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## EUROPEAN PARLIAMENT

# Working Documents

1977 - 1978

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28 June 1977

DOCUMENT 165/77

## Report

drawn up on behalf of the Committee on Budgets

on

- I. the accounts of the European Parliament and the discharge in respect of the 1975 financial year
- II. discharge to be granted to the Commission in respect of the implementation of the budget of the European Communities for the 1975 financial year and on the report of the Audit Board (Doc. 523/76)
- III. the comments accompanying the decisions granting a discharge in respect of the implementation of the budget of the European Communities for the 1975 financial year (Article 92 of the Financial Regulation of 25 April 1973)
- IV. 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 in 1975

Rapporteur: Mr H. AIGNER



By letters of 7 July 1976 and 2 November 1976 the Commission of the European Communities forwarded to the European Parliament:

- the revenue and expenditure account and the balance sheet relating to the implementation of the budget for the 1975 financial year,
- the report of the Audit Board on the accounts for the 1975 financial year, together with the answers from the institutions.

On 27 January 1977 the President of the European Parliament referred these documents to the Committee on Budgets as the committee responsible and on 4 February 1977 to the Committee on Development and Cooperation for its opinion.

Mr AIGNER was appointed rapporteur on 22 September 1976.

The Control Subcommittee discussed the problems relating to the discharge for 1975 at its meetings of 8 November and 29 November 1976, 17 January, 31 January, 14 February, 28 February, 14 March, 4 April and 23 May 1977.

The Committee on Budgets considered and unanimously adopted the draft report at its meeting of 7 June 1977.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman and rapporteur; Lord Bruce of Donington, Mr Caro, Mr Hamilton, Mr Meintz, Mr Notenboom, Mr Radoux, Mr Schreiber, Mr Spinelli and Mr Würtz.

C o n t e n t s

	<u>Page</u>
A - I. PROPOSED DECISION	
on the accounts of the European Parliament and the discharge in respect of the 1975 financial year .....	5
II. PROPOSED DECISION	
on the discharge to be granted to the Commission in respect of the implementation of the budget of the European Communities for the 1975 financial year and on the report of the Audit Board .....	6
III. MOTION FOR A RESOLUTION	
embodying the comments accompanying the decisions granting a discharge for the 1975 financial year (Article 92 of the Financial Regulation of 25 April 1973) .....	8
IV. 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 in 1975 .....	17
B - EXPLANATORY STATEMENT .....	18
PART 1 - GENERAL REMARKS .....	18
PART 2 - REVENUE .....	39
PART 3 - OPERATING EXPENDITURE .....	44
PART 4 - RESEARCH AND INVESTMENT .....	51
PART 5 - SOCIAL FUND .....	60
PART 6 - EUROPEAN REGIONAL DEVELOPMENT FUND .....	71
PART 7 - EAGGF - GUARANTEE SECTION .....	75
PART 8 - EAGGF - GUIDANCE SECTION .....	87
PART 9 - FOOD AID AND FINANCIAL AID .....	95
PART 10- DEVELOPMENT FUNDS .....	99
ANNEX: Opinion of the Committee on Development and Cooperation .....	106

The working documents on which this report is based were drawn up by the following members of the Control Subcommittee:

General section:	.. ..	Mr AIGNER
Revenue:	.. ..	Mr MAIGAARD
Operating expenditure:	.. ..	Mr AIGNER
Research and Investment:	.. ..	Mr DALYELL
Social Fund:	.. ..	Mr NOTENBOOM
Regional Fund and EAGGF Guidance Section:		Mr COINTAT
EAGGF - Guarantee Section:	.. ..	Mr SHAW
Development aid:	.. ..	Mr BANGEMANN

A

I

The Committee on Budgets 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 1975 financial year

The European Parliament,

- having regard to the interim report of the Committee on Budgets (Doc. 19/76),
- having regard to its resolution of 9 April 1976<sup>1</sup>,
- 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 1975 budget and to the report of the Audit Board on the accounts for the 1975 financial year (Doc. 523/76).

1. Fixes the budget of the European Parliament as at 31 December 1975 at a final figure of 39,688,435.78 u.a. in expenditure commitments incurred during that financial year, of 36,516,769.94 u.a. actually spent and 3,171,665.84 u.a. still to be paid out at the end of that financial year;
2. Calls on its Administration and the other institutions, to take appropriate action on the comments of the Audit Board;
3. Requests the responsible bodies and in particular the financial controller to ensure that the provisions of the Financial Regulation are applied;
4. Grants a discharge to its President and Secretary-General pursuant to Rule 50 A (3) of its Rules of Procedure.

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<sup>1</sup> OJ No. C 100, 3.5.1976, page 32

II

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

PROPOSED DECISION

on the discharge to be granted to the Commission in respect of the implementation of the budget of the European Communities for the 1975 financial year and on the report of the Audit Board

The European Parliament,

- 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 1975 budget and the accounts of the Euratom Supply Agency (Doc. 523/76),
  - having regard to the report of the Audit Board on the accounts for the financial year 1975 and the answers of the Institutions to the report (Doc. 523/76),
  - having regard to the Council decision of 25 April 1977 on the granting of a discharge to the Commission (Doc. 97/77),
  - having regard to the report of the Committee on Budgets (Doc. 165/77),
1. Notes that expenditure to be met from revenue for the financial year totalled 6,213,608,628.64 u.a.,
  2. Notes that appropriations utilized during the year totalled 6,242,846,173.01 u.a., broken down as follows :

Payments: 5,004,669,618.40 u.a.

Carried forward to the  
1976 financial year : 1,238,176,554.61 u.a.

3. Grants a discharge in respect of the following amounts shown in the accounts for the 1975 financial year:

(a) Revenue (entitlement) = 6,213,709,270.10 u.a.

(b) Expenditure (payments effected  
during the financial year) = 6,411,227,569.24 u.a.

broken down as follows:

- payments from appropriations for  
the 1975 financial year 5,004,669,618.40 u.a.

- payments from appropriations brought  
forward from previous financial years 1,406,557,950.84 u.a.

4. Reserves judgement on the management of the European Centre for the Development of Vocational Training;
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 92 of the Financial Regulation;
6. Requests 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 Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

#### MOTION FOR A RESOLUTION

embodying the comments accompanying the decisions granting a discharge in respect of the implementation of the budget of the European Communities for the 1975 financial year<sup>1</sup>

#### The European Parliament,

1. Calls on all the institutions to take appropriate action on the comments made by the Audit Board in its report and requests them to give an account of the relevant measures taken pursuant to Article 92, third paragraph of the Financial Regulation;
2. Is of the opinion that the institutions should, pursuant to Article 90, second paragraph, of the Financial Regulation, forward their replies to the comments contained in its report to the Court of Auditors and proposes that the latter should publish these replies under the relevant chapters of the report;

#### Parliamentary control of the implementation of the budget

3. Believes that the political responsibility of the Commission finds its clearest expression in the implementation of the budget and that Parliament's budgetary control constitutes the appropriate means for the exercise of this responsibility;

#### Transition from the Audit Board to the Court of Auditors

4. Draws attention to the fact that, according to the provisions of the Treaty of 22 July 1975, one of the tasks of the Court of Auditors is to assist Parliament in exercising its power of control over the implementation of the budget and to submit to it not only the annual report but also, on request, ad hoc reports on specific questions;
5. Consequently intends - in order to facilitate permanent control and close cooperation with the Court of Auditors - to organize its structure accordingly;

<sup>1</sup> Article 92, second paragraph, of the Financial Regulation of 25 April 1973: 'The Institutions shall take all appropriate steps to take action on the comments appearing in the decisions giving discharge'.



6. Draws attention once more to the need for continuity in external control, which must not be interrupted by the setting up of the Court of Auditors;
7. Calls on the Court of Auditors to examine jointly with Parliament the problems involved in the extension and improvement of external Community control;
8. Takes the view that relations between Community and national external control bodies should be based on the provisions of the Treaty of 22 July 1975 and that the development of these relations could lead to integrated external Community control;

#### Implementation of the 1975 budget

9. Notes that most Community policies stagnated in the 1975 financial year but welcomes the swift start made by the Regional Fund;
10. Believes that the experience of recent financial years has provided sufficient proof of the fact that the supplementary budgets policy was not only harmful but avoidable;
11. Suggests once more that supplementary budgets should be avoided by making the fullest possible use of techniques which enhance the budget's role as a forecasting instrument, in order to ensure sound budgetary policy while safeguarding complete financial autonomy;
12. Reaffirms that the Commission's responsibility as regards the implementation of the budget requires it to use all the means at its disposal to achieve the political objectives underlying the budget estimate, and expects the Commission to adopt a clear position on this matter;
13. Formally disapproves of the 'open transfer' procedure, which entails a fundamental modification of the budget as adopted by the budgetary authority and enables the Commission to reallocate appropriations without the approval or knowledge of Parliament;
14. Proposes closer cooperation with the other institutions as regards staff policy and the administration of buildings and equipment;
15. Disapproves of the setting up of decentralized institutions in instances where such an administrative structure is not fully justified by the functions to be performed by these institutions and rejects the system of 'operating subsidies' which, without creating autonomy vis-à-vis the Commission, precludes any control by the budgetary authority;

### Management of the Funds

16. Calls on the Commission to put forward concrete proposals for the revision of the current structure of the budget, which is based on a classification by fund, since this structure constitutes an obstacle to the coordination of the Community's various roles and to budgetary transparency, and proposes that its structure should give a clearer picture of the various areas of Community policy;
17. Believes that the Council's interference in the implementation of the budget must be stopped, irrespective of whether such interference occurs directly or through committees;

### Revenue

18. Asks the Control Subcommittee to report on the adequacy of the present means of auditing and controlling Community revenue;
19. Also asks the Control Subcommittee to examine the different systems applying Community legislation in the sphere of resources with a view to determining whether they are sufficiently standardized to ensure that there is no risk of trade being diverted from one place to another or of Community revenue being lost because of lack of uniformity in administration;
20. Calls on the Commission to apply macroeconomic ratios in its calculation of estimated own resources and in its checking of receipts patterns;
21. Urges the Audit Board to continue to pay particular attention to the aspect of verification of certificates of origin, invoices and statements of account;
22. Calls on the Commission to establish a system for combating irregularities and for the recovery of funds outstanding similar to that laid down in Regulation 283/72;

### Operating expenditure

23. Considers it essential to push ahead with the reorganization of the administrative departments in order to achieve optimal use of staff;
24. Stresses the urgency of adopting the long-overdue revision of the law relating to civil servants;
25. Insists that the currency situation in Europe must not be allowed to lead to unjustified advantages and disadvantages for European officials;
26. Considers it essential for institutions to introduce a medium-term policy on buildings in order to reduce expenditure on buildings and equipment;

27. Calls on the Commission to forward to it systematically in future the special report of the Court of Auditors on the Euratom Supply Agency;
28. Is not able at present to grant a discharge to the Management Board of the European Centre for the Development of Vocational Training and asks the latter to meet the justified demands made by the Audit Board;

#### Research and Investment

29. Requests the Commission to keep the research and investment part of the budget under constant review so as to (i) simplify presentation and layout and (ii) facilitate effective audit and control;
30. Urges the Commission to use the tendering system<sup>1</sup> on the widest possible scale when purchasing or procuring equipment and supplies;
31. Stresses the importance of effecting a rapid cut-back of unproductive lines of research and asks the Commission to keep this factor constantly in mind;
32. Calls on the Council to give effect, in the revision of the Financial Regulation, to the changes in the articles dealing with the research and investment appropriations which were endorsed by the European Parliament in its resolution of 14 December 1976<sup>2</sup> ;
33. Asks the Commission to simplify and standardize the rules on financing of research performed under contract;
34. Believes that the Commission should seek to ensure that, as sought by Parliament, an optimum balance is maintained between operational research costs, and staff expenditure;

#### Social Fund

35. Takes note of the Commission's efforts during 1976 to ensure the more rapid use of Social Fund appropriations but takes the view that a number of difficulties still existed in 1975 which prevented the implementation of a genuine common social policy, for which in any case insufficient resources were available to solve the serious social problems in the Community.
36. Notes that insufficient cooperation between the Member States was one of the main reasons for the delay in using the resources of the Social Fund;

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<sup>1</sup> 'appel d'offre'

<sup>2</sup> OJ No. C 6, 10.1.1977, p.18

37. Is of the opinion that the deficiencies observed in respect of 1975 must be eliminated when the Fund is reformed, especially in view of the fact that, despite the efforts of the Commission, they continued to hamper budgetary management in 1976. These deficiencies may be summarized as follows :
- (a) delays in decisions on the financing of projects and on applications for reimbursements of expenditure incurred,
  - (b) the inadequacy of the remedy of granting higher part-payments (up to 85 %),
  - (c) the systematic cancellation of substantial appropriations as a result of the slowness of the payments procedure,
  - (d) the dilatoriness of Member States in submitting applications;
  - (e) the infrequency of the meetings of the Social Fund Committee, which must give its opinion on the financing of projects;
  - (f) the fact that the forms used for the submission of applications and the instructions they contain as to the implementation of projects are much too complicated;
  - (g) the excessive complexity of the implementation and audit machinery arising from the application of the principle of payment on the basis of actual costs;
  - (h) the adverse effect of the settlement of earlier operations on the promotion of new projects;
  - (i) finally and most seriously, the disregard for regularity and sound management of Community finances and the requirements of a rigorous auditing procedure reflected in the delays in financing and implementing projects.

#### Regional Fund

38. Requests the Commission to reconsider its procedures so that they ensure that the different instruments of Community policy are coordinated to enable every possible benefit to be drawn from a global regional policy and budgetary resources to be utilized in the best possible way;
39. Calls on the Commission to ensure that the functioning of the Regional Fund in no way diminishes the role of the Commission in regard to implementation of the general budget of the European Communities;
40. Anxious to safeguard Community resources, calls on the Commission to arrange for national funds released by the granting of Regional Fund appropriations to be treated as supplementary resources for regional development so that the principle of additionality is respected;

41. Considers that the submission of global applications for Regional Fund aid could result in adequate control of Community expenditure and reduce budgetary transparency, and therefore calls on the Commission to give priority whenever possible to applications other than those of a global nature;
42. Aware of the importance of appropriate publicity for aid granted by the Regional Fund, requests that projects receiving aid from the Fund in future be given publicity as soon after they are approved as possible so that the provisions of Article 14(2) of the basic regulation can be complied with in full;
43. Calls on the Commission once again to establish direct contacts with local and regional authorities in regions receiving Regional Fund aid in order to ensure close liaison with them;
44. Deplores the fact that the impact of the fund could be weakened as a result of excessive dispersal of aid for projects of minor importance, and requests that in future there should be greater concentration of expenditure on specific regions and projects in order to increase the impact of Community solidarity in this area;
45. Proposes, in order to avoid giving the impression that grants of Regional Fund aid are approved by the Member States themselves rather than by the Community, that recipients be fully informed of the source of the aid they receive;
46. Requests the Commission to analyse the results carefully each year in order to draw the maximum benefit from past experience;
47. Notes that the Commission has introduced a series of procedures for controlling the use of fund resources in order to ensure that the most efficient use is made of Community aid, and requests the Commission to pursue and, if necessary, intensify those procedures;
48. Intends to keep a particularly close check on the management of the Regional Fund in the framework of the report on the discharge in coming years in order to eliminate any irregularities;

**EAGGF, Guarantee Section**

49. Urges the Council to refrain, in future, from using so wide a range of techniques - carry overs, transfers, supplementary and amending budgets - to assemble appropriations that should properly have been provided in the initial budget;

50. Asks the Council not to have recourse again to the so-called 'open transfer' mechanism which results in appropriations that have been brought forward being diverted, in a later year, to finance expenditures which are radically different from those for which they were initially authorized by Parliament;
51. Fears that the growing cost of the agri-monetary measures should hamper the evolution of the common agricultural policy, and calls on the Council to press ahead, as a matter of the greatest urgency, with the broad economic and monetary measures needed to bring about a situation in which monetary compensatory amounts will constitute a much-diminished share of the budget;
52. Believes that a strengthening of the position of Parliament in relation to the budgetary decisions in the sphere of the common agricultural policy renders essential the amendments to Articles 107 and 113 of the Financial Regulation which were proposed on 14 December 1976 and asks the Council to give effect to these proposals in the amended version of the Financial Regulation;
53. Noting the rise in the number of frauds and irregularities that have been disclosed, urges the Commission, the Audit Board, Council and Member States to intensify the campaign against these breaches of Community legislation;
54. In particular, urges Member States to reinforce mutual aid measures in the struggle against irregularities, use data processing on a much wider scale, harmonize auditing techniques, and give maximum training and assistance to national officials engaged in this work;
55. Concerned lest the very high level of national aid to agriculture might, in part, run counter to overall Community policy in regard to agriculture and weaken the impact of Community budgetary outlay, calls on the Commission to watch the trend and direction of national aid very carefully, reporting, if necessary, to Parliament on the situation;
56. Also concerned about the effect of technical obstacles to trade which might detract from the effectiveness of the common agricultural policy, asks the Commission to check continually on such potential obstacles and report, if necessary, to Parliament on them;
57. Insists that accounts for past years must be closed within reasonable time limits and that, in future, the provisions of Article 5(2) (b) of Regulation No. 729/70 be complied with in a regular manner;

58. Believing that codification of Community legislation relating to the EAGGF would facilitate the work of all concerned with its management, calls on the Commission to make available a loose-leaf binder, to be kept up-to-date by a regular system of amendments, of this legislation;
59. Asks that the tendering system be used as much as possible to ensure that market forces operate as fully as possible in the agricultural sector;
60. Calls on the Audit Board to report, in particular, on the subject of storage with special reference to movements between regions of commodities for storage;
61. Also asks the Audit Board to devote special attention to cooperation between Member States themselves and between Member States and the Commission in the matter of efforts to repress frauds and irregularities.

EAGGF, Guidance Section

62. Deplores the Council's inability to introduce a genuine Community agricultural structures policy; feels in particular that neither existing appropriations nor current regulations make it possible to envisage the restoration of balance between Community and national projects in this field;
63. Requests the Commission, therefore, to draw up proposals for
  - . the introduction of a simpler and more efficient financing system that will provide more of an incentive to Member States and recipients,
  - . determining the appropriations to be allocated to such projects in keeping with requirements and as part of the budgetary procedure;
64. Requests the Commission and the Council to state the objectives of the regulations in order to ensure that appropriations are used for those objectives and to make possible greater coordination of those objectives, so that the EAGGF Guidance Section does not become a demagogic system of mutual social aid;
65. Reiterates its disapproval of movements of appropriations that result in appropriations allocated for the improvement of agricultural structures not being used for their intended purpose;
66. Is of the opinion that a considerable increase in the financing of joint schemes forming an integral part of a coherent agricultural structures policy should not necessarily result in the abolition of the system for financing individual projects;

67. Calls on the Commission to consider to what extent the system for financing individual projects that meet a real need can be maintained if its functioning is improved;
68. Feels that those measures financed by the Guidance Section that have a greater effect on the economic situation than on agricultural structures should be considered as coming within the scope of the Guarantee Section;

Food aid

69. Considers that the erratic budgetary management of food aid is clear evidence of the lack of an overall Community policy in this area;
70. Strongly supports the Commission's present efforts to remedy this state of affairs; will oppose any Community food aid measures consisting of the financing of individual projects;
71. Requests the Court of Auditors to report to it on the effectiveness of Community control in this area and on the effectiveness of procedures for the allocation of funds;

Development Fund

72. Emphasizes its intention to exercise to the full the control responsibilities in respect of the EDF assigned to it by the implementing texts of the Convention of Lomé, pointing out that these responsibilities imply the budgetization of the EDF at an early date;
73. Instructs its Control Subcommittee to consider jointly with the parties concerned the conditions necessary for ensuring effective control of the effects of Community financing on the development of the recipient countries.



IV

The Committee on Budgets 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 in 1975

The European Parliament,

- having regard to the Report of the Audit Board on the accounts for the financial year 1975 and the institutions' replies to that report (Doc. 523/76),
  - having regard to the report of the Committee on Budgets and the opinion of the Committee on Development and Cooperation (Doc. 165/77),
1. Requests the Council to give a discharge to the Commission in respect of the financial management of the first, second and third EDF's during the financial year 1975;
  2. Notes the inadequacy of Community control, which fails to allow a precise assessment of the effects of Community financing on the development of the recipient countries, or to provide detailed information on the extent and implications of the shortcomings revealed;
  3. Requests the Commission to suspend all decisions on financing from the second EDF and to transfer the unused balances to the third EDF;
  4. Calls upon the Commission to prepare the incorporation of the European Agency for Cooperation into the central administrative and budgetary structures of the Community.

EXPLANATORY STATEMENTPart 1 - GENERAL REMARKSIntroduction

1. With the adoption of the budget for the 1975 financial year, the European Parliament exercised for the first time its power to take a final decision on appropriations. As the definitive system laid down in the Treaty of 22 April 1970 had been introduced, it adopted certain amendments to items of non-compulsory expenditure and its President declared the budget as a whole adopted.

This increased responsibility with regard to the adoption of the budget gives Parliament's power to grant a discharge its full significance: Parliament ensures that the appropriations for which it bears political responsibility are used properly.

Parliament's powers with regard to the adoption of the budget and the discharge must continue to develop in parallel. The Treaty of 22 July 1975 lays down that Parliament will have the power to adopt or reject the budget as a whole; it will also bear sole responsibility for giving a discharge. In the medium to long term, it is logical to envisage complete harmonization of the procedures for adopting the budget and granting the discharge.

2. The significance of the discharge is thus increasing concurrently with that of the budget. On the one hand, the budget, which used to be first and foremost an accounting record of the financial consequences of Council decisions, is tending to become a political instrument and a programme. On the other, the discharge, which in the Council's view was above all the procedure for finally fixing each Member State's contribution for the financial year in question, is now becoming the reflection par excellence of the principle of the Commission's political responsibility for implementing the budget.

3. The discharge procedure for the financial years 1972 to 1974 made it possible to set the stage for this development. The delays which had built up in this area as a result of the difficulties encountered by the Council in fixing Member States' contributions for the previous financial years were made good. Parliament is now in a position to exercise up to date and therefore effective political control.

4. As a result of the dialogue established between Parliament's Control Subcommittee and the Commission, this procedure has also increased the Commission's political responsibility in respect of implementation of the budget. This responsibility is in fact less a question of legal machinery and texts than of the form of relations between the Commission and the

budgetary authority. These relations have been markedly political in nature and, apart from considerations of regularity<sup>1</sup>, respect for budgetary principles and sound management, Parliament's assessment of the activities of the Commission centres on their effectiveness measured against the objectives set.

In brief, the discharge procedure, which by nature is a budgetary act setting the final seal on operations during a financial year, is now assuming a political rather than a legal character.

It would, of course, be mistaken to claim that the discharge, and even more so the refusal to grant a discharge could not have legal implications; this would be to deny that these acts have anything but formal significance. The provisions of the Financial Regulation are also quite clear on this point. The authority granting the discharge can defer the discharge decision if it states its reasons for doing so. It can also inform the Commission that it cannot grant a discharge until a particular situation is regularized.

However, this shift of responsibilities to Parliament necessitates a new concept of the discharge which, without forgetting its legal aspect, is inseparable from the context of relations between Parliament and the Commission based on the Commission's political responsibility. In other words, it is impossible to conceive of a refusal to grant a discharge without envisaging the consequences in terms of questioning the Commission's responsibility. Recent practice<sup>2</sup> has also shown that the discharge procedure is in no way rigid and can be adjusted: it does not have to end in open conflict; reasonable compromises can be reached. The discharge makes it possible to draw political conclusions by comparing the intentions stated when the budget was drawn up and the results ascertained by the audit.

5. There is still considerable progress to be made in this field, however. Information in sectors that are often very important because of the volume of appropriations involved is too fragmented and incomplete for a precise assessment to be made of the way in which the funds have been administered, especially in cases where the Audit Board has not been able to carry out the necessary on-the-spot checks. On the other hand, the Commission often confines itself to justifying specific cases in its replies. It thus makes it difficult to analyse management shortcomings or find their causes and puts obstacles in the way of improvement.

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<sup>1</sup> Although Parliament has no intention of neglecting these aspects

<sup>2</sup> Discharge for the financial year 1973 - rapporteur Mr BANGEMANN - sale of butter to the USSR

6. Parliament's Control Subcommittee does not therefore always have all the information it needs to make a political, in other words global and precise, assessment of budget management: it is often unable to judge the extent of the shortcomings noted in the consideration of specific cases and thus has to base its assessment on a rough generalization of the evidence available. In such cases, Parliament has to supplement the information itself. It is to be hoped that these gaps will be filled once the Court of Auditors is set up. It is also hoped that in future the provisions of the second paragraph of Articles 90 and 92 of the present Financial Regulation which requires the Audit Board to assess the soundness of the financial management, will be more rigorously applied.

I. Progress made in relations between the various control bodies

7. The development of the discharge procedure as outlined above entails and takes the form of a change in the machinery and relations between the various bodies concerned. The change is not complete but the general trend is already clear: transition from the Audit Board to the Court of Auditors; intensification of contacts between the Audit Board and the Commission through the subcommittee; the fact that the Council, which holds the discharge to be of purely accounting interest, is taking a back seat.

A. Procedures for drawing up documents in preparation for the discharge decision

8. There is still a difference of opinion between the Commission and the Audit Board on the procedure for drawing up the report and on the significance of the replies to the comments made by the Audit Board.

In the Audit Board's view, the report should be drawn up on the basis of an exhaustive investigation involving consultation of all the parties concerned right up to the time the final text is drawn up. The replies by the institutions to the comments made in the report should not call those comments into question, by for instance providing new information.

The concept of exhaustive consultations, although not explicit in the regulations, is of great interest, especially in view of the imminent establishment of a Court of Auditors. It is obviously essential for the Court of Auditors to have all available information at its disposal when preparing its comments. If new information appeared after the final text was adopted it would in effect have to rewrite its report.

9. The Commission for its part points out that the Audit Board's report and the replies of the institutions are intended for the discharge authority which does not confine its investigation to these documents. The final adoption of the report is thus not the last stage in the consultation procedure. The Commission would prefer a straightforward dialogue.

10. These two points of view are in fact less contradictory than would appear at first sight. The procedure for drawing up the Audit Board's report and later the report of the Court of Auditors can be regarded as a self-contained entity and not merely as one stage of the discharge procedure. Thus the new version of Article 91 of the Financial Regulations provides that the annual report and the replies are forwarded to the responsible authorities and published in the Official Journal by the Court of Auditors itself.

The report can thus be regarded as a document intended for the public and a document which prepares the discharge decision.

11. As regards the replies by the institutions to the comments contained in the annual report, the Commission's claim that a uniform approach is required of the institutions must be accepted. So far the Commission is the only institution to prepare written replies, the others having chosen not to make use of their right of reply. Although in the case of Parliament and the Council this attitude could be justified by the fact that they would have the chance to express their views on the comments in the discharge decision itself, the same is not true for the Court of Justice. Moreover, experience has shown that the discharge decisions of the Council and even of Parliament do not really take account of the comments by the Audit Board that concern them.

It would thus be advisable in future for the Court of Auditors to devote a separate chapter to the operating expenditure of each of the Community bodies and institutions and to present their views and replies on the facing page of the annual report it will publish in the Official Journal. This would not prevent the Court of Auditors from forwarding its report provisionally to the authorities interested if the replies were late. Parliament should therefore invite the institutions to comply with the provisions of the Financial Regulation and, of course, comply with them itself.

**B. The transition from the Audit Board to the Court of Auditors**

12. The Court of Auditors has the task of assisting the authority responsible for granting the discharge in the exercise of its controlling functions in respect of implementation of the budget, and, in this context, Parliament - for the preparation of its political control - requires some idea of the content of the work to be done by the Court of Auditors.

13. The Court of Auditors has not been designed as a mere extension of the Audit Board. Over and above a strengthening of the staff and resources, the transition from the Audit Board to the Court of Auditors must represent a qualitative breakthrough corresponding to the replacement of the system of contributions from the Member States by a system of genuine financial autonomy.

14. Now that the Court of Auditors is about to be set up, it has again become urgent to draw attention to the risk highlighted by Parliament on several occasions<sup>1</sup>; it is essential to avoid any interruption of external control.

The establishment of the Court of Auditors must result in an improvement in external control and not in any weakening of it.

Parliament gives priority to this criterion and the following solutions should be adopted to the various problems referred to earlier:

- maintenance of a strong branch of the Court of Auditors close to the Commission's services;
- choice of members in the light of their ability to perform the tasks entrusted to the Court of Auditors;
- use of the experience gained by the Audit Board;
- maintenance and strengthening of the collegiate principle.

15. The work of the Court of Auditors must therefore be characterized by a qualitative breakthrough based on the experience acquired by the Audit Board.

16. To meet the Parliament's requirements in the area of political control:

This control must also be systematically directed towards a review of the effectiveness of management and of the results of the utilization of appropriations; these factors are just as important as verification of the regularity of operations. Apart from the annual report and the formal context of the discharge, the control function must include detailed studies of the effectiveness of Community financing. This presupposes a qualitative improvement in the external audit activities.

17. A qualitative improvement is also necessary to put an end to the considerable areas of obscurity existing at the level of external control. The establishment of the Court of Auditors must at long last enable Community external control to review the management of Community funds within the Member States.

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<sup>1</sup> See Shaw report on the amendment of the financial regulation, Doc. 469/76 - Art. 119; Bangemann report on the discharge for the years 1972-1974, Doc. 460/76 - point 2 of the remarks.

It would be unwise to underestimate the obstacles to such an extension of external control. The national bodies responsible for external control enjoy an independence which must not be called into question. Moreover their functions and terms of reference differ from one Member State to another, which does not tend to promote the uniformity of Community control.

Parliament does not intend to dictate to the European Court of Auditors how it should organize its work and its relations with the national Courts of Auditors.

It would, however, be desirable - as soon as the Court of Auditors is set up - for the three Community institutions concerned with external control to jointly examine the problems created by an extension of this control.

18. The Treaty of 22 July 1975 seems to propose an acceptable basis for the solution of these problems. Article 206 A (3) establishes an original power of control for the Court of Auditors which complements rather than competes with the powers of the national Courts. This should make for uniform and complete external control, despite the different terms of reference of the national Audit Courts.

Moreover the same article stipulates that the Community Court of Auditors is to work in liaison with the national audit institutions.

Community experience at the juridical level and the experience of States with federal structures in the area of Audit Courts have shown that forms of cooperation are possible between independent institutions which allow the coexistence of non-hierarchical relations and effective cooperation. This experience could underlie the evolution of relations between the national and Community Courts of Auditors and allow the creation of an integrated external control function. The Courts of Auditors would then have the possibility of either creating an institutional framework of some kind for this integration - joint chambers of consultative committee - or of giving it a purely informal character.

c. Relations between Parliament and Commission in controlling implementation of the budget

19. These relations are the privileged framework for expression of the Commission's political responsibility for implementation of the budget. This means that the Commission takes decisions for which it assumes full responsibility when implementing the budget. Since responsibility exists only when it can be challenged, it is the effectiveness of control or sanctions by Parliament that demonstrate the extent of the Commission's responsibility for implementing the budget.

On the basis of this criterion the Commission's responsibility varies according to sector. It is true, however, that the Commission has never formally refused to assume responsibility for a decision by, for instance, sheltering behind the views of a more or less consultative body, such as a management committee.

20. But there are numerous de facto obstacles to an effective challenge of the Commission's responsibility. The main obstacle is the very large number of bodies involved in managing appropriations. As a general rule, the national administrations are responsible for the important task of allocating and controlling the use of appropriations. Moreover, the Commission now has a tendency to bring about an excessive increase in the number of its satellite bodies which, because of the complexity of their administrative structures, cannot be controlled by the discharge authority.

Finally, although not constituting a legal obstacle to a challenge of the Commission's responsibility, the implementation of certain expenditure requires a decision by the Council or the Member States.

Neither the Audit Board nor the Parliament in their external control are at present able to form an overall view of the management problems. Very little information is available on which to assess the results and effects of the use of appropriations as compared with the objectives pursued. Obviously Parliament's control cannot fulfil its task satisfactorily or fully until the requirements enabling it to do so are met. It is easy to see where improvements must be made to attain these objectives.

21. First of all, parliamentary control must remain intensive outside the official framework of the discharge procedure. In the broad sense of the term, the discharge must be the framework for all relations between the Commission and the discharge authority on the basis of the Commission's political responsibility. This means that Parliament must start to control implementation of the budget well before the discharge procedure begins if it feels that a problem would lose its political interest if not dealt with immediately; secondly, it must thoroughly investigate certain basic questions raised during the discharge procedure which could not be dealt with then because of their extent.

The subcommittee still does little in this field; it has merely tackled the problem of rationalizing staff, adjusting salaries and controlling EDF operations. The subcommittee's working methods, in particular the allocation of sectors to be controlled by the various members have given satisfactory results. Material obstacles, reflected by its heavy agenda, now prevent any intensification of its work. Thought must now be given to holding longer meetings, increasing the number of members to 13, and strengthening the structure of the secretariat.



22. Secondly, parliamentary control is to a certain extent ineffective, unless it has the collaboration of the internal control body. The various bodies - internal and external - responsible for controlling the use of Community appropriations must be aware that their objective is the same: the proper functioning of the Community in the budgetary field.

Everyone now accepts that all internal financial control documents must be available to the subcommittee. Obviously, this right will be of little use to Parliament if it cannot count on the goodwill of the financial controller. There is certainly no question, when advocating closer collaboration with the financial controller, of calling into question his independence or responsibilities, but merely of organizing control more rationally and efficiently.

23. Finally, Parliament's Control Subcommittee must be provided with information and detailed studies by the Commission and the Court of Auditors on the economic use of appropriations and efficiency of Community financing. Political control constitutes above all a check of suitability and of results. It must be able to assess the impact of budgetary expenditure on the objectives pursued, which implies a quantitative and qualitative increase in the preparatory work.

## II. Characteristics of the implementation of the budget for the 1975 financial year

24. Parliament's resolution on the draft general budget of the Communities for the financial year 1975<sup>1</sup> deplored the lack of dynamism in the draft submitted by the Council and the stagnation of Community policies which it reflected. Parliament's use of its margin for manoeuvre did not substantially change this state of affairs and the management results confirmed this analysis.

25. The structure of the expenditure effected under the 1975 budget reflects the fact that the Council froze most of the new projects or the extension of projects already approved. The only sector in which there is any progress or notable change in the structure of expenditure is the Regional Fund. However, this innovation did not appear in the original budget since the appropriations were authorized in a supplementary budget.

26. The 34.8% increase in expenditure in 1975 compared with the financial year 1974 is due mainly to the increase in Guarantee Section expenditure (compensatory amounts - disposal of stocks). The stagnant sectors are research and investment, the Social Fund, and the EAGGF Guidance Section which are increasing more slowly than the budget as a whole while food aid is even decreasing in absolute terms.

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<sup>1</sup> Doc. 350/74, rapporteur: Mr Aigner

Expenditure on staff and operating expenditure are also marking time after the period of adjusting structures to the accession of the three new Member States.

Trend in expenditure

(MUA)	1975 appropriations committed	%	1974 appropriations committed	%	differ- ence 1975-1974
Expenditure on staff	187.9	3.102	160.8	3.600	+ 16.8
Operating costs other than flat-rate repayments	68.7	1.104	61.3	1.307	+ 1.2
	374.1	6.202	315.3	7.070	+ 18.3
Specific missions other than research and investment	27.3	0.405	7.3	0.106	+ 273.9
	97.4	1.602	75.9	1.700	+ 28.3
Aids and subsidies	17.0	0.208	12.3	0.207	+ 38.2
Social Fund	353.9	5.800	269.4	6.040	+ 31.3
ERDF <sup>1</sup>	150.0	100	-	-	-
EAGGF Guarantee Section	4,336.3	72.105	3,105.5	69.609	+ 39.6
EAGGF Guidance Section	149.0	2.407	118.7	2.606	+ 25.5
Food aid and cooperation with developing countries	246.9	4.100	329	7.308	- 24.9
TOTAL	6,008.3	100	4,455.7	100	+ 34.8

<sup>1</sup> Payment appropriation

The amounts affected by the discharge decision

27. The amounts to be taken into consideration in the discharge decision depend on the significance attached to it. In Parliament's opinion, a discharge can be granted only in the light of the principles of annuality and universality of the budget laid down in the Financial Regulation.

The Financial Regulation defines the amounts to be entered in the accounts in any financial year (Article 5).

It adopts the financial year system for revenue: revenue is entered in the accounts for a financial year on the basis of entitlements  
= 6,213,709,270.10 u.a.

On the expenditure side, the Financial Regulation adopts the management system with provision for an extension for a variable period depending on the sector: expenditure is entered in the accounts on the basis of payments.

payments from appropriations for the financial year: 5,004,669,618.40 u.a.  
+  
payments from appropriations carried forward: 1,406,557,950.84 u.a.  
6,411,227,569.24 u.a.

As can be seen, these two amounts do not coincide since they have been chosen for technical accountancy and cash flow reasons.

Nor, it should also be noted, do these amounts coincide with the total amount of appropriations to be met out of revenue for the financial year as defined in Article 17 of Regulation No. 2/71.

payments for the financial year (own resources): 5,004,589,554.62 u.a.  
+  
appropriations carried forward to the financial year 1976: + 1,238,176,554.61 u.a.  
-  
appropriations carried forward from 1974 and cancelled: - 29,157,480.59 u.a.  
6,213,608,628.64 u.a.

There is a difference between total entitlements (6,213,709,270.10) and total expenditure to be covered by revenue for the financial year (6,213,608,628.64) which is explained by

- cancellation of entitlements (items 9300 and 9990) - 23,530 u.a.  
- revenue collected pursuant to Article 200(1) of the EEC Treaty (chapter 59) - 80,063.78 u.a.  
- entitlements carried forward from previous financial years (item 9290) + 2,951.67 u.a.

Finally, total appropriations used out of the appropriations authorized for the financial year amount to:

payments	=	5,004,669,618.40 u.a.
appropriations carried forward	=	<u>1,238,176,554.61 u.a.</u>
		6,242,846,173.01 u.a.

### III. Utilization of initial appropriations

28. The Council's conservatism and its inability to take decisions save under the pressure of events are further illustrated by the way in which appropriations were allocated during the financial year in question.

Notwithstanding the Commission's forecasts, which experience has shown to be substantially correct, and the pressures brought to bear by Parliament, the Council refused to enter appropriations for new projects on which it had not yet taken a formal decision. Obviously, such an attitude was bound to have a paralysing effect on the budget, reduce its importance to that of a mere accounting procedure and create extreme difficulties for the implementation of a coherent budgetary policy.

29. The initial appropriations were increased by 7.4% by three supplementary and amending budgets relating to the Regional Fund (152 m u.a.), the Cheysson Fund for aid to the developing countries most seriously affected by the crisis (84 m u.a.) and farm prices and research (206 m u.a.) respectively. It was possible to avoid a further supplementary budget in connection with the entry into force of the Lomé Convention.

30. Parliament was not content simply to express its disapproval of what can only be described as the Council's supplementary budgets policy. It also put forward constructive proposals, particularly via the Committee on Budgets' ad hoc working party presided over by Mr Cointat<sup>1</sup>, recommending that a clear distinction be made between supplementary budgets and amending budgets and that recourse to supplementary budgets be kept to a strict minimum by using to the best advantage the techniques available for improving the budget as an instrument of forecasting: provisional appropriations, the freezing of appropriations, commitment appropriations, the raising of loans, a more rational deployment of liquid assets, etc.

31. The supplementary budgets policy created serious complications for the provisional system under which Member States' contributions were calculated according to GNP. When, in 1978, the Community gains complete financial autonomy, it will, moreover, be extremely difficult to revise the revenue estimates during the year to which they relate, and the overall volume of expenditure will have to be fixed definitively in the initial budget.

Parliament's suggestions might thus be taken as the basis for a solution to these difficulties.

32. The management of commitment appropriations has been satisfactory in the case of expenditure arising automatically from previous operations. The inadequacy of the commitments for the other sectors poses two kinds of problem:

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<sup>1</sup> PE 44.071/fin., page 65; draftsman: Mr Aigner

- . There is a persistent under-utilization of the appropriations earmarked for certain sectors e.g. the Guidance Section of the EAGGF, research and investment and 'Article 4' Social Fund expenditure. The fault here lies with the financing procedures, which must be revised.
- . In other cases, appropriations have not been allocated at all. For this the Commission blames the absence of a decision on the part of the Council - as in the case of Community projects in the hydrocarbons sector (Article 321 = 11 m u.a.), aid to beekeepers (Article 402 = 2.5 m u.a.), certain Social Fund expenditure (anti-crisis measures) - or on the part of a Member State (Article 309 = aid to redundant sulphur mine workers).
- . As far as the latter cases are concerned, a serious problem arises in regard to the Commission's effective responsibility for the implementation of the budget. It is clear that, whatever the excuses made, Parliament could not allow the Commission to default on its obligations by appealing to the regulations or using another institution as a scapegoat. It must therefore take the entire responsibility before Parliament and before public opinion for its failure to utilize the appropriations in question.

33. The budgetary management of multiannual projects under the Social Fund, the Regional Fund and the EAGGF Guidance Section is marked by delays in payments. Once the commitment appropriations technique is applied to all multiannual projects, automatic carry-overs will disappear and the freezing of large amounts of appropriations will be avoided. However, this technique will in no way be instrumental in speeding up payments, which remains an unresolved problem.

The low level of payments compared with the size of the appropriations available - as in the food aid sector - also points to an unsound management procedure.

Broadly speaking, all the procedures which have led to changes in the initial appropriations (supplementary budgets, carry-overs, cancellations, etc.) will tend to vitiate the budgetary authorization procedure once the amounts involved exceed a certain level. In the case of 1975, if account is taken of the supplementary budgets, the amounts carried over from the previous year and those carried forward to the following year, it will be seen that the total sum involved in these changes amounts to considerably more than half the initial budget.

#### IV. Parliament's budgetary powers

34. It is perfectly normal that Parliament, in carrying out its control function, should be particularly concerned to ensure that its prerogatives are not flouted. It has a general responsibility for the budget as a whole inasmuch as it is responsible for its final adoption. But it also has more specific powers in regard to the fixing of certain appropriations and control over their implementation.

##### A. Utilization of the appropriations entered by Parliament within its margin for manoeuvre

35. The appropriations entered by Parliament within its margin for manoeuvre were used as follows:

. Article 272 - expenditure on the dissemination of information and on participation in public events: the 1 m u.a. additional appropriation authorized by Parliament made it possible to institute, alongside the normal information programme, a supplementary programme aimed in particular at promoting measures which would give the general public a better understanding of the impact of Community activities on everyday life, and at improving information activities vis-à-vis the third countries.

. Chapter 35 - expenditure on environmental and health measures: the increased appropriations provided for by 3 amendments voted by Parliament made it possible to implement the projects planned with respect to the prevention of air and water pollution and health protection at places of work. 90.8% of the available appropriation of 1.8m u.a. was in fact used.

Against this, the appropriation frozen in Chapter 98 and entered by joint agreement by the Council and Parliament for the purpose of setting up the Foundation for the Improvement of Living and Working Conditions was not used.

In consequence, 97,000 u.a. of that part of the appropriation transferred to Article 356 were written off. The balance of 1,503,000 u.a. was transferred to the EAGGF Guarantee Section as an 'open transfer'.

The Council's inability to carry out or have carried out its own legislative decisions can on no account be accepted as a satisfactory excuse for this disastrous management of the budget and the failure to implement it. The Commission, even though it had the power directly to authorize the release

of the appropriations earmarked for the Foundation<sup>1</sup>, misused its budgetary authority by transferring the appropriations in question to chapters in no way connected with the improvement of living and working conditions.

- Article 402 - aid to beekeepers: the 2.5 m u.a. entered in supplementary budget No. 3 by means of a Parliament amendment was not used. Instead of a request for a carry-over being submitted, the appropriation was written off. The Commission did not propose that the appropriation be re-entered in the 1976 preliminary draft budget and Parliament was obliged to use its margin for manoeuvre to ensure that it was entered in the final budget. To justify the non-utilization of this appropriation, the Commission states that it was not possible within the one-month deadline to establish the legal basis necessary for the expenditure to be effected.

This second case illustrates the problem of the Commission's responsibility for the non-utilization of the appropriations entered in the budget by the budgetary authority.

In order to avoid any confusion, it must be made clear that the Commission's responsibility to the discharge authority is political rather than legal.

Having said that, the fact that the Commission is responsible for the implementation of the budget presupposes that it can in fact be implemented. It is obvious that in many cases regulations are required for the implementation of the budget. Even so, the Commission is always answerable for any failure to implement the budget, even if a distinction has to be made between cases where the Commission itself is responsible for adopting the implementing provisions and cases where the intervention of another institution or a Member State is necessary. The Commission has at its disposal a whole range of measures for dealing with such situations. By reason of its responsibility for the implementation of the budget, it must use all the means available to it under the regulations to ensure that the budgetary appropriations are expended or, in the case of appropriations for which no formal regulation exists (either because it is unnecessary or because it has not been adopted), ensure that they are expended in accordance with the decisions of the budgetary authority. To avoid difficulties in respect of the discharge, the Commission would be well advised to define its position on this problem without delay.

- Article 510 - expenditure relating to the reform of the Social Fund: the appropriations under this Article were increased by Parliament by 35 m u.a. 98.7% of these appropriations were subsequently used, which shows that Parliament was justified in adding to the sum initially allocated.

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<sup>1</sup> Doc. XIX, Article 5, p. 3



. Article 98 - provisional appropriations for transfer to Article 254 - Youth projects: a 100,000 u.a. appropriation had been allocated by Parliament within its margin for manoeuvre. Not only was this appropriation not expended, but it was transferred to the EAGGF Guarantee Section as an 'open transfer' without prior consultation of Parliament.

B. The 'open transfer'

36. At the end of the financial year, the Commission used an altogether exceptional procedure for which no provision is made in the Financial Regulation, viz. the 'open transfer' procedure, to which a number of references have already been made. This procedure constituted an 'open challenge' to Parliament's budgetary authority.

The 'open transfer' was in fact a blank cheque which the Commission addressed to itself and which it had the Council endorse. The transfer authorization mentioned the budgetary chapters affected by the movements of appropriations, but gave no other details. The Commission was thus entirely free to decide both the amounts to be transferred and the chapters to which they would be allocated in Titles VI and VII.

Parliament was simply informed of this Council decision after it had been taken. Yet, in several ways it represented a challenge to Parliament's own decisions and prerogatives.

The amount transferred was 63.6 m u.a. Almost half the appropriations, i.e. 30.3 m u.a., resulted from a non-automatic carry-forward from the 1974 financial year for use under the Social Fund. Appropriations twice allotted to the social sector were thus finally used under the EAGGF Guarantee Section.

The fact that this open transfer also included appropriations entered by Parliament within its margin for manoeuvre and frozen in Article 98, is perhaps the least forgivable aspect of this procedure, for it again calls into question the allocation of responsibilities between the two institutions constituting the budgetary authority on the one hand, and the Commission as the institution responsible for implementing the budget on the other. This allocation of responsibilities has been replaced by a bureaucratic and technocratic style of decision-making in which the Commission plays the role of secretariat to the Council.

In the case just mentioned, the Commission also disregarded the principle of the specificity of appropriations, which is a fundamental principle of Community budgetary law. It disregarded the fact that the transfer procedure was an exception to this principle, tolerated only to allow a degree of management flexibility, and that accordingly only a restrictive interpretation of the pertinent regulations is permissible.

The amendments to the Financial Regulation proposed by the Commission and Parliament<sup>1</sup> in respect of the provisions governing appropriation transfers are designed to enforce strict compliance with the budgetary decisions of the two institutions constituting the budgetary authority.

C. Adjustment of revenue against expenditure in respect of the balances available following the auditing of the accounts of previous financial years

37. Article 110 of the Financial Regulation stipulates that 'any differences which may exist between the expenditures charged to the account of a financial year ... and those recognised by the Commission at the time of auditing the accounts ... shall be taken into account in the financial year during which the audit took place'. The Commission interpreted this provision as authorizing it to deduct on an item-by-item basis the expenditure wrongly declared by the Member States during 1971 and 1972 from the expenditure for 1975.

It is obvious that such an interpretation of Article 110 contravenes the principle of the budget's globality and lessens budgetary transparency inasmuch as the expenditure shown in the accounts is less than that actually effected.

If it is no longer possible for these balances to be entered as revenue in the budget, they should at least be recorded more clearly, and specifically as revenue, in the accounts.

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<sup>1</sup> Doc. 469/76: rapporteur: Mr SHAW

V. The main problems of managing the different sections of the budget

38. The rapporteurs for the different sections of the budget felt it necessary to criticize the management of Community appropriations. The subcommittee has considered their suggestions and adopted them. There is therefore no question of repeating or even of summarizing them here.

Rather, the intention of this section of the report is to give a summary of all the work carried out in order to outline the broad principles of a reform of budgetary management.

That in fact is the task of Parliament's Control Subcommittee: to propose solutions to management problems and weaknesses that come to light through various controls.

A. Internal administration of the institutions

39. Strict control of such expenditure would be ill-advised since it would represent interference by Parliament in the internal administration of the other institutions that have management autonomy.

It is nevertheless essential to put an end to the irregularities noted by the Audit Board in its report, in particular on the application of the Staff Regulations and provisions on pensions and transfers of salaries in the currency of a country other than the country in which the official is employed. To this end, the institutions should be invited to give an account of the measures taken pursuant to the third paragraph of Article 92 of the Financial Regulation and in future to forward their replies to the Court of Auditors in pursuance of the second paragraph of Article 90.

The report of the Court of Auditors could also present more clearly the remarks directed at each of the institutions to make it easier to compare these remarks and the replies to them.

40. Control of this part of the budget highlights the need to tackle problems at inter-institutional level. Collaboration between the various Community institutions is the only way to reconcile their administrative autonomy and a rational use of appropriations.

Parliament, through its subcommittee, has already taken an initiative here on the rationalization of staff. This effort should not only be continued but also extended to other fields such as the management of buildings and equipment.

41. Parliament should, however, give attention to one point which goes beyond the internal administration of the Commission and concerns the efficiency of the use of appropriations and Parliament's exercise of its budgetary powers: this is the Commission's tendency to increase the number

of satellite bodies. Recent experience has shown that the complex functioning of these bodies made it difficult - if not impossible - for Parliament to exercise its budgetary powers. Moreover these bodies often attract the attention of the control institutions; they include the AEC, the European Centre for the Development of Vocational Training, and the European Foundation for the Improvement of Living and Working Conditions.

42. Administrative autonomy should remain an exception and be conferred on Community institutions or bodies only to give them the necessary independence for carrying out their functions.

On the other hand it is wrong to create such bodies to carry out tasks that were previously entrusted to and performed satisfactorily by the Commission itself.

The system of subsidies for the running of such bodies should also be forbidden: it merely makes the independence of the recipient body fictitious. Independence, when acknowledged to be necessary, is possible only if the body in question has sufficient own resources to carry out its tasks.

## B. Management of the Funds

43. The 'Fund' concept lacks precision and covers widely varying situations. This concept suggests a priori a fixed amount, a body of appropriations defined in a regulation, and whose administration is entrusted to the Commission for the achievement of objectives laid down in relevant regulations. This concept is thus difficult to reconcile with a genuine budgetary policy to the extent that the budgetary decision is purely formal and merely presents an accounting record of the financial consequences of decisions taken by the competent authority. Control of these Funds shows moreover that the utilization of the appropriations is not solely guided by the desire to achieve the aims laid down in the regulations and that the ceiling fixed for the appropriations is, on the contrary, simply one reflection among others of the Member States' intention of limiting the attainment of these aims.

In this respect the Parliament's position is clear and consistent: the regulations must not prejudice the budgetary decision and in particular must not impose a ceiling on expenditure.

44. The EDF represents a variant on this concept which is particularly incompatible with the Parliament's own view of the budget: the endowment of the EDF is fixed in overall terms by the Association Convention and the appropriations do not appear in the budget so that they are not subject to a decision by the budgetary authority.

The Parliament has already fixed its objectives as regards the EDF: it will attempt to obtain the budgetization of this Fund when the present Convention is renewed. To be in a position to assume its new responsibilities it must already create the conditions for effective control of the use of these appropriations, enabling it in particular to evaluate the impact of Community financing facilities on the development of the beneficiary States.

45. However, most of the Community Funds - the European Social Fund, the European Regional Development Fund and above all the EAGGF (Guarantee Section) - do not correspond to this concept. Generally speaking, the regulations lay down machinery designed to enable targets to be attained: the budgetary decision relates to the amount of the appropriations to be earmarked for this purpose. In theory therefore the distribution of powers between the bodies responsible for the statutory, budgetary and executive functions is fairly balanced. In practice there are many causes of imbalance in favour of the Council or the Member States which largely undermine the substance of Parliament's responsibility to fix the appropriations and the Commission's responsibility in respect of their use, and make the achievement of a genuine Community policy impossible.

46. Control shows that the effects of the different financial instruments are sometimes contradictory and in general badly coordinated. This failing is largely attributable to the budgetary and administrative partitioning of the different Funds. At the budgetary level, this partitioning must be eliminated if an overall Community policy is to be achieved.

47. In addition, the machinery laid down in the regulations for organizing the implementation of the appropriations earmarked for the various Funds often has an automatic character which considerably lessens the scope of the budgetary decision. The Commission's own responsibility in respect of implementation of the budget, which presupposes a certain discretionary power, is in fact much narrower; the Commission sees to the working of automatic machinery or endorses choices or decisions made by the national administrations. The only means open to the Parliament to impose a form of management which reflects a coherent policy is then to control this management as closely as possible as a function of the aims pursued.

48. Finally, the Council's very short-term - if not shortsighted - policy frequently involves administrative rather than strictly policy decisions. The Council itself or bodies more or less directly dependent on it e.g. the Fund Committees and Management Committees interfere more and more frequently in the implementation of the budget without assuming responsibility for it. The 'management committee' procedure which is in theory valuable, particularly from the angle of liaison between the Community and national administrations, often amounts in practice to a more subtle variant of Council intervention in budgetary management.

This state of affairs is of course a direct consequence of the Community's present inability to take genuine political decisions, i.e. decisions which anticipate and guide developments.

However, there is no reason for Parliament's budgetary powers to be curtailed as a result of this situation.

## Part 2 - REVENUE

1. In view of the many imponderables which hang over the pattern of receipts of the general budget of the European Communities, the out-turn for the financial year 1975 was remarkably close to the estimated figures.

The following table summarises the position:

in m.u.a.

NATURE	Estimates of revenue necessary to cover the appropriations authorized for the financial year 1975  (1)	Revenue necessary to cover expenditure chargeable to the financial year 1975 under Article 17 of Regulation 2/71 (see point 1.1.1., para 2, on page 5).  (2)	(2) as % of (1)  (3)
1. Own resources from Member States :	3 930.8	3 741.1	95.2
- customs duties	3 400.3	3 151.-	92.7
- Agricultural levies	423.8	510.4	120.4
- sugar levies	106.7	79.7	74.7
2. Contributions	2 267.2	2 152.-	94.9
SUB TOTAL	6 198.0	5 893.1	95.1
3. Other contributions	13.1	12.6	96.2
4. Miscellaneous revenue	57.2	307.9	538.3
TOTAL	6 268.3	6 213.6	99.1

2. The major variation arose under the heading of miscellaneous revenue. This was attributable almost entirely to accounting entries in respect of differences of exchange arising from transfers of funds from one Member State to another. These differences arise because the movements of funds are effected on the basis of market rates of exchange while the accounting entries are based on the IMF parities. It is to be expected that the adoption of the European Unit of Account and action on the monetary front should, in time, lead to the diminution, if not the elimination, of such variations.

### Share of ECSC levy

3. The share of the ECSC levy used as revenue for the general budget stands at 18 m.u.a. This amount was fixed in pursuance of Article 20 of the Treaty of 8 April 1965 which established a single Council and a single Commission of the European Communities. As some twelve years have elapsed since this level was fixed, the question could be put as to whether a revision is not now due. Of course, it is recognized that procedural difficulties would be involved because a revision of the Treaty would be entailed. But a revision could be related to determining the real cost to the Commission of work in relation to the ECSC or to determining the present-day value of 18 m.u.a. in 1965 money.<sup>1</sup>

### Miscellaneous revenue

4. As regards miscellaneous revenue generally, it is recalled that, in the past, difficulties arose in regard to the matter of collection of fines imposed under the cartal provisions. The Control Sub-Committee would like to be assured that such difficulties have been fully eliminated and that the proceeds of such fines will figure as budget receipts. It has not been the practice in the past to show an estimate for such fines separately on the grounds that one could not reasonably predict a level of infractions of Community provisions. However, to ensure that adequate information is furnished in the budget, perhaps, in future, an item could be entered on the receipts side showing "P.M.".

### Specific comments

5. At paragraph 7 (c) of the 1975 report, the Audit Board indicated that the offsetting of compensatory amounts and refunds, prescribed by Article 4 (a) of Council Regulation 974/71, was not carried out by one Member State in respect of products falling outside the scope of annex II of the EEC Treaty. On 31 May 1976, the Commission decided to effect the offsetting on an overall basis. The Control Sub-Committee was glad to learn that the situation now appears to have been regularized.

### Audit of own resources

6. With the advent of the full own resources régime in 1978, the auditing of own resources in the Member States will take on a new and enhanced significance. The present position in regard to auditing, as outlined at

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1. Your draftsman appreciates that this matter is looked at also when the ECSC levy is considered by Parliament; however, he believes that it is appropriate to bear this aspect in mind at the time that the Control Sub-Committee examines all the constituents of the receipts side in the context of the discharge report.



paragraph 8 of the Audit Board's report, is far from satisfactory. Here one finds references to "limited sampling", "The Commission's administrative units have sometimes had the opportunity during verifications in the Member States to be present at an inspection of goods performed by the national customs authorities to examine the conformity of the declaration to the actual details of the goods presented." It would be a mistake to suppose that the sampling - which must be on a very limited basis - provides the Communities with a satisfactory means of ascertaining that own resources are being calculated correctly, and the reports forwarded in pursuance of Article 5 of Regulation number 2/71 "too often contain only information supplied in overall and generalised terms, so that it has no real influence on the improvement of audit, despite the Commission's requests for more detailed reports."<sup>1</sup>

7. When allowance is made for the measured tone used by the Audit Board, the comments on the auditing of own resources provide grounds for concern about the checking of the Communities' own resources. Because of Parliament's rôle in this domain, it could be considered that the Control Sub-Committee should follow up this aspect in the next few months so as to ensure that the necessary means are available to ensure that, from 1 January 1978, the flow of information on Community receipts and the checking and auditing of own resources is fully satisfactory.

#### Levies

8. The situation in regard to the control and auditing of receipts from levies would also appear to leave something to be desired. The Audit Board states that "as regards levies, there is often considerable delay in establishing the Community entitlements and this, in turn, leads to delay in making funds available because of the excessive time which elapses as documents are processed through the national administrative units involved."<sup>2</sup> It would appear that Regulation number 2/71 allows Member States perhaps too great an amount of latitude in the procedure for establishing entitlements. Again, this is a matter which should be closely gone into by the Control Sub-Committee.

9. The Audit Board also adverts to the fact that, contrary to Community provisions, the revenue from levies disputed in whole or in part are sometimes not entered in accounts until the dispute has been settled.

10. The Commission, in its reply, indicates that the Member States have

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<sup>1</sup> Report of the Audit Board on the financial year, 1975, p. 17, para. 8(a).

<sup>2</sup> Idem, para. 8(b).

put an end to the shortcomings brought to light by its earlier report. However, it would be well to have this confirmed by further on-the-spot checks.

Difficulties in verifying the authenticity of documents

11. At paragraph 8 (c), the Audit Board mentions that "an inspection .... revealed difficulties in verifying the authenticity of some Form A certificates of origin submitted for the importation of products originating from developing countries which enjoy preferential rates of duty."<sup>1</sup> The reasons for this particular problem are, to some extent, understandable. Nevertheless, since it touches on the calculation of customs duties, which account for about half of the receipts of the general budget of the Communities, the issue is a serious one, especially as, where faulty certificates of origin are concerned, the scope for evasion of customs duty could be very considerable. Such erosion of customs duty, would, in future years, have an impact on the rate of VAT which would have to be struck.

12. Similar considerations arise in regard to the drawback problem referred to at paragraph 8 (d) of the Audit Board's report.

13. At paragraph 8 (e), the Audit Board states that information required under Regulation number 1608/74 has not always been supplied by Member States and that "from its participation in verifications in the Member States the Commission has not yet been able to complete its investigation of the application of this Regulation."

14. In its replies to the points made by the Audit Board, the Commission has indicated that there have been improvements in regard to such matters as the offsetting of compensatory amounts and refunds, the establishment of Community entitlements as regards levies, the question of control in regard to certificates of origin and the customs drawback procedure in respect of the shipbuilding industry.

15. Despite these comments by the Commission, which are more positive than the remarks of the Audit Board, it could be considered that far closer attention will need to be paid in the years ahead to the auditing and control of own resources.

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<sup>1</sup> Audit Board Report on the financial year, 1975, p. 18, para. 8(c). The Control Sub-Committee also noted the comments of the Commission set out at point 8(c) on page 9 of its reply to the Audit Board's observations.

### Conclusions

16. Community autonomy in the matter of own resources is not yet fully established. However, Community control and audit of the collection of its resources would need to be developed considerably. Twenty-five visits by Commission officers (in four of which the Audit Board participated) seem inadequate when regard is had to the multiplicity of collection points, the diversity of tariff and levy headings, and to the total amount involved. This aspect will become even more acute in the course of the years ahead when own resources will be outside the scope of control by national Parliament auditing and when any avoidable losses of customs revenues will have to be compensated for by higher VAT.

17. Other points that warrant being looked at are the net presentation in the budget due to the treatment of monetary compensatory amounts and repayments and the need to consider the auditing of borrowing activities, and the need for ensuring uniform conditions of collection of own resources in all the Member States.

## Part 3 - OPERATING EXPENDITURE

### INTRODUCTION

1. The budget of the European Communities for the financial year 1975 totalled 6,268,293,897 u.a., of which 7.03%, or 450,756,538 u.a., constituted operating expenditure. This operating expenditure is examined thoroughly in Chapter 3 (pp. 19-54) of the report of the Audit Board.

2. It should be pointed out that the share of operating expenditure in the overall budget has increased considerably since 1973, i.e., since the enlargement of the Community. It accounted for 4.33% of the budget in 1972, rose to 6.07% in 1973 and exceeded the 7% mark in 1974 and 1975.

3. Staff expenditure accounted for 70%, i.e., about 300m u.a., of total operating expenditure of 450m u.a. The following investigations are therefore concerned chiefly with staff expenditure (I) and to a lesser extent with expenditure on buildings and equipment (II).

4. Staff expenditure has risen disproportionately for the following reasons:

- The Community does not have a working language; the six official languages have equal status. Consequently, in 1976 the language services were larger than the operational services (38% as against 35%).
- The Commission has set up more and more external offices (Athens, Cardiff, Edinburgh, Ottawa). At the same time information activity in Japan and Latin America has been considerably stepped up. Attention should also be drawn to certain disguised increases in staff in the Commission's decentralized bodies (development service, University Institute of Florence).

5. The reasons for the unsatisfactory policy as regards expenditure on buildings and equipment are as follows :

- The Community does not have a medium-term policy on the buildings of the institutions, with the result that offices have to be rented at high cost on short-term leases. The Community could achieve substantial reductions in costs in this area by acquiring its own buildings.
- The lack of a uniform procurement policy within the institutions of the Community also gives rise to an unfavourable cost structure.

6. These basic points have been made before a detailed analysis is given since they constitute major factors in the increase of the main items of operating expenditure.

## I. Staff expenditure

7. At 30 December 1975 the total staff of the Community comprised:

- 12,488 officials and temporary staff
- 298 auxiliary staff
- 1,910 local staff
- 17 special advisers
- about 600 development service posts, which are administered by the European Association for Cooperation (EAC)
- the employees of the University Institute of Florence.

8. The increase in the staff of the European Communities is justifiable only if the Community's internal and external policy can testify to a dynamic process of expansion. This is not, however, entirely the case at the present time, at least as regards the administrative machinery of the Commission. The latter has acknowledged this inconsistency and is now attempting to accomplish the tasks of the Community - including both its more traditional tasks and those added recently - not only by expanding but by reorganizing its staff (see the working document by Mr Gerlach, Notice to Members, PE 47.380, concerning the activities of the Screening Groups at the Commission). Whether these efforts have been successful is doubtful, since the Commission has attempted on several occasions to take the easy way out by expanding staff without first investigating the possibilities of transfers within the existing structure.

9. The general staff policy of the Communities should therefore be guided by the following considerations:

- What measures can be taken to reduce expenditure on the language service? What proposals and alternatives can be placed before the political decision-making bodies?
- How can progress be achieved with the reorganization of the administrative departments? On what areas should administration concentrate in order to achieve the political objectives? Which of the minor administrative units can be streamlined? To what extent can job evaluation lead to the improved use of present staff?
- In what areas could the introduction of electronic data processing save jobs?

10. These organizational considerations should be integrated as soon as possible into an overall staff policy, which, when the European Court of Auditors has been set up, must become the basis of ongoing dialogue between controller and controlled as part of the efficiency studies of that body.

11. In his investigations relating to the staff of the Community, the draftsman found that conditions of appointment varied considerably, a fact which should not be under-estimated since it makes efficient personnel administration difficult. There are simply too many different categories of staff - officials, temporary staff, auxiliary staff, local staff, special advisers, experts working on a contract basis, employees governed by Belgian law in the development service - for the staff policy to be considered coherent.

12. A further problem was highlighted in the report of the Audit Board and has been echoed in the LAMBERT report. This is the problem of the long-term programming of officials' careers. Since the staff was originally, owing to various factors, particularly young, there is a prospect of career difficulties in the next decade with explosive implications for staff policy which should not be underestimated. True, the career pyramid cannot be turned upside down but on the other hand the number of officials leaving the public service will be so low that bottlenecks will arise in officials' careers and promotion prospects will be poor.

13. There is no sign of any proposals to improve this situation. A comprehensive package of amendments to the Staff Regulations which was drawn up by the Commission in 1973 and on which the European Parliament gave its opinion in 1974, has become bogged down at the Council, apart from one or two points on which agreement had already been reached. Some of these amendments are now out of date and a new package is well overdue.

The Committee on Budgets, in its capacity as the parliamentary committee responsible for amendments to the Staff Regulations, should therefore not miss the opportunity, as part of the discharge procedure for the financial year 1975, of drawing attention to the fact that this restrictive practice in connection with the Staff Regulations of officials is at variance with administrative requirements.

14. Among the objections raised by the Audit Board with regard to the practical implementation of the provisions of the Staff Regulations, reference should first be made to the effects of fluctuations in exchange rates on staff expenditure. Three main operations are involved here :

- the conversion of remuneration expressed in Belgian francs into the currency of the country in which the official performs his duties (Articles 63 and 64 of the Staff Regulations),
- transfers to the country of origin (in accordance with Article 17 of Annex VII) and
- allowances and payments in respect of the reimbursement of expenses.

15. Owing to the currency situation in recent years certain officials have been able to secure substantial, though unjustified improvements in their salaries by transferring amounts in the currency of a country other than that of the country in which they perform their duties.

Article 17 of Annex VII of the Staff Regulations introduces some relaxation of the principle that officials must be paid in the currency of the country in which they perform their duties. According to this provision, an official receiving an expatriation allowance may transfer part of his emoluments through the institution which he serves either in the currency of the Member State of which he is a national or in the currency of the Member State in which either his own domicile or the place of residence of a dependent relative is located. Transfers in excess of the expatriation allowance must be duly justified. Article 17 (4) of Annex VII provides that transfers must be made at the official exchange rate ruling on the date of transfer. In transferring emoluments the institutions have hitherto always applied the rate of exchange corresponding to the latest values accepted by the IMF. Thus the rate of exchange used for German marks (DM 1 = Bfrs 13.66) is about 12.5% lower than the normal rate of exchange (DM 1 = Bfrs 15.5). In addition, according to internal implementing provisions laid down by the institutions, up to 35% of net remuneration may be transferred at the favourable rate. This has made it possible for officials to make large-scale transfers to the country with the strongest currency at a given time.

This has resulted in salary improvements of up to 4%.

According to the implementing provisions adopted by the institutions all officials and other servants may make regular transfers at the favourable rate, in violation of Article 17 of Annex VII, of amounts of up to 35% of their net remuneration to 'Beamteneheimstättenwerk', a German home-financing organization which grants building loans to officials in the public service. These illegal transfers have led to

- an uncontrolled proliferation of financial benefits for officials contributing to the scheme and
- unwarranted advantages for the abovementioned organization, 'Beamteneheimstättenwerk'.

16. The Commission's answer on this point (point 8, page 12) is not acceptable. It gives the impression that these abuses can be eliminated only by means of an amendment to the Staff Regulations, which has, however, been blocked by the Council. This is incorrect. Article 17 of Annex VII to the Staff Regulations is perfectly adequate. The abuses will be eliminated simply by amending the implementing provisions adopted by the institutions so that transfers must be carried out at the rate of exchange applicable on the date of the transfer. In this way any possibility of currency speculation by officials would be removed.

17. The Audit Board makes another series of criticisms with regard to the variations from one institution to another in application of the Staff Regulations. These include :

- variations in education allowances,
- variations in pensions,
- variations in classification of staff at the time of recruitment and promotion,
- allowances not covered by the Staff Regulations (compensation for theft of jewellery during a mission),
- award to staff of the European Parliament of a supplement to the daily subsistence allowance,
- financial benefits for local staff employed in Luxembourg.

18. The draftsman does not consider it worthwhile to discuss each of these points individually. Steps must, however, be taken to deal with the general problem raised by the danger that the common Staff Regulations of European officials may be fragmented into various systems in the individual institutions. The subcommittee should make it quite clear that there is no legal justification for a separate set of Staff Regulations for the European Parliament for instance. Efforts to this end also involve dangers for staff policy in that, if successful, they would prevent mobility of officials between the institutions and constitute a threat to the legal security and independence of staff.

19. The Audit Board also makes a number of critical remarks concerning pensions. These relate to

- allowances for voluntary termination of service,
- the purchase of pension rights pursuant to Article 11 of Annex VIII to the Staff Regulations,
- calculation of pensions in the light of rates of exchange and various problems connected with survivors' and orphans' pensions.

## II. Criticisms of the Audit Board with regard to the institutions' expenditure on buildings and equipment

20. Expenditure by all the institutions on buildings under Chapters 20 and 21 of the budget was 24% higher in 1975 than the previous financial year. The proportion of this rise varied greatly from one institution to another. It was 1.3% for Parliament, 12.6% for the Court of Justice, but 26% for the Commission and 43.2% for the Council.



21. In the report on the discharge it should be clearly underlined that the bodies responsible for control are aware of the dangerous rise in expenditure on buildings and urge the Member States of the Community to settle the matter of the seats of the various institutions and thus make their own contribution to the sound financial management of the Community. This applies in particular to the seat of the future, directly-elected European Parliament. It would be undesirable in this connection if unnecessary and costly campaigns were to be launched by three rival cities or Member States.

22. A further criticisms by the Audit Board concerns the hire and use of data processing equipment. In this connection the draftsman draws attention to the investigations carried out by Mr PETRE and Mr GERLACH, Members of the European Parliament. The Commission should be asked whether it has extended documentation systems sufficiently for manual systems to be suppressed and whether the documentation system can be connected up to the Computer Centre. Information should also be provided concerning the criteria governing the purchase of computers at the Computer Centre.

The discharge of the European Parliament for the 1975 budget  
in respect of operating expenditure

23. The criticisms levelled by the Audit Board at staff expenditure are mostly valid for the European Parliament as well as the other institutions. They do not need to be repeated here. Reference is therefore made to the above remarks.

24. Point 20 of the report of the Audit Board relates to life assurance taken out for Members of the European Parliament. The Audit Board takes the view that this type of life assurance can no longer be regarded as a form or refund of expenses and therefore departs from the previous salary arrangements for Members of Parliament. The Audit Board should state to what extent this can be regarded as an abuse. It should also explain its criticism of the non-intervention of the Council and the terms of the re-insurance agreed between Parliament and a private company.

25. The remarks made above on expenditure on buildings and equipment also apply to the European Parliament's expenditure on these items.

European Centre for the Development of Vocational Training

26. Pursuant to Article 74 of Regulation 1416/76 of 1 June 1976 on the financial provisions applying to the European Centre for the Development of Vocational Training (OJ No. L 164, 24 July 1976, pp. 1 ff) the Council and the European Parliament give a discharge to the Management Board in respect of the implementation of the statement of revenue and

expenditure. This discharge must, however, be preceded by a report on the accounts for the previous financial year to be drawn up by 15 July. The Commission must submit the revenue and expenditure account, the balance sheet and the report of the Audit Board, together with the replies to the comments, to Parliament and the Council by 31 October (Article 73 of the Regulation).

27. In point 30, the Audit Board makes the following comments on the financial management of the Centre:

'Appropriations of 408,000 u.a. were allocated to item 3010 in the budget for 1975 (Commission Section) to cover the Community subsidy for the operation of the Centre. The whole of the appropriation was committed and in the Commission's revenue and expenditure account for 1975 the payments shown were equal to that sum.

In fact, genuine payments totalling only 23,366 u.a. had been made. The balance, 384,634 u.a., had been paid into a bank account and was to be used to meet commitments incurred by the Centre in 1975 and not yet paid.

The revenue and expenditure account for 1975, which should have been forwarded not later than 31 March 1976, was not passed to the Audit Board until 25 June 1976 and then without the supporting documents for the commitments. The Audit Board has therefore not been in a position to complete the audit of this account at the time of completion of this report on 13 July 1976.'

28. On 4 June 1975 a proposal was forwarded to Parliament for the transfer of appropriations totalling 600,000 u.a. from Chapter 98 to Item 3010<sup>1</sup>.

The Commission, the Audit Board and possibly the Management Board of the Centre should be asked to state how these appropriations were actually used.

The fragmentary information so far supplied to Parliament does not yet permit it to give a discharge to the Management Board as provided in the financial provisions.

## Part 4 - RESEARCH AND INVESTMENT

### Introduction

1. This brief working document falls into six sections:

- a summary of the share of the budget devoted to research and investment outlay,
- a summary of the problems that came to light in recent years,
- an outline of the requirements of Parliament from the control aspect,
- specific observations on the 1975 report,
- recent improvements in the position, and
- conclusions with draft comments for the discharge report.

### Budgetary Significance of Research and Investment Outlay

2. As can be seen from the following table, the part of the budget devoted to research and investment outlay is rather small as a share of the total budget:

			<u>Per cent of budget devoted to research and investment</u>	<u>Amounts in u.a.</u>
1972	...	...	1.75	76,383,543
1973	...	...	1.45	74,686,830
1974	...	...	1.61	84,107,919
1975	...	...	1.62	101,229,998

Nevertheless, because of the special nature and variety of problems of a complicated nature that have dogged this area over recent years, control and auditing of outlay in the sphere of research and investment have posed considerable difficulties for the Audit Board and for Parliament.

3. The following quotations from the reports of the Audit Board for recent years illustrate the position in regard to these difficulties:

"The Audit Board must stress that, on the date when this Report was agreed, it had available neither the management account for the financial year nor even supporting documents for the expenditures of the Ispra establishment for the month of December 1972. Moreover, the supporting documents for 1972 were transmitted with considerable delays compared with the usual time-limits."

(Paragraph 47 of the Audit Board's Report on the Financial Year 1972, p. 76.)

"... Apart from some initiatives with a limited scope (in Ispra, the grouping of the services into "scientific divisions" in 1972, progressive automation of the budgetary and accounting procedures

which is now in train), the re-organisation of the Centre, its working methods and its services has shown scarcely any progress during the last few years."

(Paragraph 103 of the Audit Board's Report on the Financial Year 1973, p. 120.)

"The monthly internal invoicing operations as a whole have proved to be unwieldy and very imprecise. The volume of work and the vast quantity of calculations are due in part to the accounting breakdown of the activity of the research workers spread over a large number of research objectives in infinitesimal, even derisory, shares which find no substantiation in the supporting documents.

The numerous individual decisions applicable with a retroactive effect of several months and relating to the transfer or promotion of members of the staff, as well as changes in remuneration, go only some way towards correcting operations effected previously. This situation accentuates the imprecise character of the numerous operations which these secondary chargings necessitate each month."

(Paragraph 104 of the Audit Board's Report on the Financial Year 1974, p. 118.)

#### Desirable Auditing and Presentational Criteria

4. From the budgetary viewpoint, the accounts for - and layout of - any expenditure item should, in the view of your draftsman, be judged in the light of four criteria: possibility for post factum control, possibility for carrying out effectiveness control, transparency of presentation, and possibility for monitoring.

5. As regards post factum control, it should be possible for the Budgetary Authority to readily check on whether actual expenditure has been effected on the lines approved in the budget, it should also be possible to verify the accuracy of estimates, regard should be had to whether the Audit Board has expressed satisfaction or dissatisfaction with accounting methods. The system of control and review of expenditure in use by the spending body should be considered with a view to checking that it yields adequate information to the Budgetary Authority, and to the spending body itself, so that operations may be effectively controlled, their results gauged,

and so that the Budgetary Authority could satisfy itself that its authorisations were adhered to.

6. As regards effectiveness control, the following checks should be capable of being applied: are the procedures followed, the methods applied and the research lines which are being pursued likely to be the most fruitful in results? Is there adequate flexibility? Can less promising lines of activity be quickly abandoned? Can personnel and resources be switched to other projects without excessive wastage of time and funds? Is coordination with the national authorities and with other research centres being steadily improved? How effective are the possibilities for shrinkage?

7. As regards presentation, the control authorities should satisfy themselves as to transparency. Is the presentation of data adequate to enable an informed opinion to be reached on the financial and budgetary aspects? Does it provide a clear breakdown of staffing, overheads and investment?

8. As regards budgetary control, it should be possible for Parliament to revise and amend the figures put forward in the context of the annual budget. Outlay in relation to research and investment is non-compulsory expenditure. Therefore, it is fully within the power of Parliament to amend this part of the budget - even to the extent of drastically reducing it. However, in the past, this criterion was not operable because of the lack of clarity in the presentation.

9. Against the background of long-term dissatisfaction of the Audit Board with many aspects of the accounting procedures that applied in the research and investment area, and having regard to the experience of the Committee on Budgets in recent years, your draftsman approached the study of the 1975 Audit Report with certain reservations.

#### Improvements on the way

10. Despite the rather long litany of criticisms advanced, improvements are on the way. The function-orientated system as currently applied in the statement of expenditure relating to research and investment activities was introduced by the Financial Regulation of 20 September 1971<sup>1</sup>. This system proved to be voluminous, complex and unwieldy in practice. In its proposals for the amendment of the Financial Regulation<sup>2</sup>, the Commission put forward certain proposals for the simplification of the presentation.

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<sup>1</sup> OJ No. L 218 of 28.9.1971

<sup>2</sup> Doc. 166/76

11. On 27 October 1976, Parliament voted two amendments - Nos. 126 and 127 - affecting the research and investment sector of the 1977 draft budget. These amendments, which were designed to add to budget clarity and transparency, provided for a breakdown of Chapter 33 into Articles 330-339, so as to make it easier for Parliament to follow the use of appropriations during the year, as well as to assess transfer operations. These amendments necessitated a proposed amendment to the Financial Regulation which was embodied in Mr SHAW's report<sup>1</sup>.

12. Furthermore, in the recent past, the management and accounting procedures in the research and investment area have been quite substantially overhauled. It would appear that, from the revisions made, there are reasonable grounds for supposing that, in the future, there will be a substantial improvement in the presentation of this area of the budget and Parliament will thus be able to control more closely the expenditure involved.

Moreover, the Audit Board was able to note certain improvements in the situation in 1975. "The timing of closure of accounts and forwarding the documents for the financial year 1975 was more satisfactory." (Paragraph 96).

#### Specific Observations on the 1975 Report

13. The following are the key points made by the Audit Board in its section on research and investment appropriations:

- (1) - the complexity of the budgetary nomenclature aggravates the difficulty of making the initial budget estimates and causes constant revisions in the course of management of the budget (Paragraph 95, 2nd sub-paragraph);

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<sup>1</sup>

Doc. 469/76

- (ii) - the management of the budget under Chapter 33 was, above all, marked by the number and frequency of transfers and re-entries of expenditure, especially at the end of the financial year (Paragraph 95, 3rd sub-paragraph);
- (iii) - supporting evidence for those operations was not always adequate (Paragraph 95, 3rd sub-paragraph);
- (iv) - there were large differences between the budget estimate and the actual expenditure (Paragraph 95, final sub-paragraph);
- (v) - there was a heterogeneity of criteria adopted for distributing the expenditure under the appropriation accounts by objective of expenditure (Paragraph 96, 2nd sub-paragraph);
- (vi) - the Audit Board considered that these various anomalies greatly diminished the meaningfulness of the function-orientated accounting system (Paragraph 96, 3rd sub-paragraph);
- (vii) - there was under-utilization of the electronics laboratories by comparison with forecasts made by the various units having access to them (Paragraph 96 (c));
- (viii) - the Audit Board considered that capital expenditure for the purchase of a new LINAC accelerator (671,588 u.a.) and a second VAN DE GRAAFF accelerator (519,351 u.a.), should be covered by more precise and more explicit provision in the budget (Paragraph 96 (e) );
- (ix) - there was less recourse to the tendering procedure than the Audit Board would have considered desirable - although the Audit Board noted certain improvements in this area (Paragraph 97);
- (x) - certain abuses came to light in regard to the reimbursement of travelling expenses (Paragraph 98b);
- (xi) - there was a rather wider distribution of bonuses than the Audit Board considered appropriate (Paragraph 98 (c) ).
- (xii) - the Audit Board also considered that rules on financing research performed under contract should be simplified and standardized (Paragraph 100).

Comments on the points raised above

14. (i), (ii), and (iii) - It is to be expected that, when regard is had to the special nature of research activities, a degree of complexity in book-keeping is inevitable. Nevertheless, certain shortcomings in the organization gave rise to the comments of the Audit Board. The basic organization would appear not to have been sufficiently decentralized in so far as the preparation of estimates was concerned. This seems to have been remedied. It would appear to be essential to separate investment outlay from running costs so as to permit of clearer control by the Audit Board and the budgetary authority. As well, attention should be paid to the balance between staff costs and other costs, so as to confirm that the views of Parliament in this matter are being respected.

Transfers are inevitable; it would appear to be necessary for the ordonnateur to draw the necessary conclusions and to comment on them further.

(iv) - With the improvements in organization, closer estimation should be possible and, in future, the difference between the budget estimate and the actual expenditure should be less marked. It is a case of drawing on past experience so as to identify the reasons for shortcomings and to eliminate them.

(v) - The wide spread of activities and the different nature of costs would justify a broad range of criteria. It is, nevertheless, an aspect which the Audit Board could look at again in the months ahead.

(vi) - It could be argued that these features reflected the special nature of the function-orientated accounting system rather than diminished its meaningfulness.

(vii) - In view of the improvement in the method of preparation of the budget, such wide disparities should tend to diminish.

(viii) - From the explanations furnished by the Commission, it would appear that, taking account of the special nature of the equipment involved, partial replacement rather than outright purchase or new expenditure took place; however, the Control Sub-Committee are anxious to ensure that, for the future, the Commission should fully respect the spirit of budgetary authorizations.

(ix) - The Control Sub-Committee would wish to see recourse to the system of calls for tender ("appel d'offre") on as wide a scale as would be reasonably possible.



(x) and (xi) - These forms of outlay should continue to be the subject of judicious control.

(xii) - The problem here appears to be, to some extent, one of interpretation.

#### Summary and conclusions

15. Following are three key conclusions:

- An appreciable improvement in estimation is likely to be achieved because of the reorganization of the service;
- The transparency required by the budgetary authority and the flexibility required by the management of a research organization are not contradictory: in fact, they can go hand in hand;
- It is accepted that the function-orientated presentation must be retained because of the special nature of the research and investment part of the budget: a department may best be controlled in terms of a classical budget but research activity requires to be determined on the basis of finalities.

16. The effective implementation of the highest standards of financial management and control, in addition to confirming the regularity and the legality of expenditures, should be the prime concern of the Control Sub-Committee in examining this section of the Audit Board's report.<sup>1</sup> It is clear from the Audit Board's comments, that it is difficult, in respect of the 1975 financial year, to say that these criteria were fully respected in the research and investment area.

It should be possible to carry out an effectiveness control which would check on the adjustment of the proportion spent on salaries to that on scientific and technical running costs so as to ensure that the wishes expressed by Parliament in the past would be respected as far as possible. It would be appreciated if future Audit Board reports would touch on this aspect.

17. It is noted that there has been a recent overhaul of the JRC management techniques and internal control systems; it would appear that the present approach offers the prospect of a more transparent accounting system which would suit Parliament's requirements while ensuring that the accounts would provide adequate data to meet the working needs of the management.

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<sup>1</sup> For the convenience of Members, a summary breakdown of expenditures in research is attached.

The recent review of the Financial Regulation has provided for the simplification of the presentation of the function-orientated budget for research; this is to be welcomed.

The Amendments Nos. 126 and 127, adopted by Parliament at its Sitting of Wednesday, 27 October 1976, will make possible improved Parliamentary control of research and investment appropriations.

18. The review of the situation, which the Commission is to undertake before the end of the current year, will enable the situation to be analyzed again and should make possible further improvements in transparency.

19. Arising out of the comments made by the Audit Board in its report on 1975, it is necessary to stress that recourse ought to be had to the tendering system ("appel d'offre") on as wide as possible a scale, when purchasing or procuring equipment and supplies. After all, unless requests for tender are sent out, it will be difficult to ascertain with certainty whether there is, in fact, more than one potential supplier.

20. The Sub-Committee also stresses the importance of ensuring that capital expenditure undertaken should be clearly covered by the budgetary authorizations and that doubtful developments in interpretation of authorizations ought not to arise.

The creeping extension of bonuses to cover a growing number of staff is a matter which should be looked at further by the Audit Board in the context of the next report. There should be a possibility for rapid "shrinkage"; that is, it should be possible to abandon unpromising lines of research promptly and switch staff and resources to other lines.

Breakdown of expenditure in research and development

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The table has two parts. Part A covers the programmes adopted under the EEC and EAEC Treaties (general budget, research and investment budget). Part B concerns the projects financed in accordance with Article 55 of the ECSC Treaty; it also covers the research share of the aid granted to technological development in the field of hydrocarbons in the form of loans or of repayable subsidies (Regulation (EEC) No. 3056/73).

(in 1,000 u.a.)

Programmes and forms of action	Community share <sup>1</sup>	Member States' share <sup>2</sup>
A. Research programmes (EEC and EAEC Treaties)		
1. Direct action	59,783	-
2. Indirect action	38,978	91,340
3. Concerted action	-	-
Totals	98,761	91,340
B. Projects financed by specific allocations		
1. ECSC	18,775	12,650
2. Hydrocarbons	17,000	50,000

<sup>1</sup> In the case of Parts A and B.2, definitive appropriations for payment, less cancellations; in the case of Part B.1, actual payments.

<sup>2</sup> Estimates.

Source:

Written Question No. 616/76, OJ Vol.20, No. C 27 3.2.77.

## Part 5 - SOCIAL FUND . . .

1. The aim of this working document is to establish, before the Committee on Budgets draws up its report on the discharge for 1975, whether the impressions gained from the Audit Board's remarks are borne out after closer examination of the subject by means of a dialogue.

2. From the remarks in paragraphs in 31 to 40 of the Audit Board's report it would appear that the Fund may by its very structure be incapable of managing the appropriations voted to it in the budget and thus of ensuring, by a proper allocation of the available financial resources, the implementation of the Community's social policy.

The inertia of the system seems to extend from the decision to grant aid from the Fund for a specific project to the refund of expenditure, the keeping of records, the checks on the execution of the contracts financed, and furthermore, as has been said before, to the use within the prescribed period of the annual appropriations entered in the budget, and to the definition of the tasks to be performed and the objectives to be achieved in the studies and pilot schemes financed from the Social Fund.

3. As explained in the Audit Board's report, the new Social Fund, unlike the old Fund, is characterized by successive part-payments up to a limit of 85% of the Community aid to be granted. These part-payments are granted as and when the operations proceed. Notwithstanding the introduction of this system, which should have enabled proper use to be made of the available financial resources, the Audit Board points out that the percentage of appropriations paid out in 1975 was 7.22% of the appropriations committed and as little as 1.66% 'if one takes into consideration only the payments made against commitments entered into against the appropriations included in the budget for the financial year 1975'.

In monetary terms, this is equivalent to a payment of 27 m u.a. out of the 373 m u.a. which have been committed, thus confirming that the rate of payment is excessively slow. The Commission considers this judgement too harsh, however, because in 1976 there was a definite improvement in the rate at which appropriations were paid out. While the Audit Board recognizes this improvement (in 1976 payments totalled 240 m u.a.), it points out that most of the payments were made against commitments entered into before 1976 and that of the commitments entered into in 1976 itself, only about 2% were in fact paid out.

As regard part-payments, the Commission says, in answer to the rapporteur's comments, that although it is true that part-payments up to a limit of 85% may be made, they can be made only after the event, since a detailed statement of the related expenditure is required (Article 4, paragraph 1 of Council Regulation No. 858/72) and aid from the Fund is granted on the basis of the 'actual costs'. It is therefore normal, in the case of part-payments in the strict sense of the term, and not advance payments, for the bodies implementing the training schemes to submit their accounts - generally through their national body, and subsequently through the medium of the ministry responsible (Ministry of Employment or Social Affairs) - only after the end of the current financial year. If they did not do so they would be obliged to keep ad hoc accounts merely in order to obtain payment from the Fund at an earlier date, even though generally speaking the operations financed by the ESF constitute only a small part of their activities.

In fact, with the exception of a few non-profit making organizations, the majority of payment applications are requests for the refund of appropriations granted to the organizations by the government (either as a budgetary appropriation, in the case of public bodies, or by means of an agreement, in the case of organizations in the private sector). This explains why it often takes so long to submit requests for part-payments and even requests for payment; for the body implementing the scheme it is simply a question of recovering advance payments, in other words a financial formality that mainly concerns its national organization or the Ministry of Employment, or indeed the Treasury.

As regards the delays in payment, the Commission pointed out that despite the insertion in each approval document of a special clause making the deadline for submission of requests for payment 30 September of the financial year following the year of approval, it was found that by 30 September 1976 the Commission had received only 60% of the requests for payment in respect of appropriations committed for 1975, the majority of which had not been submitted until September.

4. From the budgetary point of view, the situation is all the more disturbing in that it recurs every year, to the point where, in order to ensure that substantial amounts provided for in the social policy budget are not cancelled, it is often necessary - as was the case in 1975 - to amend the financial regulation in the course of the financial year so that any remaining appropriations that should normally have been used in the financial year can be carried forward.

This possibility, which is provided for under the regulations, apparently eliminates the fundamental problem of the non-utilization of appropriations allocated to the Social Fund, but is in fact only a spurious remedy. In reality, the backlog that builds up merely exacerbates the problems facing the department responsible for the management of Social Fund appropriations.

5. In the fifth subparagraph of paragraph 34 of the report, the Audit Board states that it has serious doubts about the possibility of paying out the scheduled amounts - which would be probably in the region of 500 m u.a. - in 1976, since the payments for 1973, 1974 and 1975 were 30, 194 and 127 m u.a. respectively.

In the light of this situation, we must once again consider, in collaboration with the Commission and the Audit Board - but with more time at our disposal than in previous years - in what ways the system is defective.

6. In past years the Commission has mentioned, partly as an explanation for its discharge, that the Member States are slow in submitting applications for refunds and that these applications are often not sufficiently detailed. The Audit Board feels that the inefficiency of the system will jeopardize the regularity of expenditure and the sound management of Community finances and considers that this inefficiency is due largely to the lengthy decision-making procedures. It notes that meetings of the Social Fund committee are very infrequent (moreover it is only recently that they have been held at times of year other than in the third quarter) and that the time that elapses between the Fund Committee delivering its opinion and the Commission reaching a decision is excessively long.

The reasons advanced by the Commission and the Audit Board's remarks must be given careful consideration, especially in view of the dissatisfaction expressed over the years by the Committee on Budgets and Parliament, and the fact that they have several times warned the Commission, in various resolutions, that its plea of inefficiency at national level in no way absolves it from its share of blame for the unsatisfactory management of the Social Fund appropriations.

7. It is becoming increasingly imperative to analyse the reasons for the Social Fund's inefficiency in greater depth now that the new Fund has been operating for some years; in the light of experience, the Commission should have suggested improvements to the present system without, as it were, resigning itself to defects that can and should be eliminated. It is all the more imperative that these observations should be heeded now that the Social Fund is about to be reorganized.

8. Finally, the comments of the Commission and the Audit Board must be given careful consideration because both the institution to be audited and the body responsible for the audit feel that the Fund's mechanisms and the system for submitting applications for aid need to be radically reorganized at this stage and the Audit Board is now asking that certain items of expenditure should be cleared by means of flat-rate payments, the amount of which could be fixed individually for each country. In advocating this partial solution, it points out that auditing requirements could still be met by an occasional survey of financial operations. This is not the Audit Board's only criticism. It considers that the forms drawn up by the Commission for the submission of applications for reimbursements, with effect from 1975 - which seem to have met with opposition from the bodies concerned - are incomplete, and have thus further complicated the payment procedures.

The Audit Board adds that since the stipulations on the form are much too complicated they should be 'more meticulously worded and ... their correct use should be ensured through consultation with the national authorities' (paragraph 37, fourth subparagraph).

9. The Audit Board notes - and this is another aspect that needs more careful investigation - that there is a shortage of staff in the financial department responsible for audits and inspection visits. It points out that the number of staff has even been reduced. As a result it feels that on-the-spot audits are no more than superficial and cursory checks, particularly since the auditors have very little time at their disposal and are hence unable to make a proper assessment as to whether a project is in order.

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In a detailed answer, the Commission explains the effects of the staff shortage. The points it makes include the following:

It is true that the permanent staff of the Administration and Finance Division of the ESF was smaller in 1975-1976 than it had been on 1 January 1975, following the departure of an A grade official (internal transfer) in January 1975 who was not replaced until 1 July 1976 - and then only by a part-time employee; the subsequent resignation of the head of division on 31 October 1975 (in practice replaced immediately and replaced officially on 1 April 1976); then the departure on 15 April 1976, (leave on personal grounds) of an A grade official, who was replaced temporarily for six weeks and permanently on 1 December 1976. Thus, in the period in question (the 1975 financial year), the permanent staff responsible for audits and on-the-spot checks consisted of a head of division, three A grade officials (one of whom also responsible for the budget and supervision of accounts) and two part-time B grade officials (also responsible for audits and payments for ECSC 'readaptation' - one for the Benelux countries, the other for Germany); three of these officials were also responsible for winding up the former Social Fund. It should be pointed out that a B grade official was responsible on his own for the accounts (commitments and payments) though he was assisted by two temporary assistant accountants from November 1975 to January 1976, then again from July 1976 to the present time.

With reference to the cursory nature of the on-the-spot audits, due to the shortage of staff, the Commission explains:

It is clear that the call for more frequent and intensive on-the-spot audits, (as a percentage of the amounts in question), or at least for the maintenance of the status quo, implicit in the Audit Board's comments, cannot be met with the number of staff available at present, for the reason that the Audit Board itself indicates, bearing in mind the problem that it then mentions:

'In view of the higher total of appropriations and the reduction of the staff of the control team, it is no use imagining that the true expenditure can be verified ..... It would be wrong in any case to try to speed up the payment procedure by relying entirely on overall returns purporting to show the true expenditure, even if these were prepared by national government offices.'

The latter requirement appears to presuppose an extension and development of on-the-spot audits beyond what is laid down in Article 5 of Council Regulation (EEC) No. 858/72 of 24 April 1972 (OJ No. L 101, 28 April 1972), which merely suggests it as a possibility ('..... such checks as the Commission may think fit to make within the framework of the administration of the Fund, including investigations on the spot' - Article 5(1), last sentence).



The current review of the ESF regulations could usefully clarify this matter; it will be seen that the Commission is proposing a system of sample checks based on the system used in the old Social Fund. Two aspects are crucial: the way in which a sample is compiled and what proportion it represents of the whole which would be affected by any reduction in authorized expenditure in respect of the sample. A special solution will have to be found if the method of fixed sums is adopted, as the Audit Board advocates in its report (page 61, paragraph 37, fifth paragraph).

10. Clearly, in order to assess to what extent control after financing is unsatisfactory, it is necessary to examine, in collaboration with the Audit Board and the Commission, the shortcomings that result from incompetence at national level, as regards both the accounting documents relating to each project and the actual presentation of the data needed for the audit.

These remarks, which are also more generally applicable, should be compared with the Commission's answers and the Audit Board's comments. The Commission agrees with the criticisms of inefficiency in the Audit Board's report but obviously does not accept the Audit Board's criticisms of the Commission itself.

11. The Committee on Budgets also asked the Commission whether it saw fit to abolish the principle of payment on the basis of the actual cost of projects and whether it was now in a position to cope with the consequences of such a decision, i.e. carry out on a regular basis the compulsory on-the-spot auditing of payments which makes the process so interminably slow.

12. A further question raised during the meeting with the Commission was that of the effect that the settlement of earlier operations actually has on the appropriations for each financial year, which in principle should be earmarked for new projects. It was agreed that the delays that have characterized the financing of operations under the Social Fund may have jeopardized, to some extent at least, the promotion and encouragement of new projects.

Referring to the effect of the delays in payment on the appropriations for each financial year, the Commission states:

'This effect has not been very marked, partly because of the Financial Regulation of 25 November 1975 which extended for a further year (until 31 December 1976) the validity of the 1974 appropriations automatically carried forward to 1975 and partly because of the efforts of the departments responsible for clearing the 21.06 m u.a. (included in the non-automatic carry-over of 51.4 m u.a. under Chapter 50 of the budget) which were not covered by this extension and, since the carry-forward was not approved by

the Council until 22 September 1975, had to be both committed and paid within three months. In future such delays will not affect the appropriations at all, because of the new system of separate appropriations introduced on 1 January 1977, which makes a distinction between commitment and payment appropriations, and therefore eliminates the problem.

13. Even the terms on which preparatory studies and pilot schemes may be assisted seem unsatisfactory.

The purpose of these studies and pilot schemes is to investigate the sectors whose needs could be met by financial aid from the Social Fund and the terms on which aid from the Fund could be granted. The Audit Board considers - and this is a very serious criticism - that the contracts for these studies and pilot schemes are often not sufficiently precise as regards the tasks to be performed and the objectives to be achieved, and the appointment and qualifications of the experts. In the light of this statement, the draftsman wonders whether this shortcoming may have been partly responsible for the lack of success of the Community's social policy.

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The Commission considers the Audit Board's comment on the lack of precision in the contracts for studies and pilot schemes to be an exaggeration. It points out that the contracts are drawn up on the prescribed form to which is attached an annex containing as detailed a description of the work as possible.

At all events, the execution of contracts is kept under close observation, as stipulated, by the administrative units of the Fund who ensure that the various operations are duly carried out; and the fact that payment is by instalment enables the departments to see that the contract is properly executed.

Furthermore, all research and experimentation is followed by the submission of a report assessing the project, and these reports form the only basis available for an appraisal of the earnest nature of such activities.

Of course, not all the studies and pilot schemes carried out have led to a successful conclusion. This is inevitable with all experimental projects, since their very nature makes it impossible to guarantee satisfactory results in advance.

14. The Audit Board states that it has been present at three on-the-spot audits. In the section of the report covering its attendance at these audits, the Board makes the following observations:

- where average expenditure was taken as the basis for the calculation of the accounts submitted to the Social Fund for reimbursement, the claims were not backed up by sufficient supporting documents;
- the criteria for calculating depreciation on buildings and equipment financed by the Social Fund were not adequately spelt out;
- the recipients of aid in the case of certain projects were difficult to identify;
- excessive discrepancies were frequently to be found between the dates scheduled for the execution of projects and the actual dates of execution;
- these discrepancies obviously have undesirable effects, both financially and from the point of view of the efficient auditing and sound management of the funds allocated.

15. To sum up, in the light of the observations made by the Audit Board, the questions put to the Commission bear on the following deficiencies:

- as regards the decision-making procedures for the financing of projects under the Social Fund, the delays in determining reimbursements of expenditure incurred, i.e., in using the annual appropriations entered in the Budget;
- the inadequacy of the remedy of granting higher part-payments (up to 85%) than under the former Social Fund;
- the systematic cancellation of substantial sums in the annual budget as a result of the slowness of the payments procedure;
- the dilatoriness of Member States in submitting applications for payments;
- the infrequency of the meetings of the Social Fund Committee which must give its opinion on the financing of projects;
- the fact that the forms used for the submission of applications for payment and the instructions they contain as to the implementation of projects assisted are much too complicated;
- the chronic shortage of staff in the departments responsible for finance and verification in respect of social projects;

- the excessive complexity of the implementation and audit machinery arising from the application of the principle of payment on the basis of the actual costs of projects;
- the adverse effect of the settlement of earlier operations on the promotion and the encouragement of new projects;
- the impreciseness of contracts for preparatory studies and pilot schemes;
- the negative consequences of this shortcoming;
- the provision of insufficiently detailed information, as noted at on-the-spot audits;
- finally and most seriously, the damaging effects that the delays in financing and implementing projects have on the regularity and sound management of Community finances and on the requirements of a rigorous auditing procedure.

16. The Commission has put forward the following suggestions for improving the Social Funds which could be taken into account when the Fund's machinery and regulations are reviewed.

These suggestions do not appear in the comments on the management of the Social Fund appropriations in 1975. However, they are an extremely useful indication of the lessons the Commission has learned from its experience to date in managing the Social Fund.

Although it may still be too early - since the Commission has not yet expressed an opinion on the review - to say whether the Commission will recommend a drastic reorganization of the Fund's machinery and aid application system, on the basis of the document (V/197/77 of 24 February 1977) submitted to the Fund Committee at its meeting of 10 March 1977, it is at least possible to give a brief outline of the proposed improvements:

- (a) Bringing forward the date of approval of applications for aid:  
 a full timetable is proposed: estimates of expenditure for the next financial year must be forwarded by the Member States before 1 August; actual applications must be submitted before 1 October; finally the Commission must approve the majority of the applications (up to 85% of budgetary resources) as soon as the budget is finally adopted (December-January).

Clearly, such a system will be impossible to implement unless the submission of applications is properly organized: individual projects will have to be divided up into various categories. However, the

division of applications into groups does not mean that Member States will not be able to submit individual applications (up to about 15% of budgetary resources).

(b) Speeding up payments:

attention must be drawn, first of all, to the new forms for payment applications, on which the ESF Committee was consulted on 17 December 1976 (ad 8, paragraph 1, last sentence).

The proposal to replace part-payments by advance payments is particularly noteworthy: 50% could be paid as soon as the project was initiated.

Finally, the Member States would have greater responsibility as regards the validity - and hence the prior control - of payment applications; the Member State concerned would have to vouch for the accuracy of the facts and figures appearing in the payment application and specifically to guarantee that the projects were being implemented in accordance with the terms of the agreement, as regards both content and the expenditure entailed, which is shown in the payment application. A system of sample checks is also proposed in order to ensure that the Commission departments have the opportunity to monitor the use of Community resources.

Progress to date: in monetary terms, 77.8 m u.a. (51.3 for 1974 and 26.5 for 1975) were paid out in 1975, as against 243.8 m u.a. (105.54 for 1974, 130.82 for 1975 and 7.4 for 1976) in 1976. However, this improvement is to a certain extent more apparent than real in view of the increased commitments of ESF and in particular the fact that some 60% was accounted for by part-payments.

The clearing of balances will entail a considerable amount of work because of the need for more detailed auditing at this stage, and possibly even on-the-spot checks. There are about 206 m u.a. to be cleared from 1975, in addition to some 17 m u.a. for 1974, which will be supplemented in 1977 by applications in respect of 1976 for which the theoretical amount (i.e. not subtracting cancellations, which will only be ascertained as the applications are returned) to be cleared totalled 429 m u.a. as at 1 January 1977; in other words the total figure will be 652 m u.a., with the addition of a certain amount for the 1977 financial year, probably in the form of part-payments.

- (c) Reasons for difficulties with procedure: there are two main reasons.
- First, the discrepancies between national and Community regulations<sup>1</sup>, meaning that national and Community practice have to be brought into line, as regards both general policy (for example, determination of priorities for the support or development of activities) and the less obvious but no less essential field of implementation of administrative and financial procedures. Many of the latter difficulties were gradually eliminated in 1976, in particular the keeping of accounts of 'actual costs', for auditing purposes, with the aid of the computerized accounting systems already in existence or now being developed on a wide scale. But these are not problems that can be solved by slogans or magic formulae. Solutions which are both practicable and satisfy auditing requirements have had to be evolved gradually for each individual case.
  - Second, budgetary constraints, in other words the need to adapt the applications received to the funds available, have become tighter as a result of the increasing discrepancy between applications and funds available and the breakdown of appropriations under budgetary headings.

As a result it has been decided to make 'linear reductions' or to single out 'priority' schemes in the requests for aid, and a subsidiary but very real consequence has been that the task of both national and Community auditing departments has been considerably complicated at the payment stage.

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<sup>1</sup> It should be noted that the regulations of the nine Member States are not immutable but, on the contrary, are constantly developing, particularly in the past few years, in order to cope with problems which, although not new, have taken on new dimensions as a result of the crisis (unemployment among young people, for example). Furthermore, it would be unfair to blame difficulties that already existed at national level on the Community regulations: for example the latest report from the General Inspectorate of Social Affairs (France) has no hesitation in describing the regulations on vocational training, which it feels need to be simplified, as so unnecessarily complicated that they are incomprehensible to the public and sometimes even to the experts who have to advise members of the public. Similarly, it could be pointed out that some of the Italian regions do not, at the moment have adequate administrative structures to enable them to implement the vocational training programmes recently assigned to them. The extent to which the Italian projects have fallen behind is undoubtedly partly due to the crisis, but administrative capacity is definitely a contributory factor.

## Part 6 - EUROPEAN REGIONAL DEVELOPMENT FUND

Little can be gleaned from the Audit Board's report for 1975 about the way in which the Fund is managed, for the regulation setting it up was not adopted by the Council until 18 March 1975. Moreover, the initial appropriations were not approved before the end of April 1975 and there was a considerable time-lag between then and the implementation of the projects for which they were allocated. This explains why the first requests for payment did not reach the Commission until the beginning of November 1975.

Despite this rather slow start, 299.8 m u.a. out of the total 300 m u.a. commitment appropriations available, i.e. 99.9%, were committed. Of the 150 m u.a. entered as payment appropriations for the year, 90.66 m u.a., i.e. 60.5% of the total, were paid out. 53.9 m u.a. were paid out before 31 December 1975 and the remaining 36.7 m u.a. during the first two weeks of January 1976. Such unusual promptness on the part of the Member States in using up almost all the commitment appropriations available is evidently explained by the fact that their requests had been carefully prepared many months in advance of the due date of submission.

The unused balance of the commitment appropriations (174,470 u.a.) was added to the appropriations for 1976, while the appropriations committed but not paid (209.1 m u.a.) were maintained.

The Audit Board draws attention to the following points:

- it noted an excellent spirit of cooperation during its contacts with the administrative units of the Fund; the statements of account for the budget, the schedule for visits of inspection and the reports following visits of inspection will be forwarded to it regularly;
- it seems that the 'Community nature' of the management of the Funds, as required by the basic regulations, may be less marked in the management of the Regional Fund than in the case of the other Funds;
- the Audit Board believes that this situation should be remedied to avoid the risk of the Fund being turned into a system of mere budgetary support;
- stricter criteria should be applied to the selection of projects to be assisted;

- there should be closer coordination with other instruments of Community aid and efforts should be made to concentrate the appropriations on new projects;
- the complementary nature of Community aid should be more clearly demonstrated;
- a careful watch should be maintained over the numerous projects assisted; in 1975, 1183 projects were approved;
- 'global' requests, which account for more than 50% of the appropriations committed, are often used to finance operations forming only a small part of a major investment;
- very careful attention should be paid to certain important criteria, e.g. the number of jobs created, and strict compliance with the conditions laid down in the regulations;
- the importance of tendering arrangements.

The rapporteur is fully aware of the need for the problems to be dealt with 'globally', if the Regional Fund is to be coordinated with the other instruments of Community aid, e.g. the Social Fund and the Guidance Section of the EAGGF, and also, of course, with the activities of the ECSC and the EIB. The fact that the new Commission has given one of its members specific responsibility for such coordination is an encouraging sign.

The resources allocated to the Regional Fund are utterly inadequate in relation to the magnitude of the Community's regional problems and their increasing severity. Even so, Community aid can be used to the best possible effect by a judicious combination of the resources of the Social and Regional Funds and the Guidance Section of the EAGGF.

Considerable importance must be attached to the principle of additionality. The resources of the Regional Fund must be used, not as a means of reducing national expenditure on regional development programmes, but to supplement the total investment in any particular project. Hence the importance of granting assistance as far as possible to projects intended for the development of new schemes rather than to those which would simply form part of projects already undertaken.



As far as auditing is concerned, it should be noted that the visits made to Ireland, Italy and the United Kingdom in 1975 for the purpose of on-the-spot auditing were in the nature of a first approach. It is still too early to expect the Audit Board to make an assessment of the auditing procedure. Nevertheless, the Board should satisfy itself that the management of the new Fund will not be open to charges of irregularity such as have been levelled against the EAGGF.

In conclusion, your rapporteur would like to place special emphasis on the following points:

1. The need for a regional and structural policy coordinated at Community level is obvious. As far as auditing is concerned, there can be no doubt that the best possible return can be obtained from Community assistance for regional development by a rational use of the combined resources of the different Funds. This means that the existing Community procedures have to be revised. In this regard, the decision to give a member of the Commission special responsibility for coordinating the various instruments of Community policy is to be welcomed.
2. As pointed out in a report by Mr Yeats (Doc. 440/76/Ann.), it is important that 'the role of the Commission in regard to the implementing of the general budget of the Communities should not be diminished in any way when dealing with the Regional Fund'. This point is reiterated by the Audit Board in the second paragraph of point 44 of its report.
3. Besides detracting from the importance of the Fund by concealing the full extent of Community investment in development projects, the global requests submitted by the Member States may also result in an inadequate control of expenditure and reduce the budget's transparency.
4. There is a danger, too, that the impact of Community aid may be weakened by too wide a dispersal of the available appropriations to assist projects of limited scope.
5. From a strictly fiscal point of view, it is important for Community taxpayers to be kept informed of the way in which their money is being spent and for the recipients of Community aid to be fully aware that this aid is paid from the general budget of the Communities. Hence the need for effective publicity to be given to the assistance granted by the Regional Fund.

6. In its future work in connection with the Regional Fund, the Audit Board could usefully consider whether Community solidarity in the development sector might be enhanced by a greater concentration of expenditure in certain regions and on certain projects.

## Part 7 - EAGGF, GUARANTEE SECTION

### Appropriations for 1975

1. The initial appropriations entered in the 1975 budget for Titles 6 and 7 - European Agricultural Guidance and Guarantee Fund - Guarantee Section - amounted to 3,980,475,000 units of account.

This was increased by 717,658,997 units of account made up as follows:

#### units of account

331,500,000	non-automatic carry over from 1974;
260,000,000	by way of supplementary and amending budget (No.3) of 1975 of which 200,000,000 u.a. represented additional contributions from Member States and 60,000,000 u.a. arose from a transfer of appropriations from Title 9 (Food Aid);
62,500,000	by way of transfer from the Guidance Section to the Guarantee Section; and
63,658,997	by way of a transfer approved by the Council on 3 December 1975.

These various additions brought the total appropriations for the Guarantee Section for the financial year 1975 to 4,698,133,997 u.a. This heterogeneous build-up of appropriations is ingenious but it undoubtedly does take from budgetary clarity and transparency.

#### Use of the non-automatic carry-overs

2. In the course of 1975, Parliament was consulted twice in regard to non-automatic carry-overs. The initial list of requests<sup>1</sup> related to a total amount of 227,953,256.66 units of account - none of which was in the domain of Titles 6 or 7 - and was readily approved by Parliament<sup>2</sup>. Within a matter of days of having considered this initial list, the Committee on Budgets received a second list of requests<sup>3</sup> for carry-forward of appropriations which totalled the appreciably larger sum of 373,391,334.07 units of account. This second request included a sum of

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<sup>1</sup>Doc. 40/75

<sup>2</sup>Doc. 80/75

<sup>3</sup>Doc. 100/75

331,500,000 units of account in respect of EAGGF Guarantee made up as follows:

	<u>m.u.a.</u>
Cereals ... ..	57.5
Milk and milk products	26.0
Oils and fats ... ..	190.0
Beef and veal ... ..	53.0
Wine ... ..	5.0
Total	<u>331.5</u>

It is noted that this amount - the carry-over of which was approved by Parliament with the greatest reluctance - was used, in full, during 1975.

Use of "Social Fund appropriations" for Guarantee purposes

3. The information on the full use of the carry-overs is set out at Annex 5 of the "Analysis of the Financial Management in respect of the revenue and expenditure account of the European Communities for the financial year 1975". The same annex shows the following line: in u.a.

Budgetary classification	Nature of expenditure	Col.1	Col.2	Col.3	Col.4	Col.5
		Appropriations carried over	Commitments entered into	Payments made	Implementation percentage	Appropriations cancelled
Chapter 79	Other expenditure	30,300,000	30,300,000	30,300,000	100.-	*

\* Transfer approved by the Council on 3 December 1975 (implementation of 'open' transfer). Parliament has maintained that the use of the carry-over technique is "prejudicial to budgetary transparency" and tends "to indicate that budgetary estimates were too imprecise<sup>1</sup>". When, on 20 June 1975, Parliament gave its favourable opinion, rather reluctantly, on the carry-overs from 1974 to 1975, it was not made aware that there was a possibility that some of the funds in question might be moved sideways and used for quite a different purpose.

4. Any diversion of funds, in such circumstances, from the social sphere to that of agriculture is a highly objectionable procedure and one which the Control Sub-Committee strongly criticises.

Monetary aspects of the CAP

5. Annex G III to the fifth report on the EAGGF<sup>2</sup>, which deals with the year 1975, shows the following figures for monetary aspects:

<sup>1</sup> Doc. 80/75  
<sup>2</sup> COM(76) 553 final

	<u>m.u.a.</u>
Accession compensatory amounts	414.9
Monetary compensatory amounts	406.3
	<hr/>
Total	821.2

This represented a substantial increase on the 1974 figures<sup>1</sup>.

	<u>m.u.a.</u>
Community compensatory measures in favour of the Netherlands	8.3
Accession compensatory amounts	332.5
Monetary compensatory amounts	137.6
	<hr/>
Total	478.4

6. In the past year, particularly, there was a deterioration in the situation with the prospect emerging of a possible annual total of 1,500 m.u.a. The seriousness of the position was stressed during the course of the debate in Parliament on 13 October 1976<sup>2</sup>. In the course of that debate, it was recognized that the problem had political, economic, monetary and trade aspects; it was appreciated that disastrous developments in relation to certain currencies rendered swift correction almost impossible. Suggested keys to the solution proposed were - a compulsory degression of the level of the percentage gap for green currencies, a positive move towards a uniform economic and monetary policy, and the early establishment of the European unit of account.

7. This problem concerns the Control Sub-Committee very closely because it has a destabilizing effect on the budget and could threaten the existence of the Common Agricultural Policy if the drift should show signs of continuing unchecked. Therefore, the call made in the report<sup>3</sup> on the discharge for the financial years 1972 - 1974 for the introduction of the European unit of account (EUA) should be reiterated. However, it must be recognized, as Mr BANGEMANN stated in his explanatory statement, that,

"While the EUA will eliminate certain accounting problems, it will not diminish the urgent need for a broadly based Community action designed to bring about a more positive degree of equilibrium between the economies of the Member States, the lack of which has been reflected in the exchange rate variations".<sup>4</sup>

Further agri-monetary action will also be necessary, of course.

<sup>1</sup> COM(75) 396 final, Annex G III

<sup>2</sup> OJ No. 207, October 1976, pps. 86-98.

<sup>3</sup> Doc. 460/76.

<sup>4</sup> Para. 114 of Doc. 460/76.

Improved conditions for Parliamentary involvement in budgetary  
decisions in the domain of the CAP

8. The discharge for the accounts for the financial year 1973 was given with some reservation and subject to the following observation:

"... the Commission has undertaken to consult the budgetary authority in future before taking any decision which is of special political importance or which, owing to its volume, exceeds the scope of normal administrative procedures and has budgetary consequences for which no provision has been made at the beginning of the financial year".<sup>1</sup>

This proviso, which, of course, sprang from Parliament's grave concern over the charge on Community funds arising from the export of 200,000 metric tons of butter to the USSR, was followed up by Parliament when it called for amendments to the Financial Regulation. One of these amendments would ensure that, in the event of exceptional demands arising in the future, Parliament will be empowered to react before decisions have been made.

9. One amendment affects Article 107 of the Financial Regulation which deals with provisional global commitments. The draftsman, in his report,<sup>3</sup> thought it appropriate to include a proposed amendment on the following lines - which was endorsed by Parliament on 14 December 1976:

"... when the Commission considers that a measure may be of a nature that would result in the appropriations under a particular chapter being exceeded substantially, the proposal in question should be transmitted to the European Parliament for its opinion. In such cases, Parliament should give its reaction within one month."<sup>2</sup>

10. Further, as regards transfers, the proposed amendments to the Financial Regulation include the provision, at Article 113 which deals with transfers within the EAGGF chapters and between the 'Food Aid' chapter and the EAGGF chapters, that the Commission

"... shall take decisions to transfer not earlier than one month after it has informed the budgetary authority of its proposals in regard to such transfers."<sup>3</sup>

11. It is considered that these proposed amendments are of capital importance for proper Parliamentary control over decisions of a key budgetary and political nature. It would appear essential that they be insisted on by the Control Sub-Committee in the context of the report

<sup>1</sup> Para. 5 of decision on 1973 discharge OJ Vol. 20, No. C 6, p.56, 10.1.1977

<sup>2</sup> OJ Vol 20, No. C 6, p. 47, 10.1.1977

<sup>3</sup> OJ Vol 20, No. C 6, p. 48, 10.1.1977

on the 1975 discharge so as to ensure that pressure is brought to bear on the Council to carry them into the version of the revised Financial Regulation to be adopted - hopefully in the next couple of months.

#### Frauds and irregularities

12. Identifying irregular procedures and infringements of proper accounting methods is a key responsibility of the control authorities. Indeed, efforts in this area have been intensified over the past few years, partly because of the growing Parliamentary concern over the dangers posed by frauds, to the effectiveness of Community action in the sphere of agriculture, partly because of the growing efficiency and experience of Community control, and also partly in response to certain unfavourable press comments.

13. In the report on the discharge for the years 1972 - 1974, an extensive passage<sup>1</sup> was devoted to the problems related to improved control in the domain of the EAGGF. It is not necessary, in this working document, to go over that ground again. However, it is necessary to reiterate points 28 and 29 of the comments endorsed by Parliament on 14 December 1976<sup>2</sup>:

"28. Deploping the fact that the inadequate inter-State co-ordination in regard to the control of Community funds expended in relation to the EAGGF should enable loopholes for irregularities and frauds to persist, calls on the Council and Member States to take the necessary steps to ameliorate the situation;

29. Calls on the Council to adopt the various specific measures proposed by the Commission for the improvement of control in the domain of the EAGGF;"

These points remain valid. In the following paragraphs, the situation regarding irregularities, as unfolded in Mr BANGEMANN's report, is brought up to date by including summary references to certain recent developments.

14. The third report<sup>3</sup> of the Special Committee of Enquiry, deals with the Guarantee Section of the EAGGF (beef and veal) and indicates that the Commission has already taken a number of important initiatives regarding -

- the improvement of control procedures;
- cooperation between Member States themselves and between Member States and the Commission;

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<sup>1</sup> Paragraphs 76 to 87 of Doc. 460/76

<sup>2</sup> OJ Vol. 20, C 6, p. 60.

<sup>3</sup> COM(76) 370 final

- the training of officials responsible for auditing;
- the setting up of a coordinated data processing system for the administration and control of the EAGGF.

15. While these positive aspects are noted, it must be recognised that, in the fifth financial report on the EAGGF (1975)<sup>(1)</sup>, it is indicated at point 7.1.5 that new fraudulent practices affecting nine separate spheres were recorded and that many other possible irregular practices are under investigation. There are possible loopholes in Community legislation (point 7.1.8). In fact, much remains to be done.

16. Attention is also drawn to the communication from the Commission to the Council relating to the measures taken and the results obtained in the campaign against irregularities<sup>2</sup>. This text sets out the nature of the control effected by the Commission staff, the nature of the on-the-spot inspections and the areas covered. The growing extent of the auditing is reflected in the results which have begun to flow in, as the following table shows:

<u>Number of irregularities notified to the Commission by Member States pursuant to Articles 3 and 4 of Regulation 283/72</u>	
1973 .....	53 cases
1974 .....	97 "
1975 .....	150 "
1976 (1st half).....	200 "

Clearly, the pressure for improved control of irregularities is bearing fruit. With the growing number of cases coming to light, a tightening up on the loopholes should be possible. Nevertheless, the rapid expansion of the number of cases brought to notice could suggest that these represent only the tip of an iceberg; the utmost pressure should continue to be exerted on the pursuit of irregularities.

Member State outlays that impair the effectiveness of EAGGF activity

17. Paragraph 290 of the Commission report on the agricultural situation in the Community in 1976 states:

<sup>1</sup> COM (76) 553 final

<sup>2</sup> COM(76) 704 final



"Some serious obstacles remain within the common agricultural market which are capable of restricting not only the free movement of agricultural products (where there are no barriers of any sort) but also the regional specialization of agricultural production".

National aid to agriculture

18. Apart from monetary compensatory amounts, there are technical obstacles to trade in the agricultural sector and, more significant, a massive amount of State aid to agriculture. The latter could well constitute a prime handicap to the development of a true common agricultural market.

19. In the report mentioned at paragraph 17 above, the Commission indicates that it is difficult to quantify precisely the amount of national aid to agriculture because certain "aids" - e.g. revenue foregone<sup>1</sup> - are difficult to measure and, also, expenditure covering expenditure on training, advisory services and agricultural research and consumer subsidies are excluded from certain calculations.

20. Nevertheless, the Commission compiled the following table on the basis of returns by Member States -

National aid for agriculture, fisheries and forestry in 1974 or 1974/75

	m.u.a.
France . . . . .	2,439
Germany . . . . .	2,059
United Kingdom . . . . .	1,119 <sup>x</sup>
Italy . . . . .	362
Netherlands . . . . .	278
Ireland . . . . .	258
Denmark . . . . .	83
Belgium . . . . .	73
Luxembourg . . . . .	17
	<u>6,688</u>

x Year: 1974/75

[Consumer subsidies of 1,241 m.u.a. in the United Kingdom and 50 m.u.a. in Denmark are not included.]

The Commission goes on to say that -

"... most of the aid amounts to 'development aid' and, to a varying degree, 'income subsidy'. In so far as the development effect is not preponderant, it is clear that such aid hinders the functioning of the common policy as regards both markets and<sup>2</sup> prices and also the essential structural adjustments".

<sup>1</sup> Tax concessions to farmers.

<sup>2</sup> Para. 30] of the Commission's 1976 Report on "The Agricultural Situation in the Community".

21. The concern to which the preceding quotation gives rise in the Control Sub-Committee - because of its implications for economy in the use of Community funds and for the general effectiveness of budgetary policy - is highlighted by the figures shown in the following table for 1976:

	billion u.a.
Total public, national and Community expenditure in support of agriculture in 1976	17.0
EAGGF Guarantee Section	5.8

When account is taken of Guidance outlay, only about 37 per cent of expenditure within the Nine in relation to agriculture is financed by the general budget of the European Communities. The scope for the share financed from non-EAGGF sources to distort the pattern of Community agriculture is clearly considerable. There is little data that would enable the Control Sub-Committee to check on whether national expenditures dovetail fully with Community objectives. The following breakdown of the total outlay in 1976 within the Community in relation to agriculture is informative:

	Per cent
Support of markets	30
Structural measures	25
Social measures	24
Other measures	15
Monetary compensatory amounts	6
	100

22. Your draftsman considers that, in view of the considerable sums involved and in view of the major political and budgetary questions arising, special attention should be paid to the impact of national and Community efforts in the sphere of agriculture. The Commission should be called on to look into the expenditures in relation to agriculture, which are charged to the budgets of Member States, to confirm that they do not (i) hamper the development of a fully harmonized common agricultural market or (ii) obstruct the achievement of such Treaty objectives<sup>1</sup> as increasing agricultural productivity, stabilizing markets, securing reasonable prices, and ensuring full competition.

<sup>1</sup> Set out at Article 39 of the Treaty

## Technical obstacles to trade in agricultural products

23. Apart from the problems raised by monetary instability - as reflected in the monetary compensatory amounts - and by the huge sums contributed by national aid to agriculture, technical obstacles to trade in the agricultural sector continue to play a significant rôle in impeding the free flow of agricultural products and weakening the effectiveness of the common agricultural policy. The nature of these problems is very varied. They are related to animal health and plant health considerations, preservatives, colouring agents, labelling and packing criteria, and so on.

24. There can be no doubt that some of these measures can have serious implications for Community policy and can lead to a waste of public money. Work has already been done on the removal of some of the obstacles in question and further action is in train. Nevertheless, because of the need for fuller harmonisation to ensure that maximum advantage is gained from EAGGF expenditure, it would appear that the Control Sub-Committee should follow up this aspect further and endeavour to quantify the impact of such obstacles on the general budget of the Community. By so doing, the Control Sub-Committee would be carrying out its responsibilities in so far as ensuring that there is the most effective utilisation of Community funds.

25. The foregoing comments touch on broad policy issues which have pre-occupied the Control Sub-Committee in its work in connection with the 1975 discharge. In the following paragraphs a number of specific issues raised by the Audit Board in its report - and which have not been fully clarified in the Commission's replies or during the course of the Control Sub-Committee's discussions - are considered.

## Audit Board work in relation to the EAGGF part of the budget

26. The Audit Board devoted some fourteen pages of its report on the 1975 financial year to the Guarantee section of the EAGGF. This is rather on the compact side when regard is had to the fact that expenditure related to agriculture accounts for about three-quarters of the budget. The circumstances which limit the possibilities of the Audit Board of conducting extensive in-depth controls are well known: these include the special role of Member States in the EAGGF and the limited number of staff on the Board's team. The statement by the Board<sup>1</sup>, that "It now proposes, for the purpose of its acceptance of responsibility for auditing the accounts of the Community, a considerable increase in its on-the-spot verifications, in order to fulfil its duties under the Treaty and the Financial Regulation of

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<sup>1</sup> Para. 48 of the 1975 Audit Board Report.

establishing financial management has been sound", is to be welcomed. It is the view of the Control Sub-Committee that a far more vigorous approach by the Audit Board than has been adopted in the past is necessary to carry out the responsibilities under Article 87 of the Financial Regulation. The work of the Audit Board would appear to need to be better balanced, as between the different sections of the budget, so as to ensure that the control effort bears a fairly close relation to the relative significance of the different elements of the budget.

#### Closure of accounts

27. It is noted that the accounts for the period 1967/68 to 1970, 1973 and 1974 had not been closed before the end of 1975. The Commission furnished an explanation in the following terms for this situation:

"The final clearance of accounts is subject to considerable delay as a result of the many kinds of expenditure involved, the changes in Community laws, the multiplicity of national departments involved and the insufficiency of staff, which is particularly marked in the sector of the EAGGF, although this work is essential for the efficient management of Community finances."<sup>1</sup>

28. The Control Sub-Committee deplores these unacceptable delays and does not regard, as being fully valid, the excuses offered. The statement at paragraph 49(b) of the 1975 Audit Board report "the Commission is required to give discharge of the accounts before the end of the next year but it has never yet done so", reflects an intolerable situation. A substantial improvement during the year ahead is called for; the Control Sub-Committee will return to this issue in its examination of the next Audit Board report.

#### Codification of Community legislation in the EAGGF sphere

29. The wide range of provisions in relation to the EAGGF, the frequency with which these are revised and the need to ensure that they are evenly applied throughout the Community, make it essential that carefully coded and indexed sets of Community legislation in the domain of agriculture should be available in loose-leaf binder form. Such binders should be available to members of Parliament, customs officials, traders and all those who are involved in operating the CAP.

#### Cooperation by Member States

30. The failure of Member States to cooperate fully, up to now, with each other, with the Commission and with the Audit Board in regard to the operation of the CAP is regrettable. Several actions in regard to mutual assistance are under way, and the Audit Board is asked to endeavour to report on their working in the report on the financial year 1976.

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<sup>1</sup> Fifth Financial Report on the EAGGF COM(76) 553 final, para. 2.6.1.

### System of tenders

31. At point 51 (iii) (a) of its Report, the Audit Board refers to the method of determining certain fixed amounts for calculating the costs of intervention operations; it comments on the absence of any award of tender. The Commission, in its reply, states that "at all events the system of tenders is a relatively cumbersome procedure which takes time and is not always suited to the speed with which the intervention agencies must find storage facilities for the product they have to buy". While it is appreciated that the tender procedure can be time-consuming, the Control Sub-Committee finds itself in sympathy with the apparent preference of the Audit Board towards the use of the system of tenders wherever possible.

### Transport costs

32. At point 51 (iii) (e) of the Report on 1975, the Audit Board mentioned that one Member State included the additional transport costs in the intervention price for skimmed-milk powder. The Control Sub-Committee notes with satisfaction that this situation has now been regularized.

### Other points

33. The Audit Board drew attention, at point 51 (i) (g) to the unsatisfactory nature of the checking of applications for the aid to skimmed milk intended for feeding livestock. This problem needs to be watched; the Control Sub-Committee asks that the Audit Board comment further in the next report.

As regards storage generally, the Control Sub-Committee invites the Audit Board to carry out an analysis of storage costs with special reference to movements between areas.

### Conclusions

34. It is to be noted that Council refused to include in the 1975 budget an amount of 200 m.u.a.<sup>1</sup> for the foreseeable adjustments of agricultural prices. Yet, during the course of the year, the sum of 3,980 m.u.a. provided in the initial budget had to be increased by over 700 m.u.a. assembled by using a number of different techniques - non-automatic carry-overs, supplementary and amending budget, transfers, etc. The need to have recourse to these measures vindicated Parliament's initial judgment regarding the need for a higher level of appropriations for the EAGGF. On the other hand, the methods used to top up the appropriations during the course of 1975

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<sup>1</sup> Proposed Modification No. 17

took from budget transparency and diminished the role of the budget as a forecasting instrument.

The moving sideways of appropriations amounting to 30.3 m.u.a. carried over from 1974 in the sphere of the Social Fund to help finance agricultural outlay is regarded as being particularly obnoxious.

There is a real danger that monetary developments will cause a dislocation of the CAP if the trend of the past year should continue unchecked.

The amendments proposed to the Financial Regulation in relation to agricultural expenditure would improve considerably Parliament's budgetary role in this area.

The rise in the number of frauds and irregularities constitutes disturbing evidence of the considerable problem existing and which needs to be pursued with diligence by all parties concerned - Parliament, the Commission, the Audit Board and Member States.

The great volume of national funds spent in relation to agriculture could constitute a serious obstacle to the development of the CAP; technical obstacles to trade in agricultural products could also impede the free flow of these products and thus weaken the effectiveness of fiscal action in this sphere.

## PART 8 - EAGGF GUIDANCE SECTION

1. The Audit Board has some particularly harsh things to say about the financial administration of the Guidance Section of the EAGGF and the implementation of projects assisted by it. The Board's observations reflect the demands made by Parliament in recent years for the establishment of a genuine Community agricultural structures policy and measures to reduce the budgetary imbalance between the Guarantee and Guidance Sections of the EAGGF. Furthermore, at the end of 1976 the Commission itself showed signs of pessimism, as is revealed in the statements of some of its members or in reports drawn up at its request.

From an analysis of the overall administration of resources and the execution of the projects financed by the Guidance Section, it should be possible to establish both the extent to which the criticisms of the agricultural structures policy are justified and whether the fault lies in the Commission's administrative procedures or in the way in which the policy has been formulated.

### Utilization of the appropriations

2. The appropriations under the Guidance Section for 1975 were reduced from a total of 325 m u.a. by the transfer of 62.5 m u.a. to the Guarantee Section to finance a part of the premiums paid to producers of bovine animals. This operation was formally condemned by Parliament both at the time of the adoption of supplementary budget no. 3/75, when it was described as 'legal juggling'<sup>1</sup>, and in the resolution relating to the regulation establishing the system of premiums<sup>2</sup>.

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<sup>1</sup> Doc. 364/75 - report by Mr Aigner - opinion of Mr Scott-Hopkins, p. 14. It should be pointed out, however, that Parliament rejected a proposed modification in this connection.

<sup>2</sup> Doc. 340/75 - report by Mr Bourdellès - opinion by Mr Lange.

3. However, although Parliament rejected the legal basis of this operation by delivering a negative opinion on the proposal for a regulation, it did not draw the budgetary consequences from its disapproval, taking into consideration the fact that the Commission had succeeded in keeping the increased expenditure within the 200 m u.a. limit, thus demonstrating to the Council that it was both logical and possible to enter a provisional appropriation in the annual budget for agricultural expenditure.

Your rapporteur takes the view that Parliament must confirm its disapproval and condemn all operations which divert to other ends appropriations earmarked for the improvement of agricultural structures, especially as the annual amount set aside for this type of operation is so ridiculously small.

4. The fact that every year a proportion of the appropriations is unused and entered under the Mansholt Reserve is not the least of the absurdities of the management of this section of the budget. Parliament has made its position quite clear on this matter and it should bear this in mind when considering the accounts: the figure of 325 m u.a. must be regarded as a rough estimate and, as soon as it becomes necessary, the regulation must be suitably amended<sup>1</sup>. Only in this way will the doubts as to the size of the Mansholt Reserve be dispelled and controversies of interpretation as to the nature of the Reserve, such as those referred to in point 56 of the Audit Board's report, be prevented. The Commission could be asked to submit proposals reflecting the wishes of Parliament and provide for these appropriations to be fixed by the budgetary authority in the light of requirements rather than on the basis of regulations adopted in accordance with Article 6 (5) of Regulation 729/70<sup>2</sup>.

5. Regulation 729/70 provides for the progressive replacement of the measures instituted by Regulation 17/64 in the form of individual projects, by measures integrated into a structural policy and taking the form of joint schemes or, if they were introduced before the implementation of Regulation 729/70, special measures.

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<sup>1</sup> Doc. 204/76 - Walston report - Cointat opinion on the agricultural reform directives.

<sup>2</sup> The Commission's answer to the Written Question put by Mr Martens (No. 555/76, OJ No. C 300, 20.12.76, p. 36) is hardly satisfactory: '... in the short term no increase in the maximum will be required, since the appropriations kept back to finance joint projects can be used'.



Despite the excellent intentions of the Community legislator, the results could hardly have been less satisfactory, as the figures for the allocation of appropriations to the various types of intervention clearly show.

In 1975, the distribution between the three types of finances was as follows:

	<u>Final appropriations</u>	<u>Commitments</u>	<u>Payments</u>
Individual projects	81%	85%	75%
Joint schemes	14%	11%	18%
Special measures	5%	4%	6%

In the case of joint schemes and special measures, payments for the financial year amounted to 45.3 m u.a., 1.7 m u.a.<sup>1</sup> of this sum being paid in pursuance of the directives on the reform of agricultural structures. These figures must be set against the 3775 m u.a. of aid granted by the national authorities to agricultural structures over the same period.

6. Clearly, this failure must be blamed on the Council, which has largely taken upon itself the responsibility for the execution of projects, and on the Member States, which habitually play a central role in presenting and selecting requests for assistance.

In the light of the Audit Board's comments and of the Commission's replies, we must now analyse the reasons for the under-utilization of the appropriation set aside for joint schemes and special measures.

#### Joint schemes and special measures

7. Most of the joint schemes and special measures take the form of a reimbursement to the Member States of a proportion of the funds which they have granted to projects fulfilling the criteria laid down in the relevant Community regulations. Obviously, then, while there is a certain time-lag, the release of Community funds is geared to the rate of national financing. However, the Member States are obliged to contribute between 35% and 75% of the cost of these projects and to comply with criteria which, to a certain extent, are imposed on them, which perhaps explains why enthusiasm for the Community's support system has been somewhat muted.

<sup>1</sup> This figure should however be modified slightly. In the light of information submitted by the Member States and the reform proposed by the Commission (Doc. 129/76) and approved by Parliament (Doc. 204/76), the Commission foresees a substantial increase in expenditure in pursuance of the directives on the reform of agricultural structures: 47.1 m u.a. in 1976, 98 m u.a. in 1977 and 200 m u.a. in 1978. Moreover, the overall intensification of joint schemes could even result in the ceiling of 325 m u.a. being exceeded in 1978 and the Mansholt reserve exhausted in 1981.

As mentioned in point 9, the Community's agricultural structures policy is only in its infancy and the present system will have to be considerably reinforced to restore the balance between national and Community contributions to the policy for reforming agricultural structures.

Furthermore, the figures themselves are extremely revealing: as already indicated, in 1975 the Member States devoted as much as 3775 m u.a. to national structural measures.

8. The Audit Board's report shows that the Member States are extremely reluctant to submit to the constraints imposed by the Community's regulations. A substantial proportion of the documents produced in support of requests for refunds are either incomplete or incorrect. After carrying out verifications, the Commission is often compelled to reduce the amount of the assistance requested.

9. If it were established that the practices described by the Audit Board were not in the least exceptional, then its observations would have to be taken very seriously indeed. On the evidence of the documentary checks made and the inspection visits carried out, the Board has been led to question the effect of certain projects on agricultural structures, their value in stimulating and guiding further action and their interest for the Community in general (points 71, 72 and 76 of the report). The Commission has not replied to these observations. It is nevertheless essential to clarify the extent of these irregularities so as to prevent a general feeling of scepticism about the effectiveness of the Community's agricultural structures policy, especially as it is still at the embryonic stage and the appropriations allocated will not begin to be fully used until 1978.

10. It is also essential for projects having no connection with the aims of the Guidance Section to be excluded from the financial assistance earmarked for the Community's structural policy. The Commission's control function in respect of requests for assistance must not be confined to an assessment of the regularity of the projects in question, but also involve an appraisal of their suitability, their likely impact on structures and their value in providing an incentive to further action.

When necessary, the Community regulations must be supplemented in such a way as to prevent Community assistance from being granted to schemes which do not conform to the Fund's objectives. To this end, these objectives must, inter alia, be clearly spelt out in the regulations.

It is to be regretted that, four years after the entry into force of the directives of 17 April 1972 on the reform of agricultural structures, the report<sup>1</sup> intended to give an account of their results has hardly anything

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<sup>1</sup> COM (76) 87 - Parliament resolution of 16 November 1976.

useful to say. In its future reports, the Board could assess the effectiveness of the different financing procedures applied by the Guidance Section, and also review the role of the Commission and the national administrations in these procedures.

The subcommittee is already aware of the problem to which a special report by the Audit Board<sup>1</sup> draws attention, namely that the granting of a flat-rate aid is an unsatisfactory financing method because it involves considerable delays in the utilization of appropriations and because there is too great a risk of these appropriations being used for non-Community ends.

11. As regards the Audit Board's comments on specific projects, the remarks on the granting of premiums for the uprooting of fruit trees and the slaughtering of cows confirm the misgivings expressed by Parliament on several occasions, especially in the report on the 1972-74 discharge. These premium systems have given rise to countless abuses and irregularities (points 75, 76 and 77 of the comments, to which, however, no replies have been forthcoming from the Commission). Moreover, there is no evidence to suggest that the projects in question were effective in improving agricultural structures.

These projects, aimed as they are at alleviating the symptoms of structural problems rather than eradicating their underlying causes, should in future be considered in the context of the regulation of the markets so that they are not used as a means of concealing the lack of a genuine structural policy in these areas.

#### Individual projects

##### (a) Budgetary management and financing characteristics

12. The initial appropriation of 145.1 m u.a. for individual projects was increased to 212.6 m u.a. by the transfer of a portion of the unused appropriations set aside for joint schemes and special measures. It was further increased by a sum of 139.1 m u.a., the amount brought forward from the 1974 financial year.

All the appropriations carried forward were committed and gave rise to payments equal to 1% of this amount.

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<sup>1</sup> Doc. 179/76 (Hansen draft report - PE 46.837/rev.)

107.9 m u.a. of the appropriations for the financial year were committed, but gave rise to no payments.

13. Under the system of financing individual projects, there is a considerable time-lag between commitments and payments, the reason being that the projects are implemented and the main verifications carried out in the intervening period. Apart from major delays in payments, an inordinate number of appropriations are also cancelled under this system because projects cannot be implemented as specified at the application stage if the plans are unsound.

14. The Commission has made laudable efforts to eliminate these technical shortcomings in the financing system.

It is now managing to commit a substantial portion of the appropriations during the financial year in which they are entered in the budget. The second tranche for 1976 was granted on 23 December 1976.

The rate of payment - which is still slow, since only 36.4% of the appropriations committed since the EAGGF first became operational had been paid by 31 December 1975 - is slightly improving. Moreover, the entry into force of Regulation 3171/75 on 8 December 1975 made it possible to reduce to some extent the number of cancellations by authorizing the re-use of the amount of the difference between the aid granted and the payment actually made. However, the effect of this regulation was slight in 1975 because of its late entry into force. It should also be noted that it does very little to improve budgetary transparency.

(b) The desirability of financing certain projects

15. The verifications carried out by the Audit Board, based on spot checks of completed projects or of documents requesting payment and in some cases participation in on-the-spot visits organized by the EAGGF when a request seemed particularly dubious, have shown that the projects financed do not provide sufficient guarantees in regard to their impact on agricultural structures. The Audit Board's criticisms, set out in points 58 to 67, are as follows:

- . the economic justification of certain projects is questionable;
- . the recipients of some grants are engaged on projects that have extremely tenuous links with agriculture;
- . when assistance is granted to persons occupying a dominant position on the market, it is not as a general rule established whether EAGGF aid is essential;

- . inconsistencies sometimes exist between the objectives of certain projects and the objectives of the Guarantee Section;
- . the control exercised by the national administrations is inadequate.

In its replies, only points of detail are contested by the Commission, and it does not make its position clear on the substance of the criticisms made. It should apply stricter criteria to the selection of projects, especially as a large number of projects have to be rejected because of the lack of resources.

16. Two points deserve particular attention:

- In its reply to point 63 of the Audit Board's report, the Commission takes the line that job creation is not an objective of the Guidance Section and cannot therefore be regarded as a justification for granting aid. This observation points to the inter-relationship between the Community's social and agricultural guidance policies and the need for them to be coordinated. One of the objectives of the Guidance Section is, moreover, to achieve an optimum use of the factors of production, particularly manpower. The creation of jobs in regions in which holdings are unprofitable may, of course, have the effect of improving the structure of agriculture.
- It is important that contributions by the EAGGF, the recipient and other financing sources to the financing of each project should remain similar to that initially laid down in the aid decision. However, in order to prevent applicants from exaggerating their estimates, EAGGF aid should be fixed at a flat-rate amount used as a ceiling for the percentages laid down. Community regulations should therefore be explicit on this point.

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17. Assistance for individual projects is evidently much in demand, for every year the aid granted falls short of that actually requested. While a number of projects are rejected because they are inadmissible, many of them cannot be approved simply because of the lack of resources.

The fact that Regulation 729/70 provides for the gradual abolition of individual projects does not necessarily mean that a decision to retain this method of financing, which is undoubtedly successful, is totally out of the question.

The Commission has shown that the technical deficiencies of this system can to some extent be remedied.

The financing of individual projects could be a viable system and therefore retained

- . if the Commission took steps to speed up further the rate of payments;
- . if the verifications preceding and during a project's implementation -- for which the national administrations are responsible -- were correctly carried out;
- . if such projects were integrated into a genuine structural policy and selected on the basis of precise criteria established in the light of the objectives of that policy.

## PART 9 : FOOD AID AND FINANCIAL AID

1. It is difficult to distinguish an overall policy in these diverse forms of aid. Nevertheless, the Community funds involved are far from negligible: the appropriations allocated totalled 452 m u.a. and payments 359 m u.a., not including the advances granted to Member States and charged to extra-budgetary accounts (33 m u.a.).

### I. FOOD AID

2. The remarks on this subject by the rapporteur in the report on the discharges for 1972-1974 still hold good.

The report that Parliament asked the Commission to draw up on the administrative and financial management of food aid<sup>1</sup> should enable the subcommittee to carry out a more detailed and wide-ranging study of the problems mentioned by the Audit Board in its report.

#### A. Management of appropriations

3. The arrangements for the budgeting of food aid are exactly the same as those for the Guarantee Section of the EAGGF, and there is thus no need to repeat the remarks made on this point (monthly advances to the Member States entered as a total figure - final commitments and annual auditing of accounts).

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<sup>1</sup> Parliament's resolution of 14 December 1976 on the comments accompanying the decisions in respect of the implementation of the budgets of the European Communities for the financial years 1972, 1973 and 1974 - OJ No C 6, 10.1.77, paragraph 33 - Rapporteur : Mr Bangemann

4. However, the expenditure under the heading of food aid is unusual in that it falls under two budgetary headings. Pursuant to Regulation No. 2681/74, which entered into force at the beginning of the financial year, expenditure on products comes under Chapter 92 'Food aid' and expenditure on refunds under Title 6 'EAGGF Guarantee Section'.

5. The management of these appropriations, which the Audit Board describes as erratic is the most obvious sign of the absence of a food aid policy: the Commission itself says that the initial funding should be reviewed in order to reduce it to the level of actual utilization.

There could be no better proof that this part of the budget is nothing more than a simple statement of accounts.

6. This erratic management takes the form of a series of transfers of appropriations from the Guarantee Section to the 'food aid' chapter and vice versa.

In its report on supplementary budget no. 3/75<sup>1</sup>, Parliament deplored this 'juggling with the figures', in particular the transfer of 42.4 m u.a. from Chapter 92 to the Guarantee Section, which was made subject to its being transferred back to Chapter 92 in 1976. Similar manoeuvres had taken place in previous years<sup>2</sup>.

As in previous years, these transfers proved pointless. Thus the initial appropriation for the Guarantee Section items earmarked for food aid refunds, totalling 65 m u.a., was doubled by supplementary budget no. 3/75 and increased to 134 m u.a., with the result that the expenditure finally entered in the budget was only 21.7 m u.a.

7. Parliament has often urged that food aid and the Guarantee Section should not be too closely linked in the budget. It considers that food aid policy should be separate from market support policy. It would certainly be regrettable if Community food aid was suspected of being simply a device for disposing of surpluses resulting from the common agricultural policy.

It is therefore essential that the amendment proposed by Parliament to the fourth paragraph of Article 113 of the Financial Regulation should be adopted.<sup>3</sup>

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<sup>1</sup> Doc. 364/75, Rapporteur: Mr Aigner

<sup>2</sup> See Parliament's report on the fourth financial report on the EAGGF - Doc. 70/76 - Rapporteur: Mr Früh, explanatory statement, p.13

<sup>3</sup> This would give the budgetary authority the power of supervision over these transfers.



B. Implementation of projects

8. The Audit Board's comments relate to:

- delays in the launching, implementation and closure of projects;
- differences in the prices of comparable projects;
- discrepancies between the quantities paid for by intervention agencies and the quantities actually delivered;
- use of food aid for purposes other than those for which it was intended.

The Audit Board's report does not, however, indicate whether such shortcomings are general or whether they are only isolated cases.

9. As regards the delays in implementation, attention should be drawn to the efforts by the Commission to simplify the procedures with a view to reducing to a minimum the time taken to approve implementation plans and the delays in the execution of projects by the beneficiary countries.

By this means it should be possible to reduce the time taken to implement projects, which was still too long in 1975. The figures quoted by the Commission in paragraph 81 of the answers are not relevant since they were adopted on 1 July 1976 and not at the end of the 1975 financial year.

10. The Audit Board regrets that it is unable to determine why prices should differ in the case of similar projects but suggests that this discrepancy might be attributable to the activities of a few large firms. The Commission does not comment on this suggestion.

It is essential for the procedures for tendering and the mobilization of aid to be organized in such a way as to avoid manipulation of this kind. The Audit Board could be asked to draw up a special report on this question.

11. As for the losses sustained during transport, the Commission has taken steps to solve the problems affecting transport and storage. These measures are based on the suggestions put forward by the Audit Board. Steps are also to be taken to regulate the supply of skimmed-milk powder to Somalia (paragraph 84).

12. The monitoring of the utilization of food aid is far from satisfactory in cases where Commission delegates cannot intervene. The Commission could be asked to explain in greater detail how it proposes to improve this monitoring.

13. Attention should be drawn to the Commission's undertaking in regard to the recovery of costs of delay, in paragraph 83.

14. In conclusion, the Control Subcommittee repeats its request to the Audit Board to submit to it a short report outlining the situation as regards the internal and external control of food aid so that it can assess how widespread are the problems mentioned, and a report on the efficiency of the tendering procedures.

II. FINANCIAL AID (expenditure in 1975 = 168 m u.a.)

15. In terms of management, there are two categories of financial aid: aid granted direct to the beneficiary country and aid granted to specialized international organizations. Which form is used depends on the objective to be attained, since certain projects call for extensive administrative machinery or a high degree of specialization.

A. Direct aid

16. The entire appropriation of 35.6 m u.a. for structural aid to the Sahel countries was committed in 1974 and gave rise to payments in 1975 amounting to 35.55m u.a. Five of the beneficiary countries have closed their operations but in the case of the two others certain difficulties are holding up closure.

According to the execution contracts (Article III(c)), it is only by means of inspection visits that the external control body can carry out its task. It is clear that inspection visits are to be made only in exceptional cases and that, for example, copies of the supporting documents have to be sent to the Audit Board.

17. In the case of measures agreed directly with the beneficiary states as part of the UN's emergency action programme, since aid is intended to help the balance of payments the products imported often differ considerably from those originally envisaged. The main priority is therefore to ensure that aid is used for emergency assistance.

The Audit Board should substantiate its statement that Rwanda used 35% of its aid to buy barley malt for use in a brewery.

18. If it is agreed that this direct aid is granted in emergencies with a view to helping the balance of payments, the auditing and production of

supporting documents are for the most part satisfactory. Indeed, in this case the arrangements for the distribution and utilization of the products imported do not have to be justified by the beneficiary states.

B. Aid granted to specialized international organizations

19. The Audit Board states that the auditing of the aid granted to the ICRC, UNICEF, UNWRA or the UN is not subject to any Community control, either internal or external, either because no supporting documents are submitted to the Commission or because the auditing is carried out by non-Community bodies.

20. The Community must realize when it is granting such aid that it is agreeing to delegate responsibility for the utilization of these funds. It is therefore unnecessary to insist that the Community should be allowed the right of inspection, since the organizations concerned - which are after all reputable and trustworthy - carry out their own audits and make it a rule not to give any information on the source of the funds they assign.

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PART 10 : THE DEVELOPMENT FUNDS

Comments on financial management

21. The discharge for operations falling within the 1975 financial year concerns the first, second and third EDFs.

Expenditure under the fourth EDF is confined to the setting up of the new organizations or the advance implementation of certain administrative arrangements, since the Lomé Convention did not come into force until 1 April 1976.

The existing procedure whereby Parliament delivers an opinion for the Council, which then has sole power to give discharge, will probably be replaced with effect from the 1976 financial year by an exactly opposite procedure based on Article 31(3) of the interim agreement of 11 July 1975 and the new Article 206b as set out in the Treaty of 22 July 1975.

22. There is room for some satisfaction at the considerable improvement in relations between the Audit Board and the Commission since the report by the Audit Board was drawn up. Most of the complaints registered by the Audit Board at the obstacles encountered in carrying out its duties have now been resolved.

The Commission is to be commended on its efforts to satisfy the Audit Board. It has now agreed, with the approval of the Member States, to forward regularly to the Audit Board during each financial year all the documents it needs to carry out its duties, including, in particular, the minutes of EDF Committee meetings, decisions on financing, agreements on financing and transfers, and all periodic situation reports relating to the financial implementation of operations in progress.

23. The problems have not all been solved, however.

As regards the question of how soon external retrospective auditing should be allowed to start, the Audit Board is by no means taking its interpretation of retrospective auditing 'too far' when it states that 'the audit is retrospective because it takes place after the commitment decision has been taken, after the payment order has been executed and after the relevant accounting has been made'.

The Commission's argument that this would be tantamount to joint management by the Commission and the Audit Board of all the operations financed by the EDF is unjustified. For there to be true joint management, there would have to be prior consultation with the Audit Board - as there is with the financial controller - and that is certainly not the case.

Moreover, at least partial acceptance of the Audit Board's view is reflected in the financial regulation applicable to the fourth EDF, which omits any reference to closed operations in setting out the duties of the Audit Board.

24. The Audit Board's request to the Commission for joint overseas audit visits is equally justified. It should be possible for the Commission to extend this facility to the external control body in the exercise of its duties without infringing any of the rights of the Community administrator, the national authorizing officer, or the external control body.

The delays in forwarding balance sheets and accounts to the Audit Board are a serious obstacle to adequate cooperation with the Commission in drawing up the report.

The Audit Board had to draw up its report for the 1975 financial year on the basis of provisional documents, since the final versions were not completed by the Commission until 21 July 1976.

25. A persistent failing in the management of the first three EDFs has been delay in using appropriations. The power to commit expenditure has had to be extended after each convention has expired (for ten years in the case of the first EDF) and it seems likely that the same thing is about to happen with the second EDF.

There are, moreover, considerable delays in closing particular projects and, therefore, in winding up the various funds.

26. The failure to make prompt use of appropriations and the abnormal delays in closing the EDFs have regularly been commented on by the Audit Board and noted by Parliament. Neither reaction has so far had any effect. The Commission considers that 'these delays are quite outside (its) control', and it does seem that the Commission is in fact doing all it can.

It should nevertheless give an assurance that the financing systems and procedures chosen in future will be of such a kind as to reduce these problems to a minimum.

27. There have been frequent overruns on appropriations, especially in the case of the second EDF. These have to be corrected by means of retrospective adjustments, which distort the accounts and give a false picture of fund management.

28. Moreover, monetary instability has made it necessary to update the amounts charged to the EDFs in respect of projects still in progress. In 1976 the Commission began to impose ceilings on projects falling under the second EDF in order to set a limit to its commitments to each associated state. This operation is now nearing completion.

In the interests of sound management the Commission should now suspend all financing decisions relating to the second EDF and, as happened in the case of the first EDF, transfer any unused balances still remaining to the third EDF.

29. The utilization of EDF revenue placed at the disposal of the Coordinating Council of the AASM and then the Council of Ministers of the ACP States in circumstances which remain obscure, defies the most elementary provisions of the Community's budgetary legislation.

## Comments on project financing

### I. Investment

30. This constitutes the basic EDF activity. In view of the low levels of development of most recipient states, by far the greater part (80%) of financial commitments is in the form of subsidies.

31. The Audit Board has found the following inadequacies and weaknesses in project management:

- extensive time and cost overruns, caused either by inadequate preliminary studies and subsequent revision of programmes, shortcomings on the part of principals and controllers, or failure of contractors to meet their obligations;
- under-employment and abandonment of investments, due to faults in the very conception of the projects, an excessive leaning towards technical perfectionism and a failure to assess running costs.

32. Despite the seriousness of this criticism, the Commission has failed to comment on it. It is nevertheless essential to know exactly who is responsible for these failings and how extensive they are, in other words, what proportion of projects is affected.

The general account of EDF management considered above does not give a complete answer to these questions.

33. Detailed scrutiny of the various projects considered by the Audit Board only serves to illustrate the points just made. What emerges is a long series of deviations from the regulations, and of management errors such as making the same consultants responsible both for carrying out project studies and for supervising the work.

### II. Linked technical assistance - emergency aid and exceptional aid - general technical cooperation

34. Despite regular criticism by the Audit Board of these areas of EDF activity, no significant improvement has been observed. As a general rule these operations still do not provide all the guarantees of sound management

and effectiveness that one would wish. The failure to ensure adequate supervision is a further indication that management techniques cannot be improved or flaws and irregularities eliminated without the political backing provided by parliamentary control.

### III. Delegated and technical supervision

35. Here again, there is no need to recall the repeated criticism of the staffing arrangements at the EAC and the management and accounting problems caused by its present policy.

Parliament should simply adopt a clear position on its integration into the Community administration.

As a preliminary to this step, the Commission should provide a detailed breakdown of the duties carried out by the 600 persons employed overseas and their present terms of employment.

### Conclusions

36. The problem posed by the budgetary management and implementation of EDF operations is first and foremost one of control.

The internal control cannot, at least as far as the measures investigated by the Audit Board are concerned, impose on the national administrations of the recipient states a standard of management of appropriations conforming to the rules laid down at Community level.

The external control cannot discharge its function, which is to assess, with an eye to public opinion, the effects of the use of appropriations in relation to the objectives to be attained and to propose whatever corrections are shown to be necessary. Three series of obstacles stand in the way of the performance of such a control:

- the control is not sufficiently up-to-date to have an impact on public opinion and to contribute to an improvement of the system;
- the control is too far removed from the operations to allow a precise assessment of the importance and significance of the difficulties uncovered;

- Parliament feels only a limited measure of responsibility for appropriations that it has not authorized. As no other body is in a position to exercise political control in this area, responsibilities remain dispersed.

37. In the very near future Parliament will have sole responsibility for this control, since it will not be sharing the power of discharge with any other institution. It would be as well to point out to the Council and the Commission that it intends to exercise this responsibility to the full, and to remind them that the corollary to the power of discharge is the budgetization of these appropriations.

38. The subcommittee must take steps to establish conditions that will allow genuine parliamentary control to be exercised in this area. To this end it must maintain and indeed strengthen its contacts with the departments responsible for EDF administration and with the Audit Board, with a view to setting before Parliament the broad lines of a reform of the system of control over the EDFs. The following points call for study:

- the effectiveness of the existing control procedures in the various spheres of activity of the 4th EDF;
- possibilities of improving the effectiveness of the work performed by the delegates and the financial controller for the EDFs;
- procedures that would facilitate genuine parliamentary control, without endangering the principles on which cooperation with the developing countries is at present based;
- a scheme for the budgetization of the EDFs, which will have to be drawn up for the renewal of the 4th EDF.



(in m u.a.)

	1st EDF (1958-1962)	2nd EDF (June 1964- June 1969)	3rd EDF (January 1971- January 1975)
Initial allocation	581.25	730	900
Available appropriations	571.28 <sup>1</sup>	740.049 <sup>2</sup>	909.44 <sup>3</sup>
Total commitments	570.7	726.50	856.52
Payments made in 1975	2.42	23.35	182.65
Total payments	564.13	680.89	487.08

<sup>1</sup> Unused balances transferred to the second EDF: 9.96 m u.a.

<sup>2</sup> Unused balances from the 1st EDF (9.96 m u.a.) plus accrued interest (0.085 m u.a.) = 10.048 m u.a.

<sup>3</sup> Allocation following the association of Mauritius (5 m u.a.), miscellaneous revenue (1.125 m u.a.) and revenue originating from repayable aid (3.31) = 9.441 m u.a.

OPINION OF THE COMMITTEE ON DEVELOPMENT AND COOPERATION

Letter from the committee chairman to Mr LANGE, chairman  
of the Committee on Budgets

Luxembourg, 31 May 1977

Dear Mr Chairman,

At its meeting of 24 May 1977 the Committee on Development and Cooperation discussed the second part of the Audit Board's report (European Development Fund) (Doc. 523/76).

The Committee noted that for some time the Commission had been forwarding to the Audit Board the minutes of the Committee of the European Development Fund. You will no doubt remember that previous efforts by the Members of the European Parliament to achieve this purpose, following consideration of the Audit Board's report on the 1972, 1973 and 1974 financial years, had been unsuccessful.

The Committee on Development and Cooperation therefore welcomes this improvement in relations between the Commission and the Audit Board.

Furthermore, it fully endorses the comments and criticisms made by the rapporteur of the Committee on Budgets, Mr Bangemann.

Subject to these comments, the Committee on Development and Cooperation proposes that a discharge be granted to the Commission of the European Communities in respect of the implementation of expenditure relating to the European Development Fund for the 1975 financial year.

Yours sincerely,

Colette FLESCH

Present: Miss Flesch, chairman; Mr Bersani, Mr Lagorce, vice-chairmen; Mr Broeksz, Lord Castle, Mr O. Hansen (deputizing for Mr Dondelinger), Mr Krall, Mr Martinelli, Mr Price, Mr Schuijt, Mr Vernaschi and Mr Wawrzik.