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Report

drawn up on behalf of the Committee on Budgetary Control

on the discharge to be given to the Commission of the European Communities in respect of the ECSC's financial and budgetary activities for the financial year 1977 and on the report of the Court of Auditors for the financial year 1977 (doc. 1-457/79)

Rapporteur: Mr D. ANTONIOZZI

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By letter of 4 October 1979 the Commission of the European Communities forwarded to the European Parliament the Court of Auditors' report on the balance sheet and accounts of the ECSC for the financial year 1977.

On 5 November 1979 the President of the European Parliament referred this report to the Committee on Budgetary Control.

On 20 November 1979 the Committee on Budgetary Control appointed Mr Antoniozzi rapporteur.

At its meeting of 17 March 1980 the committee unanimously adopted the motion for a resolution and the explanatory statement.

Present: Mr Aigner, chairman; Mr Dankert, first vice-chairman; Mrs Boserup, second vice-chairman; Mr Price, third vice-chairman; Mr Antoniozzi, rapporteur; Mr Battersby, Mr Colla, Mr Gabert, Mr Gouthier, Mr Kellett-Bowman, Mr Key, Mr Irmer, Mr Langes, Mr Notenboom and Mr Simonnet.

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ANNEX: Comments by the Committee of the European Communities
 on the Court of Auditors' report on the ECSC's

Financial activities for the financial year 1977

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

DRAFT DECISION

on the discharge to be given to the Commission of the European Communities in respect of the ECSC's financial and budgetary activities for the financial year 1977

and

MOTION FOR A RESOLUTION

on the report of the Court of Auditors on the ECSC's financial and budgetary activities for the financial year 1977 and on the discharge in respect of that financial year

The European Parliament,

- having regard to the Court of Auditors' report on the balance sheet and accounts of the ECSC for the financial year 1977,
- having regard to the accounts and final balance sheet for that financial year,
- having regard to the report of the Committee on Budgetary Control (Doc. 1-64/80),

A. With regard to the general aspects of the audit

1. Notes that the Treaty establishing the European Coal and Steel Community gives the High Authority substantial powers of control in the territories of the Member States;
2. Points out that the external audit carried out by the Court of Auditors cannot be complete unless it includes the administration of the ECSC;
3. Emphasizes that, with regard to financial activities, the Treaty of 22 July 1975 establishing the Court of Auditors did not take account of the distinctive operational structure of the ECSC's as compared with that of the other Communities;
4. Notes that this lack of coordination between the Treaties makes it difficult to define the powers of the Court of Auditors and prevents it from exercising adequate control in the form of independent on-the-spot checks;
5. Points out, however, that in accordance with the general budgetary rules and with the practice applied to the other institutions, the Court of Auditors certifies as correct the ECSC balance sheet and accounts submitted by the High Authority;
6. Confirms that it is absolutely essential for the European Parliament to be given precise information on the ECSC's activities in order both to assess the soundness of the financial

management and to form a political appraisal of the implementation of the ECSC budget as a whole;

7. Reaffirms, moreover, that;

(a) the external audit by the Court of Auditors enables the management of a Community which enjoys financial autonomy to be adequately assessed;

(b) this audit should be carried out on a regular and permanent basis and should relate to all areas of the ECSC's activities;

8. Points out, therefore, that for this purpose the Treaty establishing the ECSC should be revised with the final purpose of clarifying the duties and powers of control of the Court of Auditors and establishing firmly the European Parliament's right to grant a discharge to the High Authority in respect of its management of the ECSC;

9. Requests that, pending the revision of the Treaty, an agreement should be reached between the European Parliament, the Court of Auditors and the High Authority/Commission on the Court's role and powers, above all with regard to the possibility of carrying out on-the-spot inspections;

10. Points out that this is feasible virtue of the fact that the High Authority wields both the legislative and executive powers of the ECSC and can take decisions relating to the verification of its activities and management, without interference by the Council;

B. With regard to the principal statistics relating to the ECSC's activities for the financial year 1977

11. Notes that:

(a) the assets comprise the following:	(' 000 EUA)
- Loans out of borrowed funds	3,912,529
- Other loans	142,665
- Cash and bank accounts	307,698
- Other investments, real estate and portfolio	163,493
- issuing costs	62,612
- miscellaneous	156,727
- accrued income	101,514
Total	4 ,847,238

(b) the liabilities comprise the following: ('000 EUA)

- Borrowings and redemption premiums	3,955,903
- Reserves	317,500
- Provisions	258,529
- Former Pension Fund	39,916
- Miscellaneous coupons and creditors	146,355
- Interest and commission on loans and guarantees	128,950
- Undistributed balance	<u>85</u>
Total	4,847,238

(c) ECSC revenue and expenditure from 1 January 1977 to 31 December 1977 were as follows:

<u>REVENUE</u>	('000 EUA)
- Servicing of lending operations and guarantees	328,604
- Levy	86,840
- Interest to deposits and portfolio	30,475
- Adjustments - currency parities	43
Total	<u>445,963</u>

EXPENDITURE

- Servicing of borrowing operations and guarantees	312,228
- Administrative expenditure	17,721
- Expenditure for research	34,666
- Expenditure for rehabilitation	30,752
- Assistance to coking coal	5,275
- Interest rebates for investments and reorganization	6,963
- Other expenditure	84
- Excess of income over expenditure	38,264
Total	<u>445,963</u>

C. With regard to the comments of the Court of Auditors

12. Regrets that:

- (a) the audit of the levies carried out by the High Authority was inadequate and has given rise to doubts about the volume of contributions and the accuracy of the statements made;
- (b) the internal of the rehabilitation sector was substantially confined to book-keeping matters;
- (c) with regard to industrial loans and loans for reorganization, no solution has been found to the crucial question of defining objectives in the light of the worsening steel crisis;
- (d) as regards social housing, there is no systematic audit involving the drafting of reports;

13. Agrees with the Court of Auditors on the need to prepare specific information on the general objectives to be pursued in the management of the coal and iron and steel policies;

14. Considers such information essential in order to assess whether the financial management is conducted by the High Authority in a proper manner;

DECISION ON THE DISCHARGE

D. In the light of the foregoing

15. Requests the High Authority and the Court of Auditors to submit their comments on the possibility of reorganizing the ECSC's accounting system to make it more efficient and to facilitate effective control, perhaps by computer centralization of the statistics for individual sectors and branches of activity;
16. Instructs the High Authority/Commission to submit as soon as possible, and in any event within the deadlines set for discussion of the report for the financial year 1978, a comprehensive report on its concept of control and how it could be exercised;
17. Grants a discharge to the High Authority in respect of the financial management of the ECSC for the financial year 1977 but requests it to take steps to prevent the recurrence of the deficiencies criticized by the Court of Auditors;
18. Instructs its President to forward this resolution and the relevant report to the Commission of the European Communities.

EXPLANATORY STATEMENTIntroduction

1. The financial structure of the European Coal and Steel Community (ECSC), which was set up by the Treaty of Paris of 18 April 1951, has points of similarity with both the public sector, by virtue of its fiscal powers (levy on coal and steel production), and the private sector, by virtue of its ability to raise funds on the capital market as a means of supplementing its revenue and diversifying its activities.

2. As rightly pointed out in the report of the Auditor on the financial year 1976, 'the Paris Treaty did not endow the ECSC with a traditional budgetary structure except in respect of its administrative budget which, since the merger of the Executives, forms part of the single budget of the Commission of the European Communities'¹. Whereas variable resources and specific expenditure estimates are contained in an operational budget, which is meant to be used to fix the rate of the levy, borrowing and lending operations and the management of funds are never the subject of a budget estimate because of their strictly financial nature.

3. This situation was not altered by the merger of the Executives in 1967. Administrative expenditure is charged as a fixed annual contribution to the Commission budget, and the Commission has continued to manage the ECSC's assets completely separately from the general budget. Apart from the restrictions outlined below, the ECSC has therefore retained its original distinctive features though a new institutional framework.

4. This distinctiveness is highlighted by the fact that the Treaty vested both legislative and executive powers in the High Authority, so that it is impossible, as pointed out by the Auditor in the 1976 report, 'to separate the budgetary authority from the administrative executive or to establish real financial rules'².

¹ Doc. 220/77, p.102

² Doc. 220/77, p.141

5. The ECSC's activities can be divided into two major sectors, the first of which, the borrowing and lending service, is administered in accordance with normal banking practice, while the second, the granting of financial aids, is dealt with by the administrative departments of the High Authority and comes under the operational budget already referred to under point 2. A decision of 2 August 1976 relating exclusively to this budget, codified and supplemented previous practices in the form of the 'Internal rules for the drawing up and implementation of the operational budget of the ECSC'. While maintaining the ECSC's financial autonomy, these rules 'have taken over the essentials of the general budgetary principles of the financial rules which govern the administrative budget'.¹

6. With regard to relations between the High Authority and the other institutions, it should be pointed out that, since it wields both legislative and executive powers, the High Authority is, *de jure* and *de facto* and not bound by decisions taken by the Council of Ministers. This is not true of its relations with Parliament, since Article 24 of the ECSC Treaty gives the Assembly the right to censure the High Authority and requires the latter to forward to Parliament a 'general report' on its activities. The ECSC Treaty does not, however, accord Parliament the powers referred to in Article 206b of the EEC Treaty, which states 'The Assembly, acting on a recommendation from the Council which shall act by a qualified majority, shall give a discharge to the Commission in respect of the implementation of the budget'. Article 78g of the ECSC Treaty limits such powers to the implementation of the 'administrative budget'. This is one example of the lack of coordination, to which this report will return, between the various texts governing the activities of the European Communities and it illustrates the urgent need to define more closely the institutional powers of the Community bodies.

The Court of Auditors was set up by the Treaty of 22 April 1975 and is responsible for exercising external control, the nature of which will be discussed in greater detail below.

¹ Doc. 220/77, p.141

However, it might be useful to point out that in its resolution of 11 July 1975, the European Parliament, which receives the Court's annual report from the High Authority, defined the scope of the control as follows:

'External control by the Auditor should go beyond the purely accounting aspect of the subject matter involved, and should be strengthened in its capacity and ability to obtain all necessary information for providing Parliament with a complete assessment of the financial management and the results achieved'¹.

7. The external audit of the ECSC's activities was carried out by the Auditor during the period up to the end of the 1976 financial year. The Auditor was appointed by the Council on 8 December 1973 and, under Article 78 of the Treaty, was responsible for submitting an annual report, within six months of the end of the financial year to which the accounts referred, on the proper conduct of the accounting operations and the financial management of various institutions. This is the first time since its creation that the Court of Auditors has reported on the ECSC's activities and it provides a further opportunity to reconsider the nature of the audit and the role of the bodies which carry it out.

Control over the ECSC's activities: the High Authority's powers

8. The ECSC's activities to an increasing extent involve a substantial financial commitment based on contracts which relate to different sectors of activity and therefore cannot be governed by one set of rules.

9. As will be shown more clearly in the following paragraph, this situation has a decisive influence on the external control carried out by the Court of Auditors and it is therefore appropriate to emphasize the considerable powers of verification vested by the ECSC Treaty in the High Authority/Commission.

Article 86, fourth subparagraph states:

'Officials of the High Authority entrusted by it with tasks of inspection shall enjoy in the territories of the Member States, to the full extent required for the performance of their duties, such rights and powers as are granted by the laws of these States to their own revenue officials'.

This position illustrates the fact that the ECSC Treaty is more supranational in character than the other Community Treaties and gives the Commission, in its role as High Authority, a right of initiative and enquiry normally denied to it, and confirmed by the fact that it enjoys 'such rights and powers' as are granted to national revenue officials.

¹OJ No. C 179, 6.8.1975, p. 73

10. Moreover, to understand more fully the High Authority's powers, it should be pointed out that it has the right to impose sanctions against the Member States (Article 88/ECSC) for failure to fulfil obligations under the Treaty or against undertakings, as stated in Article 91:

'If an undertaking does not pay by the time limit set a sum which it is liable to pay to the High Authority (...), the High Authority may suspend payment of sums which it is liable to pay to that undertaking, up to the amount of the outstanding payment'.

Enforcement of decisions in the territory of the Member States is carried out by means of the legal procedure in force in each State and may be suspended only by a decision by the Court of Justice (Article 92/ECSC).

Control over the ECSC's activities: role of the Court of Auditors

11. In discussing the external control carried out by the Court of Auditors, a distinction should be drawn between the ECSC's administration and its financial activities, since, as will be shown below, the Court does not exercise the same powers in the two sectors or indeed in the other Communities.

12. The legal basis for assessing the Court's powers in relation to administration is provided by Article 78f/ECSC which states in paragraph 1:

'The Court of Auditors shall examine the accounts of all administrative expenditure and administrative revenue of the Community (...)'

and in paragraph 2:

'The Court of Auditors shall examine whether all revenue referred to in paragraph 1 has been received and all expenditure referred to in that paragraph has been incurred in a lawful and regular manner and whether the financial management has been sound'.

The Treaty therefore grants the Court considerable powers of control over the ECSC's administration.

13. The situation is somewhat different with regard to financial activities, which, moreover, represent the most important source of ECSC revenue, with loans now being granted at the rate of 1,000 million EUA each year. The Treaty does not contain specific provisions governing external control in this sector, since the Treaty of 22 July 1975 establishing the Court of Auditors did not take account of the ECSC's distinctive operational structure compared with that of the other Communities. This raises an initial legal difficulty for the Court, since it cannot make use of written documents to

carry out the task of verification that as an institution it is required to fulfil.

14. A further difficulty ~~derives~~ from the fact that the Court is not legally entitled to carry out independent on-the-spot inspection visits, since Article 78f(3), of the Treaty states 'The audit shall be based on records, and, if necessary, performed on the spot in the institutions of the Community and in the Member States. In the Member States the audit shall be carried out in liaison with the national audit bodies or, if these do not have the necessary powers, with the competent national departments. As shown in the previous section, these restrictions do not apply to the High Authority/Commission which, under Article 86, has considerable powers with regard to on-the-spot visits.

15. Unlike the ECSC Treaty, the EEC Treaty does not restrict the powers of the Court of Auditors to 'administrative expenditure and administrative revenue'. Article 206a/EEC states that the Court of Auditors 'shall examine the accounts of all revenue and expenditure of the Community', whether or not it is classified as operational. This reinforces the comment made under point 11 to the effect that the Court's powers are not the same for all the Communities.

16. One specific case should be mentioned in connection with the half-yearly verification by the Court of Auditors of the ECSC balance sheet and accounts submitted by the High Authority/Commission. This is not based directly on the provisions of the Treaty but is connected with the fact that in order to raise loans, in particular on the American market, the Commission needs to provide balance sheets which have been certified as correct. By agreement between the parties concerned this task, which is normally carried out by private law trust companies, was for some time entrusted to the Community Auditor and has been carried out since its inception by the Court of Auditors. A number of differences of opinion arose between the Court of Auditors and the Commission with regard to certification of the 1977 balance sheet. The Court requested that the document originally submitted be corrected, which delayed the signing of the document until 1 November 1979. Both the Commission and the Court could be asked to provide further information on this matter.

The need to amend the Treaty

17. This tends to confirm the fact that the powers of control are wielded principally by the High Authority alone, which does not depend on any other institution for the implementation of its decisions.

18. This would seem to run counter not only to Article 78g/ECSC, under which the Assembly may, on a recommendation from the Council, give a discharge to the High Authority in respect of the implementation of the administrative budget, but in particular to Article 24, which is common to all the Treaties establishing the European Communities and which entitles the Assembly to pass a motion of censure on the activities of the High Authority.

19. Unless it is in a position to verify whether the ECSC has been managed in a regular manner, under no circumstances can the Assembly exercise its powers to the full, including those relating to the ECSC's financial activities, which as has already been seen, are not subject to any external control. In view also of the fact that Article 78f(4) provides that the Court of Auditors 'shall assist the Assembly and the Council in exercising their powers of control over the implementation of the budget', it would appear essential to clarify the position of the Court of Auditors, if necessary through a revision of the Treaty. The Treaty should explicitly refer to the Court's powers in relation both to the verification of financial activities and to the possibility of carrying out on-the-spot inspections.

20. The above difficulties relating to external control by the Court of Auditors of the ECSC's financial activities and the need to clarify the Court's position also apply to the European Investment Bank, whose financial activities are not subject to any form of control. While this is not the place to consider in depth whether this institution, which is of vital importance for the implementation of Community policies, should also be the subject of an investigation and verification procedure, it is important to establish whether Parliament has the political will to tackle this problem.

The Court of Auditors' report on the financial activities of the ECSC for financial year 1977

21. In view of the restrictions outlined above, the scope of the Court's report on the ECSC's financial activities in 1977 is necessarily limited and, as pointed out by a Member of the Court at a meeting of the Committee on Budgetary Control, does not cover the question of sound financial management, although this is the most important aspect of external control.

22. The following paragraphs are intended as a commentary on the various sections of the report.

Balance sheet and financing of the ECSC's activities

Assets

23. In 1977 the High Authority/Commission exercised the financial activities assigned to it by Articles 49, 54 and 56 of the ECSC Treaty. At the end of the financial year current loans out of borrowed funds and own resources totalled 4,055,192,910 EUA, an increase of 624,028,418 EUA (15.3%) over the previous year.

24. The following table shows the breakdown by country and sector of loans granted out of borrowed funds, which represent by far the most important area of the ECSC's financial activities (3,912,527,167 EUA)

in EUA				
Country	Industrial investment (Art.54)	Social housing	Reorganization (Art.56)	Total
Belgium	149,314,219	10,012,142	32,806,070	192,132,431
Denmark	31,127,856	-	-	31,127,856
Germany	999,854,706	6,769,043	70,720,699	1,077,344,448
France	701,019,476	412,828	97,741,991	799,174,295
Italy	576,418,350	3,785,624	497,935	580,701,909
Luxembourg	2,729,030	1,022,189	36,858,156	40,609,375
Netherlands	89,391,307	1,196,681	18,983,997	109,571,985
United Kingdom	1,014,341,716	-	67,523,152	1,081,864,868
Total	3,564,196,660	23,198,507	325,132,000	3,912,527,167

To complete the picture it should be pointed out that loans for the financing of industrial investment projects (Article 54) were broken down as follows:

	('000 EUA)
- Iron and steel industry	2,674,359
- Coal and coke	752,033
- Iron-ore mines	72,622
- Thermal power stations	62,484
- Shipbuilding	2,695

25. Other loans, granted out of the Special Reserve for financing social housing, out of levy funds for rehabilitation and technical research and out of the former Pension Fund for the purchase of housing by EEC officials, totalled 142,665,743 EUA.

26. Taking account of the above and of the other sections of the balance sheet, the assets comprise the following:

	('000 EUA)
- Loans out of borrowed funds	3,912,529
- Other loans	142,665
- Cash and bank accounts	307,698
- Other investments, real estate and portfolio	163,493
- Issuing costs	62,612
- Miscellaneous	156,727
- Accrued income	101,514
	<hr/>
Total	4,847,238

Liabilities

27. During the financial year in question the ECSC contracted 31 loans in various currencies totalling 727,378,908 EUA. As a result of these transactions, total borrowings at 31 December 1977 amounted to 3,954,000 million EUA as compared with 3,475,000 million EUA at the end of 1976. Loans contracted in USA \$ accounted for 43.3%.

28. Of the other items under liabilities, reserves and provisions are of particular importance. Reserves (Guarantee Fund and Special Reserve) totalled 317,500,000 EUA in 1977, an increase of 35.5 million EUA over the previous year. Provisions, which totalled 258,529,273 EUA, are intended to provide finance for rehabilitation, research, interest rebates and aids.

29. Taking account of the other items in the balance sheet, the liabilities comprise the following:

	('000 EUA)
- Borrowings and redemption premiums	3,955,903
- Reserves	317,500
- Provisions	258,529
- Former Pension Fund	39,916
- Miscellaneous coupons and creditors	146,355
- Interest and commission on loans and guarantees	128,950
- Undistributed balance	85
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Total	4,847,238

Management account and ECSC levy

30. One of the chapters in the Court of Auditors' comments and observations on the financial activities of the ECSC for the financial year 1977 contains an analysis of ECSC revenue and expenditure (management account).

31. The most important comments concern the income from the levy on coal and iron and steel production, not so much because it represents a substantial item of revenue (86,840 million EUA in 1977), but because of the originality of the principle on which it is based. Article 49 of the ECSC Treaty states that 'the High Authority is empowered to procure the funds it requires to carry out its tasks:

- by imposing levies on the production of coal and steel;
- by contracting loans'.

The borrowing and lending activities have already been discussed in connection with the Community budget. The levy is based on the powers vested in the High Authority by Article 49 of the ECSC Treaty, which has no equivalent in any other Community Treaty.

32. The ECSC uses the income from the levy to finance the activities provided for in the operational budget (as distinct from the investment budget, which relates to borrowing and lending) and listed in Article 50 of the Treaty, in particular:

- Administrative expenses	17.7 million in 1977
- Aid for rehabilitation	30.7 " " "
- Aid for research	34.6 " " "
- Interest rebates for investments and industrial reorganization	7.0 " " "
- Aid for coking coal	5.3 " " "

33. As a result of the crisis in the coal and iron and steel industries, which means that undertakings cannot be expected to pay higher costs, since 1972 the rate of the levy has remained at 0.29%¹ of the average value per tonne of the different types of chargeable product.

¹ For 1977, see High Authority Decision No. 3115/76/ECSC of 20 December 1976.

Since it is impossible to increase the resources which determine the level of financing from the ECSC's operational budget, the latter is in effect obsolescent, a point which has frequently prompted comments and proposals from both the Commission and the European Parliament.¹

34. Hence the levy no longer represents the most important source of ECSC revenue. As shown above, the ECSC bases almost all its own financial projects on the investment budget and is to an increasing extent fulfilling the role of a bank or private undertaking rather than a genuine international organization, whose objectives are explicitly laid down in the relevant Treaty.²

The audit

35. An important part of the Court of auditors' report on the ECSC's financial activities is devoted to its comments on the documents forwarded by the High Authority/Commission. As already explained earlier, the Court of Auditors does not consider itself competent to carry out on-the-spot checks; the points made below therefore refer to internal audits carried out by the appropriate departments of the High Authority. The Court's role therefore consisted in taking over and consolidating existing documents and studies and, where appropriate, in providing its own version of the facts.

36. To provide the Committee on Budgetary Control with systematic information on the Court's comments, the following paragraphs outline some of the more important criticisms, relating them where possible to the replies forwarded by the High Authority to the committee secretariat and annexed to this report.

The levy

37. The Court considered the procedures for ensuring full collection of the levy. It emerged that:

- there is doubt as to whether all the collieries and steelworks have been assessed (the report refers in particular to British industries);
- there is a considerable difference between the production of hard coal declared for levy and the figures provided by the Statistical Office;
- more audits should be carried out to eliminate abuses resulting mainly from a lack of information in the undertakings about which products are subject to the levy;
- it is essential to carry out a genuinely systematic enquiry into undertakings liable to pay the levy and into the accuracy of their statements.

¹In this connection see inter alia: Report by Mr Cointat on the inter-institutional dialogue on certain budgetary questions (Doc. 150/78, p.83ff)

²In the management account, the Service of borrowing and guarantees, showed revenue of 326,592,113 EUA and expenditure of 312,228,992 EUA

38. In its reply the High Authority points out that the levy is not imposed below the minimum of 100 EUA per month and per undertaking and undertakings are normally assessed by their trade associations. It attributes the lack of adequate audits to insufficient resources in its inspectorate.

Rehabilitation

39. The Court states that claims for refunds sent to the Commission are supported by computer-produced statements, whose basic data were sometimes found to be inaccurate. In general, the Commission is criticized for carrying out too few audits and confining itself to book-keeping matters, whereas it should be investigating the social impact of the aid and the results of the rehabilitation (re-employment of workers, etc). The Court also claims that the Commission does not adequately verify that the conditions of eligibility for assistance are met, and it specifically mentions the inadequate information obtained from sampling.

40. The Commission emphasizes that the computer-based system has been well tried and tested and that the few errors which occur are usually book-keeping errors. It repeats that the staff assigned to audits is inadequate, (three officials for all the Member States), and emphasizes that preventive audits, which are programmed onto computer, already provide a full picture of the situation and do not need to be increased in number. With regard to the suggestion by the Court that a survey should be carried out into the efficiency and effectiveness of aid policy, the High Authority points out that this forms part of the rehabilitation policy which it establishes in consultation with the Member States. Moreover, since around 50,000 workers receive assistance each year, it would not be feasible to investigate the results of rehabilitation. This raises the question, however, as to how the High Authority can formulate policies without having some idea, even based only on samples, of the success of the projects it finances.

41. Finally, the High Authority/Commission claims that it has always urged the Member States to submit their accounts more promptly to reduce the delays in payments, and it welcomes the Court's proposal that the presentation of the audit reports should be standardized.

Technical and social research

42. The Court makes a number of criticisms based on examination of the contracts and riders submitted by the Commission.

43. It points out that there are still excessive time-lags between the relevant decision and the signing of the contract, which normally takes place after the date on which the work is to begin.

The High Authority considers it virtually impossible to reduce the period of six to eight months between the decision and the contract. However, it points out that in order not to delay the commencement of the research work, since 1967 the expenditure used to calculate the ECSC contribution is that incurred by the recipient from the date of the decision to forward the proposal for aid to the Consultative Committee and to the Council for their opinions.

44. The Court of Auditors also points out that:

- (a) research contracts rarely contain a quantitative statement of the work;
- (b) the operations for closing the accounts have shown a definite effort to speed up the work and the production of files.
- (c) the method for assessing the value of residual equipment should be improved, since it frequently seems to be carried out without any real basis. In support of this the Court states that in one case the representative of the Directorate-General for Budgets was not accompanied at the final on-the-spot inspection by a representative of the technical Directorate-General and was therefore not in the best position to assess the residual value;
- (d) a clear explanation should always be given where the original estimates are exceeded;
- (e) in several cases there were delays in the implementation of the research project without any satisfactory explanation being given on the file;
- (f) the Commission should monitor more closely the rate at which the funds are used, since the receipt of a large sum in interest indicates delays in the work as compared with the programme set out in the contracts;
- (g) the interim inspection carried out during the contract should not replace the final inspection.

45. In its reply to these comments the Commission emphasizes that the residual value of equipment cannot be calculated on the basis of a linear amount but must be regarded as the current value in use to the purchaser, and that the straightforward application of a fixed rate of depreciation is possible only in very few cases.

Other comments concern the final audits, which the Commission says always cover both the financial and the technical aspects and the fact that the actual cost of the project is frequently much higher than the original estimates, and that the expected duration of the project is sometimes exceeded. The Commission claims that this is due in particular to the fact that 'a research project is not at all like the awarding of a public contract'.

Loans

46. Decisions were taken on 32 loans granted by the Commission under Article 54 of the ECSC Treaty (industrial loans for the 'financing of works and installations which contribute directly and primarily to increasing production, reducing production costs or facilitating the marketing of products'), involving a total of 884.89 m EUA with an average Community contribution of 33.4%.

There were nine decisions on loans granted under Article 56 (loans for industrial reorganization), involving total ECSC assistance of 119.76 million with an average contribution of 16.6%.

47. In this connection the Court of Auditors points out:

- with regard to decisions under Article 54

that although the documents forwarded to the Court are reasonably complete, they show no evidence of coherent coal and steel policies, since separate decisions are taken for each individual undertaking. The most important criteria is the future of the undertaking in the face of the structural crises in the ECSC industries.

- with regard to decisions under Article 56

that they, unlike decisions under Article 54, place the projects in question in a wider context but provide less comprehensive information about the financial structure of the companies carrying out the investments.

48. In reply to these comments, the High Authority/Commission states that with regard to investments under Article 54, the compliance of the loans with iron and steel policy is verified as soon as the project is examined. Only in the event of a favourable opinion is it possible to grant a rebate. Where no opinion is given, this means that the project is not contrary to the general objectives and may be eligible for an ordinary loan.

Social housing

49. From its inception the ECSC has helped to finance eight standard programmes for the construction of social housing and three experimental programmes designed to solve the problem of housing for workers in the coal and iron and steel industries.

The standard programmes are financed by loans from the Special Reserve (73%) and from borrowed funds (28%) and the special programmes from technical research grants and loans.

50. In 1977 loans totalling 12,036,141 EUA were made, broken down by Member State as follows:

	%
Germany	48.6
France	7.3
Italy	22.3
Luxembourg	4.7
Belgium	7.2
Netherlands	4.2
Ireland	1.5
Denmark	4.2
	<hr/> 100.0

51. Of the 151,644 dwellings financed by the Community up to 31 December 1977, 144,348 had been completed.

52. The Court points out that the Commission follows the work of the regional loan committees and, although not on a regular basis, takes part in on-the-spot checks, and it expresses interest in receiving the reports on both these activities.

The Commission/High Authority does not comment on this matter.

General points

53. In its general conclusions the Court of Auditors notes inter alia that:

- with regard to the levies, the inspections carried out by the Commission are insufficient and give rise to doubts about both the volume of the payments and the accuracy of the statements. It also feels that the inspection should be combined with inspections relating to prices and investments;
- the internal audit relating to rehabilitation is essentially concerned with book-keeping, whereas to assess the efficiency of this policy it should be carried out on the spot at the undertakings which receive assistance;

- the external audit of research activities should include an assessment of achievements in the light of the objectives of the coal and steel policies. To do so it must have access to the technical files held by the Authorizing Officers;
- the main problem relating to industrial loans and loans for industrial structural reorganization is that of defining objectives, above all in view of the worsening of the steel crisis;
- with regard to social housing there is no systematic audit giving rise to reports which might enable the Court to verify that the projects submitted by national institutes comply with the Community's objectives and programmes,

In more general terms it states that:

- the gaps in the internal audit lead to difficulties in defining priority policy objectives, particularly at a time of extreme economic uncertainty. The Court of Auditors therefore needs a large-scale programme of work involving the collection of the most important information and the setting up of a consistent system of on-the-spot audits.

Comments of the Committee on Budgetary Control

54. The committee's comments concern two aspects.

55. With regard firstly to the institutional aspects of the audit, the committee cannot accept that the limits imposed on the Court of Auditor's activities are justified either by the distinctive nature of the ECSC's financial structure, or by the lack of relevant provisions in the Treaty. An incomplete audit means that Parliament's information is incomplete. Parliament must be in a position to carry out the task of political assessment assigned to it by the Treaties which as has been seen, must include a redefinition of the relationships and responsibilities on which the Community is based.

A revision of the ECSC Treaty was therefore proposed under point 19 to introduce provisions relating both to the Court's powers, with regard to the verification of financial activities and the possibility of carrying out on-the-spot inspections, and to Parliament's right to deliver an opinion on the implementation of the whole ECSC budget. (Discharge decision).

56. The Committee on Budgetary Control is fully aware that a revision of the Treaty involves a lengthy preliminary procedure and that it would delay the solution of problems which it considers urgent. It therefore proposes that at least some of the more important matters, relating in particular to the Court's role and auditing powers, should be settled immediately in a 'gentleman's agreement' between the European Parliament, the Court of Auditors and the High Authority. This is a feasible solution since the High Authority/Commission wields all legislative and executive powers and can therefore take decisions relating to the verification of its own activities and management without interference by the Council.

It is important to find a solution which will meet immediate requirements and can be adopted as an initial experiment on which to base the revision of the Treaty.

57. Another matter of equal importance in institutional terms is the application of Article 78f(2) of the ECSC Treaty concerning sound financial management which the Court of Auditors did not verify in 1977 in view of the limits imposed on it by the Treaty. The first task is to establish which aspects these specific but as yet undefined terms were intended to cover.

The Committee on Budgetary Control considers that in examining whether the ECSC has been soundly managed it is essential to undertake a comprehensive analysis of its activities going beyond a mere verification of the book-keeping aspects to include a systematic assessment of the whole financial structure. This calls for a comparison between the general social and economic objectives fixed by the High Authority, the instruments used to achieve them and the results obtained. Without this type of control, financial management tends to consist merely of a series of ad hoc measures, deprived of any overall context and hence difficult for the European Parliament to assess.

Operational and auditing aspects

58. One of the specific criticisms made by the Court in its report on the ECSC's financial activities in the 1977 financial year concerns the lack of information on general objectives. This comment, already referred to above in connection with the assessment of sound financial management, is also of relevance in a more practical context. In particular, the documents relating to decisions under Article 54/ECSC for loans to finance 'works and installations which contribute directly and primarily to increasing the production, reducing the production costs or facilitating the marketing of products', do not in the Court's view provide a basis for defining properly structured coal and steel policies which would clearly link general or operational objectives and practical measures. The High Authority/Commission should therefore be

urged to submit a full account of the objectives it intends to pursue and it must demonstrate that projects eligible for aid are compatible with established guidelines.

59. There is also the question of the organization of the accounting system which should be efficient and should facilitate effective control. For this purpose, and to ensure that the checks are carried out promptly the Committee on Budgetary Control considers that the information should be centralized on a computer according to sector or branch of activity.

The committee points out that a balance sheet is in any event the economic and political reflection of the accounting system on which it is based and awaits the High Authority's comments on the matter.

60. With regard to the auditing aspects, the general conclusions contained in the Court's report and summarized on page 19 of this document, suggest that the internal audit carried out by the High Authority was unsystematic and was confined largely to the book-keeping aspects. This is clearly shown by the fact that the High Authority was unable to provide detailed information on the controls relating to the income from the levy. The committee considers it unacceptable, firstly, that the Commission failed to assess all collieries and steel works and that there is still a considerable difference between production declared for levy and the figures collected by the Statistical Office, and secondly, that verification of the use of funds is not carried out in accordance with a rational and pre-established plan of inquiry.

Since the Court of Auditors pointed out that the internal audit relating to rehabilitation concentrated on the book-keeping aspects, that it was difficult to keep track of the implementation of decisions relating to industrial loans and loans for industrial reorganization and that, with regard to social housing, there was no systematic audit followed up by reports, Parliament should instruct the High Authority to submit as soon as possible, and in any event within the deadlines for discussion of the report on the 1978 financial year, a comprehensive report on its concept of control and how it could be exercised.

ANNEX

COMMENTS BY THE COMMISSION OF THE EUROPEAN COMMUNITIES
ON THE COURT OF AUDITORS' REPORT
ON THE FINANCIAL ACTIVITIES OF THE ECSC
FOR THE FINANCIAL YEAR 1977

THE LEVY (pages 29 to 33)

1.4, Para 3. A detailed list of small British mines and steel works is currently being drawn up. It will nevertheless be remembered that the levy is not imposed below the minimum of 100 EJA per month and undertaking.

Para 5. The difference is mainly due to the factors mentioned in the remarks column of the table and not to adjustments due to quoting production in ton for statistical purposes.

1.5 More frequent controls are certainly necessary. The problem is that the resources of the inspectorate were already stretched before being largely diverted to the control measures involved in the Davignon plan.

The company audits are usually made by the trade associations and are compared with the list of companies' declaring their price lists and conditions of sale (Article 60) and the declarations in which the companies give their figures for the Statistical Office.

REHABILITATION (pages 34 to 36)

Point 2.1 (pages 34 and 35) summarizes the results of the audits carried out by the High Authority/Commission service which liaises with the national authorities.

It should be remembered that (except in Germany) the High Authority/Commission aids and quotas are calculated by computer in central data processing services using programmes checked by the High Authority/Commission services. The input is provided by the employment offices. On-the-spot audits by the relevant Higher Authority/Commission service are normally carried out at the rate of twice per year and country but are more frequent when new aids are introduced or where rehabilitation is taking place in a new coalfield.

The audits are carried out in the presence of a representative of the Ministry of Employment.

It should be pointed out that the system is well run in, that there are few errors and such as there are are usually bookkeeping errors.

Taken overall, the differences which give rise to additional payment by the High Authority/Commission to the Member States are bigger than the sums to be refunded by the Member States.

Point 2.2 (pages 35 and 36) concerns the conclusions drawn from the audit reports by the High Authority/Commission.

Point 2.2.1 - quality and extent:

The Court of Auditors considers that audits are not frequent enough.

In this connection, the High Authority/Commission would point out that the object of an audit is mainly preventive and that there is no point in increasing the frequency since - thanks to the programmed information stored on computers - it is now possible rapidly to obtain an overall, complete and faithful picture of the actual situation.

Storing the data on computer has in fact made it possible to make a considerable improvement in the quality of audits at national and Community level.

Although the effect of the entry of the United Kingdom and the crisis in the iron and steel industry was to increase the sum available annually for rehabilitation from 15 million to 67 million EUA, it was not considered possible to increase the administrative staff of the division. There are in all three administrative officials dealing with all cases involving Article 56(2)(b) of the ECSC Treaty, the payment of rehabilitation aids and the relevant control measures.

The High Authority/Commission considers that in this way and taking account of the means available, the best possible position has been achieved.

For this reason, too, there seems to be no reason to increase the number of audits of accounts.

The Court of Auditors suggests that the High Authority/Commission should ensure that the aid policy is efficient and effective.

These aspects are not part of the auditors' duties but, rather, part of the rehabilitation policy which the High Authority/Commission defines in consultation with the Member States, taking into account the economic and social changes in each country.

Generally, the range of aids offered under Article 56(2)(b) is sufficiently wide to make it possible to help workers according to their individual needs and abilities.

More particularly, the vocational retraining aids and the tide-over allowances facilitate re-employment.

Although in the present economic climate re-employment is very difficult, aids towards early retirement or temporary employment, like those which exist in an anti-crisis division, become very important.

The application of Article 56(2)(b) is discussed on various occasions between national civil servants, representatives of the Commission and representatives of both sides of industry, either at national (opinion committee), regional or even local level or in a Community institution (ECSC Consultative Committee). The aids are then adapted to requirements, in so far as Article 56(2)(b) permits¹.

The Court of Auditor's proposal that the workers should be monitored with a view to examining the results achieved with the rehabilitation aids is neither possible nor useful.

To begin with, the number of workers receiving aid annually is some 50 000 and, with the exception of those benefiting from early retirement, the situation varies from one worker to the next.

¹ Having seen that this Article is no longer sufficient to aid workers affected by the present crisis in iron and steel, the High Authority/Commission has proposed the introduction of new measures under Article 95 of the ECSC Treaty.

A spot check on a number of retraining cases showed clearly that there is no way of drawing conclusions from the situations observed.

During their retraining period, workers may seek employment which better suits their abilities. Therefore their position does not develop at a constant pace. They are often unemployed for certain periods, take vocational retraining courses - some longer than others - or pass through periods of re-employment when they may or may not receive tide-over allowances.

To monitor such operations would therefore mean keeping a constant check on the movements of these workers; the fact that they may be unemployed or taking a vocational retraining course at a given moment gives no information about their previous or subsequent position.

Taking all this into account, the High Authority/Commission considers that following up workers undergoing retraining would serve no useful purpose, quite apart from the considerable cost involved in such an exercise.

As indicated above, the High Authority/Commission considers that the present system of audits is satisfactory. More detailed audits would require more staff, without the controls necessarily becoming more effective.

This have been said, the present system of audits is constantly being improved - the weak points in the administration and management of aids is discovered and permits more suitable measures to be introduced.

As the report stresses, where the considerable delays affecting some applications for refunds submitted by the official national departments to the High Authority/Commission are concerned, the latter can only take note of the applications whilst at the same time regularly insisting that the

Member States produce their accounts more promptly.

As regards the High Authority/Commission, there are no delays in refunding its share, as refunds are made within the month following receipt of the Member States' applications.

Point 2.2.2 The Court of Auditors requires audit reports to be drawn up in a more standard fashion, showing more clearly what rehabilitation cases have been checked, so that the relevant importance of the assistance audited can be determined.

The High Authority/Commission is of the opinion that such a suggestion merits consideration and will give instructions accordingly.

CONCLUSIONS (page 62)

The conclusions on rehabilitation (point 3.2) do not give rise to any special comments. Replies to any remarks made have been given in the comments on the various points dealt with above.

It should nevertheless be pointed out that the Court of Auditors notes that the effectiveness and efficiency of the aid policy calls for a major audit programme, which will need to be carried out mainly on the spot at the undertakings receiving the aid.

The High Authority/Commission feels that the scale of a programme of this type would be out of all proportion to the results obtained and, particularly, the conclusions to be drawn from them. The situation of a worker varies with his occupation, age, family position, region, economic situation, the employment market and his own will to succeed.

For all these reasons, the High Authority/Commission does not wish to undertake an audit of this type, but to offer the Member States and employers as wide as possible a range of aids to enable them, together with their employment officers, to use the aids in favour of workers according to the needs of those workers.

TECHNICAL AND SOCIAL RESEARCH EXPENDITURE (Paragraphs 40 to 47)

The number of dossiers in the research sector stood at 912 at the end of 1977.

1. INTERVAL BETWEEN THE DECISIONS AND THE SIGNING OF THE AGREEMENTS

Past experience confirms that an interval of six to eight months must elapse between the date on which the High Authority/Commission adopts a decision to grant aid and the date on which a research agreement can be signed, and that this period seems virtually inevitable.

The reason is that the decision taken by the High Authority/Commission also authorizes:

- (1) the amounts required to finance the research projects to be entered as a provision;
- (2) the dossiers to be forwarded to the ECSC Consultative Committee for consultation;
- (3) the decision to be forwarded to the Council for its approval.

A period of two to three months must therefore firstly be reckoned with for these consultation procedures to be completed, given the time required for translation of the documents into the six official Community languages.

Secondly, there is the time required:

- (a) for the agreement to be drafted and negotiated with the beneficiaries;

- (b) for the Legal Service to give its opinion and the Financial Controller to approve the agreement (admittedly, since use is now always made of a standard contract drawn up in 1976, to which certain clauses peculiar to each contract can be added, this procedure has been speeded up);
- (c) for the signature of the beneficiaries (of which there are often several) to be collected.

In view of these - often long - time lags, and, in order to prevent the starting research work being subjected to delays which may be harmful to Community industry and which would mean a corresponding delay in the communication of the results of such work to the relevant bodies in the Community (which is the sole objective of providing aid), the High Authority of the ECSC decided on 28 June 1967 (and confirmed its decision on 28 November 1967) that, if the beneficiary of the aid so wished, the research expenditure which would be used to calculate the ECSC aid would be that which the beneficiary would have incurred no earlier than on the date on which the High Authority decided, after examining the dossiers, considered the research to be interesting and decided to forward the proposal for aid to the Consultative Committee and to the Council for their opinions.

Under no circumstances is an agreement signed until the High Authority/Commission gives its authorization after the consultation procedure provided for in Article 55 of the ECSC Treaty has been completed.

The application of the decision of 28 June 1967 and 28 November 1967 in practice therefore sometimes means that the starting date for the work which is laid down in the agreements precedes the signing of the agreement, but this is intentional and designed to provide a legal basis for the research expenditure which the beneficiary of the aid would have had to meet during the period before the agreement was signed.

The High Authority/Commission would also point out that instructions have been given to the responsible departments to keep procedural delays to a minimum, so that the requisite supplementary agreement can be drawn up on time and in the correct form. Article 28 of the internal rules for the implementation of the operational budget of the ECSC hence states:

"The amounts entered as provisions for aids to research which have not been covered by a signed contract in the nine months following the decision of the High Authority/Commission to create a provision are cancelled, however, the administering departments involved may, under the authority of the appropriate Member of the Commission, request the High Authority/Commission to reauthorize the creation of a provision if special considerations justify its continuation, or to authorize the creation of a provision for other research of an amount equal to or lower than the sum cancelled".

2. INSPECTING AND CLOSING RESEARCH ACCOUNTS

The High Authority/Commission is pleased to note that the Court of Auditors recognizes the efforts it has been making with regard to the closure and updating of research accounts.

The High Authority/Commission also agrees that the inspection and closure of research accounts should be carried out as quickly as possible once the research work has been completed. This is why the departments draw up an annual schedule of all research accounts to be closed in that financial year. This schedule is forwarded to the Court of Auditors for information.

Although the final inspection should be carried out as quickly as possible once the research work has been completed, it should be

remembered that Article 5(4) of Annex II to the research agreement states:

"Within twelve months of the completion of the research or of the using up of the financial aid granted, the ECSC, after discussing with the beneficiary, shall close the accounts and determine the exact extent of its contribution".

Although the twelve-month period may be reduced to six months in some cases it must be borne in mind that the beneficiaries need time to draw up the research expenditure accounts and the final technical report. Finally, the High Authority/Commission must retain a certain degree of freedom to organize its inspection visits in a rational fashion in order that all interested departments can travel together and that unnecessary journeys can be kept to a minimum.

3. RESIDUAL VALUE OF EQUIPMENT

In its Communication concerning applications for and the grant of financial aids for research carried out under the ECSC Treaty (OJ No C 139, 12 November 1974), the High Authority/Commission defined what is meant by research expenditure to be included in the amount of its financial aid (Article 15). This paragraph defines, inter alia, such expenditure as the net research expenditure, which equals the total expenditure, less any sums which may be recovered (such as discounts, price reductions, recovery of materials or of finished products, sale of equipment or facilities).

In practice, this provision (restated in Article 7 of Annex II of the research agreements) obliges the contracting parties, once the accounts have been closed, to determine by joint agreement the residual value of the equipment which has been purchased or constructed on the basis of the funds made available to the beneficiary by the ECSC to carry out the research work.

It must, however, be remembered that in most cases such equipment was purchased or constructed especially for the research work and cannot be regarded under any circumstances as equipment necessary for production. The residual value cannot therefore be calculated by means of linear depreciation; it must be regarded as the current use value to the person acquiring the equipment. It may therefore happen that equipment which would cease to have any value if linear depreciation were applied is still of appreciable value if the current use value method is used. The reverse is also true: equipment which is virtually new may in all likelihood be of no useful value to the researcher and therefore have no residual value when the accounts are closed.

The foregoing shows how difficult it is to estimate the residual value of equipment at the end of research projects; this must be carefully assessed by both financial and technical experts. A depreciation rate fixed prior to the agreement can therefore only be applied in a very small number of cases, although the High Authority/Commission uses this method whenever possible.

Furthermore, it should be explained that it frequently happens with research projects that new equipment has to be acquired to carry out certain work, even though a previous research project may have been completed with the same basic equipment.

In fact, it is quite common for equipment to be changed, technical developments being so rapid that new generations of machines are constantly becoming available.

4. TECHNICAL INSPECTIONS OF THE IMPLEMENTATION OF RESEARCH WORK

As far as checks on the implementation of the research work are concerned, the High Authority/Commission reaffirms that its departments always carry out final financial and technical inspections of the research work involved. These inspections are carried out jointly by the financial and technical administrators. At the technical level, committees of international scientific experts from the field monitor the implementation and progress of the research work twice a year.

These committees of experts (one for each field of research) examine and reach opinions on the final scientific reports. Only after these final reports have been approved does the institution make the final payment to the beneficiary (some 10% of the total aid amount). This does sometimes mean a fairly extensive delay between the actual date of the inspection and final payment since the committees of experts meet only every six months.

Accordingly since 1978 - to avoid maintaining under the "research" provision sums which are insufficient, i.e. which do not cover the exact amount of the legal commitments - the closures have been entered in the accounts as soon as the inspections have been made, thus leaving only those amounts which still have to be paid to the beneficiaries in the "research" provision.

5. THE EXCEEDING OF COST ESTIMATES AND DELAYS IN IMPLEMENTATION

The High Authority/Commission does not share the Court of Auditors' opinion. In fact, it is not at all unusual to find that generally the final cost of a project turns out to be higher than the original estimate or that the work takes longer to complete than originally expected. It should be remembered that the implementation of a research project is not at all like the awarding of a public contract.

The time required depends on difficulties encountered in the course of the work and these also affect cost. For this reason agreements governing the granting of research aid place two ceilings on financial aid; one on the percentage contribution towards the expenditure actually incurred and one on the total amount of aid granted. In return, the beneficiary undertakes to carry out the research. This undertaking may therefore result in his having himself to meet all expenditure in excess of the initial estimates.

It should not be forgotten that there will be a gap of between five and six years between the time the beneficiary draws up his estimate and the completion of the work. Bearing in mind recent rates of inflation, it is quite possible that in some cases prices will have doubled.

6. PAYMENTS AND PAYMENT ON ACCOUNT

In the interests of good management, the High Authority/Commission has included in research agreements the stipulation that the funds made available to the beneficiary by the ECSC shall be kept by him until they are used in a bank account bearing interest.

Generally, since in almost all cases work begins before the agreement is signed for the reasons given above, the High Authority/Commission pays an advance, when the contract is signed, equivalent to some nine months of work together with its contribution to the cost of the equipment required before work can commence. It subsequently modifies these advances according to the amount of expenditure declared by the beneficiary every six months and adds on estimated expenditure for the next six months.

Except in some special cases where the commencement of work is delayed, the interest accruing on the payments made on account to research institutes is generally minimal.

To give some idea, the 130 000 EUA in interest recorded in 1977 was generated by 276 research projects over a period of more than three years. Considering that during this same period the amounts paid to various beneficiaries amounted to more than 80 million EUA, this interest thus represents some 0.16%.

It may therefore be concluded that the system followed by the High Authority/Commission is generally good provided that care is taken to detect any anomalies which occur as soon as possible.

7. INSPECTIONS OF THE INSTITUTION

Generally, the financial aspects of any research project are inspected once or several times during its implementation and once upon final closure. These inspections are carried out jointly by the Institution's financial and technical departments. Only in a few cases, where there is no need to estimate the residual value of equipment or where intermediate inspections have shown that the funds made available to the beneficiary by the High Authority/Commission are being properly managed, are accounts closed on the basis of the report and supporting documents which the beneficiary sends to the institution. From a purely technical point of view, inspections are obviously always carried out in accordance with the standard procedures and are scrutinized by the committees of experts referred to above.

• BORROWINGS (page 50)

6.1 The $7\frac{3}{4}\%$ stock 1971-86 repayment operation with the reference clause in Luxembourg francs has so far proved generally beneficial and also has good prospects for the future.

LOANS (page 52)

6.2.2.1 Loans are made in accordance with the general objectives which are periodically defined under Article 46 of the ECSC Treaty.

Under the Treaty, Article 54 loans are sectoral operations. The credit standing of the ECSC - which makes possible the borrowings and therefore the on-lending thereof - is founded on the levy and the guarantee funds made up of levies and interest payments. Any undertaking which pays the levy and whose investment project fits in with the general objectives therefore is entitled to obtain a loan - as long as it offers suitable financial guarantees.

Correspondence between the loans and iron and steel policy is established the moment the declaration of investment under the third and fourth subsections of Article 54 and of Decision 22(66) of the High Authority is cleared; if the opinion is not favourable, the project cannot receive a loan; but if the opinion is favourable, the reasons are given and may lead to a rebate. Where no opinion is issued, this means, not that the project is contrary to the general objectives, but that it calls for no special comment; ordinary aid is then granted.

6.2.2.5 The Pension fund was constituted in Belgian francs. At least as far as concerns the part used for loans to officials, it should be left in Belgian francs and expressed in EUA in the balance sheet. Loans are

expressed in Belgian francs. This avoids the differences - temporary in nature - due to fluctuations in the conversion rate.

TREASURY (page 58)

7.2.2 So far these losses have been accepted as the price to be paid to ensure that ECSC securities are accepted more readily on the Belgian market.

Also, the ECSC Treasury has been permitted to operate directly on its own behalf, chiefly in the repurchasing operations necessary in connection with amortization.

7.2.4 In a telex covering three transfers relating to a single loan, the date given was that for one of the three orders. Nevertheless, the sum which thus arrived too early at the recipient's bank was able to earn interest. The residual loss is USD 6 572.70.

7.2.5 The cash accounts were not in debt in respect of deduction of interest. One was debited on 22/4 in respect of 19/4 and credited on 27/4 for the 19/4. The same applies to the other, which was debited on 20/7 in respect of 11/7 and credited on 1/8 for the 11/7.

7.2.7 These are not additional costs as the ECSC earns on the investments - longer since it pays subsequently - what it then pays in interest on the advances given.