.40) **see p.178**

37. At the close of the financial year, why did Italy hold a balance amounting to more than 50% of the total funds available at year end? (Court of Auditors and Commission, paragraph 2.49) **see p.180**

38. Has there been any development as regards the supply of figures by the AIMA (Azienda di Stato per gli interventi nel mercato agricolo) which were judged by the authorising officer not to be sufficiently detailed to permit a tallying of expenditure declared with payments actually made? (Commission, paragraph 2.52) **see p.178**

39. What contacts have been made with this body to improve the situation which has been irregular since 1973? (Commission, paragraph 2.52) **see p.178**

40. How does the Commission justify the creation of a new extra budgetary account before the accounts had been cleared, thus necessitating adjustments which reduced the accuracy of the revenue and expenditure accounts? (Commission, paragraph 2.57) **see p.178**

41. The Court of Auditors questions the quality of forecasting within the Commission. Can the Commission suggest any improvements to be made in general to its forecasting services? (Commission, paragraph 2.62) **see p.20**

It was not possible for the Commission to accept the expenditure declared by AIMA as corresponding with payments made by that body to the beneficiaries of support measures under the common agricultural policy. The Commission has made several attempts to induce this body to adopt a concept of payment more in keeping with Community regulations.

National provisions were adopted by the Italian Government along the lines favoured by the Commission. However as these provisions, which in any case are incomplete, did not improve the quality of the monthly figures provided by this body, the Commission decided to stop entering this expenditure into the accounts until it received the corrected figures, which it did the following year.

The appropriations corresponding to the expenditure declared were committed and carried over into the following year where that part actually paid to the beneficiaries was charged up and the rest cancelled. The increase in the total appropriations carried forward reflects the increase in questionable expenditure by the body concerned.

The extra-budgetary account referred to in question 40 was created to emphasize a further anomaly which appeared in AIMA's accounts which it was not possible to eliminate before the accounts were cleared. The Commission considers that this procedure helped to open up its accounts and contributed towards the proper management of cash made available to the Member States.

In the light of experience gained, and following the measures adopted by the Member States concerned and the new requirements of the Community rules, the Commission has replaced its Regulation No 2697/70 by Regulation No 380/78 on the operation of the system of advances in respect of expenditure financed by the Guarantee Section of the EAGGF. In Article 9, in fact, the Commission specified the kinds of payment authorized and how these special cases are to be treated. These new provisions should help to eliminate questionable expenditure and substantially reduce the amounts of appropriations automatically carried over from one year to the next.

No 41

It should be recalled that, as indicated in the Commission's reply to the Court of Auditors' observations (OJ No C 313 of 30 December 1978, p. 25), whatever the improvements sought by the Commission, gaps will inevitably occur still because of the many imponderables (unpredictability of the weather, variations in world prices, Community decisions and differing time limits for payment). These gaps are so much the larger because most often, they are not in proportion to changes in production but rather to variations in the Community's surplus quantities, the relative value of which can be much greater.

Answers Nos 36 and 46

The Commission's departments are currently investigating the possibility of extending the deadlines for preparing revenue and expenditure accounts. This could in turn affect the deadlines for carrying forward appropriations (see also answer to question No 10).

The problem of delays with regard to transfers and carryovers - which is basically due to the concatenation of delays by Member States in submitting explanatory reports and to the consequent repercussions on the accounting operations - only arises at the end of the EAGGF Guarantee Section accounting period, in other words in the month of March for the last transfers and after closure for carryovers.

The future processing of this information by computer should help improve the situation.

Answers Nos 37, 42 and 52

The balances which remain available in Member States at the end of each financial year represent the difference between advances granted and amounts spent. The advances are based on forecasts of expenditure. It is not always easy to make these forecasts, particularly for expenditure on intervention buying and storage at the end of the year. It should also be remembered that unforeseeable factors (like strikes, the behaviour of economic operators, files on economic transactions, items missing from files on extremely important transactions) can affect the amount of expenditure and therefore the advances in hand.

It is most important to avoid substantial Community funds uselessly remaining idle for too long in a Member State. This is what the mechanisms set up by the Regulation the Commission has adopted seek to achieve. The advances in hand on 1 January 1976 (8.6 million u.a.) were abnormally low (some 2% of monthly expenditure) because the budgetary position at the end of 1975 was extremely strained and one of the effects of this was the suspension of payments by some Member States.

The advances in hand in Italy were consistently greater than in the other Member States because the procedures whereby paying agencies make funds available are much longer than in other countries. As regards the situation on 1 January 1978, the advances in hand allocated to Italy was affected to a very great extent by the accounting benefits due to assessing the intervention price of products transferred or being transferred from other Member States.

After re-examining the position at the beginning of the three years mentioned in item 2.63 of the Court of Auditors' report and analysing the factors which affected the working capital, the Commission could find no justification for the claim that "too much latitude is being given to the Member States as regards the balances held by them". The Commission will continue to ensure that there are no cases of malpractice in this connection.

42. The Court of Auditors points to too much latitude being given to the Member States as regards the balances held by them. What steps are intended to overcome this situation which is not a new one? (Commission, paragraph 2.63) (see p. 180)

43. The Court of Auditors makes the point that sums are increasingly falling foul of the principle of annuality. What steps are to be taken to reassert this principle? (Commission, paragraph 2.64)

As regards EAGGF payments for the interest on the value of products out of circulation, (reply to paragraph 2.64), on what basis is this interest calculated? For 1977, what was the loss shown on realisation? Why is this not specifically shown in either the budget or the accounts?

(Court and Commission) (see p. 180)

Answer No 43 (second paragraph)

Interest charges are calculated on the basis of the actual purchase price of products in intervention storage (thus at the intervention price) and of an annual interest rate of 8%. This rate is a flat rate fixed by the Commission taking into account the levels of interest in Member States.

Intervention expenditure incurred in 1977 on buying, storing and selling by intervention bodies (public storage) amounted to 653.4 million u.a., including:

147.2 m u.a. for technical expenses

173.3 m u.a. for the costs of financing

332.9 m u.a. because of the difference between the purchase price and the selling price.

For details see Annex G IX of the seventh EAGGF financial report, Guarantee Section, given in annex.

As all intervention expenditure is lumped together in single accounts, in accordance with the Community Regulation governing the EAGGF, the breakdown recently requested by the European Parliament will require a number of technical adjustments. Work is in progress on this matter.

EAGGF - Guarantee

Paying agencies as of 1 January 1979

<u>Member State</u>	<u>Agency number</u>	<u>Abbreviation</u>	<u>Paying agency</u>
Belgium	00	B	"Belgique"
	01	OCCL	Office central des contingents et licences
	02	OBEA	Office belge de l'économie et de l'agriculture
	03	ONL	Office national du lait et de ses dérivés
Denmark	00	DK	"Danemark"
	01	EF-DIR	Direktoratet for markedsordningerne
Germany	00	D	"Allemagne"
	01	BALM	Bundesanstalt für landwirtschaftliche Marktordnung
	02	OFD	Oberfinanzdirektion
	03	BEF	Bundesamt für Ernährung und Forstwirtschaft
France	00	F	"France"
	01	FORMA	Fonds d'orientation et de régularisation des marchés agricoles
	02	ONIBEV	Office national interprofessionnel du bétail et des viandes
	03	ONIC	Office national interprofessionnel des céréales
	04	FIRS	Fonds d'intervention et de régularisation du marché du sucre
	05	SIDO	Société interprofessionnelle des oléagineux
	06	ALCOOLS	Service des alcools
	07	FIOM	Fonds d'intervention et d'organisation des marchés des produits de la pêche maritime et de la conchyliculture
	08	ONIVIT	Office national interprofessionnel des vins de table
	09	TRESOR	Agence comptable du Trésor
Ireland	00	IRL	"Irlande"
	01	DAG	Department of agriculture

<u>Member State</u>	<u>Agency number</u>	<u>Abbreviation</u>	<u>Paying agency</u>
Italy	00	I	"Italie"
	01	MINFIN	Ministero delle finanze - Direzione generale delle dogane
	02	INTFIN	Intendenza di finanza
	03	AIMA	Azienda di Stato per gli interventi nel mercato agricolo
	04	CCZ	Cassa conguaglio zucchero
	05	ENR	Ente nazionale risi
	06	MAF	Ministero dell'agricoltura e foreste
Luxembourg	00	L	"Luxembourg"
	01	TRESORERIE	Service de la trésorerie de l'Etat
Netherlands	00	NL	"Pays-Bas"
	01	HPA	Hoofdproduktschap voor akkerbouwprodukten
	02	PZ	Produktschap voor zuivel
	03	PVV	Produktschap voor vee en vlees
	04	PPE	Produktschap voor pluimvee en eieren
	05	P-GR-F	Produktschap voor groenten en fruit
	06	PVIS	Produktschap voor vis en visprodukten
	07	PMVO	Produktschap voor margarine, vetten en olien
	08	VIB	Voedselvoorzienings-en verkoopbureau
	09	LEF	Landbouw-egaliseringsfonds
	10	DBA	Directie Bedrijfsstructurele Aangelegenheden
United Kingdom	00	GB	"Royaume-Uni"
	01	IBAP	Intervention board for agricultural produce

44. The Commission mentions that its work of keeping to deadlines is complicated by having to deal with 44 paying agencies in the Member States. Is there no hope of simplifying this situation? Can a list be provided of these agencies? (Commission, page 2.24)

A list of paying agencies whose expenditure reports are submitted monthly to the Commission is given below.

It should be noted that in several Member States there are several other bodies involved in the process of settling expenditure, so that the number of paying agencies mentioned in the documents tends to fluctuate.

The Commission would prefer to simplify the process, but it is the Member States who delegate the authority to pay expenditure and they tend to use agencies already set up.

45. The Commission justifies its failure to respect time limits in three ways - failure by the Member States to respect the deadlines, deficiencies in the information supplied and shortage of staff to scrutinise it. Has the Commission found that the use of computer processing has helped respect the deadlines? Can the Commission illustrate, with concrete examples, the problems arising from these different sources of difficulties and suggest remedies? (Commission, page 2.26)

The use of data processing for the figures returned each month should be ready to begin with the first figures for 1979. It will certainly contribute towards better observance of the deadlines for the accounting of expenditure (Articles 97 and 98 of the Financial Regulation).

46. It seems that the supply of supporting documents has been consistently broken. Can the Commission explain how this situation is to be rectified? (Commission, page 2.26)

See answer to question No 36 above.

EAGGF Guarantee Section

Staff

	A ¹	B	C ²	E ³
Staff recommended	71	53	22	0
Establishment table beginning of 1978	46	26	11	14
Increase recommended	25	27	11	- 14
Posts allocated in the 1978 Budget	0	17	8	
Posts still to be allocated, in accordance with this study.	25	10	3	- 14 ⁴
Posts requested in the 1979 Preliminary Draft Budget, but not granted ⁵	8	12	*	
Posts requested in the draft rectifying and supplementary budget No. 1/79 ⁶	14	12	2	

¹Not including heads of division.

²Not including secretaries.

³The study concluded that it was a good idea to replace experts by established officials, almost all of them A grade.

*The number of C grade posts (secretaries and clerical officers) are in proportion to the number of posts of a higher grade.

⁴The number of experts fluctuates somewhat; at the beginning of 1979, for example, there were only 11.

⁵Given the very slight increase in the establishment, and the different priorities examined by the Commission, it has not been possible to grant supplementary posts to FEOGA within the framework of the 1979 Budget.

⁶Request conforms to the amendment adopted by the Committee on Budgets on 7th December 1978.

regards the presentation of detailed statements with the general problem of the delays in finalising accounts? (Court of Auditors, page 2.27) **No reply**

48. The Commission refers to a study by an outside consultancy concerning the general review of the working of the EAGGF. Why has the Commission still not officially provided Parliament with this study? (Commission, page 2.27)

The conclusions of this study were made available to the Court in 1978. On 29 June 1978, a copy was sent to the Chairman of the European Parliament's subcommittee on control. On 6 October 1978, Mr Tugendhat gave Lord Bruce of Donnington a copy of the summary report.

49. What did this study recommend as staff increases? What increases did the Commission seek in the 1979 budgetary procedure in this sector?

(Commission, page 2.27)

The study in question recommends inter alia increasing staff and replacing experts considered to be unsuitable for the tasks in hand. The position at the beginning of 1979 is given below.

50. The Commission, in its replies, indicates that the reason for the delays in the closure of the accounts may lie in the fact that staff were undertaking major tasks (implementation of own resources, enlargement etc). The Court of Auditors does not accept this point, arguing that the Commission should have released officials from other departments for "the relatively small number of officials required". Furthermore, the Court adds that the working methods of the Commission were criticized by this independent study and were partly the cause of these delays. The Commission itself refers to "numerous internal consultations and the length of procedures". What measures does the Commission intend to take to improve these internal procedures and working methods?

(Commission, page 2.29)

Answer 50

The Commission is continuing its efforts to improve operations in the following ways:

- (a) increasing EAGGF staff,
- (b) improving working methods.

As regards (a), see answer to Question 49.

As regards (b), a steering committee was set up as a result of a study carried out by an outside organization. This committee is examining the various recommendations made by the organization and the methods of putting them into effect. Refer also to the reply to Question 45 on the use of data-processing.

As regards interdepartmental consultations and the procedures for consultation with the Member States, it should be stressed that their frequency and duration are closely linked with the number and importance of the problems encountered and the disputes which may arise from them.

Improvement of working methods, on the other hand, should derive directly from the implementation of the recommendations made by the consulting agency to which the study on the workings of the EAGGF was entrusted.

(see p. 178 for reply)

51. The Court seems to have no confidence in the Commission's ability to improve the respect for deadlines. It goes so far as to suggest that "the consistent failure to achieve clearance at the end of the first financial year after closure of the accounts is tantamount to withholding discharge to the Commission for its management of the Guarantee section". Do the two institutions principally concerned with this failure wish to make further comments on this matter of extreme gravity before Parliament decides what action to take? (Council and Commission, page 2.30)

52. Why does the Commission refer to the remarks of the Court as being "exaggerated" (concerning cash advances), when the figures reveal that these advances involve undue sums being held at the disposition of certain Member States at the end of the year? (Commission, page 2.32) **No reply**

53. Why did the Commission not bring the problem of the deadlines for forwarding supporting documents and the deadlines for clearance to the attention of the budgetary authority when it was drawing up the proposals for the review of the Financial Regulation? (Commission, page 2.32)

The deadlines for the deposition of statements by the Member States and for the decisions clearing the accounts were set by Council Regulation 729/70 and Commission Regulation 1723/72 respectively and not by the Financial Regulation of 25 April 1973 applicable to the General Budget of the European Communities. The revision of this Regulation of 21 December 1977 could therefore not have affected the deadlines.

54. As regards particular cases of fraud from 1971 to 1976, the Court says that legal proceedings are still going on for most of the cases; for some, Member States indicate that they have sought reimbursement. Would the bodies concerned care to comment on the enforceability, before national courts, of agricultural regulations? Have any particular problems arisen in any Member States as regards domestic legal proceedings? (Court of Auditors and Commission, paragraph 2.72)

Community Regulations are binding in their entirety and directly applicable in all Member States (Article 189 of the EEC Treaty). This provision is binding both for national courts and national administrations.

Under Article 8 of Regulation (EEC) No 729/70, the Member States must take the necessary measures, in accordance with national laws, regulations and administrative measures, to recover sums lost because of irregularities. The judgment of the Court of Justice in cases 178, 179 and 180/73 (Belgium and the Grand Duchy of Luxembourg versus Mertens and others) confirmed the responsibility of the Member States in this field.

Demands for reimbursement to the EAGGF are made according to the national procedures in question, which in most cases lead to recovery within a relatively short space of time. However, where a legal dispute goes through the whole legal hierarchy of courts and requires a ruling from the Court of Justice (Article 177 of the EEC Treaty), recovery often does not occur until several years have passed. However, this does not apply only to recovery in connection with the EAGGF.

55. The Court rejects the Commission's argument that lack of staff excuses its failure to produce proposals for accounting for sums resulting from irregularities which have been discovered as irrecoverable. Can the Commission comment on this? (Commission, paragraph 2.74)

56. Can the Commission react to the Court's suggestion concerning Article 8(2) of Regulation 729/70 - the ambiguity of which seems likely to give rise to disputes, as regards responsibility, between the Community and Member States? What are the findings of the Court of Justice as to the scope of this Article? (Commission and Court of Justice, paragraph 2.77)

Answers 55 and 56

The interpretation of Article 8(2) of Regulation 729/70 is indeed an important and controversial question. Anything done in this field will be influenced by the judgment of the Court of Justice on appeals against the decisions on clearing the accounts of 1971 and 1972. This judgment was handed down on 7 February 1979 and the Commission will not fail to study it carefully and take account of it when formulating a solution to this problem.

It would not have been very sensible to embark upon any revision of these measures before the Court had given its ruling.

However, the argument about inadequacy of funds in this sector retains its topicality, for the work can be done only by experienced and specially-qualified staff. However, the officials now employed have had to devote most of their time to the fight against irregularities.

57. What is the state of progress of national measures to be taken by all the Member States by 1 January 1978 "at the latest" in the context of mutual assistance in effecting recoveries of irregularities (Council Directive No. 76/308 of 15 March 1976)? (Commission, paragraphs 2.78 and 2.79)

Answer 57

Only the following Member States have adopted the national measures needed for the application of Council Directive 308/76 of 15 March 1976:

Denmark (law of 18 January 1978)
Italy (decree of 9 January 1978)
United Kingdom (Finance Act 1977).

The procedure provided for under Article 169 of the EEC Treaty was set in motion by sending the other Member States a letter constituting formal notice on 7 December 1978.

58. The Court criticises the Commission heavily for the time lag before action was taken to prevent distortion of trade in the durum wheat market. The Commission maintains that it only became aware of this distortion in 1977. The Court states that the possibility arose considerably earlier than this. Can the Commission comment? (Commission, paragraph 2.89, plus reply from the Commission and comment of the Court of Auditors on page 2.38)

Answer 58

As the Commission has already explained, several factors led to the reintroduction of monetary compensatory amounts (MCAs) for durum wheat and its derivatives. Admittedly, it would be preferable that the list of products subject to MCAs should be as short as possible, but the absence of MCAs for the products in question would have led to an increase in deliveries of Italian pasta to the other Member States as from 1976. Furthermore, there was a potential risk of a deflection of trade in this sector, as is the case - incidentally - in other sectors not covered by MCAs.

In 1977, such deflections were indeed observed. It was then, and taking account of all the factors involved, that MCAs for durum wheat and its derivatives were reintroduced.

59. The Commission is reproached with the need to coordinate practices as regards the scale of agricultural stocks held in public storage, in particular with regard to:

- (i) the time limits for the submission of tenders;
- (ii) publications that advertise the invitations to tender.

The Court states that it appears that so far the Commission has not concerned itself with this problem - a vital problem because the prices obtained in these sales determine a very significant proportion of the entire Community budget. Can the Commission now comment on this criticism? (Commission, paragraph 2.94)

(see p.32)

60. Is the Court satisfied with the Commission's reply concerning the closing of the gap between purchase price and selling price by the action of intervention agencies which the Court judges to have no incentive to reduce this gap to a maximum, and the controls which the Court claims do not exist? Is it the general experience that the intervention agencies "act" commercially? (Court of Auditors, paragraph 2.96) **No reply**

61. As regards checks on the method of calculation, it appears that these only take place at the time of the clearing of accounts, whereas it would be desirable for them to take place as soon as possible after the transactions to be inspected had been completed. What is the reason for this absence of controls? (Commission, paragraph 2.97)

62. For the invitation to tender for sales for export, is it correct to say, as the Court of Auditors does, that "there is no publication in the strict sense of the term"? (Court of Auditors and Commission, paragraph 2.101)

63. The Court asserts that the Commission's departments are not aware of the practices followed by the intervention agencies in the different Member States and do not review these practices in a systematic way. This compounds their fears that restrictive practices may exist. Will the Commission agree to strengthen its controls through a systematic inventory of the practices followed within the Member States? (Commission, paragraph 2.102)

Answers 59, 62 and 63

The Commission is aware of the importance of advertising calls for tender. It has already replied that, although there is no systematic inventory of the practices followed by the intervention bodies as regards advertising invitations for tender, the Commission generally knows what they are. The Commission has received no complaints about the practice of publishing invitations to tender in circulars distributed by the intervention bodies in interested quarters. The invitation to tender is published and all interested parties have access to it. However, the idea of circulating or publishing in the Official Journal a list of the publications containing invitations to tender by the intervention bodies is worth considering.

Furthermore, work on this matter might lead to some harmonization of the practices followed by the intervention bodies in this field.

61

As regards the transport expenses in question, Regulation (EEC) 376/70 lays down that these shall be determined by the intervention bodies on the basis of the most favourable transport charges. In practice, this concerns fairly exceptional cases occurring only in France and Germany. Like other expenses, these are subject to control as part of the clearing of the accounts, that is to say at present - because of delays - several years after the end of the operations. However, when these delays have been eliminated, this control will take place during the year following the transport in question. Any control carried out immediately after implementation of the transport would delay the clearing of the accounts.

64. The Commission states that the time limit of ten days for the submission of tenders is sufficient. The Court maintains that it is not always observed and is insufficient. Would not both parties agree that a slightly longer time limit would permit more adequate publication? (Court of Auditors and Commission, paragraph 2.104)

64

In its initial reply to the Court of Auditors the Commission has already explained that trade in cereals is based on the principle of short time-limits. It cannot, therefore, share the Court's opinion on extending the time limits for tenders.

65. As regards the delays once the export licence is granted, there is a difference of opinion as to whether or not the EAGGF bears the cost. The Commission states that the EAGGF does not bear the additional storage cost caused by protracted intervention storage. The Court maintains that the EAGGF pays as compensation to the same (intervention) agency a sum exceeding the monthly increase in respect of the storage and financing expenses incurred by the agency for goods sold. What is the reason for this excess? (Court of Auditors and Commission, paragraphs 2.105 - 2.110)

No 65

There is a difference of around 10% between the amount of the monthly increase which the exporter pays to the intervention agency and the lump sum which the EAGGF pays to the Member State for storage.

This discrepancy results from the economic difference between these two sets of expenditure:

- (i) the monthly increases in institutional prices (guide prices, threshold prices, intervention prices) avoid a situation in which, at the beginning of the marketing year, private storers offer for intervention unsold quantities; this is because the monthly increases ensure regular revaluation of these stocks;
- (ii) the lump sum given to the intervention agencies cover the average cost of hiring silos and the interest costs (at an 8% rate) for the national funds tied up by the purchase of the products (see answer to the second paragraph of question 43).

As the factors causing each of these sets of expenditure are not the same, the sums involved are not identical.

It could be stipulated that the sum which the exporter should pay to the intervention agency for prolonged storage should be equal to the lump sum plus the interest costs. However, the lump sum is not published so that the silo-owners who sometimes ask for less than the lump sum do not increase their prices. The interest costs depend on the level of the purchasing price actually paid by the intervention agency and this varies every month.

The Commission has not considered it advisable at present to change existing practice in view of the complication of the rules this would involve and the fact that the exporter would take this into account in his offer price. However, the system might have to be changed if the difference between these two amounts increased substantially.

66. The Commission does not reply to the Court's criticism that it should not be left to the Member States to check on the correct application of the provision concerning the selection of ports of shipment which should be the nearest and on the most favourable terms. Why? (Commission, paragraphs 2.109 and 2.110)

66

Like all the other expenditure, this transport expenditure is checked when the accounts are cleared (also see the answer to question 61).

✓ 67. As regards tendering for export refunds, it appears that there is no guarantee of further publicity for the issuing of tenders in the Member States, with the exception of France. Why not? Furthermore, it appears that the period of 15 days laid down in the basic regulation between the publication of the notice of invitation to tender and the first date fixed for the submission of tenders is not always respected. Why not and how widespread is this practice? (Court of Auditors and Commission, paragraph 2.117)

67

The Regulations issuing an invitation to tender for export refunds are published in the "L" series of the Official Journal of the European Communities. The notice of invitation to tender is included in the "C" series of the Official Journal. Publicity through the Official Journal, and consequently in all the languages, thus covers all the Community. The fact that a Member State provides additional publicity is a complementary measure which is not indispensable. The non-compliance with the deadline set for offers is only an isolated case.

68. The Court maintains that the EAGGF departments of the Commission do not appear to be inclined to make use of the detailed list of refund operations to improve financial control. Why not? (Commission, paragraph 2.117)

68

This question appears to be based on a misunderstanding. The EAGGF departments have never limited their checks to the maximum refund rates alone as the files examined in the Member States are generally chosen arbitrarily from the complete list of declared refunds; as the files are taken at random, they may very well relate to rates other than the maximum rates.

The Guidance Section of the EAGGF

69. As regards the implementation of expenditure, what steps have been taken recently to shorten the time lag between commitments and payments? (Commission, page 3.9)

Only some of the measures financed by the Guidance Section - those measures granting direct subsidies to investment projects - are subject to any real delay between commitment and payment. In this case, the commitment coincides with the decision to grant aid which is no more, in fact, than a promise to pay the aid when the work is completed. Some delay is therefore perfectly normal, since payment follows completion. Furthermore, this delay is long only in certain regions.

The measures taken by the Commission (payments made in several instalments, the possibility of transferring the aid to other projects if the recipient does not start the work) are thus aimed at certain regional problems.

In addition, the Commission has just adopted Regulation (EEC) No 1685/78 which aims to rationalize requests for payment and tries to minimize the need for additional information in respect of these demands by means of forms to be completed.

70. How many on-the-spot checks were organised by the Commission on expenditure under the Guidance Section? (Commission, paragraph 3.25)

In 1977 the Commission made nine on-the-spot checks of individual projects and six of common and special measures (see the Commission's reply to the Court of Auditors OJ C 313 of 30 December 1978, p. 198, and the 7th financial report on the EAGGF Guidance Section).

71. The Court cites five instances where payments were made to concerns which held dominant positions in the market.

The Commission maintains that this claim is not always valid because the dominance is not established or because of the limited nature of the market.

Does the Court accept this rebuttal? (Court, paragraph 3.26 and reply)

72. The reply given by the Commission to the criticism concerning project F.23/72 is irrelevant. The Court does not maintain that the producer handled 70% of the world market - it recognised that this percentage applied to the national market. Will the Commission now give its considered reply to the Court's remarks on this point?

(Commission, paragraph 3.26)

The Commission seems to have given a full answer. It states that the market is very specialized and thus very narrow; this means that the few competitors who share this market have all probably a "dominant" position on it, as legally defined. The answer also states that capacity does not cover demand. There was thus no reason to refuse the undertaking permission to expand its capacity in order to be in a position to supply growers with the products they need.

73. How many people employed in the competent departments of the Commission are monitoring developments in the various marketing sectors for agricultural products? (Commission, page 3.13)

One of the responsibilities of some twenty persons in the Directorate-General for Agriculture is to monitor the trends in the various sectors for marketing agricultural products and their effects on the projects either in the market divisions, in the structures division or within the EAGGF directorate.

74. As regards project F.34/74, the Financial Controller of the Commission had noted that "prices set out in the past are not an appropriate guide to the policy to be adopted in the future". (paragraph 3.29) The Commission overruled his refusal maintaining that in the absence of contracts the only indicator can be the policy pursued in the past. Would the Court care to comment on this rebuttal? (Court, page 3.14)

75. What practical steps does the Commission intend to take to clarify the relative weight given to different arguments advanced to support applications made under the Guidance Sector? (Court, page 3.14)

76. As regards the training of people engaged in agriculture, does the Court accept the Commission's interpretation that the ceiling of 1,500 u.a. applies to each trainee rather than to the course as a whole? (Court, page 3.16)

Correction of ANNEX G IX from the 7th Financial Report on the EAGGF

Breakdown of intervention in respect of storage costs in 1977

(in m EUA)

Sector	Private storage	Public storage	Including		
			Technical costs	Financing costs	Difference between buying-in and selling prices
1	2	3	4	5	6
Cereals	-	21.1	28.1	20.4	- 27.4
Milk products	51.3	436.6	48.2	101.6	286.8 ¹
Oils and fats	-	9.2	6.1	4.6	- 1.5
Sugar	161.6	1.6	1.4	1.4	- 1.2
Beef and veal	61.8	177.8	62.3	43.0	72.5
Pigmeat	7.0	-	-	-	-
Wine	36.1	-	-	-	-
Tobacco	-	7.1	1.1	2.3	3.7
TOTAL	317.8	653.4	147.2	173.3	332.9

¹ Mainly special measures for the disposal of milk products within the Community under Articles 6 and 12 of Regulation (EEC) No 804/68 (recipients of social security, army, non-profit-making organizations, Christmas butter) and outside the Community.

77. As regards the Council directive on mountain and hill farming, and the expenditure arising therefrom, it appears that certain of the ceilings as regards grazing areas have been overlooked. (paragraph 3.48) The Commission states that these shortcomings do not require subsequent reimbursements and that they have introduced changes to the individual ceilings so as to elicit the extra information. Is the Court satisfied with this reply? (Court, page 3.20)

The European Social Fund (1)

A. Managerial aspects

78. There is a reference in paragraph 2 on page 2 of the 'Sixth Report on the Activities of the European Social Fund - 1977 Financial Year' to 'Strict selection guidelines'. Does this mean to say that before 1977 aid applications were selected by rule of thumb?

The fact that the volume of applications exceeded the budget by 50 % during 1977 necessitated strict selection guidelines which were more strict than in the years before 1976.

This does not mean that rule of thumb methods of selection were applied in the earlier years but that the conditions of eligibility were sufficient in themselves to determine the selection.

(1)

(a) The following documents were consulted when drawing up this section of the questionnaire on the Social Fund:

- The Sixth Report on the Activities on the European Social Fund - 1977 Financial Year.
- The Court of Auditors' Annual Report concerning the Financial Year 1977.
- The accounts of revenue and expenditure and the balance sheets relating to budgetary operations in the financial year 1977.
- The analysis of financial management relating to the account of revenue and expenditure of the European Communities for the financial year 1977.

(b) All the questions in this questionnaire are addressed to the Commission.

(c) Certain language versions of the Sixth Report differ greatly.

79. In paragraph 3 on page 2 of the 'Sixth Report' it says that the Commission has favoured programmes with well-defined and clearly visible objectives, initiatives with a promotional effect, and suitable schemes unlikely to have been carried out were it not for the provision of aid from the Fund. Is there not a contradiction between these criteria and the reference to 'Strict selection guidelines' in the previous paragraph?

The considerations mentioned in paragraph 3, page 2 of the Sixth Report are intended to explain the Commission's general objectives in the drawing up of guidelines for the management of the Fund and do not in themselves constitute selection criteria. The Guidelines containing the selection criteria are published in the Official Journal (O.J.C141 of 15.6.1977).

80. Noting that the impact of the Social Fund on regions assisted under the regional policy rose in 1977 from 73% to 76% to reach 313.6 m.u.a. ('Sixth Report', p.3), can the Commission specify how many projects have been carried out thanks to coordination between the Social Fund and the ERDF?

Coordination between the Social Fund and the Regional Fund has until the present taken place at the general level of the management of the Funds, with the objective of increasing the regional impact of the Social Fund intervention. At the level of individual projects, joint utilisation of the two instruments has been helped by consideration at meetings between the appropriate Commission services and by the fact that in introducing their requests, the potential beneficiaries of Social Fund aid have to inform the Commission about grants received through other financial instruments. In this area the Commission is considering the possibilities to achieve the combined use of the Funds in so-called "integrated programmes".

81. In the final paragraph on page 5 of the 'Sixth Report', it says that it was not always easy to discern exactly the extent to which aid applications related to persons leaving agriculture. Has not this difficulty perhaps had an effect on the application of the priorities listed on p.6/7 (implementation of the EEC directive on aid to members of farming households etc.)?

Most applications for persons leaving agriculture were programmes forming part of more general operations covering several other categories of workers. This presented a problem in the selection procedure because extra information was necessary from the member states concerned to establish the nature and extent of the part of those programmes related to workers leaving agriculture. It did render the application of the Rules and the Guidelines more difficult but not impossible.

82. In the final paragraph on page 17 of the 'Sixth Report' it says that the global "Anti-crisis" training programmes for young people 'frequently presented problems of evaluation'. To what extent have these problems affected implementation of the guidelines chosen for the selection of applications?

As in the previous paragraph what is at issue here is a complication due to lack of detailed information in certain large general programmes, which had to be (and was) clarified before the application of the Rules and the guidelines.

83. Regional programmes were undertaken by both public authorities and private bodies ('Sixth Report', page 28). What differences (care in the presentation of documents, respect for deadlines, degree of feasibility etc.) did the Commission find between them?

No special difference was noted between public authorities and private bodies in the observance of the rules governing applications to the Fund.

84. On page 29 of the Sixth Report there is the statement that training operations were required to be compatible with Community policies. Does the Commission not think that this criterion is sufficiently vague to justify a certain arbitrariness in selections? More particularly, how many applications were rejected because they did not conform to Community policies?

The criterion is that the programmes were required to contain reasonable prospects of employment of a type compatible with Community policies. The purpose of the underlined phrase was to rule out, employment of a type incompatible with Community policy, e.g. in the textile industry.

During 1977, no applications were rejected on this criteria.

85. The actions concerning 'technical progress' in certain branches of economic activity and 'groups of undertakings' have not found the expected response from potential beneficiaries. What efforts were actually made by the Commission's secretariat to encourage applications in this sector and what does it intend to do in future?

The Commission has shown on many occasions its willingness to see aids of the sectorial type provided for in Article 5, assume greater importance, notably in the framework of Community policies. In addition the Commission has indicated that the assistance of the Social Fund under the heading "technical progress" and "groups of undertakings" will be highlighted in the "social aspects" of the reconstruction of the shipbuilding industry.

In the same way, the Commission has fully informed the social partners in different industrial sectors of the possibility of assistance from the Fund in the two fields mentioned above, as well as at meetings of the existing joint committees and in the course of ad hoc meetings.

It should also be remarked that the recourse to the two fields of intervention in question may be influenced by the fact that the rules of the Fund allow a certain overlap between different fields of intervention. Since certain requests for assistance are eligible under different headings, the Member States sometimes tend to present their requests under the heading which appears to them the most favourable.

86. Having noted that the 'linear reduction' method applied to applications classified as 'second priority' are not the most sensitive, can the Commission explain what it intends to do in order to reduce the volume of the reduction and improve the system ('Sixth Report', p.43)?

The Commission in its periodic reviews of the guidelines for the management of the Fund is conscious of the need to reduce the impact of the reduction system. However, this cannot be considered in isolation from the need to increase the budgetary appropriations to reduce the imbalance with volume of application.

An important change (see I B of the Guidelines for the management of the European Social Fund - O.J. C 116 of 19.5.1978) has, however, been introduced in the method of reduction which was formerly purely arithmetic and which has now been replaced by a system based on the relative gross domestic product and unemployment rates of the member states. This method of reduction was approved by the Committee of the Social Fund and the Commission, and was published in the Official Journal (O.J. C 298 of 12.12.1978).

87. The Commission is known to attribute a considerable part (if not all) of the shortcomings in the management of the Fund (selection difficulties, slowness in payments) to the incompleteness of the documentation sent in with the applications and to delays on the part of the Member States. While it is accepted as difficult to correct what are unknown factors, can the Commission state:

- (a) whether any particular ways in which documentation is found wanting have been singled out;
- (b) whether there are sectors (or beneficiaries) whose documentation has been found more wanting than others;
- (c) whether all the national civil services are equally dilatory;
- (d) whether there are any difficulties other than purely technical which are preventing information being made available in good time;
- (e) what changes could be made to the amount of paperwork required and to the Commission's internal procedures;
- (f) what would be the minimum time required for a decision on an application properly presented from the very beginning;
- (g) what results have been obtained with the new forms.

- (a) Deficiencies in documentation have not been confined to any particular area.
- (b) As in question (a) additional documentation has been found to be necessary across all the fields of intervention and from all types of beneficiary. It is not possible to point to one sector or type of beneficiary taking one year with another.
- (c) It is not possible to say in general terms that one administration is slower than another.
- (d) The member states could experience difficulties about which the Commission is not aware but assuming that the question refers to "technical" in the sense of provision of data etc ..., the Commission is not aware of any other obstacles.
- (e) By the recent introduction of obligatory application forms, financial sheets and payment claim forms the Commission has streamlined its procedures considerably.
- (f) As regards the minimum time required for a decision on an application, it is necessary, in practice, to consider all applications for assistance in the same period together. The new procedures provide that applications should as a general rule be considered twice a year. For 1979, the anticipated time between the final date for the submission of applications and the Commission decision is about 4 months.

Applications for payment are considered separately. If they are properly made and fully documented, payments of advances should be effected quickly in most cases in a matter of a few weeks. Final payments will obviously take longer, because on the spot checks may be necessary or additional information required from the promoter.

- (g) It is too early to assess the full effects of the new forms but from the first years experience it appears that they will bring about a substantial improvement in the processing of both applications and claims for payment.

88. Has the Commission taken action to draw up and issue manuals or summaries containing all the information and instructions relating to procedures necessary to obtain aid from the Community in the various areas of intervention of the Social Fund?

The Commission has published specific documents summarising the method of operation of the Social Funds.

These include general descriptive brochures as well as the texts of the consolidated rules of the Fund (an up to date version of this is in the course of preparation). In addition, the Guidelines for the Management of the Fund are published annually in the Official Journal.

B. The opportunity of expenditure

89. Can the Commission state, even if only approximately:

- (a) how many of the 1,250,000 people who have been assisted from the Fund's new programmes have found steady employment?
- (b) how many workers, in each of the areas of intervention (Agriculture/textiles, young people, the handicapped, migrant workers etc.), could have benefited from EEC aid if the applications had been financed in their entirety?

It is difficult to give an accurate answer to these questions.

- (a) Many of the programmes supported by the Fund are national programmes and consequently it is not possible to say how many of the trainees received jobs since the proportion would vary from country to country depending on the economic circumstances at any particular time. However the criteria for the selection of projects in certain fields of intervention for support from the Fund are now including conditions on assurance of employment after training.
- (b) The demand on the Fund now exceeds available resources and many projects are excluded either by the application of the guidelines or by the reduction procedure. No record is kept of the numbers of persons involved in these cases.

90. How many checks were made in 1977 on the programmes that were under way?

91 on the spot visits were made in 1977 to carry out checks on claims for payment.

91. What criteria are used to judge whether the programmes under way meet the prescribed objectives?

The Commission decision specifies the main elements of the programme, - the number to be trained, the period, the overall cost, etc .. - and the competent authority vouches the accuracy of these elements.

During the on the spot visits, checks are made on the main elements of the programme and the system used by the competent authority in the member state in making their contribution to the programme.

92. In how many cases was financing suspended because programmes were found to be manifestly unsuited to a valid purpose?

There are no known cases where financing was suspended because programmes were found to be manifestly unsuited to a valid purpose.

Programmes are approved with a specific objective and adhering to established criteria. If the programme is delayed, or does not cost the amount estimated or it is not possible to properly vouch expenditure, or a part or parts of the actual programme does not conform with the Commission decision, the full payment may be delayed and reduced.

93. In the light of the checks made, what operational shortcomings were found most frequently in the various sectors?

There do exist differences on the interpretation of the Rules and Regulations of the Fund at member state level in the light of national legislation and practices, but no special pattern of differences is discernable.

94. On the assumption that the 'National Reports on the Activity of the European Social Fund in the Countries of the Community' may well provide a valid check, can the Commission state:

- (a) why the Member States were not given directives which would have helped to achieve a more uniform presentation of the various reports?
 - (b) what practical steps have been taken to make the reports for the 1978 financial year more consistent?
 - (c) whether the Member States were requested to specify how successful each of their programmes were, where possible in terms of the number of jobs which were maintained or created?
-
- (a) As this was the first time the member states were asked to furnish national reports, it was not considered appropriate or reasonable to concentrate on uniformity of presentation.
 - (b) Following examination of the national reports submitted on this occasion, the Commission has drawn up a schema, in accordance with Commission decision n° 78/743/EEC (O.J. No L 248 of 11.9.1978) which should result in the submission of reports for 1978 in a form facilitating comparison.
 - (c) The member states are requested to give information on the impact of the Social Fund on employment by field of intervention. It would not be practicable or appropriate to request this information regarding each individual project. It will be recalled that paragraph 4 of the prescribed application form for final payments requires a report on the operation assisted.

C. The accounts of revenue and expenditure

95. Given

- (a) that Parliament cannot but criticize the inaccurate and incomplete presentation of data as reported by the Court of Auditors which is such as to deprive the information supplied by the Commission of any value;
- (b) that the decision to grant a discharge for 1977 in respect of the Social Fund will nevertheless be subject to the presentation of proper accounts of revenue and expenditure;

The Commission is requested to state by what date the following documents will be supplied to the European Parliament:

- (a) a completely revised version of the accounts of revenue of expenditure which will clearly show the progress of commitments and payments in 1977, including both the appropriations for that financial year itself and those carried over from previous years;
- (b) the additional tables requested by the Court of Auditors ('Annual Report concerning the Financial Year 1977' page 4.4) showing the breakdown of column 6 of Table 6 and the breakdown into its main components of column 5 of Table 7.

The corrections and supplementary tables for the accounts of revenue and expenditure were presented to the budgetary Authority and the Court of Auditors on 21 st december 1978.

D. Payments

96. Considering that the resources available to the Fund have increased by 40% compared with 1976 ('Sixth report', page 2, paragraph 2), can the increase of 30% in payments really be considered satisfactory?

The Commission is not satisfied even with the increase of 30 % in 1977 and for this reason had already proposed new rules to alter the payment procedure. The difficulties in making payments have already been referred to in the Annual Report.

97. What further increase is thought possible following the introduction of the new arrangements (advances and standard forms)?

The implementation of the new procedure makes it easier to increase the volume of payments because of the introduction of advance payments. Given the cooperation of the member states and adequate staffing, the Commission anticipates a substantial increase in the volume of payments from 1979 onwards. It is also hoped with the new procedures to eliminate the backlog of payments existing at this time.

98. What pressure has been put on the Member States to ensure that the new rules are properly applied?

Constant contact by correspondence and meetings between the Commission Services and the member states was maintained during the process of the approval of the new rules and their implementation.

99. Finally, is it true that, since the spate of applications by far exceeded the available funds (900 m.u.a. as against 617.1), the Commission was able to choose those which objectively complied more closely with the formal requirements laid down. How can it therefore complain of the shortcomings in documentation as the main cause of delays? In other words, are its instructions so unclear or the Member States so indifferent that none of the applications was formally correct and fundable without further delays?

To eliminate the gap between the volume of applications presented and available resources, it was necessary, year by year, to re-inforce the Guidelines for the Management of the Fund, so that priorities were established to meet the most pressing needs at Community level. Even with the published guidelines, it is usually necessary to have to seek additional information, this is particularly so at the payment stage.

The European Regional Development Fund

Question No. 101

It is stated at paragraph 5.11 that the greater part of the appropriations not committed at end-December 1977 remained uncommitted because an insignificant number of projects had been submitted by Germany to absorb her quota. Could the Commission explain the background to this failure to put forward a sufficient number of projects?

The temporary failure by the Federal Republic of Germany to absorb its quota in 1976 and 1977 is mainly attributable to the fact that the Federal authorities did not submit sufficient projects to receive assistance from the Fund because they were waiting for various questions of principle to be solved regarding the eligibility of certain tourist infrastructure projects which are of special interest to the Federal Republic. Since then, however, the Federal Republic has absorbed the rest of its quota with regard to appropriations for commitment.

Question No. 102

Has any special effort been made to gauge the different economic impact and effectiveness of different patterns for development assistance as between industrial projects and infrastructure?

Concerning the impact of the European Regional Development Fund, the Commission would emphasize that one of the chief objectives is to create and preserve jobs in the mainly agricultural regions together with those industrial regions undergoing transformation or exhibiting structural under-employment.

The fact that the greater part of the aid was granted to infrastructure projects (1976: 75%; 1977: 59% of total aid), for which no statistics on the number of jobs created are available, might admittedly prejudice the attainment of the Fund's objectives. Generally speaking, however, one can argue that infrastructure projects generate a considerable volume of work, often over a period of years, and provide the basis for the subsequent growth of industrial activities and services. In addition, the maintenance of the infrastructure network provides a not inconsiderable number of permanent jobs.

The industrial and service sector projects which received support from the ERDF in 1977 should, according to the information supplied with the requests, make it possible to create or preserve nearly 70 000 jobs.

Article 6(6) of the amended Regulation adopted by the Council on 6 February 1979¹ lays down that Member States should supply the Commission every year by 1 October with an overall statistical summary which sets out for each region, in comparison with the previous year, the results achieved in terms of investment and jobs, the funds deployed and the effective utilization of Fund resources. This would make it easier to assess the effectiveness of the intervention measures, especially with regard to infrastructure development.

¹ OJ No. L 35, 9.2.1979, p.1

103. At paragraph 5.19, the advantages of operating a system of advances are set out in the Commission's reply. Could the Commission state what percentage of the total amount is advanced and what arrangements exist for expediting putting forward of documents to ensure that cases involving advances are wound up reasonably expeditiously? Have there been cases in which advances were made where the Commission had subsequently to look for refund of sums in question? (Commission)

The Regulation in force for the European Regional Development Fund up to 10th February 1979 only provided for Fund payments to be made pari passu with national public expenditure. Therefore, no advances were made with payments from the Fund during the budget year 1977.

With the adoption of the amended Fund Regulation /Council Regulation (EEC) n° 214/79 of 6 February 1979/ the Commission may grant accelerated payments. According to the provisions of the amended Regulation, these accelerated payments may not exceed 75% of the total amount of the Fund aid and that at least 30 % of the relevant national public expenditure must have been paid.

The Commission considers that this new instrument will improve considerably the payments flow from the Fund. It has been estimated that, if the amended Fund Regulation had been adopted in 1978 the Commission would have been able, in addition to the payments that were in fact made, to pay 150 to 200 MEUA under the accelerated payment procedure that year.

104. At paragraph 5.20, it is indicated that the checks on projects are organised by the national authorities at the request of the Commission. Is the Court of Auditors satisfied that the choice of projects for checking is satisfactorily judicious? (Court)

No reply

105. How many man hours are involved in these checking operations? How many Commission officials are available for this type of work? (Commission)

Commission officials spent an estimated 360 man-days participating in on-the-spot checks in 1977; these include preparation, contacts for consultation and coordination with the different departments within the Commission, with the Audit Court and the Member States concerned, travel to the regions, execution of the controls, and follow-up of problems etc.

The Commission has no special officials exclusively available for this type of work. In 1977, 13 different officials participated in the on-the-spot checks that were carried out. They came from the Directorates General for Regional Policy and Financial Control and, besides these control activities, they had other important responsibilities linked to the administration of the Fund.

106. Is the Court of Auditors satisfied with the degree of cooperation extended by the national auditors to the Commission and to ECA auditors - carrying out or participating in - such checks? (Court)

No reply

107. It is noted that the French authorities have not provided inspection facilities that would permit of Commission officials visiting certain industrial investment sites so as to effect physical examination. This would appear to be a serious limitation on the investigating capacity of the Commission. Have the discussions between the Commission and the French authorities resulted in the resolution of this grave matter?
(Commission)

In respect of the provision of inspection facilities enabling Commission officials to visit industrial investment sites in France, it has been agreed (after several discussions in 1978 with the French authorities) that the Commission will be allowed in 1979 to assume its full right of control.

108. In its reply to point 5.26, the Commission says "where possible, the Commission endeavours to locate supporting documents establishing that jobs have been created in the U.K. government's files." Does this imply certain difficulties or is full cooperation extended to the Commission's services? (Commission)

The Commission's reply to point 5.26 in the **Compt of Auditors report** does not imply that there has been any lack of cooperation by the UK authorities.

113. Can the Commission describe the workings of the task force set up under Commissioner GIOLITTI to improve coordination of these instruments?
(Commission)

1. The Member of the Commission responsible for coordination is assisted in the duties entrusted to him by a Task Force at his permanent disposal. The Task Force is made up of officials from the Directorates-General mainly involved. Officials appointed to the Task Force remain members of their own departments, and continue to carry out their duties. The Task Force is run by one official full time, helped by a small permanent secretariat which is made up of two officials from each of the three categories A, B and C.

The Task Force is not a decision-making body ; it does not submit reports to the Commission. Its role is to advise the Member of the Commission responsible for coordination, and to carry out any work this Member may request.

2. The work of the Task Force is organised and carried out under two main headings : firstly, the adoption of opinions on proposals and decisions prepared by the departments ; and secondly, the work it carries out on its own initiative.

In addition to members other officials also participate in this work, and in particular in the meetings of the task force; and in most cases they are persons directly responsible for the preparation of the proposals and decisions. Several suggestions put forward in the course of the task force's work have been directly included by the departments in their proposals; thus, the task force has, in many cases, become a catalyst for coordination.

3. Opinions are given on proposals for reviewing or changing the instruments, the creation of new types of measures and of new instruments, general decisions affecting the structure or tasks of the financial instruments such as : budgetary decisions, the distribution of appropriations, the definition of guidelines or criteria for allocating aid, the preparation of financial reports and activity reports, etc ..

On the basis of the advice of the Task Force, the Member of the Commission responsible for coordination forms his own view. If, on an important issue, he fully shares the opinion of the Task Force, this opinion is sometimes distributed to the Commission.

Moreover, the Task Force is informed about all current operations and participates in all mechanisms and procedures of their coordination.

4. On its own initiative the task force has drawn up guidelines for coordination and has carried out a study on the problems connected with coordination. It has also produced two other studies, one aimed at ensuring consistency between present and proposed Community interest rebate schemes, the other on distribution systems based on the economic situation of the Member States - or particular regions - and their specific needs.

Research, investment and energy appropriations

116. The Court of Auditors comments that the management at the Joint Research Centre has been strengthened and improved with an eye to better utilization of capacity in terms of staff and technical resources.

- What specifically has been done?
- What further improvements might be made?
- How is the staff situation in general at the JRC?
- What is the length of contract awarded to research staff? (Commission)

New management and administration structures have been set up. For scientific activities there is now close liaison between laboratory and installation directors (technical and scientific resources) and project leaders (utilization of resources in programmes). Thanks to the industrial-type budgetary management used as a result of the function-orientated budget adopted, the flexibility necessary in this sort of operation is ensured and details of the resources allocated to each research project, costs and funds available can be obtained at any time. A close watch can hence be kept on operations.

The return of the Director-General and his departments to the Commission's headquarters in 1974 has ensured better coordination between the JRC's work and the development of sectoral policies and greater control of decision-making processes.

The reorganization of the JRC, the setting up of a General Advisory Committee and the system of Advisory Committees on Programme Management have generally restored the situation. Further improvements could be made by simplifying administrative procedures.

The staff situation has been substantially improved over the last few years, mainly as a result of the introduction of new rules which have eliminated certain disparities and facilitate mobility and replacement of research staff.

Replacement of staff has, however, been held back by the gradual reduction in the number of staff authorized. The technical and scientific retraining of teams originally specializing in the nuclear field has proved successful.

The Commission is preparing further proposals to improve the general staff situation.

The new regulations covering research staff (Council Regulation No 2615/76 of 21 October 1976¹), provide for "staff engaged to fill temporarily a permanent post included in the list of posts", who are engaged under contract:

- (a) for not more than five years on a renewable basis, for temporary staff in category A or B in the scientific and technical services;
- (b) for a fixed or indefinite period for staff in category A or B in the administrative services and staff in category C or D in the administrative and scientific/technical services (see Article 8 of the Conditions of Employment of other servants of the European Communities).

Implementation of the budget

117. To what extent did the late adoption of the second amending and supplementary budget impede the work of the JRC in 1977? (Commission)

The JRC's multiannual programme for 1977-1980 was adopted by the Council on 18 July 1977. A sum corresponding to approximately 75% of the programme's annual requirements was entered provisionally under one heading in the 1977 Budget.

The JRC had to manage the appropriations entered in the Budget extremely carefully until the Second Supplementary and Amending Budget for 1977 was adopted on 27 November 1977 and, as a result, there were long delays in committing appropriations. Between the end of November and the close of the financial year, it was impossible to commit all of the additional appropriations allocated under the Amending Budget.

118. What is the explanation for the exceptionally high level of commitment appropriations unused from 1976? (Commission, table on page 4)

¹OJ No L 299, 29 October 1976.

The level of appropriations for commitment outstanding at 31 December 1976 (a total of 168 533 million u.a.) in Chapter 33 is mainly attributable to the fact that the appropriations allocated in the 1976 Budget to the fusion and plasma physics programme (157 672 million u.a.) had been frozen pending a decision on the fusion programme for the period 1976-1980, which included the JET project. The decision taken on 25 March 1976 covered only the fusion programme proper: the decision to incorporate the JET project in this programme was not taken until 30 May 1978. Implementation of the fusion programme was therefore seriously delayed; as a result, a total of 143 314 million u.a. in appropriations for commitment allocated to this programme had not been used at the end of 1976, and 136 910 million u.a. of this sum are still frozen.

119. In what areas did the greatest difficulties arise in connection with the implementation of the budget? (Commission, point 15)

The greatest difficulties in implementing the Budget arose in the indirect action sector, particularly over the fusion and plasma physics programme (see reply to Question 118). This also explains the exceptionally high level of appropriations carried over from 1977 to 1978 (see reply to Question 129).

120. As regards the JET project, already last year the Commission put the losses - insofar as they could be quantified - at around 4.2 m EUA. What is the situation today? (Commission)

The cost of the delay to the JET project - insofar as it can be quantified - consists primarily of the salaries and allowances paid to members of the JET team from January 1976 to 30 May 1978 (date on which the JET project was approved) and the cost of the support services as applied to the project during this preparatory phase. It can be put at approximately 4.2 million EUA.

This expenditure was, however, not entirely wasted, since the JET team spent its time during this period preparing and improving the project to pave the way for the final decision.

Research into the development of a thermonuclear fusion reactor might have been completed earlier if there had not been this delay. This is the real loss: but a loss of this kind cannot be quantified.

Court of Auditors' comments on Ispra

121. Can the Commission report on further developments at Ispra in connection with the circumstances complained of? (Commission)

The Council's decision to shut down the Ispra 1 reactor gave rise to a number of problems. The EURACOS facility installed in the Pavia reactor has been the subject of some criticism, particularly as regards the terms of the contract of utilization. This device is currently being used in the implementation of one of the projects under the present programme, to the satisfaction of the relevant Advisory Committee on Programme Management. The Rabbit circuit has been used in the ESSOR reactor since 13 December 1977. The heavy water recovered from the Ispra 1 reactor is being stored for reconcentration later, should it be needed for the ESSOR reactor.

ESSOR complex

122. Has the Italian Government implemented its announced intention to halt investments? (Commission)

Under the contract concluded pursuant to Article 6(c) of the Euratom Treaty, the Commission put the ESSOR reactor at the Italian Government's disposal for the period 1978-1980. The Italian Government has announced that it does not intend to ask for this period to be extended.

Investments in two loops (CABIRIA and CLEOPATRA) for the irradiation of water reactor fuel under the Italian research programme were suspended indefinitely. Negotiations are, however, being held on investment for equipping the reactor with the SARA loop for reactor safety tests under a European or broader-based programme.

IRA circuit

123. What is to happen with this circuit? (Commission)

The Italian Government no longer uses the IRA loop.

CABIRIA and CLEOPATRA circuits

124. What are the legal and financial implications of the abandonment of these light-water circuits?

The Commission is requested to provide detailed information on the status of these circuits and the ESSOR complex this year and on the outlook for the future.

What is the figure for appropriations committed as at 31.12.1977?
(Commission)

The contracts for the CABIRIA and CLEOPATRA loops were suspended by joint agreement in 1977. Cancellation of these contracts and clearance of the relevant accounts is now under negotiation. The appropriations committed which have not been used will then be released. This accounting operation, which concerns appropriations for commitment guaranteed by the Italian Government, will not have any practical consequences for the work in progress. The ESSOR reactor will continue to be operated until the end of 1980 on behalf of the Italian Government under contract No 1-78-ESSOR which was signed on 29 November 1978. As from 1981, the Commission intends to use the reactor in the Community programme of safety tests of light-water-cooled reactors with the SUPER SARA circuit.

The rapporteur is referred to table 20 (page 71) of the Court of Auditors' Report (OJ No C 313, 30 December 1978) for the appropriations committed at 31 December 1977.

125. As regards the lack of cooperation with the German authorities at the Karlsruhe centre;

What steps does the Commission consider could be taken to avoid such expensive errors in the future? (Commission)

Physical protection measures for the JRC establishments are agreed upon with local authorities and comply with national legislation.

They are generally undertaken by means of invitations to tender and this involves some delay. In view of the German authorities' concern, it was essential at the time to speed up the awarding of orders and contracts.

The present situation in the four JRC establishments does not warrant urgent measures. There is thus no reason why similar problems should arise in the future.

Research expenditure

126. Has the ratio of staff to research costs shown a further improvement? (Commission)

The ratio of research to staff expenditure was 25:75 in 1976, rising to 40:60 in 1977 and 1978: this can be considered a satisfactory level for this type of activity.

This ratio may have to be further improved in view of the trend towards large-scale technological installations.

127. Has more extensive use been made of invitations to tender in 1977? (Commission)

Invitations to tender are now systematically issued for all procurements and contracts with the exception of the cases described in the Financial Regulation (Article 52(d) and 52(e)).

The powers of the Advisory Committee on Procurements and Contracts vary according to the nature of the expenditure. The ACPC must, for instance, be consulted on the purchase of real estate, but has to be consulted on scientific or technical equipment only if the value of the contract exceeds 150 000 EUA.

128. What in 1977 were the major transfers of appropriations and changes in the form of amending and rectifying budgets which might in some cases have led to distortion of the budget, thus undermining political decisions taken by Parliament? (Commission)

A supplementary and amending budget (see reply to question 13) had to be presented as a result of changes to the programme. Since the Budgetary Authority approved this budget, it is hardly appropriate to speak of "undermining" Parliament's decisions.

129. Carry-overs from 1976-1977 amounted to 33,356,502 u.a.; one year later the figure soared to 85,412,178 u.a. Can the Commission offer a detailed explanation for this substantial increase? (Commission)

If the comparison is to be valid, the figure for carryovers to 1977 should be 47.440 million u.a. and not 33.357 million u.a. (33.257 million u.a. + 14.083 million u.a. for carryovers relating to services for outside bodies and individuals). The difference between 87.412 million u.a. and 47.440 million u.a. (37.912 million u.a.) is mainly attributable to the delays in the fusion and plasma physics programme (including the JET project). The rapporteur is referred to the reply to question 118. The appropriations for payment carried over to 1978 for this programme alone amounted to 30.301 million u.a.

130. How well or effectively are the advisory committees in fact performing the function of coordinating national and Community research. (Commission)

1. The General Advisory Committee (GAC), set up under the reorganization of the Joint Research Centre, ensures the necessary tie-in with national activities. By referring, in particular, to the opinions of the ACPMs (see below), it assists the Director-General in preparing the programmes and makes regular progress reports on the state of work. It has played an important role in the recovery and improvement of the JRC.
2. There are Advisory Committees on Programme Management (ACPMs) for both direct and indirect action projects. Their role is well defined: "It shall be the task of each committee to contribute, in its advisory capacity, to the best possible implementation of the programme for which it is responsible (in particular the detailed definition of projects) and to assess the results and ensure better liaison between the implementation of the programmes at Community level and the corresponding research and development work carried out in the Member States."
3. The concerted action committees (COMAC) assist the Commission on concerted action projects, under which research is conducted at national level and coordinated at Community level.

These various committees have proved extremely effective in harmonizing research between Member States, between the Community and the Member States and between the different types of project falling within the Community's responsibility.

131. The 1976 audit report pointed out that there was inadequate internal control of the effectiveness of the research carried out, as measured by the criterion of sound financial management. Have steps been taken in the meantime to ensure that comparisons are regularly made between estimated and actual costs, as well as between the projected research and investigations and the actual achievements? (Commission)

132. Will the Commission draw up a separate report, covering the last four or five years, on research results and their practical usefulness? (Commission)

For the 1977-1980 programme the JRC has sought to define precisely the objectives and deadlines for completion of its projects and to establish schedules for commitment of financial and staff resources.

The internal management bodies monitor the ongoing programmes in the light of these targets. If necessary, adjustments can be made during implementation on the basis of regular reports on activities and the analysis of the funds and staff allocated to a programme or project.

Results are difficult to assess; the difficulty occurs at national level as well. A number of indicators are used, representing the transfer of knowledge or cooperation with the outside world: publications, patents and licences, education and training, and international cooperation. The advisory committees' opinions (see reply to question 130) are of course taken into account. In 1978 the Commission held a seminar in Copenhagen for national experts on the evaluation of research findings. The usefulness of the work undertaken by the Commission was acknowledged and recommendations made on how it could be improved. The Commission is currently studying what action should be taken on these recommendations.

Energy sector

133. The figures showing the actual expenditure in the hydrocarbons sector reflect the difficulties encountered in the implementation of projects, the reasons for which the Court was unable to establish. The Commission is asked to provide a detailed answer on this point. (Commission)

What major projects were supported and what were the actual results achieved? (Commission)

The Commission supplied detailed figures in its reply to the Court of Auditors' report (OJ No C 313, 30 December 1978, page 76 et seq.).

The Commission also reports regularly to the Council and Parliament on the results of application of Regulation No 3056/73. The first report was sent on 23 December 1976 (COM(76)709 final) and a second report will be presented shortly.

134. As regards the expenditure planned by the Commission on 'joint projects in prospecting for hydrocarbons':

- (a) Does the Commission really believe that with such small sums - compared with the thousands of millions invested by the industry - it can make a contribution to our energy supplies? (Commission)
- (b) What projects important to our energy supplies would not have been carried out without Community support? (Commission)

(a) As stated in the reply to Question 13, the Council has not yet taken a decision on the Commission's proposal. The main aim of the proposal is to provide funding for preliminary geological reconnaissance in unexplored areas in the Community such as the deep seas (1 500 to 3 000 metres), deep drilling on land (8 000 to 10 000 metres), the Arctic or any other area in which exploration involves particularly high risks which the industry is not prepared to accept itself. Hydrocarbon exploration in these areas should begin only when this preliminary work has been completed and should focus on the most promising sites. It will then be up to the oil industry to carry out exploration and to finance it under the exploration or production licences granted to them by the Member States.

(b) In the light of the work carried out by a group of geological experts, the Commission has proposed that support be provided for four projects; in the offshore sector to the east of Greenland, the southern part of the Porcupine Bank to the west of Ireland, deep drilling in the south-west of the Netherlands and in Apulia in Italy. A fifth project, in the Famenne Basin in Belgium, was subsequently submitted by Belgium.

All these projects are solely concerned with preliminary scientific reconnaissance work. If the findings are promising, the oil companies will be encouraged to speed up their exploration programmes in these areas, and new deposits may be discovered.

Financial support can, however, only be provided if the Council adopts the framework regulations submitted.

135. As regards the delays in the execution of budget appropriations for food aid, does the Court not consider that these arise as a result of the cumbersome procedure in the management of food aid programmes? Does the Court take the view that the recent proposals from the Commission to improve this management procedure, amended by the European Parliament, would go a long way to speed up execution of the budget? (Court, paragraph 7.9 onwards)

No reply.

Question No. 136

As regards the delays in closing accounts for aid programmes, should not the Commission make an extra effort to release more staff for the purpose of reducing these delays which are currently running at two and a half years?

In order to appreciate the situation fully, it has to be borne in mind that because one part of the food-aid appropriations is in Title 6 of the Budget (EAGGF Guarantee Section) and another part is in Title 9 (Appropriations for cooperation with non-member countries), the financial management of these appropriations has so far been dealt with in the general framework of the EAGGF Guarantee Section. Even allowing for the fact that the closing of the food-aid accounts is carried out in a considerably shorter time than that required for other agricultural spending, it will be necessary to increase the number of staff assigned to these duties and thoroughly rationalize the way in which they are carried out, if the process is to be speeded up. The first step in this direction was proposed by the Commission in document COM(79)1 final on the management of food aid, which was submitted to the Council on 11 January 1979. This proposal for a framework regulation provides in particular for bringing together all food-aid expenditure in Title 9 of the Budget. If adopted it will necessitate the restructuring of the Commission departments responsible for the financial management of food aid.

Question No. 137

As regards the reimbursement of additional expenditure, does the Commission agree with the Court of Auditors' remarks that recovery orders should be issued for all claims for reimbursement of additional expenditure and that all such recovery orders should be recorded in the accounts?

The Commission is at present dealing with all the cases pending, either by taking steps to recover debts from recipients of aid, where debts are substantiated, or by waiving debts in cases of force majeure. Debts established are entered in the accounts in accordance with the Financial Regulation.

Question No. 138

How many staff are actually involved in this recovery work?

One employee, who also has other duties, is involved in this recovery work.

Question No. 139

As regards the supply of sorghum to Niger in quantities which were not wanted by the recipient country, there seems to be a contradiction as regards the facts between the comments made by the Court and the Commission. Can a full statement be made on the exact history of this subject?

The Commission supplied Niger with the quantities of sorghum which this country asked for. Moreover, the remarks made concern the quality of the product, not the quantity.

The sorghum supplied by the Community, to which the Court of Auditors refers in its Report, was purchased on the Community market and was produced in France.

It should be emphasized that, under the Community rules, the Commission has to purchase products intended for food aid on the Community market or to withdraw them from intervention stocks; it can buy them on the international market only in exceptional cases, and this has happened only once.

When this sorghum was delivered, the Commission delegate in Niger informed the Commission departments concerned that a sample of sorghum taken in the OPVN warehouses in Tahoua looked dull, responded badly to grinding and, as a result, the population was loath to use Community sorghum, preferring American or English sorghum.

Their distaste for Community sorghum seems to be rather subjective, as the sorghum of English origin which they preferred to the EEC sorghum had been purchased in France, just as the EEC sorghum had been.

Between 24 and 29 January 1977 Commission staff took eight samples of sorghum of EEC, French, UK and US origin in Niger, and had them analysed by a professor from the Université Catholique de Louvain, without indicating their origin. The analysis results were as follows:

"My observations are as follows on the basis of the organoleptic and microscopic examinations which I have carried out:

1. All the samples from 1 to 8 may be regarded as fit for human consumption.
2. None of the samples from 1 to 8 tastes in the least bitter.
3. The outer coverings of all the samples from 1 to 8 are much too dark in appearance (brownish-black), leading one to assume that the seeds have either undergone heating or overheating".

It would appear that the population of Niger prefers American sorghum to Community sorghum because it looks more like Nigerian sorghum. In any case, however, they consume only sorghum and, in lesser quantities, rice, so this cereal cannot be replaced by another which is not consumed by the local population.

Question No. 140

As regards the supply of cereal to India where there was no deficit for this product and where the food aid was likely to be exported, does not the Commission agree that it should have looked for a political solution with the Indian authorities which would have avoided an abuse of the food aid system?

The Commission stands by its reply to the Court of Auditors.

Question No. 141

Further to the noted deficiencies in mobilizing and transporting aid, does the Court accept the Commission's opinion that the most important task is to accept the most favourable offer irrespective of its breakdown?

Question No. 142

As regards the mishap concerning the supply of milled rice to the Comoros, how far has the Commission now got in their enquiries to ascertain the full facts concerning the supply of this aid?

An inquiry has been made into the circumstances surrounding the delivery of 2,140 t of rice to the Comoros. The conclusion was that the tenderer for the supply of the aid had fulfilled his contractual obligations, and so no action could be taken against him. The rice was replaced and delivered to the Comoro Islands by the tenderer at his - and not the Community's - expense.

Question No. 143

The Court maintains that the formula used to express the contractor's obligations for shipment of aid, namely that it should reach its destination 'as soon as possible', is inadequate. Does the Commission agree and can it suggest a tightening of this formula?

The Commission agrees that the phrase "as soon as possible" is not specific enough. More satisfactory forms of words for inclusion in the product mobilization regulations are under consideration. Moreover, thought is being given to improvements in the procedures for mobilization beyond the fob stage.

Question No. 144

Concerning the supply of durum wheat to Chad, where delivery dates were not met, what happened to the remaining 1,520 tonnes stored at different stages of the voyage?

The 1.520 t of wheat remaining in the warehouses in Chad were distributed properly.

Question No. 145

Concerning the supply of husked rice to Niger, where the Commission accepted that this was unfit for human consumption, what line is the Commission taking in the dispute before the Court in Milan?

The Commission is not a party in the dispute before the Milan Court, which is between the tenderer for the rice in question and the intervention agency. The Commission's position in this case is based on the consideration that the products to be delivered by the tenderer have to comply with the requirements laid down in the mobilization regulations at the time of delivery. In the case of this rice delivery was to be carried out at places of destination in Niger.

Question No. 146

Can the Commission comment on the case of the milled rice supplied to the Upper Volta government where the government has complained of the poor quality of the rice?

The Commission is unable to comment on the matter of the rice delivered to Upper Volta because the complaint made by the Volta authorities concerning the quality of the rice was not supported by any evidence against the tenderer.

Question No. 147

As regards the control on the utilization of aid, the Court states that information obtained is still of a fragmentary nature. It states several examples where the proceeds from the sale of food aid by recipient governments go to projects outside the scope of the original purposes. Have the Commission's departments come up with any suggestions to remedy these deficiencies in control?

The Commission follows up the use made of aid with the means at its disposal and according to the circumstances. In the ACP countries the use made of counterpart funds is followed up mainly by the Commission delegates, who have been given specific instructions on this matter. In the other countries, and in special cases, inquiries are carried out by the appropriate Commission departments. In this way the Commission is convinced that it will be able to remedy past deficiencies gradually and redress the situation shortly.

Question No. 148

As regards the UNRWA aid, where appropriations exceeded needs, no payments were made in 1977. What happened to the 1978 appropriations?

Payments to UNRWA for the two years 1977 and 1978 were made in December 1978, following the Council decisions to extend the agreement concluded with the Agency. The amounts in question were:

	Payments US \$	Payments EUA	Appropriations EUA
1977	3,000,000	2,307,195	2,436,370
1978	3,384,000	2,602,978	3,291,000

Question No. 149

The rate of utilization of appropriations for the promotion of trade relations was extremely low. Why?

As mentioned in the reply to Question No 13, the low rate of expenditure in 1977 was due to the late commitment of many of the trade-promotion appropriations. The type of operations financed entails a variety of files which cannot be processed any faster because of administrative difficulties in the recipient States and because of the small number of staff assigned to these duties within the Commission.

Question No. 150

Of the 45 million u.a. committed for aid to non-associated developing countries, no corresponding payments have yet been made. Why not?

As mentioned in the reply to Question No 13, Parliament and the Council agreed in November 1977 on the 1977 programme presented by the Commission, as a result of which twenty financing agreements were concluded with countries and international bodies on 15 December 1977. It is therefore not surprising that no payment was made before 31 December 1977.

By 31 December 1978 the sum of 5 m u.a. had been paid, out of 45 m u.a. included in the 1977 Budget; the projects financed are carried out over several years.

Question No. 151

The Court refers to the 'usual late submission of accounts' by the European Association for Cooperation. Why 'usual'?

Question No. 152

The Court, in concluding its examination of Title 9, makes a number of comments about the audit operations of the Community on aid activities in the recipient countries. It points out the Commission's obligations. Does the Commission share this approach?

The Commission recognizes its obligations, some of which are referred to by the Court of Auditors, as regards the management of aid in the recipient countries, and confirms that it assumes its responsibilities as regards the implementation of the Budget in accordance with the Treaties.

Staff expenditure

Question No. 153

As regards persons treated as dependent children, the Court points to difficulties in application of the present provisions which show up major discrimination against officials from certain Member States who are almost entirely excluded from benefiting from this allowance. Furthermore, the Court considers that the basis for the allowance is too high and that further distortions may arise as a result of the aggregation of incomes. Finally, no checks seem to be carried out in many cases and the Commission does not believe that it is appropriate to proceed to a further amendment of the implementing provisions. What conclusions have the heads of administration arrived at as regards the conclusions of the Court? Do they not consider that the discrimination revealed by the Court requires urgent action?

The Commission draws attention to the wording of its reply to the Court of Auditors.

The disparities in geographical allocation are the result of divergence between the national laws concerning legal obligations with regard to maintenance, these obligations being used as a basis for allocating the allowance. It is difficult to conceive of a valid base upon which to allocate the allowances other than the legal maintenance obligation. Nevertheless, the Commission will continue to examine this problem in cooperation with the other institutions.

The problem of the amount of the presumed charge to the Budget will be solved by the introduction on 1 April 1979 of updated rates of exchange.

Question No. 154

As regards the reclassification of research staff, the Court of Auditors forms the view that respect of Article 5 of the Staff Regulations, which insists that classification should require duties performed, must take precedence over the desire to prevent any distortion of the financial situation of officials. What steps does the Commission envisage to comply with this ruling?

The Commission tried in this instance to find a solution which would take account of the administrative decisions adopted in the past, whilst at the same time safeguarding the principles on the classification of the basic posts concerned.

The few classifications thus granted on a personal basis finalized the operation of integration into the new system. No further measures of this type are envisaged, particularly as the group of officials concerned is an exception.

Also, in some cases, the acquisition of new qualifications could justify those concerned being admitted to Category C.

Question No. 155

Has the Commission now prepared the reports concerning allowances for arduous work and stand-by allowances for the year 1977? What was the reason for the delay? Can they submit them to both wings of the budgetary authority?

The 1977 reports on allowances for arduous work, shift-work and standby duty are due for submission to the Council; Parliament will also receive a copy. The reports were delayed because statistics had to be obtained from various sources before overall verification was possible. Steps have been taken to prevent similar delays in future.

Question No. 156

What are the favourable effects of the administrative reforms undertaken by the new directorate referred to by the Commission in its reply to the criticisms on the allowances under Articles 56a, 56b and 100 of the Staff Regulations?

The effect of the reforms and the relevant internal directives will be the gradual reduction of the allowances for arduous and standby work.

Question No. 157

The Commission does not effectively reply to the criticisms made by the Court concerning the wrongful conferring of allowances for arduous working conditions. What suggestions have been made by the auditors of the JRC to stop anomalies? Why was a separate enquiry needed, following the report adopted in April 1977?

The aim of the enquiry launched by the management of the Joint Research Centre is to narrow the scope of the rules by closely examining the question of whether the work done by certain officials actually comes under the heading of scientific and technical services, the only services in which allowances for arduous work are granted.

The examination therefore supplements the conclusions of the 1977 Working Party.

The setting up in each establishment of a Committee on arduous work on which both sides are represented has made it possible to make the allocation of points for arduous work in the different units more consistent, always with a view to narrowing down these special duties.

Question No. 158

The Court maintains, in line with the Financial Controller of the Commission, that the extended application of the shift work allowance to certain staff of the telex services went beyond the original purpose of the Regulation. What has become of the Commission's proposed amendment of the Regulation? Why did the Commission simply not stop payment of the allowance?

In a letter dated 7 December 1978 the Commission officially informed the Staff Regulations Committee of a draft proposal for a Council regulation aimed at extending the scope of Regulation No 300/76 of 9 February 1976 to the telecommunications and certain photocomposition staff.

The Commission could not simply stop paying the allowance concerned, partly because the telex operators were in fact doing shift-work and partly because this system can be regarded as the least expensive and most effective from the point of view of the requirements of this service.

The aim of profitability, effectiveness and minimum cost justified the proposal adopted by the Commission.

Question No. 161

As regards staff working in the computer sector, the Commission states that it will have the necessary staff from 1979. Does this point hold despite the relatively small number of staff voted for the Commission during the budgetary procedure?

The Commission's data-processing services do not have enough staff. At the beginning of 1979 they were short of 35 As, 51 Bs and 45 Cs. This means that in 1979 considerable use will be made of external data-processing staff.

Question No. 162

The Court refers to the points raised by the previous Audit Board reports concerning the employment of staff who have been engaged otherwise than under arrangements prescribed in the Regulations. Why is it that the working party for examining the position of these staff has still not reported? When can a copy of the report be given to Parliament?

Following a decision by the Commission to investigate the position of persons working for the Commission in return for remuneration, expenses or the payment of invoices for services rendered but not subject to the Staff Regulations or the rules applicable to other servants, the various factors were studied and precise implementation directives have been finalized.

In this way the conditions for seconding national experts have been standardized.

Negotiations with the Belgian authorities on the application of the Law of 28 June 1976 on temporary work, auxiliary work and making workers redundant have resulted in precise rules on the employment of auxiliaries.

Rules and a procedure for employing consultants have also been established by the Commission and have been in force since the beginning of 1979.

Operational Expenditure

163. What is the state of progress as regards the preparation of uniform rules under Article 106 of the Financial Regulation of 21 December 1972 (All institutions, paragraph 9.3)

As the Commission stated in its replies to the Court of Auditors' comments on this point, the uniform rules required by Article 106 of the Financial Regulation already existed in application of the earlier Financial Regulation of 25 April 1973 (Commission Regulation of 30 June 1975 on measures of implementation of certain provisions of the Financial Regulation of 25 April 1973). The requisite revision of this text - which is also necessitated by the introduction of the EJA in Community legislation - is currently being undertaken by the Commission.

164. Will the institutions now take up the suggestion that common forms be drawn up for all the institutions for commitment orders, etc.?
(All the institutions, paragraph 9.4)

The forms referred to are drawn up under the "internal rules for the implementation of the Budget" and their adoption is the internal responsibility of each institution. Any harmonization would hence have to be undertaken at inter-institutional level. The Commission is quite prepared to join an ad hoc working party on this question and is presently studying whether it might set up such a body.

165. As regards the scope of budgetary headings, will the Commission produce proposals to harmonise practice in the institutions?
(Commission, paragraph 9.5)

At the inter-institutional meeting held on 23 January 1978 measures were taken to introduce a greater degree of harmonization in the interpretation of the budgetary nomenclature. Any further harmonization would have to be undertaken under the 1980 Budget as the 1979 Budget has already been adopted.

166. What practical control measures exist to prevent the institutions from overlapping as regards grants to outside bodies?
(All the institutions, paragraph 9.6)

The Commission makes a very careful study of the appropriateness of subsidies to organizations. The latter are required to sign an agreement empowering the Court of Auditors to monitor the utilization of funds provided by the Community (Article 82 of the Financial Regulation).

They must submit their work programmes and financial reports in respect of the stewardship of the funds which they are awarded. The Commission also examines the accounts of the beneficiaries if necessary. Although this system does not entail any particular risks, the Commission would like to see the introduction of a formal inter-institutional consultation procedure.

Journalists' Association? For what purpose? (Commission and Parliament, paragraph 9.6)

1. The European Journalists' Association is a group of professional journalists in the nine Member States of the Community who have decided to promote the construction of Europe. Our contributions to their many information activities (seminars, symposia, congresses) in individual Member States or at Community level have supplemented their funds and have in no way impinged upon their freedom of speech and expression, which they obviously wish to safeguard.

2. The fact that money is given by both Parliament and the Commission, as the rapporteur points out, is, in the last resort, a matter for the Budgetary Authority. It does not, however, create any problems since there is concertation between the respective departments of Parliament and the Commission.

168. Does not the Court on reflection consider that the entry of appropriations into Article 254 for youth activities was a sufficient authorisation for payment for youth activities? (Court, paragraph 9.8)

No reply

169. As regards the insurance policy for the Ottawa office, what does the new value of the insured amount total? (Commission, page 9.8)

Under Canadian law the burden of fire risk to property is borne by the owner. Before the Commission purchased the building in Ottawa, the building insurance had been paid for by the owner who had insured it for CAD 165 000. The Commission has owned the building since 30 December 1977 and has hence had to cover the relevant risks. The Commission contracts for all the real estate which it rents or owns a multi-risk insurance policy with options to cover the following risks:

1. Building: building insurance (if owned) or tenant's liability (if rented) against fire and related perils, storm and hail, water damage, breakages of windows, theft, natural disasters, strikes and riots.

2. Contents: insurance of equipment, furniture and fittings against the risk of fire and related perils, storm and hail, water damage, theft, natural disasters, strikes and riots.

The insurance company undertakes to cover:

(a) for the building: the cost of rebuilding the building as at the date of the fire;

(b) for the contents: the value declared.

The premiums are calculated at the rate of BFR 3.80 per m² of developed area (with a margin of some 10%) and a rate of 1.28 ‰ on the amounts insured as contents.

170. As regards telephone expenditure per head of staff, what explanation can the Court suggest as to the major difference between the institutions? (Court, paragraph 9.12)

171. Does not the Court think that further controls on the use of telephone might (a) give rise to accusations of excessive surveillance and (b) might hamper officials in the due course of their work? How do these figures compare with some other international organisations? (Court, page 9.12 onwards)

172. As regards the conclusion of study contracts, the Court formulates five criticisms:-

- 1) that commitments are sometimes entered into before the contract is signed by the contractor;
- 2) that contracts are sometimes signed some time after the work is supposed to have commenced;
- 3) that the contract date is sometimes expired before such extensions are approved;
- 4) that, very frequently, major delays in the completion of work occur with reasons being given;
- 5) that practice as regards the payment of instalments varies widely.

Finally, the Court finds that due regard is not paid to the normal principle of seeking competitive quotes. Can the Court provide examples of these anomalies? (Court, page 9.16 onwards)

173. Does the Court accept the Commission's interpretation of Article 33 of the Financial Regulation that the appropriations must be committed before the contract is signed by the contractor? (Court, page 9.17)

174. The Commission says that the delays in the lodging of final reports are exceptional. The Court maintains that such delays are very frequent. How does the Commission answer this criticism? (Commission, page 9.17)

The Commission maintains that the delays in lodging of final reports in the Institution's repository are exceptional and are often attributable to circumstances beyond its control, e.g. extension of the scope of the study, unavailability of an expert as a result of illness. etc. In every case the Commission always endeavours to make maximum use of the work undertaken rather than resort to ineffectual sanctions.

175. For the EURATOM Supply Agency where some bank accounts were being operated on a single signature, has this situation now been rectified?

(Commission, paragraph 10.3)

176. What is the Commission's reaction to the Court's assertion that the agency's capital is in excess of its requirements? (Commission, paragraph 10.3)

According to the Supply Agency the bank accounts referred to are now operated with two signatories. The previous arrangement operated for many years and arose from the legal basis under which the Agency is represented and the need to ensure that the Agency, with its small staff, could at all times be in a position to make payments due.

In accordance with Art. 54 of the Euratom Treaty, the Agency's capital is laid down in its Statutes, the latter being decided by the Council. Originally, in 1958, the capital was fixed at 2 400 000 UA and this figure remained unchanged until 1973 when the capital was increased to 3 200 000 UA on the accession of the three new member states. The Statutes provide that 10% of the capital shall be paid up; currently this amounts to 320 000 UA.

Although the way in which the Agency is at present required to exercise its functions does not call for substantial liquid funds to be available, it is nevertheless desirable that a token amount of its capital be paid up. The present figure is considered the minimum amount to maintain credibility taking account of the Agency's responsibilities including its direct participation in supply contracts. Moreover the Agency has a duty to ensure the supply of nuclear fuels within the Community. As an earlier experience has proved, circumstances can arise when it is necessary or desirable for the Agency to enter the market without delay, which the absence of paid-up capital could preclude.

177. Will the Commission be making proposals for instituting an office of Financial Controller for the European Schools? (Commission, paragraph 10.5)

A Commission representative took part in discussions with the European Schools' Administrative and Financial Committee on the establishment of a financial control office. The Committee felt the time was not yet ripe. Since an extremely large proportion of the European Schools' budgets is accounted for by wages and salaries, the question is whether the remainder warranted the appointment of financial controllers in each School to carry out a preliminary check of every item of expenditure. Subsequent auditing by a financial controller seconded to the secretariat of the Permanent Representative would not have the desired effect. The Administrative and Financial Committee underlined the importance of the Court of Auditors' audits even though they were carried out with a certain time-lag. The Committee also pointed out that the Administrative Board of each School, on which the Commission was represented, regularly checked the regularity of expenditure and the purpose for which it was used.

178. What action is being taken at the Schools to rectify the difficulties which emerge as regards the:-

1. calculation of mission expenses;
2. use of inappropriate exchange rates;
3. the level of entertainment expenses.

(Commission, paragraph 10.5)

The Administrative Boards concerned have studied the comments in the Court of Auditors' report which concern them more particularly. Instructions have been given to ensure the correct application of the statutes and regulations. The Headmaster of the Bergen School has been instructed in future to keep representation expenses within the limits approved by the Board of Governors of the European Schools.

179. For the European Foundation for the improvement of living and working conditions and for the European Centre for the development of vocational training, certain accounting weaknesses have been pointed to by the Court. What action is being taken? (Commission, paragraphs 10.7 and 10.8)

The European Foundation for the Improvement of Living and Working Conditions and the European Centre for the Development of Vocational Training generally use the accounting methods employed by the Commission. They have taken steps to make the improvements called for by the Court of Auditors as from 1979.

180. The Court points to the fact that balances remaining at the end of the year are not always properly analysed when preparing financial statements leading to one major error involving £10 million which was not corrected until 5 months after the end of the financial year in question. What was the reason for the delay? Does the Commission accept the general flaw in internal control highlighted by the Court? (Commission, paragraph 11.3(ii))

The Commission rejects the allegation by the Court that the error in question was not corrected until the Court pointed it out in May 1978. The error had in fact been materially corrected, in February 1978, at the first monthly reconciliation (31st January 1978) but the correction was wrongly effected in the 1978 accounts.

This does not show a flaw in the system but confirms the efficiency of the checks.

What the Court pointed out in May 1978 was that the correction of the error did not appear in the 1977 accounts, but it was clearly shown to the Court that it had been corrected in 1978. It was in accordance with the Court's findings that the final version of the accounts was revised to take the item into account in 1977. The general remark made in the second paragraph of the Court's observations claims to call into question the whole of the internal control system because an item inadvertently slides from one financial year to the next, with no effect on the overall financial position. This cannot be accepted by the Commission as a valid conclusion.

181. The Commission maintains that it watches "old items" closely but that there are not many of them. The Commission does not answer the Court's criticism that "authorisation and control procedures for making correcting entries are weak". (Commission, 11.3 (iii))

The Commission understands that the Court is concerned that some of the documentation for correcting entries is not sufficiently formalised. Each correction bears a reference to the principal transaction. Should the principal transaction have been incorrectly carried out then the correction ensures that the Authorising Officer's original instructions are followed. Should the correction involve a change in the Authorising Officer's instructions, justification for the change is attached to the accounting document. All documentation concerned is made available to the Court. The Court has not found to be unjustified the corrections made in 1977 but has verbally expressed its view that the signature of a responsible official of the Accounting Department should be found on the documents for correcting entries. The Financial Regulation does not require the signature of the Accounting Officer. The Commission does not accept that the Court's criticism justifies a broad assertion that the procedures are weak.

182. What is the scope of the problem? (Commission, 11.3(iv))

Since the clearing in 1978 of the balances of the FEOGA accounts mentioned in the Commission's reply, this problem is limited to relatively unimportant sums over a wide range of the Class IV accounts (third party accounts). They concern mainly items which are the subject of litigation or are possibly proper to be written off due to disappearance of third parties, etc. Age analysis of sundry debtor and creditor balances is less significant in the Commission's accounting procedures than in commercial practice; it is, nevertheless, as already stated, regularly carried out by the Commission's services, at the Authorising Officer level and as the case may be, at Accounting Department level.

183. The Court considers that the regular and systematic re-consulting by the Commission of bank accounting and bank statements is inadequate. What improvements does it suggest? (Court, paragraph 11.3(v))

No reply.

184. The Court shows that the Commission does not inspect furniture after issue from stock and relies on maintenance technicians in verifying assets. Should it not urgently pursue this matter rather than postponing further considerations? (Court, 11.3 (vi))

No reply.

185. The Court and the Commission differ as regards the checks carried out on the amounts of loans raised and granted by the different Directorates-General of the Commission. Can both sides give a full statement of the position as they see it? (Court and Commission, paragraph 11.3 (vii))

The position of the Commission with regard to the verification of information received from other bodies concerning borrowing and lending operations may be summarized as follows :

1) Community loans in support of the balance of payments

These loans are, in effect, managed by the secretariat of the E.M.C.F. at the Bank for International Settlements. The competent service of the Commission vouches all capital movements and interest payments notified by the EMCF against the contract documents which it holds. The operations actually carried out by the EMCF are assumed in the absence of complaint to meet the requirements of their own auditors and the beneficiary member states. Any other expenses are either met directly by the Commission in which case they follow the normal procedure for invoices which includes checking or by the EMCF in which case the expenses are certainly checked before reimbursement of payment.

2) Euratom loans

In this loan scheme the information is supplied by the European Investment Bank in its role as "banker-agent" for the loans. It is checked by reference to the basic documents and market conditions. The Bank has also independent auditors and can be assumed to be acting correctly in its distributions of loans to the beneficiaries designated by the Commission.

The Commission must therefore maintain the statement already made that the remarks of the Court of Auditors are not true.

186. Does the Court accept the Commission's explanations as regards the charging of the exchange difference concerning the Joint Research Centre at Ispra to 1977? (Court, paragraph 11.4)

No reply.

sum of 930,000 u.a. included in the balance sheet "expenditure reimbursable to Ispra from the Commission". In particular, the Court maintains its view that the amount should be eliminated from the balance sheet. What is the Commission's reaction to this? (Commission 11.4 (ii))

The Court's conclusion is not understood. The payments in question were made in 1977 from a Commission Bank Account but were charged in 1978 to the appropriations of the 1977 Budget which had been carried forward to 1978. To state the financial position at 31st December 1977, the bank transaction must necessarily result in a counter entry which is reflected by a debit in the balance sheet. The Commission would be interested to know what other form of accounting the Court would suggest.

188. The Commission answers the point concerning the recovery in respect of the publications office by stating that for practical cash reasons the Commission settles the bills of the Official Journal with a breakdown of costs being made between the institutions afterwards. Does the Court disapprove of this practice? (Court, 11.4(iii))

No reply.

Revenue

189. As regards the unilateral exemptions from customs duties by Member States, can the Commission state whether the Italian government has now complied with the Commission's request to discontinue these exemptions? What action is the Commission taking? (Commission, paragraph 12.17)

The Italian Government did not comply with the Commission's request that it discontinue the unilateral exemptions from CCT customs duties. The Commission sent a further letter to the Italian Government on 14 February 1979 calling for an immediate halt to these measures. If this letter fails to elicit a satisfactory response, the Commission will initiate against Italy the procedure provided for by Article 169 of the EEC Treaty.

190. The Court maintains that fines for penalties imposed nationally because of physical fraud or irregularity could be considered as part of own resources, although it would probably be premature to amend the decision of 21st April 1970. Does the Commission share this interpretation and does it believe that such an amendment would be inappropriate now? (Commission, paragraph 12.20 onwards)

In view of the problems described by the Court of Auditors and of the principle of establishment whereby the Member States pay over own resources as soon as the amount owed has been duly established (interest on arrears is paid to the Communities if the deadlines for making own resources available are not met), it would not be appropriate to amend the Decision of 21 April 1970 on this point. However, for further consideration of the problem, the Commission will carefully examine the findings of the study referred to.

191. When will the Commission bring forward its proposals to facilitate the exchange of information to improve control of own resources among the Member States? (Commission, paragraph 12.23)

A proposal for a Council Regulation on the measures to be taken in the event of irregularities affecting own resources and the organization of an information system for the Commission in this field was recently presented to the Council and Parliament.

192. The Court recommends, in order to permit a proper assessment to be made of the financial management of the compensation scheme for sugar storage costs, that only accounts of the scheme, made up to 30 June, should be attached in future to the published accounts of the Commission. Does the Commission accept this? (Commission, paragraph 12.31)

The Commission believes this information should preferably be presented in the annual financial report on the EAGGF, and will make the necessary arrangements.

Answers to the annex attached to the questionnaire
by Lord BRUCE of DONINGTON (P.E. 56.803) on the
management of the European Development Funds

Question No.1

What action has the Council taken on the Commission's proposal, which was supported by Parliament, to suspend the decisions to commit the outstanding balance of the second EDF and transfer the outstanding balance on the third EDF?

Question No.2

Does the Commission share the Court of Auditors' view that the cost overruns mentioned in Point 12 of the report are due to the inadequacy of the preliminary studies?

There are many reasons for the costs of the projects being exceeded, e.g. long delays between the commitment decisions and the execution of the contracts, price increases, currency fluctuations, etc., and, in some instances, the inadequacy of preliminary studies. The latter is therefore not the only aspect likely to cause an increase in the cost of a project.

Question No.6

Will the Commission give its views on the criticisms expressed in point 60 of the Court of Auditors' report, and explain to Parliament the reasons which led it to ignore the financial controller's refusal to grant authorization?

As the Court points out, the refusal of Financial Control to clear 1976 and 1977 is based on the fact that, since 1972, the agents have not been integrated under special contracts.

The Commission is entirely aware of the problem but considers that it should be seen in the context of the overall problem of external personnel which requires solution. The agents concerned can only be integrated if budgetary resources are made available for this purpose.

Question No.9

Does the Commission consider that a reference to human rights in Lomé Convention II could procure certain guarantees as to the utilization of the funds allocated?

It would be premature to answer this question at the present stage of the negotiations.

Question No.10

Does the Commission intend to propose the modification of the Staff Regulations of the Centre for Industrial Development, particularly in the event of the fifth EDF being budgetized?

The Commission does not intend proposing changes in the rules governing the Centre for Industrial Development. As this is an institution in which all parties are equally represented, it takes into account the wish expressed by the representatives of the ACP States that the Centre for Industrial Development should keep its present rules. If a fifth EDF should be entered in the Budget, the annual volume of aid granted towards the operation of the Centre would be borne by the Commission Budget, subject to the same conditions as those governing other EDF actions.

OPINION FROM THE COMMITTEE ON ENERGY AND RESEARCH

Draftsman of the opinion : Mr Paul L. DE CLERCQ

On 2 March 1979 the Committee on Energy and Research appointed Mr DE CLERCQ draftsman of an opinion.

The committee considered the draft opinion at its meetings of 2 March and 21 March 1979 and adopted it unanimously at the latter meeting.

Present : Mrs Walz, chairman; Mr Veronesi, vice-chairman;
Mr De Clercq, draftsman; Mr Bertrand (deputizing for Mr Verhaegen),
Mr Brown, Mr Edwards, Mr Fuchs, Mr Granet, Mr Lamberts, Mr Mitchell and
Mr Osborn.

I. INTRODUCTION

1. The purpose of this document is to examine - with the aid of the Court of Auditors' Annual Report for 1977 - those parts of the budget which fall within the terms of reference of the Committee on Energy and Research, i.e. to determine how the 1977 budget was actually implemented in 1977 by the executive authority, the Commission. Since proposals for appropriations come from the Commission, it must be answerable for the use of resources which the budgetary authorities, the Council and Parliament, have entered in the budget. The question is all the more important since all the energy and research appropriations under Chapters 32 and 33 of the budget which are discussed here are non-compulsory expenditure. When an appropriation is adopted for a year - and perhaps increased by Parliament - the intention is that these resources should be used in that particular financial year.

2. The main questions are, briefly, as follows:

- Did the Commission carry out its programmes in 1977 in accordance with the payment appropriations entered in the budget?
- If appropriations were not used for research, what were the reasons for this?
- What conclusions must be drawn with regard to procedures and management?
- What are the political consequences of any discrepancies there may be between the payment appropriations entered in the budget and their subsequent utilization?

3. One should stress here that it is unusually difficult to assess the utilization of appropriations earmarked for energy and particularly research since they are mostly granted for the realization of long-term programmes

- whose results only become apparent in the medium or long term,
- for which the volume of investment required is enormous,
- whose expected results are often estimated tentatively and are subject to great uncertainty,
- which private and even state enterprises and institutes often refuse to begin work on because they apply normal considerations of profitability which are not always relevant (e.g. in assessing basic research).

4. However, one must not lose sight of the fact that the Community's budgets are established in the course of the annual budgetary procedure.

If, therefore, discrepancies of any size were to be found in the utilization of the budget, Parliament could, on political grounds alone, hardly avoid concluding, during discussion of the following year's budget, that the effects were perhaps undesirable in the long term. This may well be the conclusion to be drawn for the non-compulsory items of expenditure examined below for which the Community must deploy its limited resources with care. This is especially true where appropriations increased by Parliament are not utilized in the appropriate financial year. Where payment appropriations have been increased by Parliament, this has always taken place either following an express request from the Commission or where the Commission - replying to a question always asked in the Committee on Energy and Research - has stated that it wanted, and could find a use for, increased appropriations. Even if it is desirable to allow a certain amount of flexibility within the energy and research sector, it can never be the intention for considerable payment appropriations to be carried forward to the following financial year or deleted.

II. TENTATIVE REMARKS BY THE COMMITTEE ON BUDGETS

5. The working document drawn up by Lord Bruce of Donington, the rapporteur for the Control Subcommittee of the Committee on Budgets¹, brings out certain interesting facts about the utilization of appropriations increased by Parliament.

It appears that of 29 amendments to the budget's expenditure account seeking to increase payments, 21 were not implemented at all, 5 were implemented to a minor degree (less than 50%) and only 1 was implemented in full. The total amount involved in the 29 amendments was 154.4m EUA. The total payments amounted to only 4.5m u.a.

The table below shows those of the 29 amendments which specifically fall within the terms of reference of the Committee on Energy and Research.

¹ Committee on Budgets working document drawn up by Lord Bruce of Donington, PE 56.295.

Action taken by the Commission on the amendments (payments) voted by Parliament for the
financial year 1977

Budget item	EP Amendments (payments) in EUA	Total available appropriations (payments) for the financial year in EUA	Total payments effected in EUA	Total unused amount (either carried forward or cancelled)	% of EP amendments implemented in 1977
2653/Nuclear fuel	+ 60,000	100,000	24,700	75,300	0
3200/Hydrocarbons	+ 15,000,000 (12,000,000 frozen)	23,000,000	2,743,000	20,257,000	0
3201/Oil prospecting	+ 9,000,000	9,000,000	0	9,000,000	0
321/Prospecting for uranium	+ 1,000,000	2,000,000	0	2,000,000	0
3380/Euratom	+ 139,800	17,400 ¹	15,100	2,300	0
3383/JRC operations	+ 674,000	0 ¹	0	0	0
	+ 59,442,000	0 ¹	0	0	0
3390/JRC staff	2,344,000	0 ¹	0	0	0

¹ After transfers within the budget and supplementary budgets

6. It will be noted that none of the increased payment appropriations in the energy and research sector were utilized. The committee ought to bear this in mind during discussions on the annual budget and future programme proposals. An explanation must be given of why there were these delays and whether similar problems can occur again. Some of these problems will be discussed in the following.

III. IMPLEMENTATION OF THE 1977 BUDGET

1. The research budget

7. The Court of Auditors, which can only deal with direct actions, gives, by way of introduction, a historical description of research policy and the JRC (Joint Research Centre). This is well known to the Committee and need not be repeated here. On the other hand, some comments are required on what follows (paragraph 6.4 - 6.9).

(a) Programme management

8. In reply to the remarks made by the Court (paragraph 6.7) the Commission states that the Advisory Committees' activity sheets are designed to show the budgetary appropriations available for a project and not to assist in controlling the quality or progress of the research.

The Committee on Energy and Research must agree with the Court of Auditors that 'this matter should be studied to see what role activity sheets could play as an additional tool in controlling the progress of research projects', since this forms part of the task of the Advisory Committees on programme management¹ which is 'to contribute to the best possible implementation of the programme.... (in particular the detailed definition of projects) and to assess the results...'

Consideration must be given to the question whether and how these activity sheets can be supplemented and made accessible to the budgetary authorities in suitable form. This is even more important since the projects are normally multiannual.

(b) Commitment and payment appropriations

9. The commitment appropriations (paragraph 6.11) in 1977 came to a total of 386m u.a. whilst the sum of appropriations remaining at the end of the year was 136m u.a. (total appropriations cancelled: 9m u.a.).

The payment appropriations (paragraph 6.12) amounted to a total of 260m u.a., the payments effected were 150m, appropriations carried forward to 1978 85m u.a. and the appropriations cancelled 24m u.a.

¹ Resolution of 18 July 1977, on advisory committees on research programme management, paragraph 2, OJ No. C 192, 11.8.1977, p.2.

The overall picture of the utilization of appropriations for 1977 is as follows (in millions of u.a.):

<u>Commitments</u>	<u>Payments</u>	<u>Cancellations</u>	<u>Commitments outstanding at 31.12.77</u>
299	150	1.3	147.4

10. Two factors make it difficult to make a general criticism of the implementation of the 1977 budget. Firstly, the new multiannual research programme (1977-80) was only adopted by the Council in July 1977. Secondly, the Council continued to block the JET project, which effected the budget as regards both the JET project itself and certain related research programmes.

The Committee on Energy and Research must in general take note of the research budget and remark that, because of its inability to act, the Council must bear the main responsibility for what was not by any means a satisfactory implementation of the budget, the amount of carry-forwards and cancelled appropriations being too high. These appropriations could have been better used, possibly in other areas of the budget.

(c) ISPRA

Financial management

11. Note is taken of the observations of the Court of Auditors and the Commission's reply concerning 'EURACOS'.

12. The Committee on Energy and Research shares the opinion of the Court of Auditors that there is evidence of poor planning as regards gaining approval for the safety measures connected with the 'Rabbit' circuit. The failure to use this equipment has incurred excessive expenditure and it is suggested that these safety problems, which should have been foreseen, should be borne in mind when planning future projects. It must again be stressed that the resources earmarked for this project during this financial year could have been used in other ways.

13. The Commission is correct in saying that its stock of heavy water has remained a good asset. However, this must be seen as rationalizing after the event. From the point of view of planning, one has to recognize that investment has been made in an unnecessary asset and that the Italian Government ought presumably to accept liability for this stock.

ESSOR complex

14. The management of this complex which was put at the disposal of the Italian Government in 1973 and which will remain subject to the present financial and administrative conditions until 1980, provides some cause for concern. The Commission admits in its reply to some undesirable features, such as the many technical problems, the lack of decisions at certain times

particularly on safety matters, long-drawn-out procedures etc. Although the Commission is responsible for the management of the complex, it disclaims responsibility in its reply for the various irregularities.

While it is true that the Commission has minority representation in the committee which takes all general decisions (including financial ones) on the management of the complex, the Commission's attitude seems to have been far too passive. The ESSOR complex is Community property and, as such, the Commission is responsible for its management. This is even more important since the Commission has expressed interest in starting up a new Community programme here when the Italian Government concludes its research in 1980. Many of the irregularities seem to result from inadequate planning.

Furthermore, the question arises whether certain areas of the research in the ESSOR complex ought not to have been considerably modified or simply abandoned. Evidently either the interest shown has not been particularly great or else it has rapidly cooled. There is a danger that this excessive investment in plant in a complex which the Community owns (and which is partly being used for less fitting purposes) may now never yield any return. There is no guarantee that a proposal from the Commission to utilize the ESSOR complex after 1980 will be adopted. When any future programme comes up for debate, Parliament must take great care to see that the type of management envisaged, and particularly its planning and safety aspects, has been well thought out and is feasible and that there is a good chance that the research will be successful without encountering management problems which would make the programme too expensive.

The Committee on Energy and Research notes that the money paid by the Commission over the period under consideration here to secure the necessary contracts and cover the running expenses will be refunded by the Italian Government.

KARLSRUHE

15. The Committee on Energy and Research notes the Commission's reply to the observations made by the Court of Auditors concerning the investment programme to improve physical protection at the Centre.

Although the authorities of the 'Land' of Baden-Württemberg were/are responsible for security at the Centre, the Commission has been negotiating with the Federal German authorities. In addition the security problem was unusually urgent in 1976/77 and the Commission had to take account of this, despite the high costs involved. The Commission ought to bear these problems in mind in future. The security approval procedures ought to have been known at the time.

2. Energy

16. An analysis of the accounts for the energy sector again point up a failure to implement the budget properly (as indeed was the case in the previous year). By way of explanation, the Commission refers to a fantastically complicated decision-making procedure which led to long delays before projects could be got under way and was also the cause of additional expenditure. This has resulted in a series of carry-forwards from one financial year to the next. The sum of 28 m u.a. which is marked as having been written off for the year 1977 (table 21, paragraph 6.43) is, according to the Commission, to be seen as a sum which can be carried forward to 1978 and is not to be understood as being written off in the normal sense of the term.

In spite of this statement by the Commission, the Committee on Energy and Research must criticize its implementation of the budget. The lengthy approval procedure which is necessarily very demanding in terms of money, time and staff, is not acceptable.

For its future proposals the Commission should consider alternative decision-making and approval procedures since the present arrangements, as the budget shows, result in an irrational form of budget implementation. The Committee on Energy and Research is also of the opinion that the difficulties which have arisen because of the decision-making procedures could have been foreseen. Parliament must once again emphasize that the resources which were allocated in the budget for payment could have been used elsewhere during the year concerned.

IV. CONCLUSIONS

17. As will have become clear, the Committee on Energy and Research can take note of part of the Commission's reply to the Court of Auditors' Annual Report concerning the implementation of the budget.

However there is one general criticism to be made and this concerns the inadequate planning within the energy and research sectors. The committee considers that some of the problems which have arisen ought to have been foreseen so that certain expenditure occasioned by them could have been avoided. Moreover, and in particular as regards the operation of the ESSOR complex, the committee considers that the Commission interprets its responsibilities too narrowly.

18. The Committee feels that both the energy and research budgets show, even in the case of multiannual programmes, too much carrying-over of resources both from previous financial years and to subsequent financial years. This must be avoided in future by means of better planning. Some of the resources would thus be made available for other useful Community projects in each particular financial year.