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Report

drawn up on behalf of the Committee on Budgets

on the report of the ECSC Auditor for the financial year 1975 and the discharge to be given to the Commission of the European Communities in respect of the financial and budgetary activities in that financial year (Doc. 231/76)

Rapporteur: Mr H. GERLACH

PE 47.574/fin.

By letter of 8 July 1976 the Commission of the European Communities forwarded to the European Parliament the report of the ECSC Auditor for the financial year 1975.

On 9 July 1976 the President of the European Parliament referred this report to the Committee on Budgets for consideration.

On 23 November 1976 the Committee on Budgets appointed Mr Gerlach rapporteur.

It considered the Auditor's report at its meeting of 18 January 1977.

At its meeting of 15 February 1977 the committee unanimously adopted the motion for a resolution presented by Mr Hansen deputizing for Mr Gerlach.

Present: Mr Lange, chairman; Mr Aigner, first vice-chairman; Mr Durand, second vice-chairman; Mr Frankie Hansen, acting rapporteur; Lord Bruce of Donington, Mr Clerfayt, Mr Fletcher, Mr Früh, Mr Meintz, (deputizing for Miss Flesch), Mr Schreiber, Mr Schyns, Mr Shaw, Mr Würtz and Mr Yeats.

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

MOTION FOR A RESOLUTION

on the report of the ECSC Auditor for the financial year 1975 and the discharge to be given to the Commission of the European Communities in respect of the financial and budgetary activities of the ECSC in that financial year,

The European Parliament,

- having regard to the report of the ECSC Auditor for the financial year 1975 (Doc. 231/76),
- having regard to the report of the Committee on Budgets (Doc. 567/76),

I. External control of the ECSC's financial and budgetary operations

1. Notes with great satisfaction:

- (a) the powers exercised by the ECSC Auditor, which are based largely not on regulations but on the precedents he has established - with the collaboration of the institution and the departments to which the audits relate - with regard both to financial management and to the accounting operations connected with the ECSC's activities;
- (b) the comprehensiveness of the report, which is based on continuous checks carried out in conjunction with financial operations; however, the number of staff is inadequate in the light of the remarkable increase in the financial activities to be audited and in particular it is impossible to carry out sufficient on-the-spot checks;
- (c) the steps the Auditor has taken to ensure effective external control of the ECSC, pursuing a policy of close cooperation with the internal management control and ensuring that the proper conditions exist for the coordination of financial activity and that this activity is carried out in a manner consistent with the objectives to be attained;
- (d) the Commission's effort to initiate, upon publication of the Auditor's report, a dialogue on the ECSC's activities with a view to answering the main criticisms put forward in the report;
- (e) the satisfactory dialogue between Parliament and the Auditor, due mainly to the latter's willingness to take steps to ensure that the political authority responsible for the discharge is able to make a political assessment of the management as a whole and not simply its accounting aspects;

2. Considers that, in the light of these factors and principles, what has been achieved in the external control of the ECSC must be safeguarded, given that, for the Court of Auditors of the European Communities too, a doctrine has been evolved that meets the requirements of external control as regards assessing the activities of the European Communities;

3. Points out that the Auditor is also firmly of the same opinion, as is indicated in the 'reflections on the work of the external auditor', in answer to Parliament's request and in the light of experience over the past twenty years;

II. Remarks on specific points

4. Notes that the Auditor considers the arrangements for collection of the levy satisfactory; feels, however, that, when fixing the annual levy rate, the Institution should take account of the fact that certain payments are overdue, mainly because of the present economic situation; acknowledges the efforts made by the Commission, in accordance with the wishes of the European Parliament, to increase audit checks and considers that they should be carried out even more systematically;

5. Notes that the systematic notification of all new decisions on rehabilitation has facilitated the task of the Auditor in checking rehabilitation expenditure; regrets, however, that the Commission has not adopted the same policy of systematically forwarding all audit reports drawn up by the administrative departments;

6. Considers, however, that in the case of expenditure on technical and social research:

(a) because the register of contracts is not kept systematically - and is in any case restricted to the purely financial aspects - the authority responsible is unable to make an assessment and obtain a full picture of financial policy in this sector;

(b) the time that elapses between the submission of an application and the decision to grant assistance and the delays in executing contracts are sometimes so long that it is difficult for the Auditor to evaluate factors that are essential to an assessment of the financing;

(c) the final reports on these contracts and the on-the-spot checks are inadequate.

7. Notes with interest the remarkable expansion of borrowing and lending operations for the financing of industrial investments, industrial structural reorganization and social housing construction in the iron and steel and mining sectors, which has necessitated intensive checks throughout the duration of contracts often extending over a period of more than ten years; points out in this connection that:
- (a) the yield from 21 loans granted in 1975 totalled about 597 m u.a.;
 - (b) the loans granted out of borrowed funds totalled 2,027 m u.a. as at 31 December 1975;
8. Agrees with the Auditor's largely favourable assessment as regards the management and investment of funds and also with the remarks referring in particular to overdue interest payments and the inaccurate calculation of the rent for the ECSC building in Washington and above all the remark addressed to the Member States which, contrary to the provisions annexed to the Treaty, have sought to treat the ECSC as a potential speculator at the risk of considerably increasing its financial burden; moreover, calls for the harmonization of the ways of calculating interest, which at present vary from one Community country to another;
9. Considers that the Auditor has insufficient information on the financing of social housing construction to be able to judge whether this assistance is justified in the light of the Community's general objectives with regard to social housing construction;

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10. In more general terms, urges the Commission, in view of its responsibility for the management of the ECSC's activities, to provide appropriate explanations when adopting the balance sheet to be submitted to the Auditor, to enable him to make a full assessment of financial operations from the point of view of sound financial management;
11. Insists in this connection that the special reports submitted to the Auditor should be comprehensive and should, as he has requested, be based on continuous and systematic audits;

12. Draws attention also to the fact that the Auditor deplores the unsatisfactory situation that still exists as regards the centralization of accounts and explanations of decisions and the background information required by the external control body - and hence also the parliamentary authority responsible for the discharge - to keep Community decisions and programmes that have financial implications under constant observation;

III. Essential data for the financial year 1975

13. Notes that:

(a) expenditure totalled	264,277,126 u.a.
- service of borrowings and guarantees	146,100,544 u.a.
- budgetary expenditure	75,680,465 u.a.
- financial costs	296,873 u.a.
- excess of income over expenditure	42,199,244 u.a.
(b) income was broken down as follows:	
- service of loans and guarantees	151,360,452 u.a.
- levy	70,198,954 u.a.
- interest on bank deposits and portfolio, contributions from new Member States	42,615,164 u.a.

14. Feels able to give a discharge to the Commission in respect of the ECSC's financial activities in the financial year 1975, but urges the Commission to take steps without delay to eliminate the shortcomings to which the Auditor has drawn attention;

15. Instructs its President to forward this resolution and the report of its committee to the Commission of the European Communities.

EXPLANATORY STATEMENTIntroduction

1. As 1977 begins the Community coal and steel market is again faced with serious adjustment problems. It is therefore useful, as part of the audit procedure, to look back over the 1975 financial year and to draw from the Auditor's report political conclusions aimed at improving the implementation of the budget in future years.
2. Moreover, in view of the form in which the Commission presents its annual reports on the activities of the ECSC, the Auditor's report offers a unique opportunity for the Committee on Budgets and Parliament as a whole to assess the financial aspects of the European Coal and Steel Community.
3. The rapporteur welcomes the fact that the structure and content of the Auditor's report reflect more and more closely Parliament's wish that it should offer not only a collection of accounting data but also a summary of the financial management, providing those responsible for Parliamentary control with a basis for political assessment. The Auditor deserves special thanks for this.
4. The rapporteur has divided his report into three main parts:
 - the financial situation of the ECSC (this also corresponds to Part one of the Auditor's report),
 - specific checks carried out in the 1975 financial year (Part two of the Auditor's report),
 - the future role of the external auditor (Annex III to the Auditor's report).

I. Financial situation of the ECSC(a) Introduction of the European unit of account

5. To permit an assessment of the financial situation of the ECSC in 1975, an introductory comment is called for on the unit of account. For the first time since the creation of the ECSC, the value of the unit of account, in which all the Community's financial activities are expressed, has been changed. This change, established by Decision 3289/75/ECSC of 18 December 1975 (OJ No. L 327, 19 December 1975), was applied for the first time to the balance sheet drawn up on 31 December 1975.

6. However, the operations for the financial year 1975 were entered in old units of account by converting currencies at the rate applied in the previous balance sheet. The Auditor did not receive a balance sheet showing the management accounts and allocations in old units of account; however, since the entries were made in old units of account, he has converted all amounts into such units so as to carry out his analysis on identical documents. For this reason the balance sheet in the Auditor's report is expressed in Table 28 in old units of account and in Table 29 in EUA. The management account shown in Table 30, was also drawn up in old units of account.

(b) Analysis of the balance sheet

7. Under assets, the sum of loans out of borrowed funds totals 2,027,570,609 u.a., which can be broken down into three main uses:

- financing of industrial investment projects: 1,734,843,439 u.a.,
which can be further broken down as follows:
 - . iron and steel industry: 1,334,517,860 u.a.
 - . coal mines and coking plants: 322,503,866 u.a.
 - . iron ore mines: 7,117,463 u.a.
 - . power stations: 66,583,432 u.a.
 - . shipyards: 4,120,818 u.a.
- 271,994,346 u.a. for industrial structural reorganization in areas affected by the closures of steelworks or pits,
- 20,732,824 u.a. for social housing construction projects in the iron and steel and mining sectors.

8. The value of loans therefore altered as follows between 1974 and 1975:

- + 607,713,100 u.a. for industrial investment projects
- + 40,103,428 u.a. for industrial reorganization
- - 2,011,167 u.a. for social housing construction projects.

9. The other loans shown on the balance sheet, totalling 105,559,538 u.a., come from three sources:

- from the special reserve to finance social housing: 91,129,814 u.a.
- from the levy to finance rehabilitation: 311,668 u.a.
- from the levy for technical research: 2,146,734 u.a.
- from the former ECSC pension fund to finance the construction or purchase of housing by officials of the Community: 11,971,322 u.a.

10. As far as assets are concerned mention should also be made of the change in deferred levy payments for hard coal placed in stock. At 31 December 1975 these payments stood at 1,266,295 u.a. as compared with 224,033 u.a. at 31 December 1974.

11. Liabilities on the ECSC balance sheet for 1975 are characterized by a significant increase - indeed a veritable boom - in loans contracted both on the international and national markets. The Community has become a 'bank' for the mining sector. The nominal value of borrowings contracted totalled 2,592,218,040 u.a., at 31 December 1975, which represents one third of the total budget of the European Communities.

12. During the 1975 financial year the ECSC collected the product of 21 loans to a total value of 596,793,873 u.a. Making allowance for these receipts and repayments totalling 55,540,439 u.a. made during the year, the loan total shown on the balance sheet increased by 541,253,434 u.a. over the previous year.

13. In this connection, the borrowings contracted in the United States (843,088,632 u.a.) are particularly striking. It is gratifying that borrowings by the ECSC have been so readily accepted in the United States, where the conditions of issue are extremely strict.

14. To a large extent this is connected with the ECSC's solid reserves and provisions policy. The balance sheet showed the following reserves:

- guarantee fund: 140,019,416 u.a.

- special reserve: 96,146,666 u.a.

and the following provisions:

- rehabilitation: 112,654,883 u.a.

- research: 44,838,350 u.a.

- interest reductions under Article 56: 7,769,774 u.a.

- interest reductions under Article 54: 8,707,288 u.a.

- aid to coking coal: 5,910,100 u.a.

15. Other provisions of various kinds amounting to 38,743,085 u.a. bring the total provisions to 218,623,480 u.a.

(c) Analysis of the management account

16. In contrast to the ECSC's policy on borrowing, described above, its operational budget remains decidedly static. Income from the levy based on independent fiscal powers scarcely alters, since the rate of the levy has remained unchanged for many years. The total levy receipts amount to 70,198,954 u.a.¹

¹ A table showing the income from the levy by country and group of products is contained in Annex I to this report.

17. Expenditure is also decidedly static, since it consists almost exclusively of fixed block expenditure:

- 16,541,396 u.a. for administrative expenditure
- 19,693,529 u.a. for research purposes, broken down as follows:
 - . technical research, iron ore: 394,701 u.a.
 - . technical research, iron and steel: 8,342,672 u.a.
 - . technical research, coal: 6,605,834 u.a.
 - . research on industrial safety, health and medicine: 4,086,465 u.a.
 - . expenditure on the dissemination of research findings: 263,857 u.a.
- rehabilitation expenditure totalling 27,844,522 u.a.
- 3,630,639 u.a. for interest reductions under Article 56
- 2,975,379 u.a. for interest reductions under Article 54
- 4,995,000 u.a. for Community assistance to coking coal and coke
- 296,873 u.a. for other expenditure.

18. The rapporteur is aware that consideration must be given to introducing a more dynamic structure for the ECSC's operational budget, but would refer in this connection to the reports on the aide-memoires from the Commission of the European Communities on the fixing of the ECSC levies and on the drawing up of the operational budgets (most recently the TERRENOIRE report, Doc. 476/76).

II. Specific checks carried out in the 1975 financial year

19. In all sectors of the ECSC's financial activity subject to his audit, the Auditor carried out either full or sample checks during and at the end of the financial year. He was able to carry out a more thorough check than in previous years since the systematic transmission of the Institution's decisions accompanied by explanatory notes enabled him to discern the exact scope and political context of the texts to be applied.

(a) Income from the levy

20. In accordance with Decision No. 3329/74/ECSC of 20 December 1974, the Institution maintained the rate of the levy for the 1975 financial year at 0.29% of the average values per tonne of the various categories of chargeable products. However, the average values which constitute the assessment basis of the levy were brought up to date, giving levy receipts for 1975 of 70,198,954 u.a., 6.8% higher than those for the 1974 financial year¹.

¹ Annex II to this report contains a table showing the variation in the rate of the levy and net per tonne scale in u.a. from 1953 to 1975 for each category of chargeable products.

21. The difference between the 1974 and 1975 shares of each country in the levy receipts is as follows:

	1974	1975
Belgium	8.9%	8.0%
Denmark	0.3%	0.3%
Germany	35.4%	34.1%
France	16.3%	15.9%
Ireland	0.1%	-
Italy	13.9%	14.5%
Luxembourg	3.1%	2.9%
Netherlands	2.9%	3.4%
United Kingdom	19.1%	20.9%

22. The steel industry contributed 83.5% and the coal-mining industry 16.5% of total levy receipts.

The Auditor checked that the total product of the levy had been correctly collected. It is paid by 431 undertakings comprising 573 works and pits, of which 56 are concerned with coal and 517 with steel. The Auditor ensured that the list of chargeable undertakings was constantly updated, to avoid the danger of loss of revenue.

23. However, the Auditor pointed out that late payments of the levy, amounting to 4,297,348 u.a., were considerably higher in 1975 than in 1974. For the most part they concern Italian and British steel enterprises, which have not yet been able to discharge the levies due, partly owing to liquidity problems caused by the economic situation and partly also to technical difficulties and incorrect interpretation of the regulations.

24. During 1975 the Commission carried out 35 checks on enterprises subject to the levy. Production tonnages exceeding the totals originally declared required adjustments resulting in additional levy receipts of 83,238 u.a. The European Parliament should thank the Commission for its efforts in this field, since they helped to ensure that the total levy due was collected.

(b) Expenditure for rehabilitation

25. The results of the checks carried out by the Auditor, based on checks effected by the institution in three Member States, do not require further comment. It should be pointed out in connection with this expenditure that the systematic notification of all new decisions on rehabilitation expenditure.

However, it is regrettable that the Commission has not adopted the same policy of systematically forwarding all audit reports drawn up by the administrative departments.

(c) Expenditure for technical and social research

26. For the 1975 financial year as for previous years, the Auditor checked research agreements and ensuring that the amounts committed under them tallied with the corresponding balance-sheet provisions. He paid particular attention to the register of research projects and the riders and contract extensions communicated to him.

The following comments may be made on this expenditure:

- (a) because the register of contracts is not kept systematically - and is in any case restricted to the purely financial aspects - the authority responsible is unable to make an assessment and obtain a full picture of financial policy in this sector;
- (b) the time that elapses between the submission of an application and the decision to grant assistance and the delays in executing contracts are sometimes so long that it is difficult for the Auditor to evaluate factors that are essential to an assessment of the financing;
- (c) the final reports on these contracts and the on-the-spot checks are inadequate.

The coal sector

27. The Auditor strongly criticizes the registers, according to which 47 new contracts and 10 riders were signed in 1975 to a total value of 15,207,030 u.a. Although the periods elapsing between the application and the final decision on the one hand and the decision to grant assistance and the signing of the contract on the other, were considerably reduced, in most cases the research work had already begun before the contract was signed and sometimes even before the decision to grant financial aid had been taken. As the budgetary authority responsible for giving a discharge, the European Parliament cannot allow such methods to be used in future.

The steel sector

28. In the steel sector, 135 new contracts and 12 riders were signed in the 1975 financial year to a total value of 18,736,940 u.a. There have been consistent irregularities in this sector.

29. The interval between the application and the signing of the contract and between the decision and the signing is still too long: it varies from 12 to 20 months.

30. There are examples of amazing inefficiency in the implementation of research projects:

For example, the final report for a project on ingot structure was received 7 years after completion of the work and gives no details of expenditure by category (43.43 of the Auditor's report). A project on cold forming was only wound up four years after the work had been completed; a project on the automation of a four-high reversing mill, begun in 1962, was only completed on 31 December 1970 and wound up four years later, although the final technical report had not been received (43.45 of the Auditor's report). The situation may thus be summarized as follows:

- 68 research projects were wound up and settled in 1975, although for 17 of them, one or both of the two reports required under the contract had not been received,
- in the case of 36 projects that ought to have been completed between 1970 and 31 December 1975 at the latest, no final check had been made because again the reports had not yet been received.

31. These delays are occasionally justified in rather vague terms. The Auditor regretted that in connection with the registers there was a clear lack of organization in the administration of research in the steel sector. During this year the European Parliament, perhaps through its Control sub-committee, should pay particular attention to these research projects in the steel sector.

- (d) Expenditure incurred by the granting of reduced-interest loans for structural reorganization (Article 56) and industrial investments (Article 54).

32. In this connection the Auditor criticizes the fact that the institution under audit is not governed by any clear plans or mandatory rules so that its operational budget is always adapted to the needs of the moment. This reduces the efficiency of the activities, which, moreover, has never been checked.

- (e) Assistance to coking coal and coke

33. Above all, the Auditor checked the contributions paid by the ECSC, the iron and steel industry and the Member States under the second system instituted by Decision No. 72/287/ECSC, which came into force on 1 January 1973. He noted that Italy had still not paid its contribution in respect of two financial years.

- (f) Administrative expenditure

34. Here the Auditor confined himself to checking that the amount of the annual contribution paid to the administrative budget of the European Communities was correct and disbursed in the required manner, since the other checks are the responsibility of the Audit Board.

35. Application of various units of account results in the payments made by the ECSC amounting to 18,305,681.19 u.a., while its contribution to the general budget is limited to 18,000,000 u.a. This excess amount must be noted so that next year's debt is reduced by the corresponding amount.

(g) Borrowing operations

36. The rapporteur would first like to endorse the extensive comments made by the Auditor after considering the general functioning of ECSC borrowing activity. As already mentioned this activity has reached such proportions that the rapporteur recommends to the committee responsible that the Control Subcommittee of the European Parliament be asked to give this whole matter special consideration.

37. Since the checks carried out by the Auditor for the 1975 financial year revealed no irregularities, the rapporteur sees no need for a more detailed discussion.

(h) Management and investment of funds

38. The Auditor examined the ECSC's assets and investment policy from the point of view of yield, security and liquidity. The results were extremely satisfactory.

39. However, the following critical comments must be added:

- Delays of between two and five months in interest payments from banks on funds invested with them by the Institution can no longer be accepted. The Institution should do its utmost to clear such losses and if necessary terminate its relations with the banks concerned.
- The rent paid by the Commission of the European Communities to the ECSC for a building in Washington should be calculated in a currency par value which corresponds to the actual rate of exchange from units of account into US \$, to prevent losses which for 1975 amounted to 10,723.47 u.a., since one US \$ was equated with one unit of account.

40. The Auditor found that some of the ECSC's financial operations encountered difficulties arising from legislation in Member States classifying the ECSC's financial activities a priori as speculation. Since the difficulties involved have been clearly established this type of obstacle should be immediately removed, if appropriate by means of a Community directive.

The rapporteur agrees with the Auditor's largely favourable assessment of the management and investment of funds.

(i) Financing of social housing construction

41. The authorizing departments forward the loans for social housing construction to the beneficiary through the intermediary of credit banks, making it more difficult to check the implementation of the programmes. The only material item shown in the Community files here is still the postcard sent to each worker on the project via his employer. Even with this card it is difficult to check the progress of the construction work and the objectives of the common policy in connection with this type of housing construction. The financial institutions concerned should therefore be more closely involved in checking the implementation of this housing construction programme.

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42. The following conclusions may be drawn from the above:
External control consists in assessing the financial management of all the year's operations. However, this is only possible if the Auditor is aware of the political background to individual decisions. It is difficult to understand how there can still be certain items of expenditure which are implemented on an ad hoc basis, without forming part of a political programme. Moreover, the Auditor pointed out that the implementation of tasks of financial policy at the highest level of the institution is not yet sufficiently well organized. For example the Auditor was given no explanation as to why a certain sum was chosen to be set aside as management surpluses, what effects the changeover to the European unit of account had on provisions, or the Institution's reasons for certain loan operations.

43. Certain conclusions may also be drawn on the technical implementation of the budget: Centralized accounting, which is only making gradual progress, should be developed into a coordinated system.

Particular importance must continue to be attached to comprehensive documentation, files on loans and statistics on the levy.

44. An arbitration procedure could help to resolve internal conflicts resulting from the different areas of competence within the Institution.

III. The future role of the external auditor

45. In its resolution of 9 April 1976 on the report of the ECSC Auditor for the financial year 1974, Parliament requested the Auditor to devote part of his next annual report to an assessment of external auditing over the last 20 years. This was considered to be an appropriate moment for such an assessment, since the European Court of Auditors was soon to be set up (see paragraph 13 of the Resolution, OJ No. C 100, 3 May 1976).

46. At the request of Parliament the report of the Committee on Budgets for the financial years 1971 and 1972 (ROSSI report, Doc. 209/73) dealt particularly with independent fiscal powers. It also discussed all the problems connected with the levy (establishment of the fiscal system for chargeable firms, collection of the levy, checks on chargeable firms and on the financial management of the levy, etc.).

47. The report of the Committee on Budgets for the two following years (1973 AIGNER report, Doc. 140/75 and 1974 BRUGGER report, Doc. 550/75) were principally devoted to the audit of technical and social research. As regards the year now under consideration, it would be appropriate to concentrate in particular on the work of the external auditor, since the Community's Court of Auditors has not yet been set up and the European Parliament should be mindful of its role in organizing the Court's activities.

48. For these reasons particular attention should be paid to Annex III of the Auditor's report: 'Reflections on the work of the external auditor'.

(a) Submission date of the Auditor's report

49. Since 1953 the Auditor has submitted a report on the correctness of the accounts and of the financial direction of the various institutions within six months of the end of the fiscal year. In recent years the Auditor himself has urged that the document should be submitted to Parliament in the various languages before the parliamentary debate on the rate of the levy and the ECSC's operational budget, that is to say the report was submitted by 31 October at the latest.

50. This procedure has enabled the Committee on Budgets and Parliament to establish continuity between 'retrospective control' and prior control over the following year's budget. It should be emphasized that the Auditor's report greatly helped Parliament to reach a decision during its debates on the rate of the levy for the next financial year.

51. The report of the Committee on Budgets on the report of the ECSC Auditor was submitted at the latest six months thereafter, and was therefore still of some relevance, since there was still time to influence the

next financial year. The Commission has in fact taken Parliament's wishes into consideration by changing certain aspects of ECSC financial policy or remedying shortcomings.

52. These remarks also apply to the report of the Audit Board on the whole of the Communities' financial activities. In this connection, the timetable should be observed since it is clearly of major importance in enabling Parliament, and later the Court of Auditors, to work efficiently on all aspects of the implementation of the budget.

(b) Retrospective control and control of the current financial year

53. This year the ECSC Auditor was again able to inspect the accounts for the current financial year. This is of great importance in view of the difficulties encountered in previous years, when the Commission wanted only retrospective control. It must, of course, be admitted that the Financial Regulation mentions only a retrospective control. As rapporteurs have often pointed out, the Commission has exploited this fact and only submitted to Parliament accounts which have long been closed thus preventing it from carrying out financial control on current transactions. As a result, the Control subcommittee, which began work at the beginning of 1976, was also unable to state its position on abuses during the current year, which the press was already describing as scandalous. It must therefore be firmly emphasized that, as pointed out by the ECSC Auditor, retrospective control can under no circumstances replace the permanent, on-going control of financial activities during the current financial year.

(c) Assessment of conformity with the regulations, sound financial management, and advisability of expenditure

54. The ECSC Treaty did not limit the Auditor's terms of reference solely to the auditing of accounts; the intention was for his responsibilities to be extended to cover all aspects of financial management. This means that according to the Auditor's interpretation his sphere of activities is not confined to accounting but also includes the assessment of conformity with the regulations, the motivation for activities with financial implications, the adequacy of the information supplied and the soundness of the financial management, having regard to the results expected and obtained (Section 109.1 of the Report, seventh paragraph).

55. The Court of Auditors, as a new external control body, will also have to adopt this approach. It can then be seen to what extent the Commission, as one of the institutions to be audited, is prepared to accept these obligations vis-à-vis the external control body.