

EUROPEAN ECONOMIC COMMUNITY
EUROPEAN ATOMIC ENERGY COMMUNITY
EUROPEAN COAL AND STEEL COMMUNITY

THE AUDIT BOARD

REPORT

on the accounts for the financial year 1975

VOLUME ONE

Introduction

Part One: The Budget of the Communities

CT XIX/375/76-E
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REPORT

ON THE ACCOUNTS FOR THE FINANCIAL YEAR 1975

VOLUME ONE

This report is submitted in two volumes:

Volume I : Introduction
Part One: The Budget of the Communities

Volume II : Part Two: The Development Funds

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INTRODUCTION

This report, which deals with the accounts for the financial year 1975, is divided into two parts presented in two volumes.

The first part is devoted to the budgetary management of the Communities. It concerns the budget revenues, the operating expenditures of the institutions, the expenditures of the European Social Fund, of the European Regional Development Fund and of the European Agricultural Guidance and Guarantee Fund, spending on development aid and spending on research and investment.

The second part of the report concerns the management of the European Development Funds. The Commission provides this management outside the budget framework.

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In principle, all the amounts shown in this report are expressed in units of account, the value of which is 0.888.670.88 grammes of fine gold.

The currencies of the Community countries are converted into units of account on the basis of the latest parities declared to the International Monetary Fund, which were:

1 u.a. =	7.5	Dkr
	3.66	DM
	50	Bfrs
	5.55419	FF
	0.416667	£ Ir.
	625	L It.
	50	Lfrs
	3.62	Fl
	0.416667	£

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In addition to the activities described in this report, the Audit Board has verified, in conformity with Article XVI (4) of the Statutes of that body, the accounts for the financial year 1975 of the Euratom Supply Agency. Following that audit it has drawn up a separate report dated 27 April 1976 which has been transmitted to the Director-General of the Agency.

At the request of their Board of Governors, the Audit Board also verifies the accounts of the European Schools. The reports drawn up on the basis of these verifications are handed to the Representative of the Board of Governors. The last report, concerning the accounts for the financial year 1974, was prepared on 26 May 1976.

A duty which has now been assigned to the Audit Board is audit by two of its members of the accounts of the European University Institute in Florence. The report on the accounts of that Institute for the financial year 1975 was issued on 22 June 1976.

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In keeping with the procedure followed since the commencement of its work, the Audit Board has prepared the text of its report after referring the draft to the institutions and departments concerned. This referral of the draft took place during the period from 13 May to 25 June 1976.

Those institutions and departments have informed the Audit Board, in writing or verbally, of their replies and for the most part they have done so during meetings held to discuss the draft comments. However, no response has been forthcoming in the case of the comments relating to the Development Funds. Those comments were referred to the appropriate administrative unit on 14 June 1976 and no reply to them had been received by the time this report was issued, on 13 July 1976, nor had it been possible up to that date to arrange any meeting with the officials responsible for the management of the Development Funds.

From the replies obtained in the other sectors it has in some cases been possible either, on the one hand to conclude that the operations involved have been conducted in a regular manner, lawfully and in accordance with the rules of sound financial management or, on the other hand, to ascertain that the institutions had already applied or were about to apply measures designed to remedy the defects, irregularities or shortcomings pointed out.

As a result of the investigations carried out and the replies received in connexion with other operations, the Audit Board has deemed fit to make the comments appearing in this report, which are submitted for consideration by the competent authorities, for examination in the context of the decisions as to discharge in respect of the implementation of the budget and in respect of the financial management of the Development Funds.

The institutions are, moreover, reserving the right to prepare replies even after the lodging of the report. In accordance with the provisions of the Financial Regulation, these replies, of which the Audit Board has not yet had cognizance, will be annexed to the report when it is submitted to the Council and to Parliament.

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The Audit Board has on the whole been able to develop satisfactory relations of co-operation and mutual understanding with the competent authorities and departments of the Communities. In particular, the improvement in its relations with the Commission of the Communities that was noted during the financial year 1974 has continued and increased in 1975 and during the process of preparing this report.

As in the past, the Audit Board has been able to count upon the competence and devotion to duty of the members of its staff and would like to express its gratitude to them.

PART ONE :

THE BUDGET OF THE COMMUNITIES

CHAPTER 1 : GENERAL COMMENTS

1. The general budget of the Communities for 1975

The general budget of the Communities for the financial year 1975, adopted on 12 December 1974 and published in Official Journal No L 54 of 28 February 1975, provided for estimated revenue and expenditure (payment appropriations) totalling 5 825 283 360 u.a.

These estimates were revised successively by:

- Amending and supplementary budget No 1, adopted on 29 April 1975 and published in Official Journal No L 175 of 7 July 1975, which involved an increase of 152 129 416 u.a. in payment appropriations, an increase relating predominantly to the European Regional Development Funds;
- Supplementary budget No 2, adopted and published on the same dates as No 1 above. This budget increased funds by 84 178 277 u.a., in order to permit financing of the second instalment of Community contributions to emergency aid to the developing countries worst affected by the crisis;
- Amending and supplementary budget No 3, adopted on 3 December 1975 (OJ No L 40 of 16 February 1976). This budget amended the estimates for several titles of the budget and involved a total increase in funds of 206 702 844 u.a., predominantly to the Guarantee Section of EAGGF.

After these various revisions the total of payment appropriations for the financial year became 6 268 293 897 u.a. This sum, shown alongside comparative figures for previous financial years, was made up as follows:

	1975 appropriations		1974	1973	1972
	u.a.	%	%	%	%
Guarantee Section of EAGGF					
Guidance Section of EAGGF					
European Social Fund					
Regional Development Fund					
Development Aid					
Euratom research and investment expenditure					
Lump-sum reimbursement of the cost of collecting own resources					
Administrative and operating expenditure					

The appropriations allocated to the budgets for the financial years 1972 to 1974 were, respectively, 4 372 629 718 u.a., 5 134 493 871 u.a. and 5 224 972 971 u.a. Those figures do not include sums allocated to the Development Funds, which are administered outside the framework of the general budget.

2. Discharge decisions - closing and presenting of accounts

- a) In its previous report (Point No 3) the Audit Board stressed the long delays in carrying out the procedure leading to discharge for implementation of the budget. The improvement which has taken place since then is far from sufficient and at the time of writing this report the procedure for the financial years 1972 to 1974 had still not been completed.

Articles 91 and 92 of the Finance Regulation provide that the Audit Board shall produce its annual report not later than 15 July in the year following the financial year under review and that discharge for implementation of the budget shall be given by the Council and the Parliament before 30 April of the next year.

Although the report of the Audit Board has regularly been produced within the prescribed interval, the date of 30 April has never been met in practice. There are other causes of delay in addition to the translation difficulties which hold up forwarding of the document to the competent authority. The latest decision reached related to the financial year 1971 and was not given until November 1975.

As a result of this situation, the discharge decisions have less effect than they should and the impact of the comments made by the auditing body is diminished - indeed, those comments largely pass unheeded.

The Audit Board hopes that the procedure for reaching discharge decisions will from now on permit careful examination of the questions which have arisen in investigation of the accounts and it would willingly assist the competent authorities in such examination.

- b) The procedure for closing and presenting the accounts calls for certain comments.

The accounting period has become confused: the Financial Regulation requires the accounts for some operations to be made up to 31 December, for others to 15 January and for others again to the end of March. It is sometimes impossible to trace the date when some of the entries in the accounts during the extension periods were actually made. Moreover, the advantage of using these extension periods at all has been queried in several reports of the Audit Board, cf. 1970, Point No 194. In the case of appropriations to research and investment, the operations performed at the end of the financial year to balance the appropriation accounts are both complicated and pointless.

Although the revenue and expenditure account is not finalized until 1 June (and therefore theoretically five months after the end of the financial year, which is quite a long interval) it is persistently produced with reservations, and for 1973 and 1974 the Commission subsequently made out amended accounts, with alterations in the figures initially shown. Even so, the

amended accounts did not contain all the corrections made in the figures for the closed financial years, because a further set of corrections (re-entry of commitments for the Guidance Section and effect of those re-entries on revenue and on lump-sum reimbursement to the Member States of costs of collecting own resources) were made, in accordance with the general procedure, to the accounts for the current financial year.

In 1975 the revenue and expenditure account for the financial year (1974) was for the first time submitted straight away to the discharge authorities, at their request, unaccompanied by the report of the Audit Board and that report was not forwarded until several months later. Such a procedure is directly contrary to Article 206 of the EEC Treaty, which stipulates that the accounts shall be submitted each year by the Commission to the Council and the Assembly, accompanied by the report of the Audit Board. The Commission has explained that this was a case of unofficial communication, official submission of the accounts together with the report of the Audit Board having taken place later.

3. Verifications in the Member States

Since the time of submission of its last report there has been a marked improvement in the matter of performance by the Audit Board of on-the-spot audits of its own in the Member States.

It will be recalled that from the time when the Financial Regulation of 25 April 1973 came into force the Audit Board has been entitled, under the provisions of Article 87 of that Regulation, to be present during the operations carried out by the Commission of the Communities in connexion with the auditing of own resources and the auditing of the expenditure of the Social Fund, the Guarantee and Guidance Sections of the EAGGF and spending on food aid and on Euratom contracts. Expenditure of the Regional Fund has now been added to that list.

However, until 1975 the Audit Board had not succeeded in arranging any audits of its own in the Member States. Letters sent to the Council about this matter from 1973 to 1975 and contacts with that institution had been fruitless.

The Audit Board then took the action which it had proposed, entering into direct contact with the authorities of several Member States (Belgium, Netherlands, Germany and France), as a result of which it carried out a number of on-the-spot audits at the end of 1975 and the beginning of 1976 in connexion with expenditure of the Guarantee Section of the EAGGF on aid for skimmed milk for animal feeding, aid for skimmed milk processed into casein and aid for storage of skimmed milk powder.

These verifications took place at both central and local offices of government departments in the Member States and in some cases at the offices of other bodies with responsibility for the operations being audited.

The Audit Board also carried out in Italy an independent audit of expenditure of the Guidance Section of the EAGGF. This audit, performed at the request of the European Parliament, was concerned with application of fixed sums of aid granted to that country for olives and olive oil, for fruit and vegetables and for tobacco.

It should be emphasized that all these verifications were accomplished to the entire satisfaction of the Audit Board, as all the necessary papers and information were made available to it while its task was in progress. During the current financial year the Audit Board will certainly introduce such verifications in the other Member States and increase the number performed.

4. Relations with internal audit staff of the institutions

There was also progress during the financial year in the establishment of relations between the Audit Board and the internal audit staff of the Community institutions, and above all of the Commission.

- a) The most important problem is that of relations with the institutions' financial controllers, as the Audit Board is still not learning much about the work which they perform, especially in the case of the Commission. Previous reports have already stressed that although the independence and the sphere of responsibility of each audit body has to be preserved, the Audit Board must be kept better informed about that work, for the sake of more rational and more effective organization of auditing.

In reply to an application made to it in this connexion, the Commission of the Communities stated on 28 July 1975 that the financial controller would try to enter into closer contact with the Audit Board and that for that purpose there was no objection to the Audit Board being notified, under arrangements to be agreed, of the results of verifications carried out by the financial controller.

The two sides have recently been in touch about this matter and endeavours are at present being made to find means of giving practical expression to this willingness to co-operate.

Under the provisions of Articles 43 and 52 of the Financial Regulation, the Audit Board is notified of decisions to override withholding of approval by the financial controllers. Following this procedure, notification of four decisions to override withholding of approval was given in respect of the financial year 1975, comprising three decisions of the Commission and one of the Secretariat-General of the Council. These decisions all related to expenditure on staff and more specific details of each were as follows:

- grant of a once-only allowance to local staff of the Commission employed in Luxembourg;
- grant of the allowance under the old ECSC scheme to an employee to whom Council Regulation No 2530/72, relating to the termination of service of officials, had been applied;
- grant of a compensatory allowance to secretariat staff whose net remuneration was reduced upon promotion to the next category;
- arrangements to be adopted for the application of the provisions to prevent cumulation contained in Council Regulation No 2530/72 on the termination of service of officials.

From the purely technical point of view of establishing that revenue has been received and expenditure incurred in a lawful and regular manner and that the financial management has been sound, the Audit Board believes that the financial controllers' refusals of approval for those items of expenditure were justified.

Although the cases mentioned here were the subject of decisions to override withholding of approval, the Audit Board hopes that the existence of such cases will help to promote the adoption in future of measures more compatible with the principles of correct treatment of revenue and expenditure and with the standards of sound financial management.

- b) Relations with the internal audit staff include relations between the Audit Board and the staff who carry out verifications in the authorizing units. In this area the situation is more satisfactory and the Audit Board is customarily informed of on-the-spot verifications performed by the departments responsible for administration of the Funds and of the comments made as a result.

But there is still room for improvement in passing on this information more fully or more quickly, as its communication varies greatly from one management to another and is sometimes not altogether satisfactory.

Moreover, it should be appreciated that the verifications arranged by the authorizing units are often not thorough enough, covering only selected aspects of a limited number of operations.

A full audit is performed in the case of the Development Funds (first, second and third EDFs), mainly by the deputy controllers, but for the Guarantee and Guidance Sections of the EAGGF and for the Social Fund auditing is carried out belatedly and as a formality, enabling only a few points in connexion with the management of funds to be followed up.

In the case of the Regional Fund internal auditing is still very limited, while for food aid it is almost non-existent.

In the case of research and investment expenditure, internal audit of operations of the authorizing units has been essentially confined to the accuracy of the accounting operations.

Verification of own resources in the manner prescribed by the current provisions relating to methods of establishing and collecting own resources and to supporting papers and files for the entries in the accounts, does not seem to be a satisfactory way of ensuring that all the revenue due has been established. The only way of achieving this would be through more thorough investigation of the national administrative systems, of the efficiency of auditing in the Member States and of statistical data.

The Audit Board considers that endeavours should be made to obtain better distribution and better balance in Community departments between the facilities and staff employed in drafting regulations and those employed in verifying the implementation of the regulations.

5. Measures for the implementation of the Financial Regulation

The Commission issued on 30 June 1975, for entry into force on 1 July 1975, the Regulation on measures of implementation of certain provisions of the Financial Regulation of 25 April 1973.

These measures deal with various aspects of the application of the budget and, in particular, matters of delegation of powers and separation of duties. They require the various institutions, in turn, to make definite arrangements. Article 87 of the Regulation of 30 June 1975 stipulates in this connexion that: "Within six months of entry into force of this Regulation, the institutions shall inform the Audit Board of the provisions that they have adopted in order to apply it".

For its own part, the Commission did produce its internal rules on the application of the general budget within the prescribed period. But the information forwarded by the other institutions has been more fragmentary and at the time of writing this report nothing relevant had been supplied by either the Court of Justice or the Economic and Social Committee.

a) Separation between work of authorizing officers and that of accounting officers

A special effort is necessary, above all in institutions other than the Commission, to arrange to delegate powers in a way which is more in line with the principle of separation between the work of authorizing officers and that of accounting officers.

So far as expenditure is concerned, this separation of operations is fairly satisfactory in the case of the departments of the Commission. But in the other institutions there are still too many cases of accounting officers being attached to units which perform the functions of authorization.

In the Commission, as regards the Community's own resources, the assistant accounting officer is attached to an authorizing unit and himself prepares the payment operations; the fact that he does not have authorization powers constitutes no more than superficial observance of the principle that the work of authorizing officers and that of accounting officers should be kept separate.

Within the Court of Justice, revenue and expenditure has to be approved by an official who is not in fact a financial controller, no post of financial controller having been created at all despite the express instructions to this effect contained in the provisions of Article 19 of the Financial Regulation.

b) Verification of commitments

Article 86 of the Financial Regulation of 25 April 1973 provides that each institution shall forward to the Audit Board on a quarterly basis "the supporting documents of the accounts, in particular the documents and certificates in respect of the correct application of the provisions which govern the implementation of the budget and relating to commitments and payments and to the establishment and collection of revenue".

Retrospective verification by the Audit Board should, in fact, cover all commitments and payments and all establishment and recovery of sums due in all instances where any of these have become final and have been entered in the accounts and in respect of which administrators, authorizing officers and accounting officers have accepted responsibility, whether these financial papers relate to one isolated operation which has been completed or to a larger project that is still being carried out.

If satisfactory quarterly information concerning commitments is not supplied, the external audit body cannot fulfil its duty of confirming the correctness of the commitment accounts submitted to it and the regularity of the operations reflected in those accounts.

So far there has not been any systematic quarterly forwarding of supporting documents for commitments. However, in relation to administration of the Funds and of financial aid and food aid the Audit Board has consistently been informed of commitments incurred by the Commission, which has been sending the Audit Board a copy of decisions to grant aid or assistance.

The situation has been particularly unsatisfactory where administrative expenditure of the institutions is concerned. After the accounts for each year have been closed the Commission has sent the Audit Board a statement detailing for each budget head all the proposed commitments for the financial year. However, this statement has been supplied too late (for example, for 1975 it was forwarded on 23 June 1976), contrary to the above-mentioned provisions of the Financial Regulation, which meant that when actually performing its verifications the Audit Board did not know what commitments had become firm.

None of the institutions other than the Commission had yet brought into operation any arrangements for forwarding to the Audit Board the documents relating to commitments. Steps should be taken to remedy this shortcoming immediately, because of the danger that if there are irregularities in commitment of expenditure they may become persistent.

The Audit Board suggests that it submit to the institutions plans for arrangements under which commitment proposals would be forwarded to it more systematically and would be accompanied by returns meeting its requirements for the purpose of verifications and by the supporting documents which seem necessary.

c) Extra-budgetary accounts

The Regulation on measures of implementation of certain provisions of the Financial Regulation barely mentions the management and operation of the extra-budgetary accounts, including the cash accounts.

Therefore, in the institutions other than the Commission transactions in the form of advances or book-keeping entries to be regularized are sometimes approved without the relevant spheres of responsibility or required procedure having been defined. In particular, the arrangements for opening postal and bank accounts and even to a large extent for operating them are partly improvised.

Since there are no provisions governing the matter, the Commission and the Court of Justice have deposited cash sums to a sizeable total in blocked bank accounts. Moreover, these deposits do not appear under specific headings in the balance sheet. The Commission may sometimes have acceptable reasons for using these accounts but such methods should be avoided by the other institutions, whose cash holdings ought not to exceed current needs, to avoid undue dispersal of funds.

Audit of the balance sheet as at 31 December 1975 gives rise to some other comments. At the end of the financial year the Secretariat of the Council was holding 134 781 u.a. in Geneva to finance an imprest and this sum seems very large by comparison with the amount which that imprest was intended to cover.

The way in which the accounts in the balance sheet are presented differs from one institutions to another and may even vary from year to year within the same institution. Because of these differences it is difficult to make comparisons between institutions or between financial years.

Arrangements for monthly reconciliation of bank balances have yet to be made. There are usually discrepancies in the balances appearing for accounts which institutions have with each other, so that from time to time special efforts have to be made to balance the accounts between institutions, even for the end of the financial year.

The interim returns from the institutions ought not to be simply statements listing the accounting entries that have been made; they should be proper statements of account which help to secure correct observance of accounting periods. In particular, arrangements should be made for prompt and complete entry in the accounts by the Commission and by the Secretariat of the Council of sums to be refunded by the Member States in respect of tax paid by the Communities (for example, in the case of the implementing protocol concluded with the United Kingdom).

A consistent set of methods for making out accounting documents should be applied. These methods should cover all the data to be included, so that they do permit the required comparisons to be made. It is not in line with normal practice that certain accounts which appear in the balance sheet for the Commission as at 31 December 1975 are missing from the general balance sheet for the same date (Office for Official Publications, and borrowings and loans under the agreement made with the Export Import Bank).

Moreover, if accounting were kept up to date, the detection and regularization of a large number of discrepancies would not, as is now the case, be left until the end of the financial year, with the result that the closing of accounts for the year takes much longer than it should.

d) Liability of accounting officers

The Financial Regulation of 25 April 1975 (Article 78) and the Regulation of 30 June 1975 on its implementation (Articles 79 and 84) provide for accounting officers, assistant accounting officers and imprest-holders to insure themselves against the financial risks inherent in their duties and provide for the premiums for this insurance to be paid by the institution.

These two Regulations also state that a special allowance may be granted to officials in the posts of accounting officer, assistant accounting officer or imprest-holder, in order that a guarantee fund may be built up.

In the majority of the institutions these provisions had still not been implemented at the end of the financial year 1975 and those institutions plan to apply them in 1976, with retrospective effect to the date of entry into force of the Financial Regulation, namely 1 May 1973.

The European Parliament is paying one special allowance for an accounting officer, seven for assistant accounting officers and six for imprest-holders.

CHAPTER 2 : REVENUE

6. Revenue for the financial year 1975

In the 1975 budget the estimated revenue (including supplementary appropriations made available in the course of the financial year) totalled 6 268 293 897 u.a. The entitlements established totalled 6 213 709 270 u.a. and the amounts paid in 5 434 749 233 u.a., leaving a balance of 778 960 037 u.a. still to be collected. An analysis of these sums over the various categories of revenue is shown in the table annexed to this report.

Established entitlements of 1 129 597 375 u.a. had been brought forward from 1974. Of this amount, 863 095 273 u.a. was paid in during 1975; after cancellations totalling 163 454 u.a. the remainder, 266 338 648 u.a. was carried forward again as an outstanding balance, of which 266 154 637 u.a. consisted of appropriations of the Guidance Section of the EAGGF.

The total charges to be covered by the revenue of the financial year (namely the 1975 appropriations used, including the portion carried forward to 1976 and after deduction of appropriations brought forward from 1974 and not used) amounted to 6 213 608 629 u.a. (1), made up as follows:

- 289 878 491 u.a. covered by the institutions' own revenue (including 244 850 108 u.a. arising principally from exchange differences on transfers of funds, the transfers being entered in the accounts on the basis of the latest rates of exchange declared to the IMF; in addition, bank interest received rose from 3 284 559 u.a. in 1974 to 4 901 540 u.a. in 1975);
- 18 000 000 u.a. covered by part of the ECSC levy;
- 12 633 429 u.a. covered by contributions of Member States to the Euratom complementary programmes;
- 926 701 244 u.a. covered by the three new Member States;
- 2 843 843 726 u.a. covered by own resources paid in by the six original Member States;
- 2 122 551 739 u.a. covered by the contributions of the six original Member States as stipulated in Article 4 (3) of the Council Decision of 21 April 1970.

According to the timetable established by the Council Decision of 21 April 1970, the 1975 budget should have been the first budget of the Communities to be wholly financed from own resources, the resources in question being the own resources already in existence plus a certain percentage of value added tax.

(1) The difference between the total entitlements established for 1975 (6 213 709 270 u.a.) and the total charges to be covered by the revenue for the financial year (6 213 608 629 u.a.) is explained firstly by the inclusion of -103 593 u.a. representing entitlements cancelled and revenue under Chapter 59 obtained from special contributions, and secondly by the inclusion of +2952 u.a. representing entitlements for previous financial years which were omitted in calculating the charges to be covered (Item 9290).

Since it proved to be impossible, because of lack of uniform rules in the Member States for determining the basis of assessment of VAT, to adhere to the prescribed timetable, recourse was once again had to contributions from Member States calculated on the basis of the gross national product of each of them (Article 4 (3) of the Council Decision of 21 April 1970).

7. Comments on accounting for revenue

- a) As the Audit Board pointed out in its comments on the previous year (Report for 1974, Point 10), calculation of the relative shares of the Member States has been influenced by operations in the COST programme (European co-operation in the field of scientific and technical research), which comes under the financial management of the Secretariat-General of the Council.

This is a programme extending beyond the framework of Community administration which has its own revenue and expenditure. Steps should therefore be taken to ensure that the accounts of this programme are kept separate, so as to prevent them affecting calculation of the relative shares of the Member States, even if the effect is fairly small.

- b) In the 1974 revenue and expenditure account an appropriation of 941 933 u.a. which should have been carried forward to 1975 was cancelled and as a result of the error, pointed out by the Commission in the revised accounts for 1974, the said appropriation was not financed from 1974 revenue.

The necessary corrections were made in the accounts for the financial year 1975, with the result that an additional sum of 941 933 u.a. was required from the Member States and the amount to be provided by each had to be decided. The apportionment was not made on the basis of the relative shares of the Member States as determined for 1974 but was included in the overall calculation of the relative shares for 1975.

As a result, the amount which individual States were required to pay was higher or lower than it would have been if the sum had been included in the 1974 accounts.

- c) The offsetting of compensatory amounts and refunds, which is prescribed by Article 4a of Council Regulation No 974/71, was not carried out by France in respect of products falling outside the scope of Annex II to the EEC Treaty, owing to differences in the quantities of products to be taken into account in calculating the said compensatory amounts on the one hand and the refunds on the other. The French authorities were thus paying out the refunds in full and, on the same products, levying the monetary compensatory amounts in full.

The Commission decided on 31 May 1976 to effect the offsetting on an overall basis and consequently to reduce, by an amount of 1 408 730 u.a., both the own resources and the refunds declared by France on non-Annex II products for the period January 1974 to May 1975.

8. Audit of own resources in the Member States

- a) Own resources are collected by the Member States on behalf of the Community and the latter is entitled to attend national audits, at its request (Article 14 of Council Regulation No 2/71).

In 1975 the Commission made 25 visits to Member States in this connexion and, in accordance with the facility granted by Article 87 of the Financial Regulation, staff of the Audit Board were present during four of these visits.

The participation of Community departments in the verifications performed in the Member States permits limited sampling, mainly involving examination of procedures and of supporting documents, of accountancy and of making own resources available. However, these audits cover everything which follows from the moment when bodies or individuals conducting the operations bring the goods under customs control.

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.

This sampling suggests that certain matters, for example those mentioned in the subsections below, should be studied with a view to improvements in Community regulations and in the management of revenue. But it would be a mistake to suppose that the sampling provides the Community with a satisfactory means of ascertaining that own resources are being collected correctly.

Similarly, the annual reports on the establishment and audit of own resources which are forwarded by the Member States in pursuance of Article 5 of Regulation No 2/71 too often contain only information supplied in overall and generalized terms, so that it has no real influence on the improvement of audit, despite the Commission's requests for more detailed reports.

- b) 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 various national administrative units involved.

Regulation No 2/71 allows Member States a fair amount of latitude in the procedure for establishing entitlements, stating in Article 1 that own resources are to be determined by the Member States "in accordance with their own provisions laid down by law, regulation or administrative action".

However, the Communities have some means of intervening. They can ask the Member States to make haste in the matter and they can also invoke Article 6 of the Council Decision of 21 April 1970, which stipulated that own resources were to be collected by the Member States in accordance with national provisions imposed by law, regulation or administrative action "which shall, where necessary, be amended for that purpose".

The same points apply to accounting for revenue where levies disputed in whole or in part are concerned. Sometimes such levies are not entered in accounts until the dispute has been settled but this is contrary to Community provisions.

- c) An inspection visit in France revealed difficulties in verifying the authenticity of Form A certificates of origin submitted for the importation of products originating from developing countries which enjoy preferential rates of duty.

The facilities for administrative co-operation envisaged by Community regulations in the matter are only partly operative, for lack of any routine system whereby the beneficiary countries forward the necessary information.

The Commission has explained that arrangements for the verification of these certificates are currently being worked out.

- d) Denmark's monthly returns of own resources annexed to the receivable orders show that a deduction from customs duties is made under the head "drawback of customs duties on shipbuilding".

Part of this drawback (calculated on the value of goods of Danish origin which are treated as goods cleared through customs) is not justified by Community provisions and ought not to be deducted from own resources to be made available to the Community.

- e) Commission Regulation No 1608/74 of 26 June 1974 introduced an equity clause authorizing Member States, subject to certain conditions and as a special concession, to refrain from collecting monetary compensatory amounts, or increments to them, where the operations arise from an order confirmed before these monetary compensatory amounts became applicable or before they were increased.

This Regulation is applicable to imports or exports made on or after 4 June 1973, when the first Regulation on monetary compensatory amounts came into force.

It is stipulated that the Member States must supply the Commission periodically with various items of information of a general or specific nature on cases in which the Regulation has been applied.

This information has not always been supplied by the Member States and 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.

CHAPTER 3 : THE OPERATING EXPENDITURE OF THE INSTITUTIONS

A. STAFF EXPENDITURE

9. Numbers of staff in employment at 31 December 1975

a) At the end of the financial year 1975 there was an aggregate of 12 489 officials, temporary staff and Euratom establishment staff in employment in the various institutions. This figure represented a 5.5% increase in staff by comparison with the previous financial year.

	Numbers in employment at 31 December		Numbers authorized by the 1976 budget
	1974	1975	
Parliament			
Council			
Economic and Social Committee			
Audit Board			
ECSC auditor			
Commission:			
- operational staff			
- research and investment staff			
Court of Justice			
Total			

b) The foregoing table shows that the staff being paid from the appropriations to the general budget of the Commission at 31 December 1975 comprised 7424 persons (officials and temporary members of staff). The number of posts authorized for the financial year 1975 (including 27 posts authorized by supplementary budget No 1) was 7803.

(1) Not including some twenty members of staff seconded in the interests of the service to a body other than their original institution.

Vacant posts numbered 54 in category A, 119 in category B, 20 in category D and 225 in the language services. However, one finds that in Category C the authorized number was considerably exceeded, as there were 2662 staff but only 2623 authorized posts. Within the category the extra staff were in Grades C 1 (6), C 3 (29) and C 4 (45); there were 37 vacant posts in Grade C 2.

According to the notes accompanying the lists of posts in the budget, the composition of staffs as to categories and grades must be kept within the limits set by those lists.

- c) To the numbers occupying posts for which the budget makes provision must be added the auxiliary and local staff and the special advisers, totalling 2225 persons. At 31 December 1975 the breakdown was as follows

	Auxiliary staff	Local staff	Special advisers
Parliament			
Council			
Economic and Social Committee			
Commission:			
- operational staff			
- research and investment staff			
Court of Justice			
Total			

One notes a considerable increase in this personnel by comparison with the situation at 31 December 1974, when there were 233 auxiliary staff and 1119 local staff (not including those local staff paid from extra-budgetary funds) in employment in the institutions of the Communities.

10. Award to JRC officials of the compensatory allowance under Article 106 of the Staff Regulations

Under a transitional provision of the Staff Regulations (Article 106), any official in receipt of a separation allowance before the Staff Regulations of 1961 were applied who did not qualify for grant of an expatriation allowance was to be allowed the sum which he would have received by way of separation allowance under the scale of remuneration existing before the Staff Regulations entered into force.

(1) Including a number of local staff remunerated from the funds of extra-budgetary administrative units (restaurants, crèches, etc).

This provision has been applied predominantly in the case of staff who became ineligible under the changes introduced on 1 January 1962 for the separation allowance and also were unable, as a result of the change in the criterion of grant, to claim expatriation allowance (criterion of residence for the former, criterion of nationality for the latter).

The provision has also been applied to staff who had received the separation allowance and at some date after the Staff Regulations came into force no longer qualified for the expatriation allowance but still satisfied the conditions which had previously entitled them to receive the separation allowance.

Examination of the expenditure of the Joint Research Centre has revealed that since May 1974 and with retrospective effect to 1 February 1973 Article 106 has been applied to 40 officials recruited by the former Commission of the EAEC between 19 June 1960 and 31 December 1961, on the basis of an instrument of appointment which already contained the criterion of nationality instead of that of residence for award of the separation allowance.

These have been staff whose entitlements in respect of the allowances in question were in no way changed by the entry into force of the Staff Regulations of 1962. The application in their case of Article 106, giving rise to expenditure of about 30 000 u.a. a year, amounts to compensating them for the loss of a right which they never possessed; therefore there does not seem to be any justification for the decision taken in these cases.

Admittedly, there is a difference between the salary of the staff in question and that of officials recruited at the same time but under other conditions of service by the other institutions of the Communities, and the Audit Board itself stressed in its 1960 Report (page 177) how regrettable this disparity was. In justification of its decision the Commission has invoked its concern to eliminate the difference.

The Audit Board, for its part, considers that, as in the case of all transitional provisions, Article 106 should be applied very strictly. There are many disparities, even including some in the grounds for grant of the old separation allowance, and the only way to eliminate them would be through the introduction of new rules on the implementation of the Staff Regulations. The treatment so far given to the various cases has been introducing arbitrary action into a situation which was already confused.

11. Failure to apply a new provision of the Staff Regulations relating to education allowances

The present version of the provisions relating to education allowances, contained in Article 3 of Annex VII of the Staff Regulations, was laid down in Council Regulation No 711/75 of 18 March 1975 (OJ No L 71) amending the conditions for awarding double the maximum rate of the education allowance (third paragraph of Article 3). The first part of the third paragraph provides that: "The maximum prescribed (for the education allowance) shall be doubled for an official whose place of employment is at least 50 km from a European school or an educational establishment working in his language, provided that the child actually attends an educational establishment at least 50 km from the place of employment".

The previous wording provided for doubling of the maximum amount in the case of "an official whose place of employment is at least 50 km from a European school". It did not, as the present Regulation does, require the educational establishment actually attended to be at least 50 km from the official's place of employment. But, unlike the present Regulation, it excluded from grant of double the maximum amount those officials not receiving expatriation allowance.

Throughout the financial year 1975 the institutions continued to apply the old rule contained in the first part of the third paragraph of Article 3. In fact, the application of the latest version would mean withdrawing the benefit of the double allowance in many cases. In the Commission such action would mainly affect non-headquarters staff and officials from the new Member States whose children have no opportunity of attending the European School at the place of employment.

The departments of the Commission claim that these effects were not intended by the authors of the change in the Regulations which was introduced in March 1975 and because of this they have continued to apply the former general implementing provisions to education allowances.

They state that new general provisions for implementing the Regulation are being prepared and would permit compliance with the text of the Regulation without causing withdrawal of the higher allowances in the above-mentioned cases.

This statement has not eliminated the Audit Board's doubts about the legality of the payments under reference. However that may be, the Audit Board is very anxious that the new general provisions for implementing the Regulation should enable grant of the education allowance at the double rate to be confined to cases in which it is properly justified by the expenses involved.

12. Variations from one institution to another in application of the Staff Regulations

Some variations from one institution to another in the application of the provisions of the Staff Regulations have been noted.

a) Variations in family allowances

Where the completion of a course of study falls later than the end of an academic year, all the institutions - other than the Parliament - pay the education allowance up to the end of the month following that in which the academic year ended (Art. 6 of the general provisions applicable to the award of the education allowance). If entitlement to the dependent child allowance ends at the same time, the Commission's offices in Brussels, the Economic and Social Committee and the Court of Justice withdraw payment of both the allowances from the same date. But the Commission's offices in Luxembourg and the Secretariat of the Council do not pay the dependent child allowance for the month following that in which the studies ended.

Since entitlement to the education allowance is recognized solely for dependent children as defined by the Staff Regulations, the periods for which these allowances are paid ought to match exactly in such cases.

b) Variations in pensions

Although satisfactory harmonization has been achieved in the matter of payment for pension rights, there is still disparity in calculation of the years of pensionable service of an official who retires at the age of 65.

In all the institutions other than the Parliament an official who reaches the age limit is retired on his 65th birthday and that date is taken as the one from which the years of service are calculated. However, the Parliament bases calculation of the pension on the whole of the month in which the official reached the age of 65 (and for that month the salary and the contributions to the pension scheme are paid in full).

It is desirable that the institutions should promptly reach agreement on uniform application of pension rights where retirement is at the age of 65.

c) Variations in classification of staff at the time of recruitment

A careful study, covering several years, of the initial classifications made by the institutions at the time of recruitment of staff has revealed some disparities. In view of the freedom which each institution is allowed in the management of its staff, the Audit Board realizes that it would be difficult to avoid some differences in that respect; however, it considers that the achievement of greater harmonization of the criteria for classification which are applied is both possible and desirable.

The Commission has indicated that it is studying the possibility of arranging joint recruitment competitions, at least for certain categories of staff, which is a method that would facilitate harmonization of grading and should yield considerable saving in costs.

d) Allowance not covered by current provisions

An official of the European Parliament applied for and obtained compensation for theft of jewellery during a mission.

Payments of such a nature had previously been discovered in accounts of the Secretariat of the Parliament and had been criticized by the Audit Board (1971 report, Point 12, 3rd paragraph).

13. Award to staff of the European Parliament of a supplement to the daily subsistence allowance while on missions

- From 5 March 1975, under a decision reached by its Bureau on the previous day, the European Parliament has been granting a supplement to the daily subsistence allowance of its officials when they travel to Brussels, Strasbourg or Luxembourg on a mission.

Council Regulation No 711/75 of 18 March 1975 (1) set the level of mission allowance at Bfrs 860, Bfrs 1320 and Bfrs 1160 respectively for the groupings I, II and III given in Article 13 (1)(a) of Annex VII of the Staff Regulations. The rate of Bfrs 1160 was raised to Bfrs 1220 by Council Regulation No 2577/75 of 7 October 1975 (2). The supplements to the allowance which have been awarded by Parliament are Bfrs 80, Bfrs 120 and Bfrs 150 respectively, and for group I there is a further supplement of 10% of the rate for reimbursement of hotel bills.

The decision of the Bureau of the Parliament, which on 19 November 1975 extended the period of application until 30 June 1976, is contrary to the provisions of the Merger Treaty (Article 24 (1), second paragraph), which stipulate that: "The Council shall, acting by a qualified majority on a proposal from the Commission and after consulting all the other institutions concerned, lay down the Staff Regulations of officials of the European Communities and the Conditions of Employment of other servants of those Communities".

In reply to a request from the Audit Board for information as to whether the measures introduced by the Parliament are in order, that institution merely referred the Audit Board to the decisions of 4 March and 19 November 1975, in which it stated "the considerations which have led it to take, with full knowledge of the facts, this stand which is clearly a matter of policy".

The financial controller of the European Parliament raised objections but did not feel obliged to withhold his approval of the payments arising from the decisions under reference. It has been stated that he "considered the wording of the decisions to be equivalent to a reasoned decision issued in advance by the highest authority of the European Parliament to override any withholding of approval by the control section".

14. Award to local staff employed in Luxembourg of financial benefits not prescribed by rules or local practice

Under Article 79 of the Conditions of Employment of other servants, the remuneration of local staff is to be determined in accordance with current rules and practice in the place where they are to perform their duties.

The Commission and the European Parliament apply identical conditions to local staff employed in Luxembourg and early in 1974 they agreed to grant their local staff, with effect from 1 January 1973, a 7.1% increase in basic salary, based on the movement in pay taken as the index in the Grand Duchy. In the event, the Parliament did not apply this 7.1% exactly for the period from January to June 1973, for which it paid slightly higher rates than the Commission did. The resultant difference to the advantage of the employees of the Parliament amounted to about 20% of the basic monthly salary per employee for that period.

(1) O.J. L 71 of 20 March 1975

(2) O.J. L 263 of 11 October 1975

The Commission's administrative authorities then invoked the principle of identical remuneration of local staff employed in Luxembourg, whatever the institution employing them, and proposed the award to local staff of the Commission working in Luxembourg of a like increase, in the form of a once-only award equivalent to 20.32% of the basic pay for the month of January 1973 (about 80 u.a. per local employee). The institution assessed the total cost as 6400 u.a. (1).

The Commission's financial controller withheld approval of this proposal, stating that the once-only award was not in accordance with current rules or local practice, nor could the proposed measure be properly justified on the grounds of error committed by another institution. Despite these objections the Commission overrode his withholding of approval and in December 1975 decided to pay the award under reference.

The Audit Board considers that the institutions involved should have applied the rules more carefully, thereby avoiding expenditure for which it sees little justification.

15. Irregular classification of employees promoted to a higher grade

Several staff of the Commission who have received promotion to a higher grade have been assigned in the new grade a higher step than would result from normal application of Article 46 of the Staff Regulations. These are officials who at the time of promotion were under secondment to another institution and held a temporary appointment there in the same grade as that to which they were later promoted as officials.

The classification was decided by considering the new appointment in the light of the step and the length of service in that step which a promoted employee had attained in the temporary appointment. The view expressed by the Commission is that in these cases it cannot "withhold the benefit of seniority in a step from these officials who have actually performed the duties of the higher career-bracket for the period involved". In justification of these classifications it has also invoked Article 37 (2) of the Staff Regulations. Under that paragraph, the provisions which apply, during the secondment, to an official on secondment to another authority are to be those applicable to an official of the same grade as that assigned to him in the post to which he is seconded. Since their application is expressly limited to the period of secondment, the provisions of that paragraph do not authorize any departure from the application to a promotion following a secondment of the rules of classification laid down in Article 46 of the Staff Regulations. The Audit Board therefore considers that the classifications decided as explained above were contrary to the regulations.

16. Refund of emoluments incorrectly paid

- a) - A JRC official receiving leave on personal grounds from 9 October 1970 continued to receive his emoluments until 31 March 1971. This official has since repeatedly and unsuccessfully been requested to refund the overpayment (about 6180 u.a.).

(1) This assessment is therefore based on a figure of 80 staff. At the end of 1975 there were 137 local staff in the employment of the Commission in Luxembourg.

In July 1975 the Directorate-General of the JRC re-examined this case and decided to waive recovery of the sums incorrectly paid in respect of the period from 9 October to 31 December 1970. The reason given was that the person concerned was not notified of the decision granting leave on personal grounds until the beginning of December 1970.

The Audit Board considers that the decision not to recover the part of the emoluments corresponding to the first three months of leave is unjustified. In the absence of a reply from the authority to his request for leave, the person concerned should have presented himself for work. Since he did not do so, his absence was contrary to the regulations and he is not entitled to remuneration.

- An employee of the Commission who was appointed as from 1 March 1973 as a temporary member of staff at grade A 5, step 3, was made a probationary official in the same grade, with effect from 1 May 1973. This appointment should not have changed the initial classification (so that the person concerned would have attained step 3 with service from 1 March 1973). Moreover, in the light of the provisions of Article 32 of the Staff Regulations it was not permissible to allow special seniority within the grade.

However, because of a transcription error in the appointment decision, this official drew the remuneration for step 4 of Grade A 5, from 1 May 1973.

On 28 February 1976 the appointment bearing the erroneous classification was cancelled and replaced by a new appointment for step 3. The person concerned was informed at the same time that, "since he was not to blame for the error", refund of the overpayment would not be requested. Moreover, "in order to avoid the possible consequences of an unexpected reduction in monthly salary", the current salary (which since 1 March 1975 had been that for step 5) would be continued in his case until a rise to step 5 became due in the normal way, i.e. until 1 March 1977.

The Audit Board considers that the institution should at least have rectified the incorrect salary from the time when the error was pointed out to it (25 November 1975). It seems to the Audit Board that it is scarcely justifiable to allow the results of the error to continue until 1 March 1977.

- b) A former official of the Directorate-General for Agriculture who left the Commission in 1973 under the terms of Council Regulation No 2530/72 was re-engaged by his former Directorate-General from 16 January 1974, under contract as an expert. For the application of Regulation No 2530/72 the person concerned had claimed residence in Brussels and had thus been able to obtain payment of his allowance in Belgian francs. However, as an expert he had obtained acceptance of a domicile in Italy, which enabled him for nearly two years to draw considerable sums for travel expenses (one journey per month) and daily subsistence paid at the rate prescribed for foreign experts (30 u.a. daily). The administration units put the total amount of incorrect payments at 8392 u.a.

However, the refund eventually sought was not that sum but a much lower one (5776 u.a.), regarded as having been overpaid as allowance for voluntary termination of service. In fact, the institution accepted the change of residence claimed by the person concerned, with retrospective effect to January 1974, and it regularized the allowance on the basis of payments in lire with the weighting applicable for Italy. By means of this change, which was not in accordance with the true facts and was therefore probably not permissible, the institution sought to justify the refunding of travel costs and of subsistence of 30 u.a. per day (although daily subsistence is only 15.6 u.a. for an official whose latest assignment to a national administration is at least 50 km from the place of employment).

17. Expenditure on pensions

a) Entry in the accounts of expenditure on pensions

In the last few years all expenditure on pensions has been brought together in the section of the budget relating to the Commission (Article 112). One might expect this grouping together to make it easy to obtain a clear picture of all the expenditure of this kind. In fact, it is impossible to discover from the budget accounts the true size of the costs under "Pensions". Only basic pensions and dependent child allowances are assigned to the appropriations to the first three items under Article 112, "Pensions and severance grants". All the other components of costs for staff pensions are put under other general headings of the budget: household allowances and education allowances are put under Item 1101, "Family allowances", the employer's share of sickness insurance is entered under Item 1130 and, most notably, expenditure resulting from the application to the pensions of the weightings is entered under Article 116 (and that appropriation alone has to meet the total cost of application of the weightings for all expenditure on staff).

The Audit Board considers that it would be advisable to adapt the current budgetary nomenclature so that the above-mentioned appropriations are divided up according to a better arrangement and enable emoluments and pensions to be clearly distinguishable from each other.

Moreover, it is very doubtful whether expenditure on family allowances paid to pensioners ought to come under Item 1101. This item is placed under Article 110, entitled "Officials and temporary staff holding a post provided for in the list of posts", so that it is inappropriate for allowances paid to pensioners to come under a heading with that wording.

b) Survivors' and orphans' pensions

Major changes in the Staff Regulations in connexion with pensions were introduced in 1972. Important changes were the increase in the maximum retirement pension and substantial rises in the scales of survivors' pensions (widow's pension and orphan's pension).

Where both a widow's pension and one or more orphans' pensions are received the survivors' pensions come to quite a large total, even where the pension rights which had been acquired by the official himself at the time of death were quite small. Thus, the widow of an official in any grade with two dependent children received, with the weighting of 148.7 (applied for Brussels and Luxembourg from 1 July 1975) at least 1070 u.a. per month in widow's pension, orphans' pensions and family allowances.

The high level of survivors' pensions results, in particular, from:

- . the application of the minimum levels laid down for the different types of pension;
- . payment of double-rate dependent child allowances and orphans' pensions for the same children;
- . the application of considerable tax abatements. The Regulation on Community taxation gives "for each dependent child an abatement equal to double the amount of the dependent child allowance". Under an agreement between the institutions, the double-rate allowance - which did not exist when the Regulation on taxation came into force - is treated for purposes of the abatement as two allowances, thus bringing the abatement per child up to four times the amount of the allowance under Article 67 (1)(b) of the Staff Regulations.

The present arrangements for survivors' pensions result in some cases in pension payments to the widow of an official that are higher than the remuneration received by the official when he was in employment.

c) "Cumulation" of a pension and remuneration for services

In its previous reports the Audit Board has repeatedly drawn attention to the payment of remuneration to former officials who are already drawing a pension. Cases of "cumulation" of a retirement or invalidity pension with remuneration for services rendered to Community institutions - which is sometimes a high level of remuneration - occurred again in 1975.

A former official of DG XX of the Commission (Financial Control) was employed as an expert by DG XII "Research, Science and Education", with the duty of "assisting the officials of the Commission in the preparation and performance of on-the-spot audits of research and association contracts entered into by the Commission". The fees paid to him for this work were 2250 u.a.

Another pensioner of the Commission was for several years regularly entrusted with documentation tasks and received remuneration against the appropriations to Article 360 "Purchase of books and subscriptions". The remuneration paid to him in 1975 was 2800 u.a. Since 1970 this former official has received his pension plus fees totalling 29 805 u.a.

d) Application of Article 70 of the Staff Regulations to those opting for voluntary termination of service

In the event of the death of an official or a person entitled to a pension, the surviving spouse or dependent children receive the deceased's full remuneration or pension until the end of the third month following the month in which the death occurred (Article 70 of the Staff Regulations for Officials). The heads of administrative services of the Community institutions recently decided to apply this provision "mutatis mutandis", with retrospective effect to 1 January 1973, in the case of the death of a person in receipt of the voluntary retirement allowance. Several cases of application of this decision have occurred in the Commission and the Parliament.

These payments constitute an extension of application of the Staff Regulations, because the payment, following the death of a person who has opted for voluntary retirement, of the full allowance provided for under Article 3 of the voluntary retirement regulations until the end of the third month after the death is not provided for in those regulations.

e) Repurchase of pension rights (application of Article 11 (2) of Annex VIII of the Staff Regulations)

- Rate of exchange applied for the repurchase of pension rights

Under the terms of Article 11 (2) of Annex VIII of the Staff Regulations, an official who enters the service of the Communities has the right to pay to the Community the actuarial equivalent of the pension rights acquired by him in the organization to which he formerly belonged or the sums repaid to him from the pension fund of that organization.

Up to the end of the financial year 1975 there had been a repurchase of rights by 34 officials of the Commission, 2 of the Parliament, 2 of the Court of Justice and one of the Council.

The sums for such repurchase paid in currencies other than Belgian francs were converted on the basis of the latest parity declared to the International Monetary Fund. Several large payments had been made in currencies whose true rate of exchange at the time of the operation differed greatly from the fixed rate used for calculating the price for repurchase. For example, a British official of the Commission (A 3) repurchased a pension period of 12 years and 4 months, by means of payment in June 1975 of a sum of £34 517, which was converted into Belgian francs on the basis of £1 = 120 Bfrs (i.e. 2.4 u.a.), whereas on the exchange market the average rate for the pound sterling for June 1975 was 79.71 Bfrs. A payment of 9 746 990 Italian lire in January 1975 was converted at the rate of 100 lire = 8 Bfrs and enabled an A 4 official of the Parliament to obtain attribution of 5 years and 11 months. The average rate for 100 lire in Belgian francs at that time was 5.50 Bfrs.

From the point of view of sound financial management the application of the latest IMF parities to the repurchase of pension rights seems to have little justification. The application of more realistic rates of exchange would clearly have produced considerably lower pension attributions in the above-mentioned cases and other similar cases.

It must be added, however, that as a result of intervention by the financial controller, the majority of applications for repurchase of rights have been held in suspense pending re-examination of the problem of the rates of exchange to be applied. According to information available to the Audit Board, the regulations intended for adoption in the near future provide for the IMF parities to remain applicable to the repurchase of rights acquired before 1972; an up-to-date average rate of exchange would be applied for subsequent periods. In fact, the Commission considers that the number of years of pensionable service obtained by repurchase of rights cannot be allowed to depend solely on the state of the exchange market at the time when the official obtains his entitlement and that the solution put forward would have the merit of applicability both in periods of monetary stability and at times of fluctuation, so that differences in results for officials in the same circumstances would no longer occur.

- Calculation of years of pensionable service repurchased from basic salary only

The entitlement in years of pensionable service given by the actuarial equivalent is calculated in direct proportion to the sum transferred and in inverse proportion to the basic salary of the official at the time when he obtains the entitlement. Therefore, for any given sum the higher the official's salary is at the time of calculation, the lower the number of years of pensionable service attributed to him.

From the theoretical point of view it is normal to use a formula for determining the number of years of service which takes into account only the basic salary, because pension rights are defined as being equal to 2% of the basic salary per year of service. Weighting is introduced at the time of payment of the pension, to "equalize" standards of living, and it might well be lower than 100, as has occurred in the past.

On the other hand, a salient feature of the methods of calculating remuneration applied in practice in the Communities for several years now is the application of weightings far above the base of 100, for all places of employment. This raises the question of whether or not it is still defensible to calculate years of service from basic salary alone.

Another consideration is that there will be considerable differences between results obtained with the formula according to whether the repurchase occurs before or after revision of the pay scale (accompanied by a set of weightings within the scale). It will be difficult to justify the situations which in practice will be produced in this way.

f) Credit of pension rights on the basis of Article 107 of the Staff Regulations (Art 102 (2) of the former ECSC Staff Regulations)

- This transitional provision of the Staff Regulations applies to an official who entered the service of the Communities before 1962 and who was obliged by reason of his entering the service of the Communities to forfeit in whole or in part the pension rights which had accrued to him in his country of origin but was unable to obtain the actuarial equivalent of such rights. The provision grants such an official the right to be credited for the purposes of his Community pension, and without payment of arrears of contributions, with annual contributions corresponding to the rights lost.

Up to the end of 1975 a decision to credit pension rights had been given in the Commission to 30 requests for application of this provision. The majority of these decisions concerned former officials from the Federal Republic of Germany who had been seconded (entsandt) to the Community and who had retained pension rights in their country of origin.

The time that a German official spends on secondment to a German body counts towards his national pension. However, in order to avoid the "cumulation" of more than one pension for any given period of service, the German legislature introduced, on 19 July 1968, a provision (para. 160 b of the "Bundesbeamtengesetz") prescribing that "where a person entitled to a retirement pension is entitled to a pension arising from holding public office in an international or a supranational organization, his German pension shall be held in suspense (ruhen seine deutschen Versorgungsbezüge) to an amount corresponding to a reduction of 2.14% for each completed year in the service of the international or supranational organization".

Since the suspension of the payments is not equivalent, in law at least, to a genuine loss of pension rights - for example, in the event of loss of rights to the international pension the national pension would be paid in full - the requisite conditions for the application of Article 107 of the Staff Regulations to these cases do not seem to be met. Moreover, the authorities in the Federal Republic of Germany have objected to the Commission acting in a way which causes the Community to bear the consequences of a national measure designed to prevent "cumulation".

Secondly, it may be noted that although satisfying the terms of Article 107, the way in which the loss is determined in the above-mentioned cases is inaccurate. That loss is calculated solely by comparing the years of pensionable service acquired at the time of secondment and the years arising from application of Article 160 b of the German law, without taking into account the amount of emoluments to which the years of service are applied. This method would be in order if the salary were frozen at the time of secondment but such is not the case; on the contrary, the application of the existing rate (after reduction) to a base for calculation which will become higher during the period of secondment (mainly by the award of two-yearly increments) confers a definite advantage, reducing the loss of rights which the official could incur. The method applied by the Commission does not take into account this reduction.

- Under Article 5 of Annex VIII of the Staff Regulations an official qualifies in respect of each year of service between the ages of 60 and 65 for an increase in pension equal to 5% of the amount of pension rights acquired by him at the age of 60.

The institutions include in the total of rights taken into consideration for calculation of this increase the years of pensionable service credited under Article 107 of the Staff Regulations.

Given that an official who retires before the age of 65 cannot avail himself of the benefit of Article 107 (para. 4 of that article), the rights are not finally credited to the official until he attains the pensionable age of 65. Therefore the Audit Board considers that the methods of calculation used by the institutions, whereby credited rights are included in the rights acquired at the age of 60, can be challenged.

g) Payment of a pension in a currency other than that of the country of residence

Article 45 of Annex VIII of the Staff Regulations allows pensioners, subject to certain conditions, to elect to have their pensions paid in any of several currencies. Thus, some pensioners resident in France and in Italy, in particular, and benefiting from the weightings applied for those countries draw their pension in Belgian francs and in this way receive an appreciable unjustified gain from the rate of exchange.

This anomaly has already been pointed out several times in the past by the Audit Board and mentioned in its comments, notably in the 1972 Report, Point 3 c. These comments are no less pertinent now and the Audit Board therefore thinks it should draw the attention of the competent authorities to them.

18. Transfer of emoluments in the currency of a country other than the country of employment

- a) Under the terms of the Staff Regulations, an official's remuneration (expressed in Belgian francs) shall be paid in the currency of the country in which the official performs his duties. Remuneration paid in a currency other than Belgian francs shall be calculated "on the basis of the par values accepted by the International Monetary Fund which were in force on 1 January 1965" (Art. 63 of the Staff Regulations).

The remuneration is to be weighted at a rate depending on living conditions in the various places of employment (Art. 64).

Article 17 of Annex VII of the Staff Regulations introduces some relaxation of the principle that payment must be made in the currency of the country of employment. It allows an official to make regular transfer of part of his emoluments, up to a maximum amount equal to his expatriation allowance, through the institution which he serves, either in the currency of the Member States of which he is a national or in the currency of the Member State in which either his domicile or the place of residence of a dependent relative is located. Transfers in excess of the maximum amount equal to his expatriation allowance may be effected only where duly justified.

- b) Article 17 (4) of Annex VII stipulates that transfers "shall be made in the official exchange rate ruling on the date of transfer".

The concept of the official exchange rate has not been defined. The practice followed by all the institutions has been and still is to apply to transfers of emoluments the rate corresponding to the latest par value declared to the IMF (rate of conversion between the u.a. and the national currencies used in the budget of the Communities), with application to the whole of the remuneration of the weighting for the country where the official is employed.

- c) While exchange rates were based on the monetary system created by the Bretton Woods agreement variations in actual rates of exchange in relation to the declared parities were very small. Readers will be aware that since 1971 this system and declarations of par values to the IMF have been abandoned. Great changes have occurred in the relative values of currencies and other arrangements in the matter have been made. There is still less justification for the methods being applied now that the differences between the old par values and the rates of exchange actually in use have become very large and create definite distortion in remuneration.

For example, use of the conversion rate of the DM (DM 1 = Bfrs 13.66), which is about 12.5% lower than the present rate of exchange, means that an official employed in Brussels or in Luxembourg who transfers 35% of his remuneration to Germany obtains a profit of more than 4% on his emoluments. When an employee attached to Ispra has 35% of his remuneration paid in DM the profit is even greater.

- d) Under the terms of the implementing provisions issued by the Commission in the matter of transfers, regular transfers (including payments into the Beamtenheimstättenwerk, a German organization which grants loans to public officials for house purchase) are not permitted in any case to exceed 35% of the net salary. However, in the Council we have noted two cases, at least, in which regular transfers in DM amounting to 50% or nearly 50% of the net salary of the official were being made. Such transfers are being used to repay mortgages on several building projects.

Several cases of unduly high proportions of transfer in DM (of as much as 65%, 74% and 90% of the net remuneration) have been discovered in the Court of Justice. Transfer at the rate of DM 1 = Bfrs 13.66 of such a large portion of the salary is contrary to the spirit of the regulations for the system of remuneration, because the individuals concerned obtain the benefit for the whole of their emoluments of the weighting prescribed for Luxembourg (at present 157.8, whereas the weighting for the Federal Republic of Germany is 130.9).

The Audit Board has drawn the attention of the Court to these transfers and the Court has taken steps to limit transfers made on and after 1 June 1976 to a maximum of 35% of the salary.

- e) Regular transfers in excess of the maximum amount of the expatriation allowance consist for the most part of repayments to the Beamtenheimstättenwerk (BHW). That organization has concluded building society savings agreements with a great many officials of the European institutions, without regard to nationality. Many of these parties to agreements, doubtless the majority, are not of German nationality and have no member of their family resident in Germany; not all of them receive the expatriation allowance. Nevertheless they are allowed, on the same terms as German nationals, the benefit of transferring salary to the BHW through the institution, at the rate of DM 1 = Bfrs 13.66. The sums transferred are either placed in a building society savings account or are used for repayment of loans already granted.

It is hardly possible to dispute that this system constitutes a widely-occurring breach of the provisions of the Staff Regulations. Moreover, this abuse has been pointed out previously by the Audit Board (cf. 1972 Report, Point 3 c, last two paragraphs).

Transfers of salaries to BHW have been increasing rapidly since then and the figures have become very large. In February 1976 the Commission transferred to BHW on behalf of 2302 members of its staff (including about ten pensioners) sums totalling 602 670 u.a. For the same month we have found 125 transfers to BHW by the Council, 98 by the Parliament, 67 by the Economic and Social Committee and 18 by the Court of Justice.

These transfers to BHW are being made by such a large proportion of the staff, especially among the JRC officials in Ispra, that some of them would appear to be more akin to investments in a strong currency at a favourable rate than to genuine transfers of savings into a building society.

- f) Although there is some provision for regular transfers, it is not permissible to authorize occasional transfers "save in very exceptional circumstances and for good reasons supported by evidence" (Art. 17 (3)).

Most of the institutions, especially the Commission, seem to adhere to the very exceptional circumstances intended by this provision.

However, every year the Council has been authorizing its staff to transfer during the leave period the whole of their salary for the month of July or August. The institution has not yet informed the Audit Board whether or not it intends to take steps to limit such transfers or those mentioned in d) above.

In the Economic and Social Committee we have discovered some occasional transfers (8 in 1975) which likewise involved a whole month's salary. These were exceptional payments to BHW for the purpose of raising the savings account of the persons concerned to the level required (the holding has to reach a certain percentage of the loan desired before that loan can be obtained). Decision as to allowing such transfers has to be given in each individual case by the Secretary-General or the Administrative Director of the ESC and authorization is not given on more than one occasion.

- g) The Commission has explained that because of difficulties in construing the meaning of Article 17 of Annex VII it put forward to the Council as long ago as 1974 a proposal for amendment of these provisions, so that for the part of the remuneration transferred the officials concerned would be put on equal terms with officials employed in the country to which these emoluments are transferred.

The Commission believes that adoption of the amended provisions would solve the problems caused by the present monetary disturbances.

19. Expenditure relating to missions

The growing use by the Commission of transport by charter aeroplane is illustrated by the following figures:

	<u>1973</u>	<u>1974</u>	<u>1975</u>
Expenditure (u.a.)	94 374	124 212	216 351
Number of flights	121	157	188

More than two-thirds of the 188 flights chartered in 1975 were from Brussels to destinations well served by various means of communication. Sixty-two flights involved the Brussels-Strasbourg route and were attributable to attendance by the Commission at work of the European Parliament. Some 100 flights, including 35 on the Brussels-Strasbourg route, were made without passengers, either on the outward or the return journey. In view of the journeys without passengers and the difference in load between outward and return journeys, the mean figure for occupied capacity on the Brussels-Strasbourg route was 2.9 in 1975, 3.9 in 1974, 2.5 in 1973 and 2.9 in 1972.

The cost per passenger carried on the single Brussels-Strasbourg route for any given period of sessions of the Parliament ranged from 112 u.a. to 163 u.a. according to the coefficient of occupied capacity for the aircraft, which is upwards of three times the cost of a tourist class airline ticket (46.6 u.a.).

Very expensive flights were made to other destinations, notably a flight to Egypt, Kuwait and Saudi Arabia, at a cost of 13 247 u.a. for 5 persons.

20. Life insurance taken out for Members of the European Parliament

- a) On 18 June 1975 the Bureau of the Parliament approved the proposal submitted by a working group for taking out with a private company a life-insurance-linked retirement pension policy for the Members of the European Parliament.

The insurance covers the payment of DM 20 000 to Members who cease to serve:

- in the event of death : unconditionally as to term
- in the event of survival : not earlier than 1 January 1977, on condition that the person concerned has served for at least 10 years and has reached the age of 60 or more years.

Accrued profits are to be calculated and paid at the same time as the sum insured and there are options of continuing, converting or redeeming the policy in the event of ceasing to serve after payment of the premiums for not less than two years.

While the Member is serving the premiums are to be paid in full by the Parliament. The insurance commenced from 1 January 1975 but for Members who entered the Parliament before that date it is treated as having commenced at the date when they became Members and the premiums in respect of the pre-existing service were to be paid in two equal instalments in 1975 and 1976.

The cost has been computed as 260 000 u.a. for each of the financial years 1975 and 1976 and at 80 000 u.a. per annum from 1977 onwards. Since the necessary appropriations were not provided for in the 1975 budget the cost was met from transfers of 180 000 u.a. and 80 000 u.a., respectively from Item 1004, "Travel and subsistence expenses of delegates", and Item 9900, "Expenditure not specifically provided for" to Item 1010, "Accident and sickness insurance".

- b) The emoluments hitherto applied to Members of the Parliament did not provide for such insurance, which somewhat changes the form of the emoluments, which comprised a system of refund of expenses.

The change was introduced by the competent bodies of the Parliament, without the intervention of the Council and without Parliament itself having been asked for its views, except in the course of budgetary procedure.

The agreement was concluded in an exceptional manner which is scarcely compatible with correct application of the provisions of the Financial Regulation. In fact, the Parliament was negotiating with the insurance company from 30 April 1975 onwards, following a resolution passed by the working party entrusted with working out the arrangements for taking out insurance, hence before the Bureau approved this resolution in June 1975.

The transfers of appropriations to Item 1010 were approved in August 1975 and a payment of DM 884 382 was made in September, on account, as the agreement itself was not signed until November 1975.

Questioned by the Audit Board about the action taken, the institution replied that "signature of the final text of the agreement could not take place until November, for reasons of the personal convenience of the signatories. In order to enable the members to benefit from the profit-sharing conditions, we saw fit to pay a substantial sum on account as early as possible".

The Audit Board also enquired into the reasons justifying recourse to an insurance agreement to meet the payments to be made, rather than to direct payments charged to the budget.

From the reply received it emerges that the possibility of direct payments charged to the budget was dismissed because it was difficult to determine the exact cost in the long term and because, in any event, that method did not seem to be less costly than an insurance agreement.

B. EXPENDITURE RELATING TO BUILDINGS AND EQUIPMENT

21. Expenditure relating to buildings (Chapters 20 and 21 of the budget)

- a) Overall expenditure in 1975 on buildings by all the institutions (Chapters 20 and 21 of the budget, total commitments: 34 244 280 u.a.) was 24% higher than for the previous financial year. The proportion of this rise varied greatly from one institution to another: it was 1.3% for the Parliament, 6.5% for the Economic and Social Committee, 12.6% for the Court of Justice, 26% for the Commission and 43.2% for the Council.

In the last-mentioned institution the increase arose mainly from fitting out of premises (Article 214), for which costs rose from 89 531 u.a. in 1974 to 1 076 000 u.a. in 1975, when enlargement of the restaurant and fitting out of the conference rooms took place.

For the Commission, on the other hand, the increase came predominantly from rents (Article 210), for which expenditure rose by 3 519 170 u.a., i.e. 30.9%, from 11 380 457 u.a. in 1974 to 14 899 627 u.a. in 1975. For the financial years 1972 and 1973 commitments for rents had been 5 704 446 u.a. and 7 833 005 u.a. respectively.

- b) The appropriations carried over from 1974 to 1975 for Article 210 (rents) against commitments unpaid were used only to the extent of 249 217 u.a. out of a total of 403 339 u.a., because tax deductions from rents were lower than expected. A difference like this illustrates the fact that commitments may be very rough approximations and therefore it would be better if instead of the procedure of automatic carrying-over the institution were to use the procedure of carrying forward appropriations with the approval of the Council (Article 6 (1)(b) of the Financial Regulation).
- c) In its Report for 1973 (Point 21 c), the Audit Board noted that the Council had awarded a contract to a consultancy group the expenditure on which was to be charged to Article 202 of the budget, "Other expenditure preliminary to the acquisition of immovable property or to the construction of buildings", in connexion with the construction of the future Council building.

The contract was signed at the end of 1972 and covered the period from then until 1979, with fees totalling about 1 500 000 u.a., plus indexing, payable in accordance with a time schedule.

The contract laid down a series of five stages of work, as follows:

- from the end of 1972 to mid-1973: preliminary studies (study of needs, site survey, compilation of list of building regulations and requirements);
- from the beginning of 1973 to the beginning of 1975: competition, draft plan and plan (design competition, general plan of necessary features, draft plan, detailed plan of necessary features, final plan);

- from mid-1974 to the beginning of 1977: work on details (building permit, identification of matters of detail to be decided, tender specifications, production of detailed plans, comparison with requirements);
- from mid-1975 to the beginning of 1979: invitation to tender and performance of works (examination of the bids, performance of works, supply of equipment and furniture, production of plans for maintenance);
- in 1978 and 1979: acceptance and fitting out (acceptance, preparations for removal, removal, bringing maintenance arrangements into operation).

There have been considerable delays in carrying out this plan and at the beginning of 1976 only part of the preliminary studies had been completed (study of needs and site survey). The list of building regulations and requirements had not yet been produced and the design competition, initially intended to be held in 1973, had been deferred to 1977.

Despite failure to carry out the programme, there had been adherence to the timing of payment of fees and the sums spent have been:

- for 1972 :
- for 1973 :
- for 1974 :
- for 1975 :

It is true that the consultancy group was meanwhile given other tasks, but it is regrettable, both from the point of view of budgetary regularity and from the point of view of sound management, that the services rendered have been used for purposes other than those intended without new contracts to such effect having been made.

Moreover, such work as has been done is of far less value than performance of the programme set in 1972 would have been.

- d) As in previous years (cf. 1973 Report, Point 20 and 1974 Report, Point 25, eighth paragraph, and Point 26), the Audit Board has noted two cases of rents paid for periods when buildings were unoccupied. The reasons were cancellation of contract and delay in moving into leased premises.

The building at 69 rue Archimède, Brussels, which had initially been leased by an official of the Commission on behalf of one of the recreation centres, was given up on 31 December 1974. As it proved to be impossible to terminate the lease until 31 July 1975, the rent (plus compensation for termination of lease of 296 u.a. and forfeit of a deposit in respect of the tenancy of 780 u.a.) was paid in full to that date, although the new tenant had already carried out work on fitting out and converting the premises.

The building at 84-86, rue de la Loi, which was leased from September 1974, was only half occupied from June 1975 and the remainder was brought into use from January 1976. Moreover, a great deal of partitioning was carried out for this building, at a cost in 1975 of 792 799 u.a.

- e) For a few buildings which are partially occupied by the Commission and managed by property management companies the Commission pays VAT on its share of the communal costs (lighting, heating, maintenance, management costs), whereas for the other buildings it is exempted from that tax. Although it is difficult to separate out some of the individual costs, the Commission ought to persevere until it obtains a satisfactory outcome to its efforts to obtain exemption from that tax.

22. Management of the Commission's vehicle fleet in Brussels (Article 223 of the budget)

- a) In 1974 the combined distance travelled by the Commission's vehicles in Brussels was nearly 2 million km. The institution has assessed the costs, including depreciation based on kilometrage, at 7.62 Bfrs per km. It should be mentioned that this figure was obtained with the use of tax-free petrol and does not, of course, include personnel costs. If personnel costs are taken into account, the cost becomes well over 20 Bfrs per km. These figures should be viewed in the light of the diversity of the vehicles involved.

There is a wide range of vehicles in the fleet and some users virtually select for themselves the vehicle to be purchased. The result is that vehicles are sometimes chosen despite high price or heavy maintenance costs. Moreover, the variety of makes and models of vehicles hampers rationalization of the management of the vehicle fleet (maintenance, repairs, spares, etc).

The mean kilometrage has remained low and reflects under-use of several of the vehicles. For the 91 vehicles in the fleet the mean was 21 400 km in the year and many of the vehicles had a much lower total.

- b) The Audit Board had previously criticized (Report for 1967, Point 129), from the point of view of observance of the regularity of the expenditure and that of rational use of the vehicle fleet, the provision of a chauffeur-driven motor car for each Director-General, since neither the Staff Regulations nor any other regulations of the authorities responsible for the staff regulations or the budget provide for such a facility.

The Directors-General of the Commission are at present asked to choose between three arrangements:

- receiving the fixed allowance of 3000 Bfrs per month which is provided for under Article 15 of Annex VII of the Staff Regulations and refraining from using the service vehicles at the place of employment;
- renouncing the fixed allowance and being allowed the use of a fleet vehicle without chauffeur, with authorization for travel of 10 000 km per annum plus travel on missions;
- renouncing the fixed allowance and being allowed a fleet vehicle with a chauffeur.

Clearly, the last-mentioned formula is very much more costly than the other two and its effect on the budget is out of proportion to the fixed allowance for which it is a substitute.

c) A few other comments of a more specific nature arise from examination of the expenditure on transport:

- The Commission has taken out "passenger insurance". This is a type of insurance which covers risks of passengers who are not regarded as third parties (in fact, this means the members of the family living under the same roof as the owner of the vehicle). This risk would not appear to exist in connexion with the Commission's vehicle fleet, as all the passengers are necessarily third parties. Although the premium is fairly low (about 1600 u.a. per annum), the need for such insurance should be reconsidered, especially as there is already a group accident insurance scheme covering the Members and the officials.

- The heavy cost of one particular set of accessories invoiced shortly after the purchase of a vehicle was entered under the wrong head, under Item 2233, which relates to maintenance. By charging to this item it was possible to exceed the maximum price of 10 000 u.a. (excluding tax) set by the Commission for the purchase of a vehicle.

- The Commission decided in March 1973 that the vehicles were not to be sent to Strasbourg during sessions of the Parliament and that the administration units were to look into the matter of local hire and if appropriate draw up a general plan for this.

Nothing has been done about that decision: the vehicles are still being sent to Strasbourg, despite the growing use of charter aircraft.

23. Hire and use of mechanical data processing equipment (Articles 224 and 226 of the budget)

a) The use of electronic business systems has greatly increased during the last few years. The Commission's automatic internal documentation system (ECDOC), gradually introduced since 1974, is one of the most expensive forms of such equipment.

This system, designed to make documentary information available to the departments of the Commission, uses a set of electronic peripheral equipment linked to a battery of central data files. For technical reasons, the system cannot be linked to the present configuration of the Computing Centre but the specifications for new equipment for the Centre require incorporation of the documentation system to be feasible.

Growth of the commitments charged to Article 226, "Operation of the internal documentation system", has been as follows:

1974 :	390 719 u.a.
1975 :	621 719 u.a. (+ 39 600 u.a. to be charged to Item 2242)
1976 : (appropriations)	872 000 u.a.

These figures do not include personnel costs or study costs and other ancillary costs. On inclusion of that expenditure, the Commission's departments put the total cost for 1976 at 1 457 260 u.a.

The installation of the system in the departments ought to be accompanied by a clearly-defined division of labour. The present working of the system, mainly by the assignment of the duty of "information officer" to individuals in the various directorates-general, has as yet produced little decrease in the use of manual methods of supplying data.

Delays in document analysis are deferring takeover of information work by the system. To improve the situation the Commission has to resort to outside bodies for analysis work and even, at a later stage of operations, for data recording work.

As the data facilities are increased it will be necessary, at least where questions and answers in the Parliament are concerned, to ensure that the data in the ECDOC system does not duplicate that in CELEX (inter-institutional automatic documentation system for Community law), which has been in operation in the Community offices since 1971 and was given much wider scope by a Council Resolution of 26 November 1974 (OJ No C 20 of 28 January 1975).

Although there is a difference in access to the ECDOC and the CELEX systems, the former being for internal use in the Commission and the latter being generally open for consultation, all possible practical steps should be taken to prevent duplication and even to investigate the possibility of amalgamating the two systems, which would give a substantial saving in costs.

- b) On the basis of the time utilization of the central unit for all the IBM and CII equipment, the Computer Centre operations services put the increase in the work of the latter in 1975 at 80%, which means that it has reached saturation point. An invitation to tender was issued recently for a new set of equipment, to come into operation in 1978. This would be mainly designed for tele-information and should at the same time take in the work at present being performed on small computers belonging to the Centre or under time-sharing arrangements.

For the whole of that time-sharing the payments in 1975 (from appropriations for the financial year and appropriations carried over) were 133 510 u.a. Internal administrative control ought to be extended to cover all the time-sharing and ought to be better organized, in particular by having desk registers kept for all utilization, in order to prevent unjustified use and to show whether under-utilization reaches the point where cancellation of the subscription is indicated.

There ought also to be better arrangements for charging expenditure, so that it is correctly done. The hire, maintenance and programming costs of an automatic telephone number selection system were spread over Items 2240, 2222 and 2223. The cost of a computer used for EDF accounting was charged to Item 2240, but another computer and additional peripheral equipment were charged to Item 2222.

Since 1975 the Computer Centre has been keeping a cost record of the processing time of the jobs which it is asked to perform. This provides information on the total cost of carrying out the jobs (2 750 625 u.a. for the financial year, of which 1 651 653 u.a. was for the Statistical Office) and also on the cost incurred for each administration.

The cost is based on a rate of 900 u.a. per hour of use of the central unit and includes hire of the equipment and software, use of materials, personnel costs of the centre (excluding the analysis and programming units) and 60% of the rent of the building.

- c) In its Report for 1973 (Point 12, c) the Audit Board pointed out the advantages of centralizing under the Commission's Computer Centre all operations of calculation and payment of the remuneration of the staff of all the institutions.

There has been some progress in this direction since then, because the Centre now performs the data-processing operations for remuneration of the staff of the Secretariat of the Parliament.

The Audit Board considers that it should give a reminder of its comment for 1973, above all so that note may be taken by those administrations - for example the Secretariat of the Council and the Secretariat of the Economic and Social Committee - which are on the point of giving up the use of their present equipment for calculating remuneration because its capacity can no longer cope with the workload produced by increases in staff.

The distance of the Centre from the other offices ought not to be an obstacle to centralization of the calculation and payment of remuneration, as witness the procedures continuing over a long period which the Commission's offices in Brussels have carried out by means of the use of a terminal.

24. Expenditure on stationery and office supplies (Article 230 of the budget)

The incipient collaboration between the institutions in respect of the purchase of supplies and equipment and in combining their stocks ought to be taken further.

Such collaboration should, in particular, take the form of centralized purchasing by the Commission, against orders placed by the other institutions with the Commission, for the purpose of reducing the amount of direct purchasing of small quantities from the suppliers.

In 1975 purchasing from the Commission by the Court of Justice and by the Economic and Social Committee amounted to 11 036 u.a. and 9520 u.a., respectively, but supply by the Commission to the Council was negligible and there was none to the Parliament.

Such a situation produces proliferation of stocks. For 85 items regarded as really essential, which made up 80% of the value of supplies used, the Council has been keeping 9 months' stock in hand. This is an excessive amount of stock, because delays in delivery do not warrant such a large build-up, going beyond the level maintained by the Commission, which, except in the case of duplicator paper, covers six months' requirements.

During the financial year the Audit Board carried out checks on the actual presence of stock and no great discrepancies were found. However, in the case of the Council Secretariat it was found that the administering departments did not keep any record of discrepancies discovered.

In the Commission the administering department possesses electronic equipment, which should be put to greater use, so that it really serves as a management tool.

C. EXPENDITURE ON MEETINGS AND STUDIES

25. Expenditure for formal and informal meetings (Chapter 25 of the budget)

- a) For the financial year 1975 the commitments of the Commission under Chapter 25, "Expenditure for formal and other meetings", totalled 5 591 309 u.a. Other expenditure for meetings was charged to Articles 300, 344, 350, etc.

In connexion with estimates of expenditure it was pointed out in the Report for 1973 (Point No 36) that payments were often half or double the budgeted commitments for individual meetings. Since then the procedure of committing expenditure for each meeting separately has been abandoned but there has been no improvement in the conformity of vouchers produced retrospectively in support of expenses.

The supporting documents forwarded quarterly to the Audit Board usually do not contain any list of participants or experts at any given meeting. Verification is rendered difficult by the fact that payment orders are dealt with over a period of several weeks.

Admittedly, the units which effect the payments draw up files for each meeting and these files can be examined on the spot. But it would be advantageous if the whole of the expenditure for any one meeting had a single payment order and arrived in the accounts unit, via the financial controller, within a few days. Entering payments in the accounts, even in a variety of currencies, ought to proceed more quickly if performed when the forms are sent to the banks rather than when the bank statements are received.

The delay of one to two months at present occurring between the date of the meeting and the date of entering payments in the accounts is scarcely justifiable. It gives rise to complaints and searches and makes the administrative workload heavier.

- b) There is serious risk of double payment and, following up a comment by the Audit Board, the Council expressed its views in the decision giving discharge for 1971, requesting that measures be taken in the matter (OJ No L 336 of 31 December 1975).

The Audit Board considers that the risks of double payment do not require complicated arrangements but could be lessened by the adoption in all the institutions of simple measures in the form of making payment wherever possible to the body to which an expert is attached, putting a rubber stamp on travel claims when payment is requested and keeping a record of experts who receive daily subsistence allowance.

- c) A few incorrect entries, charged to the appropriations under Chapter 25, have been discovered. An expert recruited as an adviser to the Commission "in its work on the introduction of a staff policy for 1975" received remuneration from the appropriations to that chapter for the two months preceding his appointment as a temporary official.

Again, Chapter 25 was used for charging the fees of an expert asked to "assist with arrangements for trainee interpreters taking courses" for 28 days. This expenditure should have been charged to Article 150 ("Costs of organizing internal training courses").

Moreover, in the case of experts under contract for studies charged to Chapter 26 of the budget the travel expenses and subsistence allowance have sometimes been charged to Chapter 25, even if arising in carrying out the contract. Dividing the cost of studies between two chapters of expenditure is unjustified and the expenditure under reference should be charged to Chapter 26, especially as the estimate or the ceiling for incidental costs has to be stipulated in the contract.

26. Expenditure on studies, surveys and consultations (Chapter 26 of the budget)

- a) Slowness in using appropriations to "Expenditure on studies, surveys and consultations" (Chapter 26 of the budget of the Commission) is still a feature of the management of these finances.

Commitments entered into in 1975 were 10 847 264 u.a. (which included 6 152 403 u.a. for Article 264, "Statistical studies and surveys") but only 2 448 659 u.a. of this total had been paid by the end of the financial year, i.e. slightly over 22% (10% for Article 264) and the balance was carried over to the financial year 1976.

The appropriations automatically carried over from 1975 to 1976 for Article 264 included, in particular, more than 2 million u.a. in respect of some thirty contracts drawn up during the last fortnight of 1975 and not signed by the other contracting parties until January to March 1976, sometimes even in April 1976. These were for the most part contracts concluded with the Statistical Offices or other administrative bodies of the Member States and in some cases the delay was due to the fact that the draft contract forwarded for signature had not been approved and certain points in it had to be amended.

The same slowness occurred in the presentation of the completed studies. Out of the 552 studies submitted in 1975 (and covered mainly by appropriations carried over from 1974), 308 were entered in the accounts records in November and in December - the deadline to prevent cancellation of the appropriations carried over.

In 13 cases (other than cases of supplying data on magnetic tape) entry in the accounts records took place "subject to submission", which is a procedure not provided for by the internal rules, consisting of settling accounts for a contract before the study has been submitted. Seven of these 13 cases were regularized by supply of the study in the first quarter of 1976.

It must also be pointed out that of six contracts made against the appropriations for Item 3550 ("Health measures in respect of air and water"), for which studies were to be supplied not later than 31 December 1975, only one was completed within the agreed period. But this was a so-called "technical assistance" contract, not requiring the supply of study material and involving the attendance and participation of an expert at several meetings.

b) A few comments on the way in which fees are paid are also appropriate.

- With very few exceptions, the fees for contracts entered into in 1975 were expressed in the currency of the country of domicile of the other party and the payments took place in the currency envisaged.

However, for about ten of the 85 contracts under Chapter 35, "Expenditure on environmental and health measures", one finds either payment of fees in Luxembourg for experts living in Belgium or payment in Luxembourg francs in Luxembourg or in Belgian francs in Belgium of fees expressed in Italian lire, or French francs and converted on the basis of the latest par value declared to the International Monetary Fund.

Such payments are contrary to the regulations and unjustifiably increase the financial cost of the contracts.

- In the great majority of cases, payments of fees were made without invoicing and without deduction of value added tax. However, in some Member States this tax is still due and must first be paid by the other party to the contract, with an undertaking to produce to the Commission proof of payment, for the purpose of refund.

Examination of the supporting documents reveals that arrangements for recovery of the tax paid are lacking in the case of experts' fees and these are treated as if automatic exemption were the general rule. Even for the very few invoices which showed in the correct manner the

sums paid under the head of value added tax the figures appearing have not been recorded by the units of the Commission for the purpose of recovery from the State which received the sums.

In that connexion the Commission should take care to ensure that the tax provisions which it sets forth in Article 8 of contracts concluded and carried out in the territory of the Member States are not disregarded.

- The other party to the contract should always be identified precisely and fully, whether an individual expert or a representative of a consultancy firm, an educational establishment or some other public or private organization.

It is scarcely acceptable that where several contracts are made with any one party that party should be designated sometimes by the name of the corporate body and sometimes by the name of an individual, so that there is a risk of the fees finally being paid to a recipient other than the person or body actually entitled to them.

D. EXPENDITURE ON PUBLISHING AND INFORMATION

27. Information Offices

- a) Verification by the Audit Board of the supporting documents for the expenses of the non-headquarters offices was supplemented in 1975 by an on-the-spot audit at the offices in Bonn and Rome. These visits give rise to a few comments which are by and large applicable to all the non-headquarters offices.

There are many local employees in addition to the staff governed by the Staff Regulations. Distribution of the same duties among staff employed under differing conditions of service jeopardizes good personnel management and is particularly to be avoided because the staff in these offices work fairly closely together.

The Commission envisages amending the provisions of the Staff Regulations, so that the local staff of non-headquarters offices can be offered Grade C posts and the remuneration pertaining to that grade. That amendment would merely regularize a de facto situation but the Commission's administrative units have explained that the change would be accompanied by measures to limit the recruitment of additional local staff.

- b) In all the capitals of the Member States where the Commission has opened an Information Office, except at present in Bonn, that office has a counterpart in the same city, and sometimes in the same building, set up by the European Parliament.

The Audit Board considers that it would be more justifiable to have a single network of Community Information Offices, achieved by better co-operation between the institutions.

- c) The VAT paid by the non-headquarters offices may, subject to certain stipulations, be recovered from the tax authorities concerned. The non-headquarters offices make out the necessary documents and these refund operations are dealt with centrally by the Directorate-General for Budgets.

However, it emerges from the verifications carried out by the Audit Board that the administrative staff of those offices do not possess sufficient instructions about the applicability of the tax and do not always submit the required documents correctly.

Better co-ordination by the central library, so that the circumstances of local libraries as regards size of collection and needs may be properly understood, is desirable in connexion with purchases of published works.

It has been discovered that the scrapping of some equipment in the Information Offices has been ordered by the headquarters administrative unit in Brussels and the costs of replacement have been met from appropriations allocated for this purpose but the Information Offices have kept such equipment in use. The scrapping of equipment ought not to be dealt with in this way, because it makes inventory records inaccurate and disregards the distinction made in the budget between appropriations for new equipment and appropriations for replacements.

- d) In April 1974 the Information Office in Bonn opened a bank account intended for payment of the expenditure (mainly on salaries) of a body whose functions formed an integral part of the work of the Information Office itself.

That account was not funded by straightforward transfers of cash but by charging to the budget, under Article 273. This procedure was contrary to the regulations, being a contravention of Articles 45 and 49 of the Financial Regulation, under which determination of the amount payable and the payment made are subject to supply of a work-done slip. The existence of that account was terminated on 31 December 1975.

28. Expenditure on publications

- Publications in general -

- a) As in its previous reports (cf Report for 1973, Point 49 e and Report for 1974, Point 43), the Audit Board would emphasize the differences found between estimates of expenditure and the actual costs of certain publications. These differences arise from additional costs connected with the performance of the work and the excessive number of authors' corrections.

For the Energy Yearbook 1970-73 the excess cost invoiced was DM 36 571, i.e. 70% of the amount stated in the requisition. A sum of DM 5682 was included in the accounts as a supplementary charge because the manuscript was difficult to read.

Additional expenditure caused by supply to the printers of badly prepared manuscripts suggests shortcomings in the efficiency of the administrative units and in responsible behaviour by the authors. It is not in line with normal practice to meet invoices for such expenditure without taking some other form of action in the matter.

The six-language edition of issue number L 54 of the Official Journal (28 February 1975), containing the general budget of the Communities for 1975, cost 238 389 u.a., of which 28 378 u.a. related to authors' corrections. The reason for the size of these extra costs was that in order to speed up publication the type-setting operations began on 18 November 1974, using the draft produced by the Council.

After receipt on 6 January 1975 of the final manuscript forwarded by the European Parliament, the galleys were corrected and rearranged to incorporate the changes and amendments which had been made by the Parliament up to the stage of final adoption of the budget on 12 December 1974.

The budget for 1974, adopted on 6 December 1973 and printed under more normal conditions, had been published on 29 April 1974.

- b) For publication of the Bulletin of the European Communities in 1975 (estimated expenditure 440 000 u.a.), a limited invitation to tender was issued on 11 October 1974 to enterprises located within a 100 km radius of Brussels whose technical facilities were judged to be adequate.

From 35 printers consulted the Commission eventually received 13 replies, including 6 refusals. It was then decided not to follow up the results of that invitation to tender, which was issued on the same basis as the one for the preceding year. Some changes, mainly connected with reduction of the delivery times, appeared to be desirable and the version incorporating them provided the basis for a new invitation to tender, which was advertised in Official Journal No C 96, of 29 April 1975.

Pending the results of this second invitation to tender, continuity of printing for the early numbers of the Bulletin in 1975 was obtained by extending the contracts for the preceding year. In the event, the first nine numbers were printed in this way.

Such extension could only be achieved on particularly expensive conditions. One printing firm stated that it was prepared to accept the arrangement but for a limited period and at prices about 7.4% higher than it had quoted for a three to four year contract in its reply to the first invitation to tender of 11 October 1974.

A second firm agreed to the extension of the contract on the basis of the prices which it had quoted for the invitation to tender of 11 October 1974, plus a 5% increase - which was reduced by negotiation to 3%.

The invitation to tender announced on 29 April 1975 was not actually issued until nearly three months later, on 17 July 1975. 40 firms replied to the public notice and the invitation to tender was also sent to over 30 other printers selected from the specialist file of the Office for Official Publications. From 76 firms consulted there were 31 replies, 17 of which were refusals. Finally 9 firms were selected as meeting the technical requirements.

The small proportion of acceptable replies might to some extent be explained by the hard conditions set in the specifications of the invitation to tender. These stipulated that from the date when the manuscripts had been supplied in full a period of 10 calendar days should not be exceeded for producing each monthly edition (type-setting, proof correction, page assembly, printing, stapling and delivery to Brussels and Luxembourg).

This rather unrealistic timing would be bound to discourage printers located far enough away for the transport time to cause a serious problem in delivering to Brussels and Luxembourg within the time limit set.

- The Office for Official Publications -

- a) It must first of all be pointed out that because of a delay in negotiations with the trade unions the Office was unable to supply its management report for 1975 to the Audit Board until 7 July 1976, instead of the stipulated date of 1 May.
- b) In previous reports (1971, Point 195 c and 1973, Point 53 d) the Audit Board criticized the delays in the completion and quarterly forwarding to the Office of the statements of account of certain national sales offices and subscription offices.

On the whole there has been improvement in this respect in 1975. However, at the beginning of 1976 the sales office in Rome had not yet supplied its returns for 1975. Finalization of the statements of account from the subscription offices for the Reports of Cases before the Court was late. Finalization of the 1974 statement of account of the subscription office in Paris took place in May 1976 and for the subscription office in Brussels it took place in June 1976. The 1973, 1974 and 1975 statements of account of the Milan subscription office were finalized in March 1976.

The sum owing on unpaid invoices at 31 December 1975 was 467 609 u.a. Debts from the years 1968 to 1972 comprised about 11 400 u.a., i.e. 2.4% and those from 1973 were about 44 000 u.a., i.e. 9.4%; the last-mentioned sum includes not only Reports of Cases before the Court but also large consignments to the relevant authorities of the Form E used for social security allowances for migrant workers.

During the financial year reminders were sent out in respect of unpaid invoices for the period from 1968 to August 1975. In the case of most of the invoices from 1968 to 1973 this was a third reminder.

The balance sheet contains a statement of unidentified receipts, advances on invoices and advance payments (totalling 16 979 u.a.), which have all been put into a suspense account, together with a total of 6870 u.a. from amounts to be refunded to customers. The accounts do not separate customers' accounts for different financial years, although an analysis of this kind would facilitate checking and settlement of these accounts.

- c) The price of a publication is set in Belgian francs and converted into the other currencies at rates varying according to whether the Official Journal or another publication is involved.

For 1976 the conversion rates for the Official Journal are the arithmetical average of the controlled market rates ruling in June, August and September 1974. For the publications other than the Official Journal the average of the controlled market rates ruling in the period from 1 January to 30 June 1975 is being applied.

Hence, these are arrangements designed to avoid the application of rates differing greatly from those on the market. However, in the case of certain currencies, for example the French franc, the lira and the pound sterling, the rates applied remain at levels such that the competent units of the Office should take care to ensure that the differences are not exploited for speculative ends in conjunction with the timing of payment for purchases or subscriptions.

- d) The settlement of several statements of account for the Official Journal by the European Parliament was up to 7 months late. The belated discovery that the appropriations carried over from the financial year 1974 were insufficient meant that part of the expenditure had to be charged to the appropriations for the financial year 1975.

The persistence of these delays and the size of the sums involved caused cash difficulties in the special account opened in the name of the Office for meeting the costs of printing and carriage of the Official Journal. Assistance in dealing with these difficulties had to be given from the cash account for sales.

- e) Spot checks carried out by the Audit Board on the agreement between the accounting entries in the sales journal and the data on about 500 invoices revealed that an invoice for 80 634 u.a. relating to the sale of Official Journals had been entered as to 53 756 u.a. under the code number for the European Parliament and as to the balance under the code number for the Official Journal. The error was pointed out to the accounts office and the necessary correction was made.

E. AIDS, SUBSIDIES AND FINANCIAL CONTRIBUTIONS

29. Aids, subsidies and financial contributions (Title 4 of the budget)

- a) Even after the latest revisions of the budgetary nomenclature, Title 4 still covers a very heterogeneous collection of operations. The common criterion should be use of the method of subsidy or financial contribution, but this is the procedure used for the administration of a great many appropriations to other chapters of the budget (to Titles 1, 2, 3 and 9, for example).

- b) The largest expenditures were on subsidies to balance budgets.

The subsidy granted to the European Schools rose from 8 526 316 u.a. in 1973 to 10 684 276 u.a. in 1974 and 14 284 385 u.a. in 1975, the increase from one year to the next being 25.3% and 33.8%. In its latest report on the accounts of the Schools, the Audit Board mentions yet again the complexity of the system of remuneration of the staff and spotlights various shortcomings in the book-keeping of the various establishments.

With regard to the subsidies granted to the Euratom Supply Agency (295 000 u.a.) and the European Association for Co-operation (933 400 u.a.) readers should refer to the separate report of the Audit Board on the accounts of the Agency for 1975 and to the part of this report relating to the Development Funds.

Under the head of subsidies to budgets one item is reserved for the Community Business Co-operation Centre (42 896 u.a.). Charging under this head is disputable because this is not aid to an organization with legal personality and financial autonomy but a matter of the budget of the Commission assuming direct charge of the various operating expenses of an administrative unit; indeed, its expenditure relating to staff is not differentiated in charging to Title 1 of the budget.

- c) The Audit Board investigated in particular the subsidies granted to various higher education establishments and to various European organizations and movements, which are charged to Articles 410, 411, 412 and 419 of the budget.

The Audit Board notes, first of all, that the grant of such aid was in all cases conditional on conformity with the provisions of the last paragraph of Article 89 of the Financial Regulation, namely "subject to the acceptance by the recipients of the audit being carried out by the Audit Board on the utilization of the amounts of aid".

It further notes that that acceptance was subsequently extended to audit by the Commission itself, carried out by either the authorizing unit or the financial control directorate. Apparently no such examinations have yet been performed.

Checking in the files for subsidies revealed that although the bodies concerned usually attach to their application a provisional programme of operations, they do not always base this on a budget and they hardly ever produce an account showing the use of the subsidy and giving a detailed analysis of the expenditure.

In future the obligation to forward such a document to the Commission three months after accomplishment of the subsidized activities should always appear in the undertaking signed by the recipient.

- d) Some European organizations and some university institutes receive Community subsidies granted by the Secretariat-General of the Commission under Title 4 but other directorates, especially the Directorate for Information, also grant such subsidies though under other appropriations to the budget. The criteria for distinguishing between these two categories of assistance are not always very clear, in that the former do not always relate to the general running of the bodies but sometimes include organizing particular meetings or events and the latter subsidies, which are in principle assigned to specific information operations, in some cases constitute overall operating subsidies, especially where bodies attached to information offices are concerned.

Close liaison between departments, to enable an overall picture of the aid given by the Communities to various bodies to be obtained, would be desirable. But it would be equally useful to have a check on the indirect subsidies which may be supplied to these bodies through less obvious budgetary channels, namely by making rooms available or by accepting expenses for interpreting, translation or copying.

- e) The purpose of subsidies paid to various establishments or university institutes is to promote the organization of courses in Community law and the Community economy. This assistance, which should in principle encourage the introduction of such courses and provide funds for an initial period is often renewed from year to year and thus becomes an annual subsidy to the running of the establishment or institute.

In some cases subsidies are granted to associations which in turn pass on a large part of the funds to the various institutions which come under their administration. Where this device of employing subsidies at two levels occurs it has not so far been possible to obtain from the true recipients satisfactory documentation of their expenditure.

Moreover, various university institutes receive for certain symposia or seminars both direct subsidies from the Community budget and an addition of a fraction of the aid granted to the parent association. In the absence of detailed accounts of the employment of the sums it is impossible to investigate whether this twofold financial assistance has been correctly used.

Documentation in support of expenditure would be more reliably obtainable if Community aid was granted directly to the universities themselves, which are public establishments possessing an accounting officer, rather than to private associations which are offshoots of those establishments.

- f) Sometimes when a subsidy has been granted for producing a book the Commission has made no arrangements about the conditions of sale or sharing the copyright.
- g) In one case the Commission has not granted an annual subsidy capable of withdrawal but has taken a founder's share in respect of which the financial commitments do not seem to be matched by the benefits which can be expected to accrue to the Community.

- h) If detailed accounts of employment of the aid are required as a condition and on-the-spot audits are performed more frequently, it should in future be possible to carry out an annual review of the distribution of Community subsidies and reduce the number of routine renewals, applying greater selectivity.

Examination of the accounts should, moreover, result in an endeavour to consider the purpose of subsidies granted by the Community, because there is a risk that they sometimes help the recipient bodies to carry on costly forms of administration or operation whose value to the Community is not clear.

30. European Vocational Training Centre

The Council Resolution of 21 January 1974 concerning a social action programme (OJ No C 13 of 12 February 1974) provided for the implementation of a common vocational training policy and the establishment of a European Vocational Training Centre.

Council Regulation No 337/75 (OJ No L 39 of 13 February 1975) established the Centre, stipulating that its seat was to be in West Berlin. The Centre is to be separate from the administrative units of the Commission and is to be administered by a Management Board comprising thirty members.

The Regulation provides that not later than 31 March each year the Management Board is to forward to the Commission and the Audit Board the accounts for the last financial year, which the Audit Board is to examine in accordance with the provisions of the second paragraph of Article 206 of the Treaty. Not later than 31 October the Commission is to submit to the Council and to the Assembly the accounts and the report of the Audit Board, together with the comments of the Commission. The Council and the Assembly are to give a discharge to the Management Board of the Centre in accordance with the procedures laid down in the fourth paragraph of Article 206 of the Treaty.

Under Article 13 of the above-mentioned Regulation No 337/75 the Staff Regulations for the Centre are to be proposed by the Commission and adopted by the Council.

The financial provisions were adopted in Council Regulation No 1416/76 of 1 June 1976 (OJ No L 164 of 24 June 1976). They provide in particular that control of the commitment and payment of expenditure and the establishment and collection of revenue of the Centre is to be exercised by the Commission's Financial Controller.

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.

CHAPTER 4 : THE EUROPEAN SOCIAL FUND

31. The European Social Fund, which is provided for in Article 125 of the EEC Treaty, was reformed by a Council Decision taken on 1 February 1971 (OJ No L 28 of 4 February 1971). This Decision came into force on 1 May 1972 after approval of the final implementing texts by the Council on 24 April 1972.

The Council Decision of 1 February 1971, setting up the new Social Fund, abolished the assistance provided for under Article 125 of the Treaty, as implemented by Council Regulation No 9 of 25 August 1960. Nevertheless, operations begun before 1 May 1972 and ending not later than 30 June 1972 remained eligible for intervention from the former Fund. In view of the time-limits for presenting and examining applications for aid, the budget for the financial year 1975 still included appropriations intended to cover expenditure under the former Fund. In the budget for 1976 this heading will appear for reference only.

The appropriations allocated during the last four financial years were as follows:

(millions of u.a.)
Appropriations

Chap.	Art.	Item	Heading	1972	1973	1974	1975
50	500		Expenditure under Art. 4 of the Council Decision of 1 February 1971				
51	510		Expenditure under Art. 5 of the Council Decision of 1 February 1971				
52	520		Pilot schemes and preparatory studies				
53	530		Expenditure provided for under Art. 125 of the EEC Treaty (former Fund)				
		5301	Vocational retraining				
		5302	Resettlement				
Totals							

32. The former European Social Fund

The decisions to grant aid were adopted on 16 December 1975 and by the close of the financial year had given rise to the payment of 2 161 920 u.a. from appropriations to the financial year and of 2 733 466 u.a. from the appropriations carried over (from 1974 to 1975) by decision of the Council. A further total of 52 769 857 u.a. was paid from appropriations carried over automatically from the financial year 1974.

Payment applications in respect of the last operations eligible were required to be submitted not later than two and a half years from 30 June 1972, which was the date of termination of the former Fund.

That latest date of 31 December 1974 did not apply to applications relating to workers undergoing compulsory military service, for whom the expiration of the period for submission of applications was postponed for a period equal to that of the compulsory service involved (Council Regulation No 37/67).

Given the existence of the last-mentioned operations, the applications awaiting decision at 31 December 1975 totalled 11 490 075 u.a., compared with 17 768 243 u.a. at the end of the previous year. They included a total of 10 634 852 u.a. for vocational retraining and a total of 855 223 u.a. for resettlement. The latter sum includes applications made as far back as 1968 relating to the resettlement of Italian workers in Germany and France and still awaiting a decision on the granting of assistance, owing to discrepancies between the applications of the country of origin and those of the host countries. However, now that agreements have been reached with the Member States concerned, the Commission believes that it will be able to wind up these applications during the financial year 1976.

33. The new European Social Fund

Unlike the once-for-all reimbursement procedure of the former Fund, the financial management of the new Fund is characterized by the possibility of granting successive part-payments as and when the operations proceed but up to a limit of 85% of the aid. The Commission may not pay the balance until the operation is closed, after receipt of a general statement of the expenditure, accompanied by supporting documents.

Moreover, the Financial Regulation of 24 April 1972 laid down that the commitment authorizations for the two following years can be included in the budget for any financial year. In this way the remarks in the budget for the financial year 1975 authorize the Commission to enter upon commitments for 1976 and 1977 up to an amount of 135 000 000 u.a. and 65 000 000 u.a. respectively.

- a) In pursuance of Article 4 of the Decision of 1 February 1971, five spheres of intervention of the new Social Fund are at present open.

The first two spheres of intervention decided upon by the Council in December 1972 were vocational retraining of workers leaving agriculture and interventions in favour of workers leaving the textile industry or intending to obtain new skills in that industry.

By a Decision of 27 June 1974 the Council provided for intervention to assist physically handicapped persons and migrant workers.

The latest Decision on intervention was adopted on 22 July 1975 and relates to interventions to assist persons under 25 years of age who are unemployed or seeking their first employment.

Altogether, for the five spheres of intervention open, commitments entered into against the appropriations included in the budget for the financial year 1975 amounted to 108 882 341 u.a., of which 38 435 279 u.a. had been approved in 1973 and 1974. In addition, commitments approved in 1975 against the 1976 and 1977 appropriations totalled 27 122 291 u.a. and 12 084 178 u.a. respectively.

The commitments entered into in 1975 against the appropriations for the three financial years break down as follows:

u.a.

Country	Commitments			Total
	1975	Appropriations 1976 1977		
Denmark				
Belgium				
Germany				
France				
Luxembourg				
Ireland				
Italy				
Netherlands				
United Kingdom				
Total				

No payments were made from the appropriations for the financial year. Payments totalling 9 102 019 u.a. (20%) were made from the appropriations of 45 468 705 u.a. carried over automatically.

By a Council Decision of 22 September 1975 a sum of 51 362 732 u.a. appropriated to Chapter 50 of the budget for 1974 but not committed at 31 December 1974 was carried over from 1974 to 1975. This sum was intended to cover the new operations opened under Article 4, namely operations to assist young people and vocational training operations connected with the recession. In view of the fact that the Council did not act in respect of the latter, commitments of only 21 008 690 u.a. had been entered into and paid by the end of the financial year and a sum of 54 042 u.a. was cancelled. The balance of appropriations carried over, 30 300 000 u.a., was transferred, under a Council Decision of 3 December 1975, to the Guarantee Section of the EAGGF. This was a completely exceptional procedure and a comment on the matter appears in the part of this report dealing with the Guarantee Section of the EAGGF.

- b) In pursuance of Article 5 of the Council Decision of 1 February 1971, the commitments entered into by the Commission against the appropriations for the financial year 1975 totalled 241 936 372 u.a., including 48 095 363 u.a. approved during the two preceding financial years.

The commitments incurred in 1975 against commitment authorizations for 1976 and 1977 amounted to 161 415 579 u.a. and 40 193 418 u.a. respectively.

The following table shows the breakdown by country and by allocation year of the approvals given in 1975 under Article 5 of the Council Decision of 1 February 1971:

u.a.

Country	Commitments			
	1975	Appropriations		Total
		1976	1977	
Belgium				
Denmark				
Germany				
France				
Ireland				
Italy				
Luxembourg				
Netherlands				
United Kingdom				
Total				

The total of payments made against the appropriations for the financial year was 5 489 739 u.a., i.e. 2.3% of the appropriations committed.

At the close of the financial year 1974 appropriations of 160 662 373 u.a. which had been committed in accordance with the regulations and in respect of which payment had not been possible were carried forward automatically to the financial year 1975, as provided by Article 6 (1)(c) of the Financial Regulation. Only 42 193 419 u.a., i.e. 26%, was paid against these appropriations.

- c) During 1975 the Commission also charged commitments totalling 895 392 u.a. against the appropriations to Chapter 52, "Pilot schemes and preparatory studies".

This total related to thirteen contracts for preparatory studies and eight for pilot schemes made between the Commission and public or private bodies for the purpose of studying conditions and needs for assistance from the Social Fund in certain sectors of industry or particular regions and for investigating programmes for training, retraining and occupational and social resettlement.

Payments made against the appropriations for the financial year amounted to 343 805 u.a., i.e. 38%.

Appropriations amounting to 504 830 u.a. had been carried over automatically at the end of the financial year 1974 to permit payment in 1975 of balances outstanding on contracts entered into in 1974.

From the appropriations carried over, a total of 476 640 u.a. was eventually paid. The remainder, 28 190 u.a., had to be cancelled.

34. Delays in payment of assistance

Several comments about the management of the European Social Fund were made in the Audit Board's report on the financial year 1974. By and large those comments remain valid for 1975 and moreover it must be pointed out that the situation has deteriorated.

It must be noted that of 372 722 795 u.a. committed during the financial year 1975 only 26 842 234 u.a. was paid, which is a proportion of 7.22%, but that proportion drops to 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. The last-mentioned proportion was 4% in 1974 and 0.8% in 1973.

Moreover, out of about 205 million u.a. committed in 1974 and carried over automatically to 1975 only about 51 million u.a. was paid, although Article 4 of Regulation No 858/72 provides that on submission of a detailed statement of the expenditure there may be payment by instalments of up to 85% of the aid granted.

In order to prevent the cancellation of 154 million u.a., it was necessary to adopt an amendment to the Financial Regulation (Regulation No 75/717 of 24 November 1975) and permit appropriations for 1974 to be carried over for an additional period of one year.

The administrative units of the Social Fund therefore became due to pay out during the financial year 1976 about 500 million u.a., which included 154 million u.a. carried over automatically from 1974 and 345 million u.a. carried over automatically from 1975. But payments made in previous years amounted to 30 million u.a. in 1973, 194 million u.a. in 1974 and 127 million u.a. in 1975.

These delays arose mainly from the lateness of the Member States in submitting applications for payment and from the fact that the applications are often insufficiently detailed, so that further delay is caused by the necessity of obtaining additional information. It is therefore to be expected that as in 1975 the Council will be induced to decide yet again that appropriations are to be carried over for an additional year, under an amendment to Article 6 of the Financial Regulation.

In the circumstances and because there had been no sign of improvement since the report for 1974, the Audit Board saw fit to send a letter to the Commission on 19 February 1976 drawing its attention to the fact that such a situation jeopardized the regularity and sound management of Community finances. It was particularly emphasized in the letter that with a great increase in the budget of the Fund, and therefore in the payments and controls needed, there had been persistent reduction of the staff in the team responsible for finance and verification, so that the number had dropped from eight persons to five, two of these being mainly engaged on other duties, and control was bound to become less satisfactory.

In its reply the Commission acknowledged that the staff was insufficient and stated that it envisaged increasing the number of members of staff employed on finance and verification in 1977. However, the action mentioned does not appear to provide a satisfactory solution to the problem.

35. Changes in projects and extension of the time allowed for projects

There ought also to be more attention to the problem of projects which take longer than originally planned. During the period 1972-1974 32 of the 375 projects approved had to be modified in this way but for 1975 alone there had to be a relaxation in the time limit for 92 of the 237 projects.

This means that operations which have been approved subject to a time limit of three years take four or even five years. The practice of spreading action over a longer time would appear to be contrary to the spirit of the regulations governing the Social Fund and contrary to the requirements of sound management.

It is surprising that changes should have to be made to such a large number of projects. From the point of view of the budget the most obvious risk of this practice is that it will result in cancellation of the appropriations. DG V devoted the latest meeting of the Committee of the Social Fund to seeking means of obviating that problem; the appropriations available are to be recycled and earmarked for financing projects which had in principle been treated as deserving lower priority.

The worst effect is thus avoided but the administration of the Social Fund nevertheless falls far short of the ideal. Appropriations are to be immobilized over successive financial years to finance projects which are failing to meet the time limit and other projects are to be dropped, whilst in the course of the financial year the distribution between countries and according to priority becomes distorted.

Even so, cancelled appropriations have risen from 6 million u.a. in 1973 to 34 million u.a. in 1974. For 1975 the one-year extension granted by the Council (Regulation No 75/717 of 24 November 1975) has temporarily removed the problem.

36. Slowness and shortcomings in decision-taking procedures

The Commission managed to spread the meetings of the Social Fund Committees more evenly over the year, thus avoiding an accumulation of decisions in the last few months of the financial year, as occurred in 1972 and 1973 and to a lesser degree in 1974.

However, too much time still seems to elapse between the opinion of the Committee and the decision of the Commission. The administrative practices ought to be simplified to make the system work more speedily and to prevent the risk of error, as errors have too often crept into decisions to grant assistance (difficulty in identifying the recipient, the number of individuals involved and the way in which the appropriations are to be divided between years and between recipients).

37. Evidence in support of applications for reimbursement of expenditure

In order to express accurately the provisions of Regulation No 2397/71 as to the aid eligible for ESF assistance, the Commission produced forms for the submission of payment applications from 1975 onwards. The forms required the sums applied for to be calculated by methods deriving from strict interpretation of Regulation No 2397/71.

Now that this way of handling applications has been employed for a year it would appear to have been less successful than expected; there has been considerable resistance to complying with the instructions on the forms, by both public and private bodies, with the result that the payment procedure, which was already slow because of the volume of appropriations to be administered, was made more cumbersome than ever.

The resistance has been partly justified by the fact that the forms and explanations provided do not altogether fit the cases; differences of opinion have sometimes led to alterations of the form provided; consultation with the parties involved has been fruitless and the national authorities have given little or no help.

As a result, the applications for reimbursement are not being submitted in the required form, so that there is further delay while the missing information is collected. Differences in interpretation persist and it is to be feared that uniformity of application of Community regulations is not always achieved. These differences in interpretation arise above all in connexion with the methods of calculating depreciation on buildings and equipment, which is one of the sources of difficulty in determining the true cost of operations. The Regulation is not clear and the stipulations on the form are much too complicated, especially in respect of plant and equipment, which reduces the forms' usefulness. The Audit Board is of the opinion that, given the regulations as they now stand, the forms should be more meticulously worded and their correct use should be ensured through consultation with the national authorities.

The Audit Board considers that some kinds of expenditure should be reimbursed on the basis of fixed sums, which might be set for each Member State individually. Such fixed sums would facilitate the preparation and verification of payment applications but would not reduce the importance of control, because there could be periodical re-examination of these fixed sums to ensure that they were at the right level. It is worth remembering that the method of fixed sums and sample checks was typical of the former Fund and yielded satisfactory results, which were better than those obtained with the present arrangements.

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. Admittedly, the number of audits performed on the spot by the units administering the Fund increased in 1975 (82 in 1975, compared with 62 in 1974). But these were all too often very general verifications from figures compiled by central bodies. As the Audit Board discovered when it carried out an on-the-spot audit, the data forwarded by the national offices do not always match their accounting documents. 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. Control is

also rendered less effective by the fact that the auditors usually do not have time to investigate whether a project is in order before the end of the operations. The stage between approval and the verification of the accounts, namely the stage when the training is actually carried out, ought to be better supervised, to check up on the effectiveness and progress of the operation and to see that it is keeping to the estimates. The defects arising from this lack of supervision are not always prevented by the intervention during this period of the national authorities or of Community departments which examine the project.

38. Attendance of the Audit Board at on-the-spot audits

During the financial year 1975 the Audit Board was present during three on-the-spot audits carried out by the Commission. The first two visits, to Sardinia and to Biella (Piedmont), were in connexion with projects begun in 1972-73. In the case of the project in Sardinia the fact that the operations were approved after they had started resulted in the submission of accounts in a form not always complying with Community regulations. However, from very careful verification it was possible to ascertain that the claims for expenditure were justified. Other points in relation to these projects are as follows:

- a) With reference to the project in Sardinia the change in organization of the courses should be noted. The initial programme was completed in the period 1 May 1972 to 31 December 1974 for 58% of the estimates and it was necessary to authorize carry-over of the operations to 1976. The change resulted in a reduction in the cost of the training.
- b) The case of the sponsored project for Biella (Piedmont) is more noteworthy. Not only did the programme begin a year late but it was carried out for 650 workers instead of the 1581 proposed and in regard to 303 of those involved, who took a fortnight's course, it would obviously be far-fetched to call the exercise "vocational training". Only a quarter of the estimated "months of vocational training" was accomplished. Because of substantial overheads, curtailment of the programme did not yield a corresponding reduction in cost. This project, which was among the first to be submitted to the new Fund, can be seen to have been poorly prepared and poorly examined. Some aspects were scarcely acceptable under existing regulations (fitting-out of premises). There was also unsatisfactory distribution of the appropriations between the successive years, probably as a result of an error in preparing the decision amending the initial decision.

Inadequate liaison between the units responsible for examining the file and the audit units prevented earlier detection of the faults. This case highlights the necessity of intervention when the actual training is under way, through co-operation with the national labour authorities.

Moreover, this project received a grant at a flat rate of 50% of the expenses even though a private body was involved and such a grant has been awarded only in very exceptional circumstances and in situations which the Audit Board judges to have been fundamentally different from those in the case under reference. A letter about the last-mentioned point and about the reduction in the programme was sent to the Directorate-General on 21 November 1975 but no reply has yet been received.

- c) The third audit, carried out in London, was more or less a follow-up to a visit made in the previous year by the Commission which led to refusal of approval by the Financial Controller. The purpose of the visit was to ascertain whether improvements had been made in the form of the accounts, which for 1974 had been based on average figures unaccompanied by evidence that could be adequately checked. On the visit it was possible to note the great improvements made and the usefulness of the forms produced by the Commission, on which preparation of the repayment application for 1975 was based. Moreover, the mean and standard figures used and the central records could be compared with the figures on which they were based.

However, the Audit Board still has doubts, because the administrative units of the Fund did not perform such comparison. A visit to Ireland at the beginning of the financial year 1976 revealed the dangers of accepting mean figures too readily without carrying out sampling of the individual figures on which they are based and without testing the results obtained with actual expenditure.

A second reservation arises from the differences in interpretation found in the matter of depreciation on buildings and equipment. The form did not serve to resolve these differences.

A third comment is that it was impossible to determine from the Commission's decision how many individuals were to be given the training.

The audit also disclosed that a very high percentage of the workers who took the courses were unemployed by choice, i.e. they had voluntarily left their employment in order to undergo a period of training. This finding merits emphasis, notwithstanding the arguments of the national authorities, and perhaps the situation in the other Member States should be looked into, to see how it compares.

39. Preparatory studies - Pilot schemes

During the financial year 1975 the Audit Board examined the expenditure for preparatory studies and pilot schemes financed by DG V under the terms of Article 7 of Council Regulation No 2396/71.

This examination showed above all the need for better definition and planning of the principles for and use of studies.

The contracts are not very precisely worded as to the tasks to be performed and the objectives to be achieved, the appointment and qualifications of the experts, or the right to make use of the study - which should be reserved exclusively for the Commission. The experience gained by other Commission departments could usefully be drawn on in this connexion.

Another important problem lies in the publication and circulation of the results of preparatory studies and pilot schemes, which does not yet appear to be satisfactory.

40. Improvement in the supply of information to the Audit Board

Since its previous report was written the Audit Board has noted an improvement in the flow of information reaching it from the administrative units of the Fund. The reports relating to on-the-spot audits are attached to the payment orders and are received quarterly with the latter.

The Audit Board is also being kept informed of the on-the-spot audits which DG V is planning to perform.

CHAPTER 5 : THE EUROPEAN REGIONAL DEVELOPMENT FUND

41. The Council Decision of 18 March 1975

The European Regional Development Fund was set up by Council Regulation (EEC) No 724/75 of 18 March 1975 (OJ L 73 of 21 March 1975). Its function is to contribute to the financing of investments in industrial, handicraft or service activities or in infrastructures, where such investments individually exceed 50 000 u.a. and are in those aided areas established by Member States in applying their systems of regional aids, and according to a special set of quotas.

- a) For investments in industrial, handicraft or service activities such that at least ten new jobs are created or that existing jobs are maintained, the amount of the Fund's contribution may be 20% of the investment cost, but may not exceed half the aid accorded to each investment by public authorities. Moreover, the contribution from the Community is limited to that part of the investment which does not exceed 100 000 u.a. per job created and 50 000 u.a. per job maintained. The contribution from the Fund may, pursuant to a prior decision of the Member State concerned, be communicated at the same time as the request for this contribution and may either supplement aid granted by the public authorities or remain credited to those authorities and considered as a partial repayment of such aid.
- b) For investment in infrastructures directly linked with the development of industrial, handicraft or service activities financed by public authorities, also for mountain and hill farming and farming in certain less favoured areas, the amount of the Community contribution may be 30% of the expenditure incurred by public authorities when the investment is less than 10 million u.a., and from 10 to 30% for investments of 10 million u.a. or more. For investment in infrastructures the Fund's assistance may consist of a rebate on loans made by the European Investment Bank.
- c) The Fund may contribute towards financing studies which are closely related to the operation of the Fund and undertaken at the request of a Member State. The Fund's contribution may not exceed 50% of the cost of the study.

Requests for contributions are to be submitted to the Fund by Member States and the latter are required to give priority to the presentation of requests for contributions towards investments of 10 million u.a. or more.

Presentation of the requests in accordance with a standardized form should enable the administrative units of the Fund and the Regional Policy Committee to ensure the compatibility of the investment envisaged with the programme of the relevant Member State, the investment's contribution to the economic development of the region and its impact on the level of employment. As well as data covering these specific points, the Member States are required to supply the Commission with precise indications of the objectives and the means for developing the regions covered by regional development programmes.

The contributions from the Fund are to be paid as and when the Member States declare their own payments by presenting quarterly statements certifying that the expenditure has been laid out and attesting the existence and location of supporting documents. A copy of the statement must be attached to the payment order. These statements are to give briefly various particulars of the performance of the project and its cost, on the understanding that the Member States remain under obligation to make available to the Community's administrative units any additional information required and the supporting documents for the expenditure incurred.

Interim or final payments are to be made by the Commission either to the Member State, to an agency designated for this purpose or, if necessary, to the European Investment Bank.

42. Management of the budget of the Regional Fund in 1975

The Financial Regulation of 18 March 1975, supplementing the Financial Regulation of 25 April 1973, provided for the inclusion in Chapter 55 of commitment and payment appropriations, which were to be provided because of the multi-annual nature of the projects to be financed by the Regional Fund. The commitment appropriations unutilized at the end of a financial year were to be available for the next two financial years.

For an initial three-year period, from 1975 to 1977, the Fund was to have appropriations of 1300 million u.a., to be financed to the extent of 150 million u.a. from the appropriations which had not been utilized by the Guidance Section of the EAGGF and had been intended for the creation of jobs in the priority agricultural regions (Council Decision of 18 March 1975).

In accordance with the guidelines adopted by the Heads of State or Government at the European Summit in December 1974, commitment appropriations of 300 million u.a. were entered in Chapter 55 of Section III of the budget (the Commission section) by supplementary budget No 1 of the European Communities for the financial year 1975 (OJ L 175 of 7 July 1975). A sum of 150 million u.a. was allocated in the form of payment appropriations. For 1976 and 1977 the commitment appropriations were set at 500 million u.a. for each year.

At the close of the financial year 1975 the Regional Fund had committed 299 825 530 u.a. by granting assistance relating to 1183 projects⁽¹⁾, comprised of 445 projects for investments in industrial, handicraft or service activities and 738 projects for investment in infrastructures. In relation to the total cost of the operations involved, 2 426 400 000 u.a., the aid granted by the Fund was at an average level of 12%. However, this level is much higher if one takes into consideration only the aid granted after the 1 January 1975, as provided in Article 19 of Council Regulation No 724/75.

(1) Commission Decisions of 16 October (83 Decisions) and 19 December 1975 (96 Decisions).

85 payments, 14 of which were final, were made against these commitments, for a total amount of 90 668 049 u.a. (1). Thus, the mean level of utilization of the first allocation of payment appropriations was 60.44%.

The reason why this level was relatively high, considering that the Fund was so slow in being set up, was that during the last quarter of 1975 the Member States presented requests for payment that had already been prepared and had been before the national authorities for several months.

However, it is appropriate to emphasize the diligence with which the first two sets of requests were examined, enabling 99.94% of the appropriations for 1975 to be committed and the first series of payments to be made in December 1975 and the first fortnight of January 1976.

The table below shows the detailed distribution by countries of the first contributions made by the Regional Fund:

Member State	Commitments	Number of projects	Payments	Distribution according to the percentages laid down in Art. 2 of R. 724/75		Level of utilization of quota
	u.a.		u.a.	u.a.	%	%
Belgium						
Denmark						
Germany						
France						
Ireland						
Italy						
Luxembourg						
Netherlands						
United Kingdom						
Total						

(x) Article 2 of Regulation No 724/75 also provides that in the period 1975-77 Ireland is to receive an additional amount of 6 million u.a., to be deducted from the quota of the other Member States with the exception of Italy.

It should be borne in mind that the quotas laid down by Article 2 of Regulation No 724/75 are not applicable to each year separately but to the three-year period as a whole. The unpaid balance of the appropriations committed, 209 157 481 u.a., was carried over automatically to the financial year 1976 and the commitment appropriations remaining from the financial year 1975, 174 470 u.a., are to be added to the next set of commitment appropriations, for the financial year 1976, thus bringing them to 500 174 470 u.a.

(1) Of this total, 53 936 000 u.a. had been paid at 31 December 1975 and the balance was paid during the first fortnight of January 1976.

43. Comments

The Audit Board contacted the administrative units of the European Regional Development Fund on several occasions, with a view to securing from the beginning of the Fund's operations sufficient information on all aspects of management, because such information is needed before any effective audit can be performed.

An excellent spirit of co-operation was encountered in these approaches. In particular, the minutes of meetings of the Fund Committee, the decisions to grant assistance, the statements of account for the budget, the schedule for visits of inspection and the reports following visits of inspection will be systematically forwarded to the Audit Board.

44. Management of the ERDF

It is obviously too early to assess the management of the Regional Fund. But the indications so far noted suggest that the Community nature of the management as produced by the application of the basic regulations might be even less marked than in the case of the other Funds. Indeed, some of the projects involved in the first set of decisions in 1975 had indubitably already been completed when the Community commitment was made. Therefore these were projects which had been decided upon and put into operation at national level before the Regional Fund was set up on 18 March 1975. Accordingly, assistance from the Community apparently did not play any part in promoting the projects involved.

This is a situation which it is vitally important to remedy, to avoid the risk of the Fund being turned into a system of mere budgetary support.

The Commission believes that in addition to the principle of contributing to individual investments as mentioned in Article 4 of Regulation No 724/75, the eleventh clause of the preamble to that regulation regards assistance from the Fund as providing an overall stimulus which will be reflected in an increase in the number of investments beyond that originally envisaged. Several States have informed the Fund's administrative units of measures of this kind adopted at national level in 1975 but it is likely to be difficult to detect which are the additional projects resulting from assistance from the Fund, especially at a time of budgetary restraint.

45. The basic regulation specifies three essential criteria for assistance from the Fund: 1) the investment's contribution to the economic development of the region, 2) the profitability of the investment, 3) the impact on the level of employment.

Accordingly the Fund should be very selective in granting assistance, there should be closer co-ordination with other instruments of Community aid and efforts should be made to concentrate the appropriations on new projects which would not otherwise be carried out and in which the complementary nature of the Community assistance can be more clearly demonstrated.

In 1975, 1183 projects were approved. This situation must be carefully watched, because it could lead to the appropriations being too widely scattered. The global requests, which take up more than 50% of the appropriations committed, are often used to finance operations forming only a small part of a major investment.

46. Audit of operations assisted by the Fund

During the financial year 1975 four visits for the purpose of on-the-spot auditing were made by the administrative units of ERDF (2 visits to Italy, 1 to Ireland and 1 to the United Kingdom).

These visits were in the nature of a first approach and the main aim was to examine the investments in their regional context and to check on certain information contained in the requests for contributions from the ERDF. They did not involve audit of the supporting documents held by the recipients of the assistance in support of their expenditure.

The Audit Board is aware of the difficulties which Directorate-General XVI faces in putting into effect an audit which will enable it to check the correctness not only of the expenditure but also of all the other characteristics demanded for the decision to grant Community assistance. It considers that for such purposes there should be very careful attention to the number of jobs created, to compliance with all the other features specified (nature and amount of production, length of time and final cost) and, although these are not mentioned by the regulations, tender arrangements.

In view of the Fund's present structure and mode of rendering assistance, it is also of the utmost importance to ensure that the investment has actually received the amount of contribution mentioned by the Member State in its request and to monitor the rate of progress of the projects approved.

47. Staff of the Audit Board were present during a visit to Sardinia in March 1976 arranged by the Commission in connexion with two projects for industrial investments and three projects for infrastructure investments. The essential aim of the visit was a physical inspection of the projects on the ground.

However, fuller verification is required before a more precise assessment of the work of the Fund can be made and the Audit Board hopes to arrange this by performing its own independent on-the-spot audits.

CHAPTER 6 : THE EUROPEAN AGRICULTURAL GUIDANCE
AND GUARANTEE FUND

I. GUARANTEE SECTION

48. Greater access for the Audit Board

In Points 6 and 60 of its report for last year the Audit Board mentioned the limitations imposed on its verifications by the absence of facilities for carrying out independent audits of its own in the Member States. Since approaches to the Council with a view to obtaining such facilities had proved fruitless, the Audit Board decided at the beginning of 1976 to put directly to four Member States the proposal that it should perform its own independent verifications of certain expenditure financed during the year by the Guarantee Section. All these States gave their consent to such audits and the findings are discussed below (Point 51).

The verifications performed are only a modest beginning of the audit operations which the Audit Board considers that it would be obliged to undertake in the Member States if it is to be genuinely in a position to judge compliance with regulations and sound management in the operations financed by the Guarantee Section. The Audit Board has been greatly delayed in its work by having to wait for a reaction from the Council. 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 establishing that financial management has been sound.

49. Closing the accounts for previous periods

a) The period 1967/68 to 1970

Regulation No 2030/73 (OJ L 207 of 28 July 1973, p. 1) appointed 31 December 1974 as the latest date for the Commission to adopt a decision to grant aid under the head of the Guarantee Section for the periods 1967/68 to 1970. There has not been either observance of that date or any formal measure by means of any regulation to extend the time limit.

In paragraph 62 c) of its report for the previous year the Audit Board mentioned the difficulties to be expected as a result of the interval elapsing before closure of the accounts and it described the procedures which the Commission proposed to apply. It must also be accepted that problems are bound to arise from the fact that the closing of the accounts for 1971 and 1972 was not performed in chronological order.

The Commission stated its intention of devoting special attention in 1975 to closing the accounts for the periods 1967/68 to 1970 and said that it hoped to adopt the final decisions before the end of 1975. That objective was not attained.

The Commission arranged inspections in five Member States in 1975 and has now stated that it believes that provided everything progresses normally the accounts can be closed in the summer of 1976; however, there were several factors which might prevent that plan from succeeding.

b) The financial years 1971 and 1972

Since 1 January 1971 the common agricultural policy has been financed directly by the Community. Monthly advances corresponding to their estimated needs are granted to the Member States, which are then required to forward to the Commission, not later than 31 March of the next year, a statement of expenditure for the financial year (Regulation No 729/70, Article 5 - OJ L 94 of 28 April 1970, p. 13; Regulation No 1723/72 - OJ L 186 of 16 August 1972, p. 1). An exception was made for the year 1971, the accounts for which were required to reach the Commission before 15 October 1972. The Commission is required to give discharge of the accounts before the end of the next year but it has never yet done so.

Discharge of the accounts presented by the Member States for 1971 and 1972 was given by Decisions of the Commission dated 2 December 1975. The total amount of expenditure incurred and recognized as chargeable to the Guarantee Section was:

for 1971	1 513 961 737.24 u.a.
for 1972	2 391 736 995.41 u.a.
	<hr/>
total	3 905 698 732.65 u.a.

Amounts totalling

for 1971	19 912 534.63 u.a.
for 1972	32 988 696.22 u.a.

were considered by the Commission not to satisfy the requirements for finance by the Guarantee Section. There were various reasons for this, such as incorrect application of Community regulations, failure to comply with the latest dates stipulated by the regulations and the existence of situations peculiar to individual countries. Three Member States - Germany, France and the Netherlands - have not accepted the Decisions of the Commission as to certain categories of expenditure and have lodged appeals with the Court of Justice.

The expenditure which had been incurred for the two financial years, in pursuance of Article 109 of the Financial Regulations, was:

for 1971	1 541 288 269.58 u.a.
for 1972	2 425 580 718.85 u.a.
	<hr/>
total	3 966 868 988.43 u.a.

The difference between the total incurred for the two financial years and the expenditure recognized as chargeable to the Guarantee Section was therefore 61 170 255.78 u.a. This amount was deducted from the items and articles in the budget corresponding to declared expenditure chargeable to the Guarantee Section for the financial year 1975.

Article 110 of the Financial Regulation provides that any difference which may exist between the expenditure declared for the account of a financial year and that recognized as chargeable by the Commission at the time of discharge of the accounts shall be taken into account in the financial year in which the discharge took place. That article does not specify how the differences are to be "taken into account" but, clearly, deduction from the expenditure for a particular year of sums deriving from differences in expenditure in previous financial years distorts the budget results for the financial year. The Audit Board considers that recourse to such a procedure, which contravenes the provisions of Articles 4 and 22 of the Financial Regulation and conflicts with generally accepted accounting practices, should cease.

Staff of the Audit Board were present, under the provisions of Article 87 of the Financial Regulation, at certain on-the-spot verifications performed by the Commission. The delays which have occurred in preparing the accounts for discharge are indubitably due to the small number of personnel assigned to that task. Moreover, precisely because of the smallness of the staff, it is difficult to believe, whatever the methods used, that the utilization of 3.9 thousand million u.a. of expenditure in two years can have been properly audited and examined.

c) The financial years 1973 and 1974

The Commission carried out a preliminary examination of the accounts for 1973 and intends to arrange on-the-spot audits in the Member States in 1976.

- d) The Audit Board deplores the persistent delay in the operations of closing the accounts. This delay considerably increases the difficulty of verification. The Commission staff engaged on this work has been augmented by five national experts who are paid on a daily allowance basis but this measure does not appear to the Audit Board to be a suitable substitute for the recruitment of experienced accountants. The Audit Board is dubious about the adequacy of the staff at present available to ensure that the accounts are examined carefully enough and closed within the appointed time. The impossibility of performing a correct examination of the accounts reveals a fault in management and could have serious financial consequences.

50. The financial year 1975

The total amount of appropriations made available to the Guarantee Section for 1975, including the supplementary budgets and other adjustments, was 4 698 133 997 u.a.

That sum included 331 500 000 u.a. of appropriations carried forward from 1974, a transfer of 62 000 000 u.a. from the Guidance Section (Regulation No 3341/75 - OJ L 330 of 24 December 1975, p. 1) and an "open" transfer (permitting the allocation of appropriations up to the amount needed) of 63 658 997 u.a. under a Council Decision of 3 December 1975, made up of 33 358 997 u.a. taken from the appropriations to Titles 1, 2 and 9 and 30 000 000 u.a. transferred from appropriations to Article 500, "European Social Fund", which had been brought forward non-automatically from 1974 to 1975.

The Audit Board appreciates the difficulty of estimating with any degree of precision the expenditure in the sphere of agricultural guarantees but it deplores the fact that the many transfers within Titles 6 and 7, the transfers to these titles from others and, above all, the transfer of the appropriations carried over from the previous year which had been earmarked for an entirely different purpose (the Social Fund), completely distort the meaning of appropriations under the budget.

The declared expenditure in the financial year 1975 amounted to 4 727 336 466 u.a. The sum of 61 170 256 u.a. which became available after the finalization of the accounts for the financial years 1971 and 1972 was deducted from the 1975 expenditure, which thus became 4 666 166 210 u.a. As already stated in Point 49 b) above, the Audit Board considers that it is not acceptable to deduct from the 1975 expenditure differences deriving from finalization of the accounts for previous years.

The expenditure charged as payments totalled 4 426 451 505 u.a., of which 361 800 000 u.a. was charged against the appropriations carried over from 1974; a global commitment of 1 652 648 u.a. was placed in suspense because the Financial Controller withheld approval on the grounds of misapplication of the regulations on monetary compensatory amounts. The total amount of appropriations to be carried over to 1976 was 332 852 748 u.a., made up of 299 232 312 u.a. for commitments under budget heads (AIMA expenditure) and the remainder, 33 620 436 u.a., for provisional global commitments.

51. Independent audits by the Audit Board in the Member States

Very heavy expenditure arising from interventions in the milk and milk products sector was charged to the Guarantee Section in 1975 and at the end of the year the intervention agencies held very large stocks of skimmed-milk powder (more than a million tonnes). The Audit Board therefore decided to devote its first independent verifications to that sector. It carried out spot checks in Belgium, Germany, France and the Netherlands of the 1975 expenditure declared under the following budget heads:

Item 6210	Aid to skimmed milk intended for animal feeding
6211	Aid to skimmed milk processed into casein
6212	Storage of skimmed-milk powder

The Audit Board examined not only the accounts and supporting documents relating to that expenditure but also the control arrangements applied by the national authorities to the various operations giving rise to the expenditure. The Audit Board discovered several difficulties in connexion

with putting into effect the regulations relating to this sector and it noted certain differences between the Member States in implementation. A brief analysis of these findings is given below:

(i) General points and aid to skimmed milk intended for animal feeding

a) Regulation No 804/68 (OJ L 148 of 28 June 1968, p. 13) provided that the intervention agencies were to undertake the purchase, at the intervention price, of high quality skimmed-milk powder produced in the Community; Regulation No 986/68 (OJ L 169 of 18 July 1968, p. 14) defined skimmed-milk powder as milk in powder form with a fat content not exceeding 1.5%. In three countries (Belgium, Germany and France) the specialist administrations have claimed that it is impossible to detect the presence within certain limits of whey in skimmed-milk powder and that therefore aid may have been paid in some cases which were not eligible; however, the Netherlands has expressed the opinion that the presence of whey could be discovered, although it is not clear what method employed for this purpose is not available in the other countries.

The Commission has stated that it has already looked into this problem and that it will continue to study the matter. The Audit Board hopes that a solution will soon be found.

b) In Belgium, Germany and the Netherlands until 3 March 1975 skimmed-milk powder intended for animal feeding was excluded from aid if the fat content exceeded 1.5%; in France powder with a fat content exceeding 1.5% was, subject to certain conditions, eligible for aid. A disparity of this kind in interpretation is clearly regrettable.

c) Regulation No 465/75 (OJ L 52 of 28 February 1975, p. 8) provided, as from 3 March 1975, that for the purpose of aid granted for use in feeding-stuffs, buttermilk and buttermilk powder were to be regarded as skimmed milk and skimmed-milk powder. It was therefore enacted (Regulation No 532/75 - OJ L 56 of 3 March 1975, p. 20) that denatured powder could have a fat content not exceeding 11%. The four countries have claimed that the extension of the definition to include buttermilk makes effective control of the composition of powders processed for denaturing impossible, because of the wide variations in fat content that can occur. This is a matter that should receive attention from the Commission's technical services.

d) On the grounds that almost no skimmed milk and skimmed-milk powder was imported into the Community and that unnecessary checks should be avoided, Regulation No 465/75 withdrew in the case of use in feedingstuffs that those products must be produced in the Community. It was discovered that in Belgium aid had been granted for denaturing fairly large quantities of powder originating from Canada and the USSR. The Audit Board considers it to be rather surprising, in view of the existence of enormous stocks of Community origin, that aid should be granted for powder produced outside the Community, even if this is a small proportion of the total.

- e) Regulation No 804/68 provided that the intervention agencies were to purchase at the intervention price those quantities of high quality skimmed-milk powder produced in the Community which were offered to them. Regulation No 1014/68 (OJ L 173 of 22 July 1968, p. 4) specified that among high quality skimmed-milk powders those manufactured by the spray process were more suitable for storage than those manufactured by the roller process and therefore it was appropriate, in principle, to limit intervention to the spray-manufactured powder.

According to Regulation No 986/68 (OJ L 169 of 18 July 1968, p. 4) the purpose of the aid was to use the greatest possible quantity of liquid skimmed milk for animal feeding.

It was discovered that in the Netherlands, for example, large quantities of skimmed-milk powder had been imported from other Community countries for denaturing or for use in the manufacture of animal feedingstuffs. This powder was purchased by the denaturing undertakings at prices far below the intervention price. According to the Netherlands authorities these were products of a quality which did not meet the standard required for intervention purchases and were probably roller-manufactured. In view of the very large stocks of high quality powder held in intervention stocks and the intended objective of making maximum use of liquid skimmed milk in feedingstuffs, it seems rather surprising to the Audit Board that the production of substandard roller powder should be encouraged by the grant of a denaturing premium.

- f) Regulation No 1106/68 (OJ L 184 of 29 July 1968, p. 26) and Regulation No 990/72 (OJ L 115 of 17 May 1972, p. 1) specify that the denaturing of liquid skimmed milk for animal feeds must be performed under on-the-spot supervision and that for such purpose the denaturing undertakings must give the competent official bodies sufficient notice of the planned operations.

In Belgium, France and the Netherlands the physical operation of denaturing the powder is supervised on the spot by State inspectors and no denaturing operation may take place in the absence of the inspectors. In Germany there is no systematic on-the-spot supervision of the actual operation and more attention is paid to verifying the accounts of the undertakings. The absence of systematic supervision of the physical operation would appear to contravene the regulations. The Audit Board suggests that the regulations should be amended to attach greater importance to the audit of cash and stock records, provided always that the last-mentioned procedure can be proved to give better results.

- g) Regulation No 1105/68 (OJ L 184 of 29 July 1968, p. 24) provides that farmers who use skimmed milk produced on their own farms for feeding their animals and who have obtained a licence to sell butter made on their farms are to receive aid equal to 20 kg of skimmed milk for each kg of butter sold, up to an annual maximum of 3000 kg of milk per cow registered (these quantities were raised to 22 kg and 3300 kg respectively by Regulation No 912/75 (OJ L 88 of 9 April 1975, p. 9)).

The Audit Board was unable to investigate the application of these provisions except in Belgium. Records kept by the farmers authorized to sell farm butter showed the quantities sold and the number of cows

kept. At 1 October 1975 there were 9287 farmers with authorization to sell farm butter and it was clear that suitable checking of the applications made by those farmers for the aid to skimmed milk intended for feeding their livestock was impossible. It is not very desirable that aid should be granted in circumstances in which it is extremely difficult to verify the accuracy of the applications. The Audit Board considers that the Commission should think about this particular aspect.

(ii) Aid to skimmed milk processed into casein

- a) The manufacture of casein and caseinates from skimmed milk occurs in only three of the countries visited (Germany, France and the Netherlands).
- b) Regulation No 1103/68 (OJ L 184 of 29 July 1968, p. 19) and Regulation No 756/70 (OJ L 91 of 25 April 1970, p. 28) provide that aid to skimmed milk processed into casein or caseinates may be granted only after the products have been placed on the market. This requirement is strictly applied in Germany and France and proof of sale is demanded before the aid is paid. In the Netherlands the sole existing producer of these products receives before sale an advance equal to 85% of the aid. The Netherlands authorities stated that the aid was paid to the producer in cases where the products were exported for storage in depots owned by the producer in third countries, even though the goods remained his property and no actual sale had taken place. The procedure in the Netherlands would appear to contravene the regulations and the Audit Board recommends that the Commission should look into this matter.
- c) The level of the aid granted to skimmed milk processed into casein varies from time to time. Until February 1975 the level paid in Germany and France was that in force on the day of sale. Regulation No 533/75 of 28 February 1975 (OJ L 56 of 3 March 1975, p. 24) specified that, for reasons of clarity, the amount of aid to be granted was to be that applicable on the day of manufacture. The Audit Board takes the view that the Commission was somewhat late in supplying that necessary clarification.
- d) The amount of aid to be granted for the production of casein and caseinates is expressed in the regulations in units of account per 100 kg of skimmed milk processed. The level of aid is that applicable on the day of production but the aid is not paid until the day of sale.

On 3 March 1975 the DM was revalued from 3.66 to 3.57873 per unit of account. For casein and caseinates produced before that date but sold afterwards Germany used for conversion of the aid into DM the rate applicable on the day of manufacture, namely DM 3.66 = 1 u.a.

The Audit Board believes that there are two ways of viewing the operation:

- there are two distinct parts to the transaction: in that case the amount of the aid is definitively fixed in units of account on the day of manufacture; the subsequent payment is a separate operation with conversion into the national currency at the rate ruling on the day of payment;
- there is a single transaction: accordingly the amount of the aid payable to the producer is fixed in the national currency on the day of manufacture.

The Audit Board is inclined to favour the first hypothesis, but this is a matter which ought to be clearly defined by the regulations.

- e) The aid granted for the manufacture of casein and caseinates is calculated on the basis of an amount per 100 kg of skimmed milk processed and for that purpose it is specified that for 1 kg of each of the two types of product a certain quantity of skimmed milk is required. Because of various factors affecting production, it is on the whole difficult to compare the true quantities of skimmed milk used with the theoretical quantities taken for calculating the aid. However, in one case in Germany it was possible to make a direct comparison for a firm which in the first quarter of 1975 produced caseinates for which Regulation No 455/73 (OJ L 53 of 26 February 1973, p. 8) lays down that 39.75 kg of skimmed milk are needed for 1 kg of caseinates. The true volume of skimmed milk used for the production of 1 kg of caseinates, as shown by the firm's returns was as follows:

January	34.62 kg
February	37.55 kg
March	34.39 kg

No firm conclusion can be drawn from this example but the figures suggest that it would be advisable to review periodically the quantities laid down in the regulations, bearing in mind in particular that the volume needed may be influenced by both the protein content and changes in production methods.

(iii) Storage of skimmed-milk powder

- a) In Point 65 of its report for 1974 the Audit Board discussed the method of determining certain fixed amounts used for calculating the costs of intervention operations. The inference drawn was that there was no apparent relationship between the fixed amounts and the actual costs in the Member States. This has been confirmed as regards milk powder, for which the storage costs in the Netherlands are appreciably lower than the fixed amounts granted, whereas in Belgium the latter more or less match the true costs and in France and Germany they do not fully cover the costs.

The fixed amounts prescribed by the Commission are a weighted mean of the costs declared by the Member States. If the amounts paid and declared by the Member States are not economically justified, then the fixed amounts based on those amounts have likewise no foundation in economic fact. The Audit Board has tried to examine the bases on which

the rates in the four countries for the storage of milk powder have been determined. There has not been any award of tender in any of these countries and the rates are determined by negotiation with the undertakings.

In Germany the cost was determined in 1968 mainly on the basis of the known costs at the time in the administration of the State warehouses. The amount payable was raised in 1973, to bring it into line with the general movement in costs and it was still in force in 1976. The German authorities had no data on the profit margin which the storage firms obtained from this rent. In the other three countries it was impossible to gain a precise idea of the components on which negotiation of the rates was based but it was found that no information on the profit margin of the storage firms was available.

In the absence of awards of tender and of cost and profit data it is impossible to know whether or not the costs accepted for the storage of milk powder are fair and economically justified and, therefore, whether or not there is sound financial management in that sphere. The Audit Board recommends to the Commission that when reviewing the system of fixed amounts the latter should study particularly how the rates applied by the Member States for reimbursement of storage operations are computed.

- b) The general rule applied by all the countries in connexion with stocks of skimmed-milk powder is the "first in - first out" ("FIFO") principle, with the exception that in October 1975 the Netherlands changed to the "last in - first out" ("LIFO") rule. At the time of the verifications all the countries were still holding some stocks of powder manufactured several years earlier, the oldest being

from 1973	in Belgium
from 1972	in Germany
from 1973	in France
from 1974	in the Netherlands

The Audit Board suggests stricter application of the more logical FIFO system, in order to reduce the risk of loss through deterioration.

- c) Regulation No 557/76 (OJ L 67 of 15 March 1976, p.1) imposed from 15 March 1976 new representative exchange rates to be applied in the common agricultural policy. The representative rate for the DM was changed from 1 u.a. = DM 3.57873 to 1 u.a. = DM 3.48048. Up to 15 March 1976 the intervention price for skimmed-milk powder was 88.70 u.a. per 100 kg and from that date it was 90.16 u.a. per 100 kg; in national currency those levels were DM 317.43 and DM 313.84 respectively.

However, Regulation No 558/76 (OJ L 67 of 15 March 1976, p. 4) specified that "in Germany, the intervention price for skimmed-milk powder, until 15 September 1976, shall be the price valid in national currency in that Member State before 15 March 1976", namely DM 317.43 per 100 kg instead of DM 313.83 per 100 kg. At the beginning of April 1976 about 5000 tonnes of skimmed-milk powder were brought to the German intervention agency by manufacturers in other Member States: this was apparently

the direct result of the allowance of DM 3.60 per 100 kg of powder. The German authorities have expressed the opinion that if this advantage should remain some 30 000 to 40 000 tonnes of powder from other Member States will have been presented for storage by 15 September 1976.

This seems to be the unintended consequence - expensive for the EAGGF - of a concession made to a Member State. The Audit Board advises that in future before such concessions are granted there should be a full examination of the possible consequences for the Community as a whole.

- d) The amounts committed in France for the purchase under intervention of skimmed milk are included in the accounts as if final purchases were involved. The controls and analyses of the powder take 30 to 45 days and about 2% of the powder is rejected as a result of those controls. This means that for the rejected powder the EAGGF bears the cost of finance for the period between commitment and rejection. The same occurs for sales, which provides some compensation for the EAGGF.

In the other countries visited the accounting is based on the amounts actually paid and received. The Audit Board would like to see the same procedure applied in France.

- e) The intervention price for skimmed-milk powder is applicable to goods delivered to a warehouse at a distance not exceeding 100 km; if the distance exceeds 100 km the additional transport costs are borne by the intervention agency (Regulation No 1014/68 - OJ L 173 of 22 July 1968, p. 4 and Regulation No 1108/68 - OJ L 184 of 29 July 1968). These costs are at a flat rate, which is at present FF 0.19 per tonne/kilometre.

France includes the additional transport costs in the intervention price of the powder. The financing costs reimbursed by the EAGGF are therefore calculated from a stock value which includes additional transport costs.

In other countries the transport costs appear separately in the accounts for intervention operations and are not included for the purpose of calculating the financing costs. The same procedure should be applied in France.

52. Aid to skimmed milk processed into casein or caseinates

Regulation No 987/68 (OJ L 169 of 18 July 1968, p. 6) stipulated that the aid granted to manufacturers of casein or caseinates was to be fixed in such manner that receipts from the sale of skimmed milk processed into casein or caseinates matched those from the sale of skimmed milk processed into skimmed-milk powder. Regulation No 1103/68 (OJ L 184 of 29 July 1968, p. 21) provided that receipts from the sale of skimmed milk were to be determined by taking into account on the one hand the intervention price of skimmed milk spray powder and on the other hand the price on the world market of first grade casein; that to calculate receipts from the relevant products the price on delivery to the wholesaler less the producer's profit margin and the transport costs should be divided by

the quantities of skimmed milk required for their manufacture; and that for such purpose uniform flat rates calculated from the mean values should be used for the yields, the producers' profit margins and the transport costs. The quantities of skimmed milk needed to produce 1 kg of casein or caseinates have from time to time been specified by regulations: the latest (No 2943/73 - OJ L 301 of 10 October 1973, p. 23) provides for a range from 27.75 kg to 39.75 kg. The amount of aid per 100 kg of skimmed milk used in processing was raised on 1 November 1975, when it was set at 4.80 u.a.

In view of the complexity of this scheme, the Audit Board made use of Article 89 of the Financial Regulation and wrote to the Commission in March 1976, seeking all relevant documents and correspondence showing the basis and the data employed to establish the quantities of skimmed milk judged to be necessary for the production of the different types and grades of casein and caseinates and to establish the various levels of aid granted for such production.

The Commission informed the Audit Board in June 1976 that the competent official for that sector was on sick leave and the matter would await his return, so that he could personally take note of the questions asked and reply to the points raised. The Audit Board is therefore at the moment not in a position to give an opinion on the quality of financial management so far as this aid is concerned. However, it deplores the fact that such a heavy responsibility is apparently vested in a single official.

53. Distillation of table wines

When there is a risk that granting aid to private storage might not bring prices to a reasonable level, Regulation No 816/70 (OJ L 99 of 5 May 1970, p. 1) provides that rules governing the distillation of table wines shall be adopted and stipulates that the price of the wines to be distilled must be set at a level which does not provide an incentive to the production of poor quality wines.

Regulation No 267/75 (OJ L 30 of 4 February 1975, p. 2) stated that the conditions were present for launching a distilling operation for certain types of table wine. Requests to distil were to be made before 1 March 1975 and the distilling had to take place before 6 June 1975. The price of the wines to be distilled was not to provide an incentive to the production of wines intended primarily for distilling, while at the same time it had to be sufficiently attractive for the operation to be effective. The prices of wines for distilling did not under normal conditions allow for the marketing of the products obtained from this operation and accordingly it was necessary that aid should be paid and that the amount thereof should be determined, bearing in mind normal costs, at a level such that marketing of the products obtained was possible. The minimum purchase price of table wine for distilling was to be 1.58 u.a. per degree per hectolitre and the amount of the aid was to be 0.92 u.a. per degree per hectolitre for a product with an alcoholic strength of 86° and over and 0.78 u.a. for a product with an alcoholic strength of 85° and under. The total quantity of table wine to be accepted for distilling under those provisions was limited by Regulation No 820/75 (OJ L 78 of 27 March 1975, p. 95) to 4.6 million hectolitres.

Regulation No 1036/75 (OJ L 103 of 23 April 1975) announced that because of the abundant harvest of 1974/75 a new distillation operation was to be launched during the period (as amended by subsequent regulations) 12 May to 19 July 1975. The minimum purchase price of table wine for distilling was to be 1.56 u.a. per degree per hectolitre and the aid was to be 0.90 u.a. and 0.76 u.a. per degree per hectolitre for products having an alcoholic strength of, respectively, 86° and over and of 85° and under.

Mr. Lardinois, Member of the Commission of the European Communities, told the European Parliament on 10 April 1975 that the distillation of the 4.6 million hectolitres mentioned had taken place "at a price which seems, after the event, to have been too high".

In view of this statement by Mr. Lardinois and the fact that the minimum levels of the price and the aid for the second distillation operation in 1975 were lower than for the first operation, the Audit Board asked the Commission, in February 1976, to supply information on the following points:

- a) the base from which the minimum purchase prices of wine for distillation are determined so that they do not provide an incentive to the production of wines intended primarily for distilling, while at the same time being sufficiently attractive for the distilling operation to be effective;
- b) the base for determining aid to distilling at a level which, taking into account normal costs, makes marketing of the products obtained possible;
- c) by how much was the minimum price stipulated for the distillation of the 4.6 million hectolitres too high and to what extent may that high price have stimulated additional production of wines primarily intended for distilling ?
- d) what additional amount of aid granted for that distillation resulted from the minimum price being too high, taking into consideration that the aid was granted because the price of the distilled wine was too high to allow for the marketing of this product ?

The Commission replied as follows:

"I. In general terms, the prices of the distilled wines are determined in the light of:

- the market prices;
- the guide prices and the activating prices.

In such circumstances they cannot constitute an incentive to the production of wines intended for distilling but one cannot exclude the possibility that, in individual instances and in certain cases only, wines are produced solely with a view to their distillation.

II. The amounts of the aid to distilling are determined by adding to the price of the wine a standardized assessment of the cost of the distillation operations and deducting from the total obtained the selling value of the distilled products. That value is determined by taking into consideration the prices of spirits in Italy (including those of wine distillates) but disregarding the prices of the same products in France, because in that Member State those prices are imposed by the "Alcohols Department".

In the final analysis the aid comprises no more than the amount necessary to facilitate, or even simply to permit, marketing of the distillates obtained.

- III. Given a situation of two very abundant harvests in succession, the problem was to remove rapidly from the market a substantial quantity of wine. That aim could only be achieved by means of a really attractive price. The urgency of the measure and the endeavour to make it effective explain why the price was set at such a high level.

In the case under consideration it is unlikely, given the exceptional nature of the situation, that this measure could have had a generalized effect of providing an incentive to the production of wines intended for distilling.

- IV. The mere announcement of a measure providing for distillation and, as a necessary consequence, its implementation, especially if it relates to large quantities, has the effect of halting the fall in the prices of wine and sometimes there is even a rise in those prices. On the other hand, in the sphere of spirits, and in particular in Italy, the influx into a balanced market of unusual quantities of distillates brings about a lowering of the prices of spirits distilled from wine and wine spirits. It cannot therefore be claimed that when the price of wine for distilling is set at a high level the aid is excessive. In the case under reference it even proved to be inadequate, because the Italian Government found it necessary to authorize the Italian intervention agency to pursue a policy of withdrawal, which helped to prevent too sharp a decline in the prices of spirits.

In 1975 distillation pursuant to Regulation No 267/75 and Regulation No 1036/75 was:

10 967 500 hl of wine in France
6 000 000 hl of wine in Italy
16 000 hl of wine in the Federal Republic of Germany "

The reply only supplies general statements in answer to the questions put. The Audit Board has not been given any figures or calculations for the method of determining the minimum price of distilled wine or the method of "standardized assessment" of the cost of the distillation operations, or for the selling value of the distilled products. Therefore it has no data concerning the manner of determination of the amount of aid.

No indication is given of how the "really attractive" price for distillation under Regulation No 267/75 may prove to be "too high" and in answer to the question about the effect of a high minimum price on the amount of aid general statements are made concerning Italy but nothing is said about France.

It is therefore difficult for the Audit Board to draw any other conclusion than that the economic and cost factors are only treated as secondary considerations in determination of the amount of aid to be granted for the distillation of wine. On the basis of the information supplied to it, the Audit Board is not in a position to state that the rules of sound financial management have been observed.

54. Fraud and irregularities

- a) In Point 66 of its report for 1973, the Audit Board described the provisions of Regulation No 283/72 (OJ L 36 of 10 February 1972, p. 1) relating to irregularities; Point 67 of the report for 1974 gave particulars of the measures envisaged by the Commission in an attempt to improve Community work in that sphere and of the work of the Special Committee of Enquiry. Under the same Point the Audit Board also supplied statistical data on the cases of irregularity reported from 1971 to 1974.
- b) In 1975 the Special Committee of Enquiry concentrated on the beef and veal sector but it has not yet produced a report on this. Progress was made in putting into practice the recommendations made by the Committee in its earlier reports but such progress is still very limited. During the financial year the Commission held five meetings with the delegates of the Member States to study a number of matters relating to irregularities. These meetings were held in pursuance of Article 7 of Regulation No 283/72.
- c) 172 cases of irregularity, involving a total of 15 447 923 u.a., were reported by the Member States in respect of the years 1971 to 1974. Amounts totalling 9 741 154 u.a. were recovered from 99 cases.
- d) 139 cases of irregularity, involving an aggregate of 2 266 378 u.a., have been reported for the year 1975 and so far recovery has been possible in 60 cases, yielding a total of 554 156 u.a.

25 cases, involving a total of 778 725 u.a. concerned irregularities in connexion with refunds and 114 cases, to a total of 1 487 653 u.a., related to intervention expenditure.

67 cases, to an aggregate of 1 063 248 u.a., were in the sector of cereals and 22, to about 630 000 u.a., related to beef. Most of the irregularities in respect of refunds consisted of false declarations of destination, of quality, of quantity or of tariff heading. The irregularities in the sphere of intervention were of various kinds and involved 9 sectors but on the whole they resembled those mentioned in the previous report.

Many improper applications for payment in the fields of monetary compensatory amounts or accession compensatory amounts arise and are often based on false declarations of quality or quantity.

II. GUIDANCE SECTION

The Guidance Section contributes to the financing of:

- individual investment projects approved by the Commission;
- special measures;
- joint schemes.

55. Utilization of the appropriations

The table supplied as an annex shows the management of the appropriations allocated for financing these three types of intervention in the financial year 1975.

The appropriations to the Fund for 1975 were reduced from 325 million u.a. to 262.5 million u.a. by transfer to the Guarantee Section, which took over the financing of the premium for re-stocking beef herds. This total of 262.5 million u.a. is comprised of 212.6 million u.a. (81%) for financing individual projects, 36.5 million u.a. (14%) for financing joint schemes and 13.4 million u.a. (5%) for special measures.

During the financial year commitments were entered into to the extent of 149 011 893 u.a. from appropriations to the financial year and 141 258 204 u.a. from appropriations carried over.

85% of the commitments were for individual projects, 11% for joint schemes and 4% for special measures.

In payments made during the financial year, which totalled 184 283 994 u.a., the distribution between the three types of finance was 75%, 18% and 6%, respectively.

56. Mansholt Reserve

The analysis of financial management produced by the Commission in support of the revenue and expenditure account for 1975 contains two references to the Mansholt Reserve. Neither of these references, which conflict with each other, reflects the position carried over into the preliminary draft budget for 1977. The latter shows the Reserve at the end of the financial year 1975 as 529 841 979 u.a., made up by year of origin of the following sums:

1969	59 799 418 u.a.
1970	83 562 310 u.a.
1971	185 117 684 u.a.
1972	92 846 288 u.a.
1973	93 211 316 u.a.
1974	15 035 130 u.a.
1975	269 833 u.a.
	<hr/>
	529 841 979 u.a.

A. Financing of individual projects

57. On 15 July 1975 the Commission granted assistance from the second instalment of funds from 1974 (appropriations carried over) to 469 projects, to a total of 139 167 197 u.a. On 19 December it granted to 318 projects total aid of 107 995 034 u.a., from the first instalment for 1975 (appropriations for the financial year).

The distribution between the Member States of the aid granted was as follows:

Germany	197 projects	DM	182 572 996
Belgium	87 projects	Bfrs	766 366 163
Denmark	28 projects	Dkr	89 120 705
France	99 projects	FF	240 604 981
Ireland	28 projects	£	5 901 693
Italy	229 projects	L It	42 940 735 666
Luxembourg	4 projects	Lfrs	43 875 500
Netherlands	53 projects	Fl	56 776 962
United Kingdom	62 projects	£	11 382 629
	<hr/>		
	787 projects		

The table on the next page shows the situation at 31 December 1975 for the appropriations for financing individual projects. By comparison with the position at 31 December 1974 it reflects a slight improvement in the speed with which payments are being made, especially for projects of the most recent years.

Commitments cancelled came to a much smaller total in 1975 than in 1974 (650 966 u.a. compared with 9 188 194 u.a.). This is the result of the entry into force of Council Regulation No 3171/75, permitting the reutilization, by allocation to other projects, of appropriations corresponding to amounts unutilized where the aid paid was less than that provided for in the decision to grant aid.

The amount of appropriations carried over from 1975 to 1976 under authorization by the Council (committed more than five years previously) was 71 227 243 u.a., which included 14 412 394 u.a. in unutilized appropriations to which the above-mentioned regulation was applicable.

58. In some cases the EAGGF granted contributions on the strength of very incomplete preliminary plans for projects, for which further study and preparation of a final plan were still needed and ought to have been demanded. This inadequacy of the initial file caused delays in execution and major changes in the very nature of the projects and led to the estimated costs being considerably exceeded.

For example, for the construction of a distillery (D/23/72) the fermentation process originally envisaged had to be completely changed because it proved to be impracticable. Moreover, purification of the waste water was only noted in passing in the estimate of quantities and costs, and the local government authorities enforced the construction of appropriate installations.

Budget	Appropriations (1)	Number of projects	Appropriations committed		Payments made		Commitments cancelled
			u.a.	%	u.a.	%		u.a.	%

(1) BR ; appropriations brought forward and re-entered; N : new appropriations

Project F/18/70, involving a curing and canning factory, was originally intended to benefit an "association of co-operatives" and enable the situation of pig farmers to be improved. But after this project had been completed the facilities were transferred to a private company selling the products at market prices. The legal basis and the intended economic effect of the project were thereby jeopardized.

In its reply to the Audit Board's enquiries the EAGGF expressed the view that the essential benefit to the producers lay in the possibility of having their produce processed locally. In the absence of sufficient information, in particular on the respective positions of the association of co-operatives and the private company in relation to the project, it was impossible to discover exactly what share in the project accrued to the association.

For building a meat cutting plant (D/119/69) three successive estimates, each one higher than the next, had been produced when the decision to grant aid was adopted but the final bill of costs came to almost twice the total of the last of the estimates.

In its reply to the Audit Board's enquiries the EAGGF attributed the subsequent changes to difficulties caused by the site, but one notes that major changes were made not only in the outline of the building but also in the equipment of the plant. Moreover, equivocation in these matters persisted from 1968, when the first of the estimates was produced, almost until 1972, when the final form of the project was settled.

The slaughterhouse financed under Project D/58/68 was initially planned to link up with a meat cutting plant which a co-operative was to build nearby (Project D/118/69). Yet the two projects were eventually set up 110 km apart, which makes their economic justification questionable.

Furthermore, the final bill of costs (in 1974) differed greatly from the estimate submitted in 1969. Even if it is possible to understand the EAGGF's argument that a marketing centre as in Project D/118/69 need not necessarily be built close to the centres of production, it is still a fact that in this specific case adherence to the plan to site the projects close to each other would have eliminated the necessity for a great deal of transportation and would thus have put the slaughterhouse in a favourable competitive position. Only those merits could have justified departure from the initial project; as it was the combined effect of inflation due to delays and of the proposed enlargement caused a 20% increase compared with the initial estimate of costs.

59. The files forwarded for auditing do not specify clearly enough the reasons why abnormal delay in carrying out projects did not lead to cancellation of the aid.

Six years were spent on carrying out Project F/9.1/68 for a land re-parcelling operation and even then the project fell far short of completion. In a case of building a slaughterhouse (F/60/66) nine years elapsed between the date of application and final closure of the file on the case. The same length of time was found for Project F/14/66 for land re-parcelling. The delay on the part of the Member State in paying its contribution in the last-mentioned case casts doubt on the value of the project.

60. From the files, which do not contain the opinions expressed by the specialized units of the Directorate-General for Agriculture before the decision to grant aid, it is impossible to understand why there are apparent conflicts between the objectives of the Guidance Section of the EAGGF and those of the Guarantee Section. Those conflicts have sometimes increased the delay in carrying out projects.

In order to be able to assess the economic justification for the projects and hence the soundness of the financial management of the appropriations to the Guidance Section of the EAGGF, the Audit Board needs to be informed of the expert opinions given by the competent units. It considers that the withholding of information which it has so far experienced contravenes the provisions of Article 89 of the Financial Regulation.

For example, three projects (F/126/71, F/87/70 and D/103/71) assisted the production of wines of average quality at a time when the market was already overloaded with surpluses. Project F/94/68 for irrigation increased the production of apples and pears at a time when overproduction was so great as to lead to a measure for granting aid for uprooting fruit trees (Regulation No 2517/69). Similarly, the economic value of three dairy projects (B/20/66, B/39.1/68 and B/4/69) was jeopardized by the market situation and the introduction under Regulation No 1103/68 of aid for skimmed milk.

61. Where the EAGGF grants aid to a project which is part of a larger overall, the effect of the aid in terms of "guidance" is not clear and the justification for carrying out that project is sometimes uncertain, because it is often difficult to separate the components of the subsidized project from the other investment projects undertaken by the recipient.

Thus, Project F/18/69 for the modernization and expansion of a dairy complex formed part of a larger processing programme carried out by a large co-operative association which did not separate this project from the others in its accounts. As a result the supporting documents for the expenditure were produced and then replaced by others but it was impossible to pin any of them down as relating solely to the programme financed by the EAGGF.

The same applied in the case of Project F/40.6/68 for water supplies, which was part of a programme that had already been partially carried out before the application for aid was made.

In its reply to the Audit Board's enquiries the EAGGF confined itself to asserting the value of such projects, claiming that the fact of their being part of a larger overall project provided a guarantee that the purpose complied with Community regulations. This does not alter the fact, however, that the files ought to permit complete verification of everything of significance pertaining to both the physical and economic features of the part of the project financed.

62. The Audit Board noted several cases in which assistance was granted to recipients occupying dominant, or at least very important, positions on the market for their goods or services. In view of the purposes of the Community and the resources at the disposal of such applicants, the files should in such cases contain convincing evidence showing that without Community aid the proposed investment projects could not have been financed.

Moreover, it should at least be ascertained that the producers supplying commodities to such groups obtain an increase in income as a result of the project.

This absence of economic justification was particularly apparent in the case of Project F/26/71 for a cheese-making factory, Project F/8/72 for the manufacture of potato crisps and Project D/128/69 for a slaughterhouse.

63. In other cases the economic or social effects invoked to justify the granting of aid have not been achieved. For example, completion of Project F/155/69 for dairy products has not brought about any rise in the price paid to producers and completion of Project F/5/72 for industrial processing has not created any new jobs but has merely led to a small amount of redeployment of the existing labour force.
64. Some of the projects audited have only tenuous links with agriculture and their influence on the structure of agriculture must be regarded as minimal. This aspect should be particularly emphasized because at the time when assistance was given to such cases 322 other projects were turned down for lack of funds.
- This comment applies, inter alia, to Project F/5/72 for a factory for making forcemeat balls and to Project D/120/72 for an offal processing plant. Although, as the EAGGF suggests, such projects may have an impact on the structure of agriculture, it must be pointed out that the main benefit from such investment goes to industry rather than to farmers and the effect on the incomes of the latter is very small by comparison with the size of the investment.
65. The admission of some projects to Community aid can even be contested on the grounds of Community law.
- In its report for 1974 the Audit Board judged that withholding of approval by the Financial Controller in the cases of five projects for constructing potato grading and storage establishments was based on a correct interpretation of Articles 11 (2) and 12 (3) of Regulation No 17/64 which exclude operations to improve the storage or marketing of products not covered by common organization of markets.
- A like interpretation should have meant the refusal of aid for Project F/8/72 for building a factory to manufacture potato crisps. Moreover, in the case of that project the reference to Regulation No 865/68, relating to marketing arrangements for processed products and not to the processing operations, was also incorrect.
66. Payment of aid also calls for comment in that reduction of the overall cost of the investment has not been producing a decrease in the contribution from the EAGGF but has been benefiting only the other investors. Thus, for Project F/8/72 the aid from the EAGGF was at the level of 16.5%

of estimated expenditure when the decision to grant aid was adopted but became 18.2% of the actual expenditure when the payment was effected.

In order to keep the shares of costs in the same proportions as originally planned, the assistance from the EAGGF should be set at a percentage, with the absolute sum as a ceiling and not an entitlement.

Indeed, in some cases the EAGGF itself preserves the percentage, applying to individual sectors certain internal rules which are not disclosed in the files.

67. EAGGF staff carried out on-the-spot verifications for 13 projects in 1975. Staff of the Audit Board were present at two of these audits, one of which related to a project designed to increase the deep-freezing, cold storage and handling capacities of a poultry packing plant (B/26/70) and the other to two linked projects for work connected with land reparation operations (B/72/68 and B/124/73).

As a result of the visit to the packing plant the assistance was discontinued and a recommendation for cancellation was submitted to the Commission.

The ground for that decision was the extent of the alterations being carried out. Moreover, the undertaking's economic position at the time proved that the economic forecasts made by the recipient were unrealistic.

The inspection took place so late that it was difficult to relate the invoices to the work carried out, because the invoices were 2 to 5 years old and the original work had in the meantime been supplemented by more recent alterations.

The national administrative authorities had not checked on the performance of the work as carefully as they should have done and had not ensured that the recipient was fulfilling his obligation to inform the EAGGF sufficiently early of the changes envisaged. Indeed, they were unable to state in what form and on what date the national contribution had been made available to the recipient.

The two projects for work connected with land reparation operations are still being studied by the Commission departments, as the audit visit did not take place until the end of the year.

The purpose of these two projects partly overlapped. Although the first project took longer than intended, aid was granted to the second when the shortcomings of the previous project should have been taken into consideration.

Here again, the work performed departed from the plan accepted by the EAGGF. The initial file, which was very incomplete, did not mention that a considerable part of the programme of work had already been carried out by the farmers without informing the competent official bodies of that fact. The attention of national authorities should be drawn to the active

part they ought to play in passing on the files. Their processing of the cases ought to provide genuine assurance that they have made arrangements for the scrutiny and examination of the technical and economic data adduced in support of the applications.

B. Financing of special measures and joint schemes

68. The table supplied as an annex gives the figures for the financial year 1975 for each scheme of the amount of commitments and payments charged to the appropriations for the financial year and to the appropriations brought forward from previous financial years, the amount of appropriations cancelled (transferred to the Mansholt Reserve) and the amount of appropriations to be carried forward.

Clearly the desire of the Community legislators that joint schemes should replace individual projects where the improvement of agricultural structures is concerned is unattainable wherever Council Directives - in particular those of 17 April 1972 - are given such limited application.

69. The verification performed by the Audit Board was concerned with:

- comparison of the supporting documents accompanying requests for refund with the Commission's decisions;
- systematic checking in order to detect any contradictions or anomalies contained in the supporting documents received;
- examination of the figures supplied in the light of detailed rules laid down in Community regulations.

A considerable proportion of the documents received were not presented in the form required by the regulations or contained obvious errors.

In nearly half the cases the documents produced by the Member State were drawn up in an incorrect form.

It is important that before making any payment the Commission should satisfy itself that the documents and their contents conform to the regulations. The Audit Board has received documents which did not provide sufficiently conclusive evidence in that respect (premiums for slaughter; survey of fruit trees; survey of agricultural structures).

70. - Directive No 72/159, "Modernization of farms"

In 1975 the Commission made to four Member States payments on account limited to 75% of the declared expenditure. Under the procedure which has been applied, the payments on account are effected on the basis of cursory general examination of the documents forwarded by the Member States and all evaluation of the supporting evidence supplied is deferred to the later stage of final settlement.

This assessment of the value to the Community of the expenditure tends to be difficult because of the ambiguity and vagueness of the terms of Directive No 72/159. The Commission itself pointed out those difficulties in its report on the application of the Council's directives of 17 April 1972, published in December 1975.

The requirement that agriculture should be the main occupation of the landowner, that the landowner should have adequate agricultural skill and that improved income should be received for an annual working time not exceeding 2300 hours are some of the conditions for granting aid which applicants are likely to have difficulty in proving and officials are likely to have even greater difficulty in checking.

Moreover, the directives do not specify clearly whether some of the conditions which they set forth are mandatory or are merely given for the purpose of guidance.

71. - Directive No 72/161, "Socio-economic information and professional qualifications of agricultural workers"-----

From the documents passed on by the administrative units of the EAGGF the Audit Board ascertained that the total amount of expenditure mentioned in the decision granting aid did not match the expenditure incurred by the Member State but that the reimbursable amount (one quarter) calculated by the EAGGF was less than the Member State claimed in view of the maximum levels authorized by Directive No 72/161.

It emerged from the Commission's reply that the amount applied for in respect of three of the four Länder had been reduced on the basis of an agreement; but the Audit Board was not informed of the contents of that agreement and was therefore unable to judge whether these amendments were in line with the directive.

The interpretation which Directive No 72/161 has been given in the one Member State where it has so far been implemented has mainly benefited the local government authorities. One wonders whether there is not a risk of the "economic and social advisers" duplicating the work of the advisers on co-operative organization in that Member State, despite their different spheres of action. Finally, examination of some of the course programmes raises doubts as to whether the Guidance Section of the EAGGF is justified in financing activities such as courses in "group dynamics", "leadership" or "communicating with rural communities".

72. - Conversion in the cod-fishing sector

In most of the cases in which payments were made in 1975 the aid granted was more in the nature of a contribution to financing fitting out that had already been performed than of providing the kind of stimulus that a guidance policy should entail.

Such was the case for the three freezer-trawlers involved in Projects D/1.2 and 3/74 and for the vessels concerned in Projects F/2.3 and 4/74. In both sets of projects the work had begun before the request was made, indeed in two cases even before the regulation of 1972 came into force.

For the last-mentioned projects the Community aid was paid when only part of the national aid had yet been allocated.

Moreover, in one case (Project F/3/74) the saving on performance of the work following the devaluation of the Italian lira benefited only the sources of finance other than the EAGGF, whose share thus became raised from 20% to 23%, through errors which have already been criticized by the Audit Board (1974 report, Point 73, para. 6 and 1975 report, Point 66).

73. - Premium for the conversion of dairy herds to meat production
(Reg. No 1353/73)

In 1975 the EAGGF made reimbursements to eight Member States of the premiums paid to beneficiaries in 1974. Examination of the supporting documents gives rise to the following comments:

One Member State calculated the conversion of units of account into national currency at the representative rate ruling at the time of payment of each instalment (the premium being paid in three parts). However, the EAGGF considers that the rate ruling at the time of grant of the aid should be used for all three instalments. Accordingly the EAGGF made only one provisional reimbursement to that Member State, leaving in suspense the reimbursement of the two instalments of the premium which were overpaid following the change in the representative rate. Even if one accepts the use of the representative rate (which is admissible from the point of view of the regulations but poses certain budgetary problems), it is more reasonable to set the premium for once and for all at the moment when the charge arose, namely at the time the premium is granted to the applicant.

The regulations debar owners of fewer than 11 cows from receiving the premium unless a concession is expressly made by the Commission upon formal request from the Member State. In one case that concession was not published in the Official Journal as the others have been.

In two regions of one of the Member States calculation of the average premium per hectolitre as reflected in the documents supplied by the Member State deviated too much from the premium provided for by the regulations. In reply to the Audit Board's comment on this, the Commission accepted that revision of the breakdown by regions was necessary but stated that the total for the country as a whole was nevertheless correct. The Audit Board considers that the revision should have preceded the reimbursement.

74. - Aid for setting up fruit and vegetable producers' organizations

In the cases of three of the four Member States which received reimbursement of this aid in 1975 the supporting documents for the requests for reimbursement which were passed to the Audit Board by the EAGGF contained many anomalies and errors in calculation which had been corrected by the administrative units of the EAGGF after communication with the national administrative authorities. There was insufficient sign of this correspondence in the files passed on.

In some co-operatives fruit growers or market gardeners belonging to a group of producers were allowed the aid when the group was already receiving it, so that the period of aid was thus prolonged from 3 years to 5 years.

Several co-operatives have declared the same quantity of produce marketed and the same average price for three successive years on their forms.

75. - Premiums for uprooting apple, pear and peach trees

The arrangements for reimbursement to the Member States of half the premium paid to the growers raised some difficulties in one case.

These reimbursements were made on the basis of the amounts which a Member State certified as having been "paid out". However, verification on the spot revealed that this "paying out" involved the transfer of the sums to the provincial treasuries and could not properly be regarded as actual payment to the growers concerned. Moreover, there were time-lags before the actual payments, so that the breakdown of the premiums as between financial years was not correctly reflected in the accounts.

Furthermore, a charge for administrative costs was deducted upon final settlement with the growers but no allowance for this was made in the amounts declared by the Member State.

The EAGGF should not finance more than 50% of the net amounts finally paid to the growers and it is not the function of the EAGGF to cover the operating costs of a national administrative authority, however small the sums involved.

76. In 1975 administrative staff of the EAGGF carried out four on-the-spot audit visits, three of which were in connexion with special measures and one with a joint scheme.

Staff of the Audit Board were present during two of these visits. One concerned premiums for slaughtering cows and for the non-marketing of milk (special measure) and the other related to the conversion of dairy herds to meat production (joint scheme).

The essential aim of the special measure introduced by Regulation No 1975/69 was the same as that of the joint scheme introduced by Regulation No 1353/73, namely the reduction of dairy herds and of milk production, which was a change in the structure of European agriculture necessitated by the surpluses of milk on the market.

As regards the special measure, one finds that the trend in numbers of dairy cattle and quantities of milk produced was marked by a reversal or slowing down in 1971 and 1972 but since then has on the whole resumed its rise. The movement has not been very different, and certainly no more satisfactory, in the countries which have applied the regulation than in those which have not (Italy and the three new Member States).

During the inspection visits the national officials acknowledged that the premium system had had the desired effects only where small farms were concerned - those which were covered by the regulation, that is - which had stopped producing milk or had even given up all farming operations.

Local investigation of the joint scheme also showed that the effect of guidance was rather deceptive: the premium had not influenced farmers in their decision to switch to meat production. It had simply provided temporary financial assistance when the change was being made.

The Audit Board has particularly noticed two aspects of the Community regulations relating to this joint scheme. The first is the fact that the beneficiary of the premium for conversion is not obliged to have the dairy herd slaughtered when he replaces it with a beef herd. He can simply sell these cows (and his milking equipment) to another farmer, whose milk production will thus be increased. When questioned about this obvious loophole in the regulations, the EEC Directorate-General for Agriculture replied:

"A beneficiary who ... sells his dairy cattle to another producer had not infringed the obligations contracted under Regulation (EEC) No 1353/73. This point of view, which has been accepted by the Council, is entirely in line with the objectives of the premium system ... In fact, in the majority of cases the introduction of these dairy cattle on another farm has been offset by corresponding slaughter of culled cattle".

Nonetheless, the Audit Board considers that the granting of a premium in such circumstances cannot be regarded as a significant guidance measure.

Secondly, Article 16 c) of Commission Regulation No 1821/73, laying down detailed rules for the application of Council Regulation No 1353/73, contains a provision which enables sheep to be counted as belonging to the stock for meat production. But Regulation No 1353/73 makes no mention of sheep. A request for information about this extension by the Commission of the scope of the Council regulation brought the following reply from the Directorate-General for Agriculture:

"1. By Regulation (EEC) No 1353/73 the Council did not intend to limit the conversion of dairy herds to the development of beef production only; in fact, in some regions of the Community it may be more economic for beneficiaries who give up milk production to replace the dairy cattle by sheep.

Moreover, that conversion is desirable in the general interest. The level of self-sufficiency of the Community in mutton and lamb is about 65%. But for beef and veal the level has been close to 100% in 1974 and in 1975."

Whilst recognizing that the replacement of dairy cattle by sheep may be economically desirable for the Community, the Audit Board takes the view that it is not the function of the Commission to widen the scope of application of a Council regulation. If the Council "did not intend to limit the conversion ... to the development of beef production only", it should have expressly specified as much in the basic regulation, especially as there is at present no common organization of the market for mutton and lamb.

77. Irregularities

The table below shows details of the application of Regulation No 283/72 in connexion with the Guidance Section in the financial year 1975.

(Taken from EAGGF documents)

Member State	cases recorded		sums recovered		cases closed without recovery		cases pending	
	no.	amount	no.	amount	no.	amount	no.	amount
France								
Belgium								
Germany								
Netherlands								
United Kingdom								
Ireland								

N.B. (*) : cases in which there was partial recovery appear under both "sums recovered" and "cases pending".

The majority of the irregularities occurred in the sector of premiums for non-marketing of milk and slaughter of dairy cattle and lay in the fact that some farmers did not honour their undertaking to stop marketing milk. The irregularity was usually discovered when the national administrative authorities made a check before paying an instalment of the premium. Equally often the farmer reported of his own accord that he was not in a position to fulfil his undertaking.

78. Special report

On 8 June 1976 the Audit Board submitted to the European Parliament a report giving "a detailed analysis of the soundness of the financial management of the flat-rate aid granted with a view to improving production and marketing structures in the sectors of unmanufactured tobacco, olives, olive oil, and fruits and vegetables".

This study had been requested of the Audit Board, on the basis of Article 90 of the Financial Regulation, by a Resolution of the Parliament adopted on 14 October 1974, upon examination of the second report of the Commission on the EAGGF.

A copy of the statistical results obtained in that assignment appears on the next page. The table shows the position in relation to commitments and payments, both for finished projects and for projects still in progress. The headings were selected by Italy for the purpose of evidence concerning the use of the funds placed at its disposal by Articles 4 and 12 of Regulation No 130/66 and by Article 12(4) of Regulation No 159/66.

Appropriations committed and payments made

(in u.a.)

	Finished projects		Unfinished projects		T o t a l	
	Number	Net payments	Number	Appropriations committed	Appropriations committed	Appropriations paid
<u>Regulation No 130/66 -</u> <u>Article 4</u>						
Olives and olive oil						
Fruits and vegetables						
Total						
Percentage of						
45 million u.a.						
<u>Regulation No 130/66 -</u> <u>Article 12</u>						
Tobacco						
Percentage of						
15 million u.a.						
<u>Regulation No 159/66</u>						
Fruits and vegetables						
Percentage of						
87.3 million u.a.						

In order to obtain these statistical results the Audit Board had to make out a fresh set of accounts from figures which - except in the case of tobacco - were embodied in a larger group of national accounts, namely for two "green plans" constituting the programmes for improving structures in all the sectors connected with Italian agriculture.

That reconstruction also involved comparison of the figures with those in the Treasury accounts and disclosed errors in the half-yearly returns sent to the Commission, which above all arose in

- using the gross amounts paid to the beneficiaries to show the payments, whereas only the net aid, i.e. after deducting the charges levied by the national authorities, should have been taken into consideration
- including certain projects belonging to sectors akin to those specified in the regulations but nevertheless excluded by the restrictive list
- taking into account commitments for which decrees granting aid had not yet been enacted.

Moreover, it was discovered, from examination of the file or on the spot of the work performed, that amounts of 657 920 u.a. under Regulation No 130/66 and 3 117 644 u.a. under Regulation No 159/66 had been allocated to purchases of existing installations. But it is a consistent principle of the Community not to accept such cases of straightforward purchase, which entail only a change of ownership, as constituting improvement of structures within the meaning of Articles 11 and 12 of Regulation No 17/64 governing the matter.

Finally, study of a great many files and on-the-spot examination of 70 investment projects warranted the conclusion that although all the projects had been physically carried out and from that point of view justified the aid granted, one could reasonably have reservations about the economic merit of some of them.

- For example, some items of investment gave rise to installed capacity in excess of needs (in that connexion comparison between Nos 20 and 102 in Umbria on the list supplied as an annex to the report and consideration of these in the light of the observations made on the spot is illuminating);
- other projects implemented have not always produced the improvement in production that was envisaged (No 170 in Umbria, No 15 in Veneto, No 161 in Apulia, No 1025 in Apulia, No 22 in Abruzzi, on the above-mentioned list);
- similar installations have been set up in the same locality or in localities very close to each other, which suggests that factors other than economic considerations may have influenced the allocation of aid (Nos 126 and 15 in Veneto, Nos 11 and 3 in Apulia and Nos 63 and 48 in Abruzzi, on the above-mentioned list).

The same comments may be made about the encouragement of unions of groups of producers. Although the aid has enabled the formation and operation of such organizations to be assisted in some areas previously deficient in them, it has sometimes, in regions already provided with well-established organizational networks, served to finance ancillary operations whose connexion with production was remote (rebuilding a roof - No 19, R 159/66 Trento; surrounding road network and separating wall - Nos 12, 25 and 26, R 159/66 Trento).

In the sphere of tobacco, where a programme approved by the Commission facilitated the selection of the projects, study of the cases confirmed that where sufficient quantities of tobacco of the Bright, Burley or Kentucky types had replaced the local varieties (No 217 in Latium, No 823/1 in Veneto, No 1025 in Apulia) the undertakings were not experiencing the difficulties in finding markets which were being encountered by those works producing too high a proportion of tobacco of the traditional (Oriental) types (No 1204 in Latium, No 539/540 Apulia).

CHAPTER 7 : DEVELOPMENT AID

Food aid and financial aid

79. The policy of Community co-operation in development takes a variety of forms and the operations in which it is put into practice come under many heads in the accounts.

Earlier recommendations of the Audit Board were taken up in 1975, in an attempt to clarify the use of budget funds for this purpose. Although the operations carried out under the heading of the Development Funds have remained outside the general budget, the other operations have been gradually brought together under Title 9 (except that Community aid to disaster victims is still entered under Title 4). And the costs arising from refunds made under the head of food aid have now been placed under separate item headings in Title 6 - EAGGF, Guarantee Section.

This rearrangement gives a clearer picture of overall expenditure. For the financial year 1975 the total expenditure from appropriations for the year and appropriations carried over was 359 443 163 u.a., made up as follows:

	<u>Appropriations</u>	<u>Expenditure</u>
- Community aid to disaster victims		
- Exceptional aid to the Sahel		
- Refunds on cereals		
- Refunds on rice		
- Refunds on milk and milk products		
- Cereals - programmes prior to 1975		
- Cereals - 1975 programme		
- Milk products - programmes prior to 1975		
- Skimmed-milk powder - 1975 programme		
- Butteroil - 1975 programme		
- Sugar - programmes prior to 1975		
- Sugar - 1975 programme		
- Food aid - other expenditure		
- Financial and technical co-operation		
- United nations measures		
Total		

However, one should also take into consideration the advance funds paid over to the Member States for carrying out the latest schemes. These funds were charged to extra-budgetary accounts and at the end of 1975 totalled 33 016 406 u.a. (of which 12.27 million u.a. have been entered under the financial year 1976). There was also expenditure, charged under Title 6 but not shown separately, on refunds for food aid that were paid from appropriations carried over.

Food aid

80. The management of the budget appropriations for food aid would appear from the chaotic situation in connexion with funds to be very difficult:

<u>Item</u>	<u>Initial budget</u>	<u>Budget at 31.12.75 after budget no 3 and transfers</u>	<u>Final budget</u>
Refunds:			
6001 - Cereals 1974-75	6 232 000	31 732 000	732 000
6002 - Cereals - earlier progs.	p.m.	6 500 000	1 000 000
6101 - Rice	3 200 000	200 000	0
6201 - Milk and milk products	55 600 000	95 600 000	20 600 000
	<hr/>	<hr/>	<hr/>
Total	65 032 000	134 032 000	22 332 000

Amending and supplementary budget No 3, adopted on 3 December 1975, more than doubled the appropriations. This belated increase proved to be futile, because the aggregate expenditure actually charged to the budget for these accounts did not rise higher than 21 765 275 u.a.

Then transfers from one chapter to another, which were not approved by the Council until 8 April 1976, withdrew appropriations of 111 700 000 u.a. from these four items.

The size of these movements to and from available funds makes the budget estimates completely meaningless.

Changes of similar size under Title 9 proved that the estimates for that title were equally unrealistic:

<u>Item</u>	<u>Initial budget</u>	<u>Final budget</u>	<u>Expenditure</u>
9200 - Cereals progs. prior to 1975	25 000 000	31 178 075	28 178 075
9201 - Cereals - 1975 prog.	91 300 000	71 121 925	57 105 534
9211 - Skimmed-milk powder	42 900 000	32 900 000	11 086 560
9212 - Butteroil	63 500 000	28 500 000	4 802 234
9221 - Sugar - 1975 prog.	2 300 000	2 300 000	-
9240 - Other expenditure	1 000 000	-	-
	<hr/>	<hr/>	<hr/>
Total	226 000 000	166 000 000	101 172 403

Thus, budget no 3 reduced the appropriations from 226 to 166 million u.a. but although commitments totalling 160.3 million u.a. had been entered into, the expenditure finally charged was only 101 million u.a.

These differences provide a measure of how slowly the opening, execution and accounting clearance of aid programmes proceed.

81. In previous reports we have criticized the delays in adopting and putting into effect decisions on aid. To reduce the inconvenience of such delays the Council decided in April 1975 that for normal aid the agreement made by the Council with the recipient country should be replaced by a simplified procedure involving an exchange of letters between the Commission and the recipient country, leaving the final agreement to be concluded at a later stage. Moreover, it decided in August 1975 to authorize the Commission where emergency operations were concerned to allocate, up to certain limits, quantities of commodities to be drawn from reserves and to use informal procedures for mobilizing those quantities and transporting them.

Despite these relaxations in procedure, the timing in carrying out aid operations still does not always satisfy the essential requirements of a rescue policy of this kind.

For aid in the form of cereals the implementation plan for the 1973/74 season was not adopted until 23 December 1973 and 21 March 1974. Similarly, the 1974/75 plan was not adopted until 3 March 1975. Granted, advance allocations were made for 150 000 tonnes at the end of November 1974 to India, 70 000 tonnes in mid-December to the African countries suffering from the drought and 150 000 tonnes at the end of January 1975 to Bangladesh. But several months elapsed before even provisional agreements relating to these emergency operations were made and in the case of the African countries at the end of 1975 they still only covered 26 000 of the 70 000 tonnes envisaged.

In addition to the delays in concluding agreements there are delays in mobilizing and transporting the supplies. The tables below, which were produced by the Directorate-General for Agriculture, show the effect (in tonnes) of all these delays.

	<u>Aid envisaged</u>	<u>Executed by the end of 1974</u>	<u>Executed in 1975 or in progress</u>	<u>Remaining to be executed</u>
cereals 1972/73	464 400	433 512	25 888	5 000
1973/74	580 000	448 500	126 637	4 863
1974/75	643 500	0	509 081	134 419
skimmed-milk powder				
1973 and 1974	128 000	91 537	27 428	9 035
1975	55 000	0	24 106	30 894
butteroil				
1973 and 1974	60 000	33 863	25 437	700
1975	45 000	0	6 411	38 589

82. Regarding the arrangements for mobilization of supplies, it had been mentioned that the system of award of tender on the basis of an all-in price without any breakdown into the various parts of the operation (withdrawal from intervention or purchase on the market, processing of the product where applicable, cost of supervision and insurance, cost of transport to the fob or cif stage) prevented analysis of the differences in quotation which occur for similar operations and obliged the Community's administrative units to rely entirely on the intervention agencies. Since 1975, but only for cif deliveries of cereals, an initial attempt to provide a breakdown, by stating the carriage costs separately, has been requested. But this division is still insufficient for evaluation of the various components of the price.

Auditing carried out in the context of closing the accounts for the 1970/71 programme, which was not performed until the end of December 1975, showed up yet again the shortcomings of the tender procedure in a market often dominated by a few large firms.

In some cases award of tender was followed by such large deviations that the accuracy of the bases applied seems doubtful. Sometimes the bids were judged by the intervention agency to be too high and further negotiation enabled it to obtain appreciable reductions.

The verifications also revealed, as in previous years, that in Italy the supplies mobilized came from old stocks widely dispersed in the territory, for which transportation costs were high.

Finally, it was noted that part of the purpose of distribution between Member States of the quantities of cereals to be mobilized is lost if in one Member State the contracts are awarded to undertakings in other countries and performed in those other countries. As a result of the depreciation of some currencies in relation to the fixed parities, such transfers have become frequent and the intervention agencies of countries whose currency has not suffered depreciation then accept for the Community budget the losses on exchange incurred, for example in reimbursements by the AIMA of the Belgian and German agencies. For the implementation of the 1971 Convention, Regulation No 522/73 of 14 February 1973 (Article 3) should have put a stop to such distortions.

83. Clearance of the aid programmes showed yet again that the problem of the recovery of costs of delay had still not been resolved.

In its report for 1973 the Audit Board stated that the delay and demurrage costs attributable to the recipient countries ought to be reimbursed by the latter. The Audit Board pointed out that representations with a view to obtaining reimbursement had been unsuccessful and that in the balance sheet drawn up by the institution these sums were not shown as owing, even under a heading for sundry debtors.

In its reply the Commission merely made a cautious statement that these additional costs "are in principle the subject of a procedure for recovery".

These repayable extra costs totalled 10 964 u.a. for the 1968/69 programme, closed on 29 December 1972, and 13 711 u.a. for the 1969/70 programme, closed on 21 December 1973.

Not until the beginning of January 1976 did the Commission decide to waive the application of the procedure for recovery of this 24 675 u.a., on the grounds that the sums involved were relatively small and that troublesome formalities would be required to recover them.

Thus a debt due to the Commission was written off - and, indeed, it was one which had never been shown in its accounts although such omission contravened Article 23 (1) of the Financial Regulation and Article 15 of the detailed rules for the application of that regulation.

This infringement of accounting principles persisted and the sums recoverable in relation to later programmes still did not appear clearly in the item "sundry debtors" in the balance sheet.

These hidden debts have reached a total of 558 830 u.a., namely

137 105 u.a.	for the 1970/71 programme	
122 125 u.a.	for the 1971/72	"
144 403 u.a.	for the 1972/73	"
155 197 u.a.	for the 1973/74	"

84. From the very fragmentary information contained in the files passed on to the Audit Board it emerges that great difficulty had been experienced in forwarding the goods because of congestion in many African ports, inadequate transport and storage facilities and occasional breakdowns in certain local services. These faults had sometimes caused considerable wastage.

Enquiries are at present in progress into the fate of a consignment of 710 tonnes of milk powder despatched to Somalia in 1975, in respect of which the intervention agency paid the charge (700 882 u.a.) to the successful tenderer although confirmation of delivery cif was unobtainable. Similarly, the forwarding of consignments of cereals to Mali at a time when storage facilities in that country were almost filled to capacity meant that the goods had to be held for a long time in temporary warehousing and large quantities became unfit for use.

Experience shows a need for closer collaboration between the various countries or donor bodies, in order to adjust the timing of consignments to match the available unloading and forwarding capacity.

85. The food aid agreements provide for either distribution of the supplies free of charge to the people or sale of the commodities on the local markets and allocation of the proceeds of such sale, through a special account, to the financing of development projects approved by the Commission.

The comments that have previously been made on the serious shortage of information in this matter are still valid.

In its reply the Commission cited the interpretation of food aid as above all a form of aid to the balance of payments but indicated that it concurred with views on the advisability of stricter and more systematic monitoring of the utilization of the counterpart funds.

However, the results of recent investigations show that the information obtained on the real circumstances of distribution or sale has remained just as patchy as ever, that periodical notification of the position in respect of the special accounts is not forthcoming and that no check on their use is carried out, except in the associated countries, where representatives of the Commission can intervene.

Financial aid

In 1975 expenditure of this nature for the benefit of developing countries or disaster victims totalled about 168 million u.a.

86. The appropriations in the 1974 budget of 35.6 million u.a. for structural aid to the Sahel countries, which amount was wholly committed during that financial year for the benefit of seven African States, gave rise to payments which by the end of 1975 totalled 35 557 329 u.a. These payments were made on the basis of reports on execution of projects made by the recipient countries and approved by the Commission's representatives.

The projects financed in this way involved the purchase of transport vehicles, the resurfacing of roads, the creation of storage facilities, the performance of water supply works, etc.

There does not seem to be any further obstacle to final closure of these projects and transmission to the Audit Board, for verification, of the supporting documents which have so far remained in the hands of the Commission's representatives.

87. The supply of emergency aid to disaster victims, which was granted in 1975 to South Vietnam, Turkey and Angola, was arranged through the international organizations (International Red Cross Committee, UNICEF).

All the decisions and agreements relating to such aid provide for reports on use of the funds, together with supporting documents, to be forwarded and for the Audit Board to verify the application of the aid, in accordance with Article 89 of the Financial Regulation. At the time of writing this report no documents had yet been supplied in support of the 509 200 u.a. paid out in this connexion against Article 400.

88. There ought also to have been a utilization account in respect of the payment of an exceptional contribution of 6 550 000 u.a. to UNRWA made in 1974 to finance the education of refugees from the Middle East. No auditing is possible from the very sketchy information passed to the Commission in July 1975. This is merely an outline of the education programme and a summary of expenditure, which is not very detailed, has not been certified by the Agency's audit body and is entirely unaccompanied by supporting documents. The Commission does not seem to have contacted UNRWA since then, for the purpose of obtaining more satisfactory evidence concerning the effective utilization of this aid.

89. In 1974 and 1975 the Community decided to contribute an overall total of 250 million US dollars to United Nations international emergency measures to assist the developing countries most affected by the recent international price movements.

The instalment of \$ 150 million, approved in October 1974, involved the payment of \$ 30 million to the special United Nations account and the allocation of \$ 120 million to grants of direct aid to 17 countries.

The second instalment, of \$ 100 million, approved in April 1975, was divided as to \$ 33 million for the special account and \$ 67 million in direct aid.

In making the payments to UNO (\$ 63 million) it was specified firstly that the General Secretariat should keep the Commission informed of the decisions taken in respect of the utilization of these funds and secondly that such utilization could be subject to verification by the Audit Board.

In reply to a request made by the Commission, the United Nations General Secretariat stated that funds received under the head of those emergency measures were administered in accordance with the UNO financial regulations and audited, like the other accounts, by the organization's Committee of Auditors, but that "the statement on the employment of the contributions to the Special Purposes Fund cannot include information on the specific assignment of the contribution from the Community, as the funds are always managed without regard to origin".

Neither the Commission nor the Audit Board (despite reference to the powers held by the latter under Article 89 of the Financial Regulation) will be in a position to make any comment whatsoever on the effective employment of this sum of \$ 63 million (52 227 000 u.a.).

90. In respect of the direct aid, agreements were made with 17 States for each of the instalments. The funds were to be applied for the purchase of goods which were essential to the economy and were also items severely affected by inflation: fertilizers, food products, capital goods, etc. The 1974 agreements imposed the condition of production of a list of the imports envisaged, with an assessment of the cost of those imports. The agreements relating to the second instalment merely prescribed "employment complying with the terms of the first agreement".

The verifications carried out have revealed that in quite a high proportion of cases the nature of the goods imported differed considerably from that initially specified (Niger, Benin, India, Rwanda).

For example, Benin used almost the whole of the aid on purchasing sugar instead of the imports of fertilizers and insecticides initially envisaged; India spent nearly 95% of the aid on purchases of fertilizers, not the 20% which she had stated for that purpose; Niger had scheduled the expenditure of 98% of the aid on imports of a variety of foodstuffs but only used 39% in that way; Rwanda spent 35% on imports of barley malt for a brewery - an operation which seems far removed from the concept of emergency aid.

The implied condition that the goods were to be purchased in the countries of the Community was observed for about 85% of the imports.

On the whole the production of the supporting documents required for clearance (invoices, bills of lading, etc) was satisfactory. However, no information was available on the arrangements for distribution, assignment and use of the goods and plant imported under this aid, so that the aid seems to have largely turned into balance of payments assistance to the recipient States.

91. At the end of 1975 the budget position for the implementation of these direct measures, in u.a., was:

	<u>Appropriations</u>	<u>Appropriations committed</u>	<u>Amounts paid</u>
1st instalment : (€ 120 million)	99 480 000	99 480 000	99 480 000
2nd instalment : (€ 67 million)	55 543 000	55 543 000	41 345 769

The aid operations were entered in the budget on the basis of
US \$ 1 = Bfrs 41.45 = 0.829 u.a.

Both the commitments assumed in the context of United Nations measures and those undertaken in the agreements made with the recipient countries have been expressed in dollars. For the purpose of payment to the recipient countries the authorizing departments have converted the invoices settled in various currencies into dollars on the basis of an "average rate" determined from the rates of exchange ruling in Brussels either at the date of the invoice or at the date of its payment by the State concerned. It seems reasonable to ask whether, under the possibly ambiguous provisions of the agreements, that conversion should not have been performed on the basis of the rates of exchange ruling at the time of payment by the Commission.

However that may be, the application of the above-mentioned rates of exchange for charging to the budget has produced large profits on exchange which have artificially inflated the Commission's accounts.

92. Commencing in 1975, there have been brought together under Chapter 93 various specific measures of financial and technical co-operation with the developing countries. These were previously entered in the budget under either Article 402 (in the case of agreements between the EEC and UNRWA) or under Articles 321 to 327.

Such measures, for which the funds provided, including amounts carried over, totalled 4 451 978 u.a., gave rise to payments of only 2 275 712 u.a. in 1975.

More than half the total paid was in connexion with the application of the Three-Year Agreement made with UNRWA for food aid to refugees from the Middle East.

The other amounts from the appropriations were allocated to a great variety of purposes, most frequently purposes closely linked with operations financed by the EDF, such as a grant towards a centre for the training of economist-statisticians from developing countries (100 000 u.a.), participation of Asian and Latin American countries in international trade fairs (327 155 u.a.), the organization of seminars on generalized preferences (57 476 u.a.), a meeting of Latin American experts on a Rhine cruise (118 890 u.a.), or refund to the EDF of the costs of the publication in English of "Association News" (40 000 u.a.).

Some of these operations call for comments similar to those made in Part Two of this report, relating to the Development Funds, with reference to comparable measures of co-operation.

93. In the last few years the various categories of development aid have been expanded and diversified to such an extent that the Community departments responsible for applying and managing the funds have not always been able to keep control of the operations and monitor the application of the aid. The frequent recourse to international organizations has inevitably heightened the impression of delegation of power and responsibility. In other cases the departments concerned have had to rely a great deal on the administrative work of the recipient countries and have not been able to exercise any real influence over that work. The Audit Board, in turn, can only place on record the limitations and inadequacies of the verifications which it finds to be feasible.

CHAPTER 8 : THE RESEARCH AND INVESTMENT APPROPRIATIONS

94. Programmes and budget

- a) The research programme in progress in 1975 are governed by a set of decisions which will be found listed in an annex to this report.
- b) The commitment appropriations for the financial year 1975 totalled 131 224 162 u.a. That sum was comprised of 26 551 603 u.a. from appropriations outstanding at 31 December 1974 and 3 628 160 u.a. from funds made available by operations using amounts previously committed. Movements and utilization of the commitment appropriations in the financial year 1975 are shown by the following table:

(u.a.)

Origin	Commitment appropriations	Commitments entered	Appropriations cancelled	Appropriations outstanding at 31.12.75
1st part of the budget				
2nd part : Work for outside bodies				
Re-use				
Total				

- c) The payment appropriations were utilized as follows:

(u.a.)

Origin	Payment appropriations	Payments	Appropriations carried forward to 1976	Appropriations cancelled
<u>1st part of the budget</u>				
a) appropriations for the financial year				
b) appropriations brought forward from 1974				
<u>2nd part : work for outside bodies</u>				
a) appropriations for the financial year				
b) appropriations brought forward from 1974				
Re-use				
Total				

d) In the financial year 1975 clearance of commitments took place as follows:

(in u.a.)

Origin	Commitments	Payments	Cancellations	Commitments still to be cleared
<u>Financial year 1975</u>				
1st part of the budget				
2nd part : Work for outside bodies				
Re-use				
<u>Earlier financial years</u>				
1st part of the budget				
2nd part : Work for outside bodies				
Total				

Therefore, the proportion of clearance improved in 1975 (76.6%) compared with 1974 (69.3%).

95. The revenue and expenditure account for the financial year 1974

Because the supporting documents for the Ispra establishment's expenditure in December 1974 were late in arriving (they reached the Audit Board on 24 July 1975), it was impossible to audit the amounts appearing in the revenue and expenditure account for 1974 before the submission of the Audit Board's report on the accounts for the financial year 1974. Findings in that audit, carried out in 1975, were in line with those which have given rise to certain comments made in previous reports.

In particular, the complexity of the budgetary nomenclature, together with the twofold breakdown of the appropriations, by class of expenditure and by research objective, aggravates the difficulty of making the initial budget estimates and causes constant revisions in the course of management of the budget. These permanent features are accompanied by marked under-estimation in the appropriations for infrastructure.

As a result, 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. The supporting evidence for those operations was not always adequate. Another prominent phenomenon was the large differences between the budget estimates and the actual expenditure. These differences ranged from 20% to 80% and there was even a difference of 121.8% in the case of the design office.

Taking advantage of the possibility under the regulations of altering the breakdown by class of expenditure within the chapters of the budget, the institution proceeded at the end of the financial year to make large transfers of budgetary commitments from secondary charges to primary charges, with a view to avoiding the cancellation of those appropriations. The method of balancing the appropriation accounts at the end of the financial year means that the appropriations to primary charges for the objectives are inflated and reserves of commitment appropriations are built up to the extent that results in subsequent years could be distorted.

Thus, for six chapters of the budget (1) the combined total of commitments for primary charges for 1973 and 1974 was only 461 493 u.a. but the initial appropriations for those two financial years were 1 471 790 u.a. At the end of 1974 the appropriations in hand from those chapters amounted to more than 3.2 million u.a.

Direct actions

96. Expenditure in the financial year 1975

The timing of closure of the accounts and forwarding the documents for the financial year 1975 was more satisfactory.

Once again, audit of these accounts and documents revealed the frequency of transfers, the underestimation of appropriations for infrastructure and the heterogeneity of the criteria adopted for distributing the expenditure under the appropriation accounts by objective of expenditure.

These various anomalies greatly diminish the meaningfulness of the function-orientated accounting system.

- a) Thus the distribution of expenditure on staff according to the rule of a uniform mean cost led to the transfer of some staff costs incurred by the Ispra establishment, totalling 1 200 923 u.a., to the establishments in Karlsruhe (922 006 u.a.), Petten (238 388 u.a.) and Geel (40 529 u.a.), so that the expenditure on staff by the establishment in Karlsruhe was overcharged by about 33%.
- b) The Ispra expenditure on general infrastructure amounted to 18.26 million u.a. but, under the rule that expenditure must be proportionate to aggregate salaries, only 12.92 million u.a. of this could be distributed between the headings. 3.13 million u.a. was distributed among similar headings in the budget but it was only possible to deal with the remaining 2.21 million u.a., arising from underestimation of costs, by means of amounts available in appropriations to different purposes.

(1) These were the chapters for the following research objectives:

- 2.11 - Waste processing and storage
- 2.25 - Technical assistance to power plant operators
- 2.26 - Training
- 2.30 - European data processing network (COST 11)
- 2.40 - Research under contract
- 4.11 - Plutonium and transplutonium elements

Of the last-mentioned amount, 153 000 u.a. was charged to the Karlsruhe establishment, under the chapter for the research objective arising from the joint programme, and the Geel and Petten establishments were charged 54 000 u.a. and 3000 u.a., respectively.

- c) The monthly charges to the chapters in the budget for expenditure of the electronics laboratories, calculated at a constant rate throughout the financial year, left an undistributed sum of 325 682 u.a. (37% of total expenditure) at 31 December 1975. This situation was due to under-use of these laboratories by comparison with the forecasts made by the various units having access to them. Finally this expenditure was distributed between the chapters and appropriation accounts in which appropriations were left over under the head of the laboratories because of less use than anticipated.

Thus, 63 507 u.a. was entered to a research objective when the electronics laboratories had not rendered the services charged.

- d) Omitting to make the required transfers of appropriations, the JRC entered to Objective 2.11.0, "Processing and storage of radioactive waste", a sum of 414 000 u.a. corresponding to expenditure of the scientific divisions which should have been charged to other chapters of expenditure. This represented a surcharge of 31% over the amount for the services specified. The aggregate of expenditure of the scientific divisions incorrectly distributed over the various chapters of the budget was 1 222 402 u.a.

- e) In the financial years 1974 and 1975 appropriations initially intended for work of equipment, modernization or maintenance gave rise to heavy capital expenditure.

- At the Ispra establishment the cost of building a conference room (173 730 u.a.) was entered to Chapter 2.26.0, "Training", when the budget had not provided any appropriations for the purpose. The establishment introduced a heading in the budget (Category 40 : investment expenditure), using a transfer of appropriations.

- At the Geel establishment the expenditure on extensions to the buildings in which the mass spectrometry laboratories are housed was about 350 000 u.a. No appropriations intended to cover that expenditure were contained in any of the budgets for the financial years 1973, 1974 and 1975.

- In the 1974 budget, appropriations were provided to meet expenditure on modernization of the LINAC accelerator (800 000 u.a.) and the VAN DE GRAAFF accelerator (500 000 u.a.), at Geel. These appropriations have been used for the purchase of a new LINAC accelerator (671 588 u.a.) to replace the former installation, at present being dismantled, and to purchase a second VAN DE GRAAFF accelerator (519 351 u.a.).

Capital expenditure of such magnitude should be covered by more precise and more explicit provision in the budget.

97. Unsatisfactory organization of purchasing at the Ispra establishment

There is serious negligence in the way in which purchasing and procurement of equipment and supplies have been occurring at the Ispra establishment. The following anomalies are particularly apparent:

- disregard for the provisions of the regulations as to invitation to tender and a great deal of purchasing by direct arrangement without justification;
- purchasing under small part-orders without consulting the Advisory Committee on Procurements and Contracts.

Measures recently introduced should permit greater control and an improvement in the conduct of these matters.

98. Personnel management

a) For more than three years the staff employed at the Karlsruhe establishment has included 13 persons continuously engaged from temporary employment agencies. This situation is incompatible with satisfactory personnel management. Moreover, the expenditure arising from this has not been entered to the correct item in the budget. Nor does the employment of these persons appear to comply with the national legislation on temporary work.

b) For the reimbursement of travelling expenses incurred by officials and other servants who carry out duties outside normal working hours and are unable to use the ordinary transport services the Ispra establishment has been paying the persons concerned a kilometrage allowance set at L It 70 per km travelled. The expenditure under this head in 1975 was 74 756 u.a.

In practice, this payment is akin to the transport allowance for which provision is made in Article 14_b of Annex VII of the Staff Regulations - but the grant of that allowance is subject to conditions which are not met by the Ispra employees receiving the kilometrage allowance. Nor can those employees claim the allowance under Article 15, second paragraph, of Annex VII of the Staff Regulations, because this can only be granted to an official if his duties constantly require journeys and he is authorized to use his own car for the purpose.

Control measures recently brought into operation by the establishment should enable a reduction in the number of abuses discovered to be achieved.

c) Under Article 99 of the Staff Regulations, "the appointing authority may award officials of the Communities who occupy posts in the field of nuclear science calling for scientific or technical qualifications, and who are paid from the appropriations in the research and investment budget, a bonus for exceptional service".

Article 99 further stipulates that: "The Commission shall each year decide on the amount of the bonus and the persons to whom it shall be awarded and shall present a report to the Council on the number and amount of the bonuses awarded, giving a breakdown by grade and service and the main reasons for the awards".

In the last few years that bonus has been granted to a growing number of employees without evidence of the rendering of exceptional service.

Moreover, an employment agency has been redistributing them more widely, which has tended to destroy their original meaning.

In this matter arrangements which are more selective, and at the same time more in line with the provisions of Article 99, ought to be introduced.

- d) In connexion with expenditure on staff, mention should also be made of the case of an official assigned to a post at the Petten establishment but who has, in fact, been at Ispra since 1 June 1975. This employee's remuneration, including the expatriation allowance, to which he was not entitled when living in Italy, continued to be paid in guilders in the Netherlands.

By a decision dated 15 March 1976, and taking effect on 1 April 1976, this official was temporarily assigned to the Ispra establishment, to take into account "new circumstances" of which no particulars were given.

Indirect actions

99. Management of the research contracts

- a) Within DG XII the management of the budgets for the contracts is divided between two administrative units, one of which is responsible for the clearance of expenditure, including verification of the accounts at the premises of the associated bodies, and the other has charge of the authorization of expenditure.

Such a form of dividing up the tasks involved in implementing the budget is not in accordance with the principles laid down by the Financial Regulation, Article 44 of which provides that clearance of expenditure shall be performed by the authorizing officer.

The procedure which is being applied introduces an element of incongruity into the organization of work, since the unit performing authorization is carrying out tasks which seem to belong to either the division with special responsibility for the management of the contracts or to the general accounts units.

At the same time, although the methods being employed by the unit under reference are reliable and effective, they are also cumbersome and laborious. For example, for the payment of the monthly allowances due to employees or to recipients of training grants a separate order for each payment is supplied. These orders are carefully filled in and contain useful information but it would be more rational to use monthly orders supported by collective statements.

Scientific personnel responsible for monitoring the progress of the research are being called upon to collaborate in clearing expenditure. But this staff is too small to supervise the performance of all the contracts in progress.

- b) Since 1 June 1974 DG XII has had access to a teleprocessing service under a time-sharing agreement for a computer in the United States of America. This agreement was made by DG IX with a private company. The annual cost of the agreement is estimated at about 16 000 u.a.

Under an agreement dated 5 December 1975, and for a fee of 6000 u.a., the same company was commissioned to carry out the analysis and programming for computerized management of contracts and the budgetary and accounting procedures connected with them. Work on this assignment had already begun in October 1975.

The new method of management came into operation on 1 January 1976 and the teleprocessing operations which had preceded it ceased on that date. The Audit Board considers that now that the new method is being applied steps should be taken to rationalize the work performed, in order to avoid duplicating the accounting or statistical material produced by other departments.

100. Arrangements for calculating the Commission's contribution to costs under contracts of association

For many of the contracts of association the expenditure on staff and the overheads have been set at flat rates expressed either as a percentage of other actual expenditure or as absolute values. These flat rates have varied considerably from one contract to another, for example:

In the case of research in the field of biology the cost per annum of a scientific officer as provided for in different contracts ranges from 13 502 u.a. to 53 866 u.a.

In various environmental research contracts the overheads have been put at levels varying from the actual expenditure by between 0 and 15%.

The institution has pointed out that its contribution to research costs is as far as possible based on the principle of reimbursement of the actual expenditure rather than on that of a fixed share of expenses and has stated that the variation in costing from one research unit to another is explained by the size and difficulty of the research task under the contract, by the nature of the research body or of the legal system applicable to it and, finally, by differences in remuneration among the various Member States of the European Communities. However, the Audit Board considers that an explanation of these matters should appear in the contracts.

Contract of association No 019-71-1 FUA made with the Commissariat à l'Energie Atomique (CEA) sets the overheads at 155% of the pay of the CEA staff, at 125% of the gross pay of the Euratom staff seconded and at 70% of the gross pay of the staff employed under contract, who are treated as being attached to the CEA staff. These rates have no equivalent in other contracts and an explanation ought to be provided.

In Contract No 028-73-1 FUA-UK, made with the United Kingdom Atomic Energy Authority (UKAEA) part of the overheads, relating to headquarters costs of the UKAEA, is set at a sum equivalent to 322 000 u.a. (1 u.a. = £0.5). Under Contract No 024-71-1 FUA I, the Comitato nazionale per l'energia nucleare (CNEN) is invoicing a sum equivalent to 480 000 u.a. (1 u.a. = 833 ½ lire) for more or less comparable costs - the contract does not contain precise information in this respect.

Advantage should be taken of the experience which the Commission has gained in the matter of contributing to the costs of research performed under contract. Rules on financing such research which are simpler and as standardized as possible should be worked out.

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This report, drawn up in the French language, was agreed to in Brussels on 13 July 1976 by the Audit Board.

MR G. FREDDI, President

MR M. BERNARD

MR R. BURGERT

MR J. FRENCH

MR P. GAUDY

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MR A.K. JOHANSEN

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MR W. MULCAHY

ANNEXES

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Estimated revenue for the 1975 financial year, entitlements established and revenue paid in at 31 December 1975

(in u.s.a.)

Table 1

	Estimated revenue	Entitlements established	Revenue paid in
Own resources (Decision of 21 April 1970)			
- Levies, premiums, additional amounts (Art. 2(a))	423.797.500	510.415.515	398.395.648
- Contributions and other duties in the sugar sector (Art. 2(a))	106.722.500	79.662.568	64.208.787
- Customs duties (Art. 2(b))	3.400.313.611	3.151.023.164	2.613.111.357
Share of proceeds of ECSC levies allocated to administrative expenditure	18.000.000	18.000.000	18.000.000
Financial contributions of the Member States			
- Relating to the research programme	12.747.662	12.633.429	12.406.651
- Provided for in Article 4(3) of the Decision of 21 April 1970	2.244.080.754	2.122.551.739	1.975.480.195
- Provided for in Articles 129 and 130 of the Act concerning the Conditions of Accession - Denmark, Ireland, United Kingdom	23.119.631	29.443.724	64.149.383
- For the financing of administrative expenditure relating to appropriations from earlier financial years cancelled and re-entered	350.000	80.064	350.000
Own revenue			
- Commission's own revenue	27.279.200	276.449.824	275.235.122
- idem - research and investment	1.398.000	2.870.394	2.870.394
- Interest on Euratom loans	4.000.000	3.162.155	3.162.155
- Own revenue of the other Institutions	6.485.039	7.416.694	7.379.541
T o t a l	6.268.293.897	6.213.709.270	5.434.749.233

Utilization of the appropriations of the Social Fund
(1975 financial year)

(in u.a.)

Chap. Art. Item	Heading	Initial appropriations	Amendments under amending budgets or inter-item transfers	Appropriations available	Commitments at 31 December 1975	Payments at 31 December 1975	Appropriations to be carried forward	Appropriations for cancellation
50 500	Expenditure under Art. 4 of the Council Decision of 1.2.1971	110.000.000	-	110.000.000	108.882.341	-	108.882.341	1.117.659
51 510	Expenditure under Art. 5 of the Council Decision of 1.2.1971	245.000.000	-	245.000.000	241.936.372	5.489.739	236.446.633	3.063.628
52 520	Pilot schemes and preparatory studies	900.000	-	900.000	895.391	343.805	551.586	4.609
53 530	Expenditure provided for under Art. 125(1)(a) of the Treaty (former fund)							
5301	- Vocational retraining	13.400.000	10.240.000	10.240.000	2.161.920	2.161.920	8.078.080 (1)	-
5302	- Resettlement	-	-	-	-	-	-	-
54 540	Expenditure provided for in Art. 125(1)(b) of the Treaty (former fund)							
5401	- Conversion	-	-	-	-	-	-	-
		369.300.000	10.240.000	366.140.000	353.876.024	7.995.464	353.958.640	4.185.896

(1) Council has been requested to authorize carry-over.

Utilization of the appropriations of the former Social Fund
for vocational retraining and resettlement operations

(in '000 u.s.)

	RETRAINING					RESETTLEMENT				
	Appropriations in the Budget	Appropriations brought forward	Appropriations available	Aid granted	%	Appropriations in the Budget	Appropriations brought forward	Appropriations available	Aid granted	%
1962	19,711	20,000	39,711	11,490	28,9	9,115	-	9,115	801	8,7
1963	11,640	16,195	27,835	7,247	26,-	5,950	3,300	9,250	315	3,4
1964	14,562	11,635	26,197	4,260	16,2	8,636	5,950	14,586	380	2,6
1965	16,347	14,562	30,909	5,845	18,9	3,328	8,636	11,964	1,355	11,3
1966	18,137	2,863	21,000	8,560	40,7	3,345	1,655	5,000	137	2,7
1967	18,291	12,441	30,732	13,849	45,-	1,526	3,345	4,871	115	2,3
1968	23,230	16,537	39,767	22,712	57,1	1,321	1,872	3,193	3,193	100,-
1969	32,176	16,806	48,982	35,073	71,6	1,269	250	1,519	1,519	100,-
1970	60,000	-	60,000	36,391	60,6	4,000	-	4,000	651	16,3
1971	56,302	-	56,302	56,302	100,-	171	-	171	170	99,4
1972	53,922	-	53,922	53,922	100,-	1,078	-	1,078	884	82,-
1973	59,547	-	59,547	59,547	100,-	453	-	453	453	100,-
1974	56,000	-	56,000	53,368	95,3	4,000	-	4,000	810	20,2
1975	10,240	54,592(1)	64,832	2,162	16,8(3)	-	2,568(2)	2,568	101	5,7(3)
Totals	450,105	-	-	370,728	82,2	44,192	-	-	10,884	24,6

(1) including 2 632 000 u.s. carried over under authorization by Council.

(2) including 1 758 000 u.s. carried over under authorization by Council.

(3) figure calculated from appropriations for financial year 1975 plus appropriations carried over by the Council and not allocated in aid granted.

Table 3

Aid granted under the former Social Fund and applications
pending at the end of the last five financial years

(in u.s.)

	1960 - 1970	1971	1972	1973	1974	1975
<u>Vocational retraining</u>						
- Applications pending at the end of the previous financial year	-	44.334.635	43.293.449(1)	50.887.425	66.673.386	16.778.876
- Applications submitted during the financial year	193.088.673	55.194.977(1)	61.611.875(1)	76.720.777	2.194.935	-
- Applications withdrawn during the financial year	-	-	-	-	-	1.320.430
- Applications examined by the ESF Committee during the financial year	148.754.038	56.236.163(1)	54.017.899(1)	60.934.816	82.089.445	4.823.594
- Aid granted	145.426.299	56.302.342	53.922.032	60.954.794(2)	51.959.709	4.794.309
- Balance of the applications pending	44.334.635	43.293.449(1)	50.887.425	66.673.386	16.778.876	10.634.852
<u>Resettlement</u>						
- Applications pending at the end of the previous financial year	-	1.022.114	1.370.541(1)	1.330.708	1.490.206	989.367
- Applications submitted during the financial year	10.300.442	634.544(1)	843.792(1)	613.527	309.507	-
- Applications examined by the ESF Committee during the financial year	9.278.328	286.117(1)	883.625(1)	454.029	810.346	134.143
- Aid granted	8.466.149	170.428	883.625	453.090	810.148	101.077
- Balance of the applications pending	1.022.114	1.370.541(1)	1.330.708	1.490.206	989.367	855.224

(1) These amounts are different from those shown in our reports for the 1971 and 1972 financial years. They take into account modifications made by the Commission's departments and deriving, firstly, from correction of material errors and, secondly, from the impact of changes in some currency parities which occurred in 1969.

(2) Including 1 407 902 u.s.a. from 1974 appropriations.

Financial resources made available to the Member States for the payment of the expenditure of the Guarantee Section for the 1975 financial year

(in u.s.a.)

	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Total
Ordinary advances										
20 December 1974	10.000.000	24.000.000	53.000.000	96.000.000	4.800.000	56.000.000	200.000	42.000.000	69.360.000	355.360.000
22 January 1975	12.000.000	22.000.000	20.000.000	59.000.000	18.000.000	48.000.000	420.000	35.500.000	48.240.000	263.160.000
20 February 1975	12.700.000	21.500.000	40.300.000	85.000.000	18.000.000	80.000.000	440.000	14.800.000	106.000.000	378.740.000
17 March 1975	17.700.000	24.500.000	55.700.000	72.000.000	15.000.000	112.000.000	550.000	60.000.000	80.000.000	437.450.000
21 April 1975	7.000.000	31.000.000	45.000.000	76.000.000	13.000.000	110.400.000	240.000	39.000.000	69.000.000	390.640.000
20 May 1975	14.000.000	26.500.000	45.800.000	95.000.000	22.000.000	60.000.000	720.000	25.000.000	58.000.000	347.020.000
18 June 1975	9.500.000	22.000.000	49.200.000	75.000.000	10.000.000	90.000.000	460.000	40.000.000	46.000.000	342.160.000
18 July 1975	28.000.000	30.000.000	59.400.000	119.000.000	6.000.000	55.000.000	600.000	34.000.000	63.000.000	395.000.000
8 August 1975	15.800.000	29.000.000	58.000.000	163.000.000	15.000.000	64.000.000	340.000	46.700.000	58.000.000	449.840.000
18 September 1975	13.000.000	21.000.000	58.000.000	85.000.000	26.000.000	90.000.000	600.000	54.000.000	67.000.000	414.600.000
20 October 1975	10.500.000	20.000.000	45.000.000	79.000.000	21.000.000	58.000.000	500.000	21.000.000	47.000.000	302.000.000
4 December 1975	11.900.000	22.100.000	35.200.000	102.100.000	17.600.000	-	364.620	24.900.000	48.200.000	262.364.620
11 December 1975	3.800.000	7.100.000	-	8.400.000	13.600.000	-	-	13.400.000	16.600.000	62.900.000
Additional advances										
17 January 1975	-	-	-	-	19.200.000	-	-	-	-	19.200.000
10 April 1975	-	-	-	-	-	28.800.000	-	-	-	28.800.000
6 June 1975	10.000.000	-	-	-	-	-	-	-	-	10.000.000
4 September 1975	-	-	-	-	-	-	-	-	29.000.000	29.000.000
3rd advance in December	-	5.300.000	-	-	10.300.000	23.358.997	-	19.500.000	4.800.000	63.258.997
Amounts in hand at 1.1.1975	2.631.964	6.692.705	36.374.010	75.685.339	9.411.028	-15.711.551	33.144	16.218.281	5.942.297	137.277.217
Additional sum committed	-	-	-	-	-	9.363.163	-	-	-	9.363.163
From finalization 1971	15.061	-	12.774.695	3.142.182	-	9.785.782	-	1.608.858	-	27.326.533
From finalization 1972	39.000	-	5.174.179	13.989.353	-	13.316.917	-	1.324.274	-	33.843.723
	178.585.980	312.692.705	518.922.884	1.207.316.874	238.911.028	892.313.308	5.467.764	488.951.413	816.142.297	4.759.304.253

EAGGF - Expenditure paid out during the financial years 1965 to 1975

(in '000 u.a.)

	1965/66/67	1968	1969	1970	1971	1972	1973	1974	1975	
Guarantee Section										
- Year	28.723,1(1)	62.109,-	58.546,2	159.443,2	6.605,8	117.755,4			108,3	28.723,1
1963/64	50.689,5(2)			302.114,3						50.689,5
1964/65	97.755,-(3)									159.864,-
1965/66	180.089,2(3)	277.785,-	508.211,-							238.635,4
1966/67		267.503,7	1.169.645,1							395.648,7
1967/68				1.224.150,3						935.157,9
1968/69				532.396,8						1.478.365,2
- 2nd half of 1969										1.224.150,3
- financial year										1.655.203,7
1970					122.806,9	1.541.288,3	195.857,1			1.631.288,3
1971(4)					90.000,-	2.289.723,6	2.978.340,2			2.485.580,7
1972								636.031,9		3.614.372,1
1973									817.875,4	3.459.703,8
1974										4.003.481,2(5)
1975										21.360.863,9
Total	357.256,8	607.397,7	1.736.402,3	2.218.194,6	219.412,7	3.948.767,3	3.174.197,3	3.277.860,3	4.821.464,9	
Guidance Section										
- Year	2.539,0	1.052,9	877,4	1.673,9	474,3	977,4				6.617,5
1962/63	2.588,8	12.181,-	1.598,-	1.712,5	2.537,-					11.594,7
1963/64	486,4	12.874,7	7.599,8	6.210,7	2.210,3	1.369,7	578,-	715,6		32.045,2
1964/65	45.000,-	1.480,1	9.239,9	8.740,8	3.675,3	7.692,8	3.963,6	2.070,7	53,7	81.916,9
1965/66		20.000,-	4.381,5	2.012,7	7.657,4	6.644,4	8.698,2	7.120,4	1.502,4	90.017,0
1966/67			888,-	45.586,9	12.452,2	9.460,4	8.632,-	10.172,3	3.503,5	58.695,3
1967/68				4.462,2	749,9	20.097,-	24.283,5	16.238,9	6.436,5	72.268,0
1968/69										
- 2nd half of 1969										
- financial year										
1970				9.012,2	75.329,7	21.577,7	25.851,3	16.106,7	19.709,4	92.257,3
1971						6.241,1	43.494,8	28.585,-	17.720,1	171.370,7
1972							8.232,5	31.929,9	24.982,9	65.145,3
1973								15.472,7	22.547,6	38.020,5
1974									84.903,4	84.903,4
1975									2.924,5	2.924,5
Total	50.614,2	37.588,7	24.584,6	79.411,9	105.086,1	74.060,5	123.733,9	128.412,4	184.284,0	807.776,3
Special Sections										
Grand total	407.871,0	853.236,4	1.901.236,9	2.366.766,5	324.498,8	4.022.827,8	3.297.931,2	3.406.272,7	5.005.748,9	22.586.390,2

- (1) Amount paid during the financial year 1965.
- (2) Amount paid during the financial year 1966.
- (3) Amounts paid during the financial year 1967.
- (4) The sum of 90 000 000 u.a. paid in 1971 relates to Council Regulation No 2464/69 on measures to be taken as a result of the revaluation of the German Mark. It should be mentioned that payments of 1 793 585 900 u.a. were also made in 1971 as advances, of which 1 541 288 300 was entered in the Budget accounts in 1972.
- (5) Net expenditure chargeable to the financial year 1975 after deduction of 61 170 255,78 u.a. from finalization of the 1971 and 1972 financial years.

Utilization of the appropriations of the EAGGF Guidance Section in 1975

(in u.a.)

	Appropriations for the financial year (1)	Available appropriations brought forward from 1974	Commitments remaining unpaid from previous years	Commitments during the financial year	Payments, appropriations for the financial year	Payments, appropriations brought forward	Appropriations to be cancelled	Appropriations to be carried forward	
								automatically	by Council Decision
INVESTMENT PROJECTS									
1975 projects	212.600.000	-	-	107.995.034				107.995.034	104.604.966
1974 projects	-	139.167.199	-	139.167.197			2	137.764.025	-
Carry-overs, years 1970 to 1974	-	-	699.127.738				649.803	520.566.030	51.846.997
Carry-overs, years 1966 to 1969	-	-	30.877.552				1.161		19.380.246
Total	212.600.000	139.167.199	730.005.290	247.162.231	-	138.964.225	650.966	766.325.089	175.832.209
JOINT SCHEMES									
- modernization of farms	3.272.000	180.000		1.146.327	966.327	180.000			2.305.673
- cessation of agric. activities	7.555			7.553	7.553		2		
- information and professional qualifications	634.945	3.150.000		589.995	463.041	126.954	3.023.045		171.904
- groups of hop producers	594.200	150.000		252.061	120.156	131.905	18.095		474.044
- conversion, cod-fishing sector	2.610.000	91.490	6.025.679(2)	2.688.151	-	4.900.054	13.339	3.813.776	
- promotion, beef & veal production	24.957.350			24.929.212	24.929.212	-			28.138
- statistical surveys, fruit trees	485.000			483.600	483.600	-	1.400		
- survey, agric. structures	3.960.000			1.521.219	1.521.219				2.438.781
Total	36.521.050	3.571.490	6.025.679	31.618.118	28.491.108	5.338.913	3.055.881(3)	3.813.776	5.418.540
SPECIAL MEASURES									
- producer groups, fruit and vegetables	3.000.000	1.500.000		1.053.411	9.214	1.044.197	455.803		2.990.786
- premiums for the slaughter of cows and non-marketing of milk	3.000.000			2.796.018	2.796.018				203.982
- premiums for uprooting fruit trees	7.348.700	600.000		7.610.072	7.093.610	516.462	338.628		
- producer groups, fishing industry	30.250			30.247	30.247		3		
Total	13.378.950	2.100.000		11.489.748	9.929.089	1.560.659	794.434(3)		3.194.768
TOTALS. GUIDANCE SECTION	262.500.000	144.838.689	736.030.969	290.270.097	38.420.197	145.863.797	4.501.281	770.138.865	184.445.517

(1) The amount in the Fund was reduced from 325 to 262.4 million u.a. by transfer to the Guarantee Section for premiums for re-stocking beef herds.

(2) This sum includes the amount of 941 933 u.a. erroneously shown in the 1974 revenue and expenditure accounts as an appropriation to be cancelled, although automatic carry-over was applicable.

(3) These sums constitute the allocations to the "Manaholt Reserve", which allocations include 3 580 482 u.a. for the year 1974 and 269 833 u.a. for the year 1975.

Commitments and payments relating to projects receiving aid
from the EAGGF Guidance Section

('000 u.a.)

Table 8

Budget	Belgium	Denmark	Germany	France	Ireland	Italy	Luxembourg	Netherlands	United Kingdom	Total
1965										
1964 projects - commitments	704	-	2.558	1.951	-	3.069	-	775	-	9.057
- payments	701	-	2.477	1.240	-	2.402	-	775	-	7.595
%	100 %	-	97 %	64 %	-	78 %	-	100 %	-	84 %
1966										
1965 projects - commitments	755	-	4.969	3.692	-	5.866	275	1.577	-	17.134
- payments	755	-	4.426	2.805	-	3.498	275	1.577	-	13.336
%	100 %	-	89 %	76 %	-	60 %	100 %	100 %	-	78 %
1967										
1966 projects - commitments	3.280	-	11.600	8.924	-	13.771	899	3.113	-	41.587
- payments	3.144	-	9.830	7.817	-	6.775	856	3.003	-	31.425
%	95 %	-	85 %	88 %	-	49 %	95 %	96 %	-	76 %
1968										
1967 projects - commitments	2.041	-	7.240	5.745	-	8.835	151	2.027	-	26.039
- payments	1.907	-	6.610	4.690	-	6.341	26	2.023	-	21.597
%	93 %	-	91 %	80 %	-	72 %	17 %	100 %	-	83 %
Projects 1st tranche 1968 - commitments	2.487	-	8.002	7.693	-	12.906	14	3.013	-	34.115
- payments	2.430	-	7.479	5.793	-	7.699	14	2.921	-	26.336
%	97 %	-	93 %	75 %	-	60 %	100 %	97 %	-	77 %
1969										
Projects tranches 1a and 2, 1968 - commitments	4.668	-	18.568	13.184	-	19.083	800	4.480	-	60.783
- payments	2.859	-	15.174	9.771	-	8.666	800	4.480	-	41.750
%	61 %	-	82 %	74 %	-	45 %	100 %	100 %	-	69 %
Projects: 1st tranche 1969 - commitments	612	-	2.469	2.258	-	2.419	-	715	-	8.473
- payments	463	-	2.392	1.780	-	1.160	-	615	-	6.410
%	76 %	-	97 %	79 %	-	48 %	-	86 %	-	76 %
1970										
Projects: 2nd, 3rd & 4th tranche 1969 - commitments	11.214	-	42.632	33.403	-	51.885	94	12.299	-	151.527
- payments	7.301	-	34.192	22.936	-	20.852	94	11.004	-	96.379
%	65 %	-	80 %	69 %	-	40 %	100 %	89 %	-	64 %
1971										
Projects: 1st, 2nd & 3rd tranche 1970 - commitments	11.665	-	44.964	35.444	-	54.266	375	13.285	-	159.999
- payments	5.621	-	33.643	19.143	-	11.064	375	7.988	-	77.834
%	48 %	-	75 %	54 %	-	20 %	100 %	60 %	-	49 %
1972										
Projects: 1st, 2nd & 3rd tranche 1971 - commitments	12.525	-	57.122	45.074	-	67.901	1.638	15.683	-	199.943
- payments	7.592	-	34.798	18.741	-	10.699	175	9.693	-	81.698
%	60 %	-	61 %	42 %	-	16 %	11 %	62 %	-	41 %
1973										
Projects: 1st & 2nd tranche 1972 - commitments	12.034	-	42.101	33.254	-	50.499	943	11.167	-	149.998
- payments	5.067	-	23.672	13.180	-	1.214	414	6.641	-	50.188
%	42 %	-	56 %	40 %	-	2 %	44 %	59 %	-	33 %
1974										
Projects: 1st & 2nd tranche 1973 - commitments	10.033	4.697	39.220	30.865	6.896	47.056	205	11.028	20.000	170.000
- payments	1.935	3.229	12.855	4.874	411	160	22	4.162	3.627	31.275
%	19 %	69 %	33 %	16 %	6 %	0 %	11 %	38 %	18 %	18 %
Projects: 1st tranche 1974 - commitments	3.589	3.173	26.333	18.512	4.439	24.468	78	6.506	8.735	95.833
- payments	431	1.724	3.414	2.101	306	-	-	2.684	2.018	12.678
%	12 %	54 %	13 %	11 %	7 %	-	-	41 %	23 %	19 %
1975										
Projects: 2nd tranche 1974 - commitments	9.101	6.697	23.487	24.258	7.546	40.627	862	7.594	18.995	139.167
- payments	-	-	-	1.403	-	-	-	-	-	1.403
%	-	-	-	6 %	-	-	-	-	-	1 %
Projects: 1st tranche 1975 - commitments	6.226	5.186	26.396	19.062	6.618	28.078	15	8.090	8.324	107.995
- payments	-	-	-	-	-	-	-	-	-	-
%	-	-	-	-	-	-	-	-	-	-
Totals										
- commitments	90.934	19.753	357.661	283.319	25.499	430.729	6.349	101.352	56.054	1,371.650
- payments	40.206	4.953	190.962	116.274	717	80.530	3.051	57.566	5.645	499.904
%	44 %	25 %	53 %	41 %	2 %	19 %	48 %	57 %	10 %	36 %

Table 9

Breakdown by countries of the projects which received aid
from the Guidance Section between 1964 and 1975

	Belgium	Denmark	Germany	France	Ireland	Italy	Luxem- bourg	Netherlands	United Kingdom	Total
Projects 1964										
financed	7	-	9	10	-	27	-	4	-	57
completed	7	-	9	7	-	22	-	4	-	49
cancelled	-	-	-	3	-	5	-	-	-	8
Projects 1965										
financed	6	-	21	21	-	40	1	8	-	97
completed	6	-	20	16	-	26	1	8	-	77
cancelled	-	-	1	4	-	14	-	-	-	19
Projects 1966										
financed	20	-	59	33	-	119	3	20	-	254
completed	19	-	54	29	-	67	3	18	-	190
cancelled	1	-	3	2	-	39	-	2	-	47
Projects 1967										
financed	9	-	31	34	-	59	2	17	-	152
completed	9	-	30	31	-	45	1	17	-	132
cancelled	-	-	-	2	-	11	1	-	-	14
Projects 1st tranche 1968										
financed	16	-	36	22	-	66	1	20	-	161
completed	16	-	36	17	-	41	1	18	-	129
cancelled	-	-	-	4	-	16	-	1	-	21
Projects tranches 1a & 2, 1968										
financed	29	-	59	43	-	122	1	23	-	277
completed	19	-	50	35	-	68	1	23	-	196
cancelled	3	-	1	8	-	37	-	-	-	49
Projects 1st tranche 1969										
financed	5	-	5	7	-	13	-	4	-	34
completed	5	-	5	4	-	5	-	3	-	22
cancelled	-	-	-	1	-	4	-	-	-	5
Projects, tranches 2nd, 3rd, 4th 1969										
financed	64	-	147	125	-	236	3	54	-	629
completed	29	-	110	70	-	86	3	49	-	344
cancelled	4	-	1	2	-	37	-	5	-	49
Projects 1970										
financed	71	-	148	114	-	173	2	40	-	548
completed	29	-	74	51	-	25	2	16	-	197
cancelled	1	-	1	-	-	1	-	1	-	4
Projects 1971										
financed	96	-	161	143	-	282	7	34	-	723
completed	36	-	52	28	-	36	1	16	-	168
cancelled	-	-	-	1	-	-	-	-	-	1
Projects 1972										
financed	59	-	115	74	-	145	6	30	-	429
completed	19	-	46	15	-	1	2	10	-	93
cancelled	-	-	-	-	-	-	-	-	-	-
Projects 1973										
financed	92	10	112	70	25	224	2	34	68	637
completed	13	3	30	5	-	1	1	8	4	65
cancelled	-	-	-	-	-	-	-	-	-	-
Projects 1st tranche 1974										
financed	20	6	66	38	17	85	2	16	47	297
completed	1	-	-	2	-	-	-	3	3	9
cancelled	-	-	-	-	-	-	-	-	-	-
Projects 2nd tranche 1974										
financed	53	18	98	65	14	166	3	15	37	469
completed	-	-	-	-	-	-	-	-	-	-
cancelled	-	-	-	-	-	-	-	-	-	-
Projects 1st tranche 1975										
financed	34	10	99	34	14	63	1	38	25	318
completed	-	-	-	-	-	-	-	-	-	-
cancelled	-	-	-	-	-	-	-	-	-	-
Projects										
financed	581	44	1.166	833	70	1.820	34	357	177	5.082
completed	203	3	516	310	-	423	16	193	7	1.671
cancelled	9	-	7	27	-	164	1	9	-	217

List of the special joint scheme financed by the Guidance
Section of the EAGGF

	Commitments	Payments	Germany	Belgium	France	Italy	Luxembour- bourg	Netherlands	United Kingdom	Denmark	Ireland	Cancellations
(a) <u>Relief and works after certain agricultural disasters</u>												
- Repair of damage caused by floods, autumn 1966	10.000.000	7.871.206	-	-	-	7.871.206	-	-	-	-	-	2.128.794
- Repair of damage caused by African swine fever in 1967												
- repair of damage	3.043.253	3.043.253	-	-	-	3.043.253	-	-	-	-	-	-
- programme of research	108.798	107.970	-	-	-	107.970	-	-	-	-	-	828
(b) <u>Financing of statistical surveys</u>												
- Enquiry into the structure of farms	8.000.000	7.307.748	1.622.628	256.602	2.012.694	3.135.030	11.898	268.896	-	-	-	692.252
1975	1.521.219	1.521.219	960.000	-	-	-	-	-	235.507	-	-	-
1968	1.200.000	1.200.000	312.720	37.290	337.950	468.000	6.750	37.290	-	-	-	-
1969	1.200.000	1.200.000	312.720	37.290	337.950	468.000	6.750	37.290	-	-	-	-
1970	1.200.000	1.200.000	312.720	37.290	337.950	468.000	6.750	37.290	-	-	-	-
(c) <u>Financial compensation measures</u>												
- Reimbursement of the expenses incurred to promote the production and marketing of olives and olive oil (1964-65)	8.000.000	8.000.000	-	-	-	8.000.000	-	-	-	-	-	-
- Improvement of the production and marketing structures for olives and olive oil and for fruit and vegetables	45.000.000	45.000.000	-	-	-	45.000.000	-	-	-	-	-	-
- Improvement of the production and marketing structures in the manufactured tobacco sector	15.000.000	15.000.000	-	-	-	15.000.000	-	-	-	-	-	-
- Measures to adapt agriculture in the Grand-Duchy of Luxembourg	7.500.000	7.500.000	-	-	-	-	7.500	-	-	-	-	-
- Provisions supplementary to the common organization of the fruit and vegetable markets:												
- Year 1966/67	20.000.000	20.000.000	-	-	-	20.000.000	-	-	-	-	-	-
- Year 1967/68	22.969.486	22.969.486	-	-	-	22.969.486	-	-	-	-	-	-
- Year 1968/69	31.948.124	31.948.124	-	-	-	31.948.124	-	-	-	-	-	-
- second half-year 1969	12.381.929	12.381.929	-	-	-	12.381.929	-	-	-	-	-	-
(d) <u>Aids to groups of producers of fruit and vegetables to facilitate their operations</u>												
- Years 1967 and 1968	1.304.520	1.304.520	1.242.301	-	62.219	-	-	-	-	-	-	-
- Year 1969	673.679	673.679	546.326	-	127.353	-	-	-	-	-	-	-
- Year 1970	882.316	882.316	761.446	-	120.870	-	-	-	-	-	-	-
- Year 1971	1.859.875	1.859.875	245.255	-	110.566	1.504.054	-	-	-	-	-	-
- Year 1972	1.652.600	1.652.600	551.467	-	50.580	1.050.553	-	-	-	-	-	-
- Year 1973	1.053.411	1.053.411	259.845	-	34.141	750.211	-	-	9.214	-	-	-
(e) <u>Measures designed to re-establish equilibrium</u>												
- Premiums for the slaughter of cattle and the non-marketing of milk and milk products												
- reimbursement of the premiums paid in 1970	26.278.684	26.278.684	15.760.844	2.065.930	7.216.577	-	81.963	1.153.350	-	-	-	-
- reimbursement of the premiums paid in 1971	6.124.751	6.124.751	336.846	336.846	2.643.348	-	22.512	260.487	-	-	-	-
- reimbursement of the premiums paid in 1972	2.774.922	2.774.922	1.124.202	178.593	1.337.353	-	9.562	125.212	-	-	-	-
- reimbursement of the premiums paid in 1973	7.461.449	7.461.449	4.013.458	616.901	2.237.253	-	25.462	568.375	-	-	-	-
- reimbursement of the premiums paid in 1974	2.796.018	2.796.018	1.254.225	158.335	1.265.193	-	9.562	108.703	-	-	-	-
- Premiums for the uprooting of apple, pear and peach trees												
- reimbursement of the premiums paid in 1970	3.071.477	3.071.477	336.543	1.206.266	371.855	-	-	1.156.813	-	-	-	-
- reimbursement of the premiums paid in 1971	12.481.599	12.481.599	4.806.544	855.439	4.757.046	-	26.995	2.035.575	-	-	-	-
- reimbursement of the premiums paid in 1972	5.123.198	5.123.198	1.831.677	831.161	1.705.427	-	24.477	730.456	-	-	-	-
- reimbursement of the premiums paid in 1973	6.952.510	6.952.510	3.459.904	699.500	2.118.749	516.462	39.615	634.742	-	-	-	-
- reimbursement of the premiums paid in 1974	7.610.072	7.610.072	1.667	9.264	28.872	7.049.945	-	3.862	-	-	-	-
(f) <u>Aid to producer organizations in the fishing industry</u>												
- Year 1973	12.104	12.104	12.104	-	-	-	-	-	-	-	-	-
- Year 1974	30.247	30.247	8.910	-	21.337	-	-	-	-	-	-	-
	277.216.241	274.394.367	42.599.064	7.326.707	27.235.282	181.732.221	7.772.316	7.158.341	244.721	-	325.712	2.821.874

Development aid: aid in the form of cereals
allocated under the 1967 and 1971 conventions and the 1974/75 programme

Table 11

(in tonnes of cereals or equivalent)

	1967 Convention			1971 Convention			1974/75 programme	Total
	1968/1969	1969/1970	1970/1971	1971/1972	1972/1973	1973/1974		
Cyprus						8.000	8.000	16.000
Malta					2.500	2.000	2.000	6.500
Turkey	50.000	51.400	36.600			5.000		143.000
Algeria			11.000	25.000	15.000			51.000
Morocco			28.000	25.000		15.000		68.000
Tunisia	20.000	35.000	27.000	25.000	10.000	7.500		124.500
Benin				7.000		4.000	2.500	13.500
Burundi							1.000	1.000
Cameroon			6.500					6.500
Cape Verde Is.							4.000	4.000
Centr. Afr. Rep.						2.000		2.000
Ethiopia					5.000	29.000	7.500	41.500
Gambia						1.000	1.500	2.500
Guinea-Bissau							5.500	5.500
Upper Volta			9.500	5.000	14.900	15.000	3.500	47.900
Kenya							5.000	5.000
Madagascar					5.000			5.000
Mali		30.000	7.500	17.000	20.000	26.000	8.000	108.500
Mauritius					12.000	10.000	7.500	29.500
Mauritania					5.000	21.000	7.500	33.500
Niger		15.000		7.000	7.500	30.000	17.000	76.500
Rwanda			6.000			4.500	2.500	13.000
Senegal				8.555	15.000	15.000	21.000	59.555
Somalia		8.000		15.000	7.000	5.000	25.000	60.000
Sudan	20.000	10.000	9.000		5.000	5.000	5.000	54.000
Tanzania							20.000	20.000
Chad				7.000	6.000	10.000		23.000
Togo						3.500		3.500
Zambia					5.000			5.000
Jordan			28.000	5.000	5.000	12.000	10.000	60.000
Lebanon		15.000	7.500	10.000	5.000	5.000	3.589	46.089
Egypt			15.100	20.000	13.000	20.000	10.000	78.100
Syria			7.500	15.000	7.000	8.500		38.000
Yemen		14.000	7.000	4.000		10.000	7.500	42.500
Afghanistan			21.640	20.000			2.500	44.140
Bangladesh				60.000	175.000	115.000	150.000	500.000
India	80.000					30.000	167.000	277.000
Indonesia	56.000	60.000	26.800	17.000	7.000	21.000		187.800
Pakistan	50.000	80.000	35.000		10.000	28.000	24.000	227.000
Philippines					10.000	5.000		15.000
Sri Lanka		14.000		11.000	10.000	16.000	20.000	71.000
Timor							2.000	2.000
Vietnam							3.911	3.911
Bolivia					10.000	5.000		15.000
Chile					20.000			20.000
Haiti							3.000	3.000
Honduras							3.500	3.500
Peru			15.000	13.500	15.000	5.000	7.500	56.000
Uruguay					10.000	6.000		16.000
ICRC	16.700	4.500	35.000	60.000	7.500	15.000		138.700
Joint Church Aid	8.300							8.300
WFP			9.000	15.000	5.000	30.000	40.000	99.000
UNICEF						10.000	10.000	20.000
UNRWA			4.500	21.945	20.000	20.000	25.000	91.445
Quantities provided for	301.000	336.900	353.140	414.000	464.400	580.000	643.500	3.092.940
Executed before 1.1.1975	300.599	335.500	352.570,5	393.999	433.512	448.500	-	2.264.680,5
Executed in 1975	401	0	469,5	20.001	25.888	126.637	509.081	682.477,5
Remaining to be executed	0	1.400	100	0	5.000	4.863	134.419	145.782

Development aid: aid in the form of milk products
allocated during the years 1969 to 1975

Table 12

(in tonnes)

	Skimmed milk powder				Butteroil			
	1969/1972	1973/1974	1975	Total	1969/1972	1973/1974	1975	Total
ICRC	3.000	9.000		12.000		1.000		1.000
WFP	120.000	49.450	20.000	189.450	35.000	28.000	16.000	79.000
UNHCR (Cyprus)				0			300	300
UNICEF		2.250	2.910	5.160				0
UNICEF			590	590			2.000	2.000
UNRWA		2.700	2.000	4.700		4.000	3.000	7.000
Cyprus				0		250	100	350
Malta				0		150		150
Romania	1.000			1.000				0
Turkey	2.000			2.000	2.000			2.000
Morocco		100		100		150		150
Tunisia		100		100				0
Cape Verde Is.			150	150			100	100
Ethiopia		500	1.600	2.100		1.300		1.300
Gambia		500		500				0
Guinea-Bissau			250	250			350	350
Upper Volta		5.100	1.300	6.400		1.800		1.800
Kenya			100	100			100	100
Mali		5.900	1.500	7.400		300		300
Mauritius			200	200			200	200
Mauritania		4.600	1.200	5.800		1.000		1.000
Niger		6.450	1.250	7.700		1.450		1.450
Rwanda		750	350	1.100				0
Senegal		3.700	500	4.200				0
Somalia		350	2.000	2.350			850	850
Sudan		300	300	600				0
Tanzania			2.000	2.000			1.000	1.000
Chad		4.900	500	5.400		150		150
Jordan		1.600	600	2.200		1.000	1.000	2.000
Lebanon		350		350		250		250
Egypt		2.450	600	3.050		1.000	1.500	2.500
Yemen		300	200	500			700	700
Afghanistan		300	200	500		600	1.000	1.600
Bangladesh		21.450	3.000	24.450		6.500	7.000	13.500
India		2.750	5.000	7.750		3.000		3.000
Indonesia		250		250				0
Pakistan		600		600		3.000	3.500	6.500
Philippines		100		100				0
Sri Lanka			1.000	1.000			250	250
Haiti			200	200			500	500
Honduras			100	100				0
Peru	1.000	100	450	1.550		700	1.000	1.700
Uruguay		100		100				0
Reserve		1.000	4.950	5.950		4.400	4.550	8.950
Quantities provided for	127.000	128.000	55.000	310.000	37.000	60.000	45.000	142.000
Executed before 1.1.1975	127.000	91.537	-	218.537	37.000	33.863	-	70.863
Executed in 1975	-	27.428	24.106	51.534	-	25.437	6.411	31.848
Remaining to be executed	-	9.035	30.894	39.929	-	700	38.589	39.289

Development aid: financial aid1. Aid to the countries of the Sahel and Ethiopia

(Article 400 of the Budget)

(in u.a.)

	Commitments	Payments	Balances cancelled
Upper Volta	4.300.000,-	4.299.829,34	170,66
Mali	7.400.000,-	7.397.999,84	2.000,16
Mauritania	4.800.000,-	4.799.999,86	0,14
Niger	7.700.000,-	7.695.150,22	4.849,78
Senegal	3.300.000,-	3.297.077,08	2.922,92
Chad	5.100.000,-	5.094.000,-	6.000,-
Ethiopia	3.000.000,-	2.973.272,94	26.727,06
	35.600.000,-	35.557.329,28	42.670,72

2. Special fund for aid to developing countries worst affected by the crisis

(Article 940 of the Budget)

(in US dollars)

	1st tranche (October 1974)	2nd tranche (April 1975)	Total	Payments to 31.12.1975
UNO	30.000.000	33.000.000	63.000.000	63.000.000,-
Bangladesh	22.000.000	13.000.000	35.000.000	29.897.224,07
Benin	1.000.000	-	1.000.000	1.000.000,-
Cameroon	-	2.000.000	2.000.000	800.000,-
Centr. Afr. Rep.	-	1.000.000	1.000.000	400.000,-
Ethiopia	-	1.000.000	1.000.000	-
Ghana	-	2.000.000	2.000.000	7.196,22
Haiti	1.000.000	-	1.000.000	1.000.000,-
Upper Volta	2.000.000	2.000.000	4.000.000	3.908.138,23
Honduras	3.000.000	1.000.000	4.000.000	3.691.588,15
India	50.000.000	25.000.000	75.000.000	75.000.000,-
Kenya	6.000.000	2.000.000	8.000.000	7.216.785,10
Madagascar	3.000.000	-	3.000.000	3.000.000,-
Mali	5.000.000	2.000.000	7.000.000	7.000.000,-
Niger	5.000.000	2.000.000	7.000.000	7.000.000,-
Pakistan	3.000.000	3.000.000	6.000.000	4.200.000,-
Rwanda	1.000.000	-	1.000.000	1.000.000,-
Senegal	1.000.000	1.000.000	2.000.000	1.148.629,18
Somalia	1.000.000	3.000.000	4.000.000	1.000.000,-
Sri Lanka	5.000.000	3.000.000	8.000.000	8.000.000,-
Tanzania	9.000.000	3.000.000	12.000.000	12.000.000,-
Chad	2.000.000	1.000.000	3.000.000	2.604.708,57
	150.000.000	100.000.000	250.000.000	232.874.269,52

No.	Date	Object of the research	Duration of the programme
71/237/Euratom amended by : 73/129/Euratom 74/36/Euratom 75/330/Euratom	21. 6.71 14. 5.73 17.12.73 20. 5.75	Fusion and plasma physics 73 100 000 u.a.	5 years from 1.1.71
71/236/Euratom amended by : 73/128/Euratom 74/410/Euratom	21. 6.71 14. 5.73 2. 8.74	Biology and health protection 1. Radiation protection (joint programme) 18 886 000 u.a. 2. Adaptations (complementary programme) 5 879 000 u.a.	5 years from 1.1.71
72/182/Euratom	25. 4.72	Informatics 1 000 000 u.a.	5 years from 1.1.72
72/412/Euratom	17.11.72	Continuation of the Dragon project 10 630 000 u.a.	1.4.73 - 31.3.76
73/124/Euratom amended by : 75/511/Euratom	14. 5.73 25. 8.75	EAEK research and training programme (direct actions) 1. Waste processing and storage - 2. Plutonium and transplutonium elements - 3. Materials science - 4. Reactor safety - 5. Applied data processing - 6. Information Analysis Office - 7. Central Bureau for Nuclear Measurements (CBNM) - 8. Technical assistance to power plant operators - 9. Training - 10. Supervision and management of fissile materials - 11. Research under contract - 12. Direction and co-ordination - 13. Use of HFR reactor - 14. Use of Ispra I reactor 152 080 000 u.a.	4 years from 1.1.73
73/125/EEC supplemented and amended by: 73/175/EEC 75/515/EEC	14. 5.73 18. 6.73 25. 8.75	Standards and reference materials (certified reference materials) - Experimental work carried on for the present at Ispra 6 200 000 u.a.	4 years from 1.1.73
73/126/EEC supplemented and amended by: 73/174/EEC 75/514/EEC	14. 5.73 18. 6.73 25. 8.75	Protection of the environment (activities carried on by the Ispra establishment) 15 850 000 u.a.	4 years from 1.1.73
73/127/EEC amended by : 75/513/EEC	14. 5.73 25. 8.75	Remote sensing of the earth's resources 1 420 000 u.a.	4 years from 1.1.73
73/176/EEC amended by : 75/517/EEC	18. 6.73 25. 8.75	New technologies (use of solar energy and recycling of raw materials) - activities carried on by the Ispra establishment 3 050 000 u.a.	4 years from 1.1.73
73/177/Euratom amended by : 75/511 Euratom	18. 6.73 25. 8.75	EAEK research and training programme (direct actions - Ispra) 1. Fundamental research on materials - 2. Applications of nuclear energy for purposes other than electricity generation (hydrogen production) - 3. Technical assessments in support of Commission activities	4 years from 1.1.73
73/178/Euratom	18. 6.73	Research and training programme for EAEK (indirect actions) 1. Materials-testing reactors - 2. Education and training 4 715 000 u.a.	4 years from 1.1.73
73/179/EEC	18. 6.73	Reference materials and methods (Community Bureau of References) CBR (via contracts) 1 900 000 u.a.	3 years from 1.1.73
73/180/EEC amended by : 75/518/EEC	18. 6.73 25. 8.75	Protection of the environment (indirect action) - via contracts 6 300 000 u.a.	3 years from 1.1.73
74/642/Euratom	17.12.74	Recycling of plutonium in light water reactors (indirect action) - via contracts 4 500 000 u.a.	4 years from 1.1.75
75/406/Euratom	26. 6.75	Management and storage of radioactive waste (indirect action) 19 160 000 u.a.	5 years from 1.1.75
75/510/EEC	22. 8.75	Research and development in the sphere of energy (via contracts) 1. Energy saving - 2. Production and use of hydrogen - 3. Solar energy - 4. Geothermal energy - 5. Systems analysis: construction of models 59 000 000 u.a.	4 years from 1.7.75
75/512/Euratom	25. 8.75	Research and training in the field of high temperature materials (Fetten establishment) 3 600 000 u.a.	2 years from 1.1.75
75/516/EEC	25. 8.75	Research in the field of standards and reference materials (certified reference materials) - (Fetten establ.) 1 360 000 u.a.	2 years from 1.1.75

At 31 December 1975 the multi-annual programmes (including those expiring at that date) had estimated commitments totalling 388 630 000 u.a. and the appropriations for those estimates appear in Chapter 33 of Section III of the General Budget of the European Communities.

Summary of the expenditure paid out from 1958 to 1975

(in '000 u.s.a.)

	1958 - 1965 (Aggregate)	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total
Parliament	33.533,8	6.334,9	7.203,7	7.783,4	8.352,5	9.276,6	10.857,3	13.922,-	22.587,5	30.753,3	38.921,2	189.526,2
Council	32.725,7	7.069,8	8.050,9	8.430,7	9.986,7	10.444,7	16.334,9	21.372,9	27.576,3	36.512,9	45.249,2	223.754,7
Court of Justice	7.673,4	1.364,8	1.447,8	1.624,4	1.784,8	2.165,3	2.462,1	3.116,-	5.389,6	7.151,7	8.135,-	42.314,9
Commission												
1. Operating expenditure	168.846,1	40.598,3	43.659,1	75.491,9	86.925,4	94.888,2	103.783,1	142.029,2	187.557,4	267.758,5	316.996,8	1.714.008,1
- EEC	46.412,7	9.395,8	10.256,6									
- EAGC	88.079,-	15.353,5	15.976,5									
- ECSC												
2. Reimbursement to Member States of cost of levying own resources												
3. Social Fund	31.697,9	8.697,-	13.964,3	25.904,4	36.591,9	37.041,7	56.472,8	54.805,7	49.936,4	237.501,5	136.279,6	688.893,2
4. European Regional Development Fund												
5. EAGGF (Guidance and Guarantee Sections)												
- year: 1962/63	28.723,1	1.053,7	1.485,3	1.052,9	877,4	1.673,9	474,3	-	-	-	-	35.340,6
1963/64		51.428,5	1.849,8	2.181,-	1.538,-	1.712,5	2.537,-	977,4	-	-	-	62.284,2
1964/65			98.241,4	74.983,7	7.599,8	6.210,7	2.210,3	1.369,7	578,-	715,6	-	191.909,2
1965/66			225.089,2	1.480,1	67.736,1	8.740,8	3.675,3	7.692,8	3.963,6	2.070,7	53,7	320.552,3
1966/67				297.785,-	4.331,5	2.012,7	7.657,4	124.399,8	8.698,2	10.172,4	1.610,7	453.665,7
1967/68				267.503,7	509.079,-	205.030,1	12.452,2	9.460,4	8.632,-	7.172,4	3.503,5	1.025.853,2
1968/69					1.169.645,1	306.576,5	7.355,7	20.097,-	24.283,5	16.238,9	6.436,5	1.550.633,2
- 2nd half-year 1969						1.224.150,3						1.224.150,3
- financial year: 1970						541.409,-	1.122.806,9	21.577,7	25.851,3	16.106,7	19.709,4	1.747.461,-
1971							165.329,7	1.547.529,4	43.494,8	28.585,-	17.720,1	1.802.659,-
1972								2.289.723,6	204.089,6	31.929,9	24.982,9	2.550.726,-
1973									2.978.340,2	651.504,7	22.547,6	3.652.392,6
1974										2.641.828,4	902.778,8	3.544.607,2
1975											4.006.405,7	4.006.405,7
- special sections												417.750,-
6. Development aid (food and financial)												
7. Development Funds												
- 1st Fund	305.963,9	76.706,8	61.738,8	38.625,7	25.638,2	16.102,7	11.408,9	10.118,2	9.885,2	5.518,6	2.428,1	564.135,1
- 2nd Fund	21.878,5	31.625,8	42.850,1	67.885,4	89.947,7	129.537,-	120.479,9	78.600,4	49.462,-	25.869,8	23.357,5	680.894,1
- 3rd Fund							22.603,2	42.713,4	98.472,9	140.635,6	182.656,2	487.081,3
8. Oilseeds fund												
9. Research and investment (1)	397.741,-	127.959,6	117.943,9	71.217,1	65.050,4	64.942,9	68.585,3	69.976,9	72.266,4	77.716,7	90.814,5	1.206.214,7
Total	1.145.275,1	377.588,5	649.757,4	1.150.199,4	2.224.914,5	2.731.165,6	1.837.364,8	4.649.098,5	4.162.418,1	4.688.392,6	6.619.669,4	30.235.843,9
Number of staff employed at end of period (officials, temporary staff and establishment staff)	7.753	8.292	8.823	8.684	8.643	8.625	8.824	9.693	11.076	11.855	12.488	

(1) The amounts shown include neither the payments relating to services performed on behalf of outside bodies nor the re-use operations (13 836 000 and 2 201 300 u.s.a. respectively in 1975).

REPLIES BY THE COMMISSION OF THE EUROPEAN COMMUNITIES
TO THE OBSERVATIONS CONTAINED IN THE REPORT OF
THE AUDIT BOARD
ON THE ACCOUNTS FOR THE FINANCIAL YEAR 1975

VOLUME I

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VOLUME I

C O N T E N T S⁽¹⁾

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(1) The references to the numbers of the points and their headings, as well as the page numbering, are those used in the Audit Board's 1975 report. To facilitate the reading of the replies, it has been thought appropriate to introduce titles for certain points and paragraphs which did not have titles in the Audit Board's report.

INTRODUCTION

Since 1973 the Community budget has been hit hard and directly by the negative effects of the deep deterioration in the international monetary system established at the end of the Second World War. These disturbances have had even greater impact at Community level than at national level, for Europe's budget is affected not only by the difficulties arising from relations with countries outside the Community but by difficulties in relations between countries within the Community, arising from the differences between the Member States' respective levels of development and between the value of their currencies.

The Commission, in assuming the responsibilities conferred upon it by the Treaties in the matter of the implementation of the budget, cannot ignore these difficulties or the strains which have affected the national budgets since the crisis of 1973. It is conscious of the fact that the Community budget has been drawn up with the same desire for austerity as the budgets of the Member States. Therefore it has tried to develop still further the strict control which it has always endeavoured to apply to the administration of Community finances.

In this connexion, the control exercised over the management of budget funds has gained additional importance in the Commission's eyes and this importance was dramatically illustrated in 1975 with the publication of the Commission's proposals for the creation of a European Court of Auditors. The treaty signed on 22 July 1975 confirmed the agreement between the nine Member States that the time was ripe for such a body to be set up. From the progress of the ratification procedures achieved by October 1976 it is reasonable to hope that the Court of Auditors of the European Communities will be appointed in 1977 and will be able to commence operations in that year.

The Commission has endeavoured to implement its desire for strictness in the management of funds by strengthening internal and external control.

With regard to internal control, the Commission decided to create posts of

controllers seconded to directorates-general which authorize payments and to rationalize on-the-spot control of funds (sample checks by authorizing officers and specific audits of individual operations by the Financial Controller) and has undertaken a campaign to make authorizing officers aware of the necessity to tighten up control. The Special Committee of Inquiry, set up by the Commission's decision of 3 October 1973, has played a crucial role, as is shown by its reports on the sectors of dairy products, olive oil and oilseeds and, in 1976, beef and veal.

With regard to external control, it will be noted that the Audit Board has recorded its appreciation of the measures taken to help it in the exercise of its duties. The Board, in the introduction to its report, emphasizes "the improvement in its relations with the Commission of the European Communities" and states that this improvement, "already noted during the financial year 1974, has continued and increased in 1975 and during the process of preparing this report".

The last reference is to the Commission's initiative in organizing meetings at the highest possible level between members of the Audit Board and the Commission's deputy authorizing officers who are responsible for implementing the major policies of the Community. The dialogue initiated in this way has proved very fruitful for both sides and has enabled each to correct certain misapprehensions held by the other.

The Commission hopes that it will be possible to carry on a similar dialogue when the next report is being prepared. In order to make progress in this direction it will be essential to overcome the difficulties caused by an excessively tight time-schedule.

The replies that follow state the Commission's position on points where there is still some divergence of opinion between the Audit Board and itself. The replies provide the budgetary authority with most of the explanations which it could need. For several reasons, however, they are not exhaustive.

Firstly, several of the Audit Board's observations clearly do not call for any comment. They are descriptions of findings or situations discovered in the course of the audit. Other observations express views or opinions to which written replies are not necessary.

The volume of the replies has to respect the limits which the Audit Board has set itself in preparing its report. Excessively long replies would only inflate and make cumbersome the two volumes of a document which already contains an abundance of facts and figures.

Finally, and most importantly, the discharge procedure encourages moderation. Under the provisions of Article 91 of the Financial Regulation, the replies

of the institutions to the comments in the annual report of the Audit Board must be submitted to the Council and to the European Parliament, which have the power to give a discharge to the Commission on its implementation of the budget. Those two institutions do not confine their investigations to the documents mentioned in the Financial Regulation, but enter into a dialogue with the Commission. The Commission has to answer a great many questions, has to submit additional documents on specific points, has to provide sometimes very detailed explanations, etc. These investigations by the discharge authority have now assumed the form of very wide-ranging written questionnaires requiring replies whose total volume is almost as great as the volume of ~~the~~ replies to the comments of the Audit Board.

The Commission considers that the discharge authority's choice of sectors and matters to be subjected to a searching scrutiny is an indication of the seriousness of the discharge procedure. But, quite naturally, it is necessary to consider the method to be followed. In its "General Introduction" to its replies to the observations in the Audit Board's report for 1973, the Commission pointed out the progress that had been made when it devoted some space to considering the future political scope of the discharge operations and the future strengthening of the dialogue with the discharge authority. The Commission noted, in addition, that none of the other institutions had produced written replies to the Audit Board's observations. Parliament and the Council had chosen, stated the Commission, "not to make use of their right of reply" but to formulate the observations they wished to make in the course of the discharge procedure.

This attitude does not have its origin in the manner in which the Audit Board presents its comments. These comments relate to all Community institutions and bodies without distinction. The organs at which the various comments are directed would without doubt be much easier to identify if the Audit Board's report had the same structure as the budget, which is divided into four sections corresponding to the four institutions, sections II (The Council) and III (The Commission) containing annexes covering the bodies with autonomous management. Nonetheless, there ought to be a uniform attitude to the Audit Board's observations on the part of all the institutions. Consistency of procedure would seem all the more desirable because the changes that will flow from the implementation of the treaty of 22 July 1975 - especially the publicity to be given to the replies of the institutions, which, like the report itself, will be published in the Official Journal - will give this matter greater importance.

From now on the developments that have occurred with regard to parliamentary control, following the entrusting of duties to the auditing sub-committee of the Committee on Budgets give a new dimension to the problems of control of implementation of the Community budget. The Commission is pleased with these developments. It will apply itself to supporting them, to studying their effects and to examining the prospects thus opened for a better management of Community funds.

CHAPTER 1 : GENERAL COMMENTS

4. Relations with internal audit staff of the institutions (p. 8)

b) Verification of own resources (p. 9)

Under the present regulations the verifications carried out by the Commission are limited to the acts which flow from establishment of the revenue. Supervision of the acts which take place prior to establishment of the revenue is the responsibility of the Member States alone under the provisions of Regulation No 2/71, Article 14; this regulation differed from the proposals originally put forward by the Commission in this respect.

5. Measures for the implementation of the Financial Regulation (p. 10)

a) Separation between work of authorizing officers and that of accounting officers (p. 10)

The case referred to by the Audit Board concerns a principal administrator, an assistant accounting officer employed in the "Own resources and finance" division.

How is this situation compatible with the principle of the separation of functions of authorizing officers and accounting officers?

- The person in question carries out no duties of an authorizing officer, such duties being exercised by his head of division when the director or director-general are absent (in accordance with Article 49 of the internal rules for the implementation of the general budget of the European Communities).
- An important part of his work consists in calculating, on the basis of purely mathematical data, the relative shares of Member States on presentation, firstly, of the budgets and, secondly, of the revenue and expenditure accounts.

The similarity and the extreme complexity of this task caused the directorate-general to entrust the work to the same person.

- This official's other duties are those of an assistant accounting officer; they are specific and precise duties which in the case in point consist of presenting to the accounting officer, under the accounting officer's direct responsibility and authority, the documents relating to the collection of the own resources and to transfers of Commission accounts to other accounts of the Commission or of national bodies, documents which in every case have to be signed by the accounting officer or by another assistant accounting officer.

It does not seem therefore that there has been any incompatibility: the accounting officer himself carries out duties to help the authorizing officers, ensuring that these duties do not interfere in any way with the responsibilities and obligations which are incumbent upon him in his capacity as accounting officer.

b) Verification of commitments (p. 10)

In this connexion, the Audit Board requests the Commission to forward to it each month details of proposals for the commitment of appropriations, accompanied by supporting documents.

If it were implemented, this decision would compel the Commission to photocopy some 500 000 documents per year, which would be quite excessive, particularly since the Commission has already agreed to forward to the Audit Board, at the end of each month, a list, prepared by electronic data-processing, of all the commitments and all the corresponding payments.

In addition, the Commission intends to forward to the Audit Board, every quarter, a copy of each proposed commitment. With the aid of these documents it will be a simple matter for the Audit Board to identify the responsible authorizing department and to consult, on request, the supporting documents which that department holds.

CHAPTER 2 : REVENUE

7. Comments on accounting for revenue (p. 16)

c) Offsetting of compensatory amounts and refunds (p. 16)

As far as the period January 1974 to May 1975 is concerned, the problem described under this point has been solved in the manner described by the Audit Board.

Since then, and following requests from the Commission, the French customs authorities, in a circular to importers and exporters dated 26 March 1976, have set in train a procedure which makes it possible, in conjunction with the bodies concerned, to offset, in the case of products not falling within the scope of Annex II, refunds and monetary compensatory amounts levied on exports.

Under this procedure, amounts due are collected by the customs authorities or paid out by the bodies concerned according to whether the monetary compensatory amounts are higher or lower than the refunds.

8. Audit of own resources in the Member States (p. 17)

- a) The audit of own resources, as organized and implemented by the Commission, takes place within the framework of the existing regulations. Article 14 of Regulation No 2/71 stipulates that "Member States shall carry out the verifications and enquiries concerning established entitlements and the making available of own resources". The same article provides that the Commission may take part in any additional measures of control which it has asked Member States for in a reasoned request, or may be associated with measures of control carried out by the Member States. These provisions are supplemented by Regulation No 165/74 which, in its Article 4, lays down the object of these control measures in a more precise manner: the associated control measures must verify the establishment of revenue based on the information available to the national authorities, the accounting for and making available of own resources, the conformity of

the operations of establishment and making available with Community regulations, the existence of the supporting documents provided for by those regulations and their agreement with the above-mentioned operations.

The verifications carried out by the Commission are thus limited by this strict framework of regulations which nevertheless provides effective and satisfactory control within the limits of the powers mentioned above.

- b) The situation described here existed in certain Member States (Belgium and the Netherlands, for example). Following investigations by the Commission, measures were taken by the Member States involved to put an end to the shortcomings mentioned by the Audit Board and it was not necessary to invoke Article 6 of the Council Decision of 21 April 1970.

- c) This remark was made by the Commission in the report prepared as a result of the audit at the French customs office at Roissy Airport carried out from 10 to 14 March 1975. Since then the Commission has developed a common attitude to the matter of control of the right to preferential treatment. It was agreed within the Committee on Origin that Member States would uniformly apply the measures relating to certain control practices, arriving at an identical attitude towards refusal to grant preferential treatment to be followed in applying the rules of origin within the framework of generalized tariff preferences granted by the Community to certain products from developing countries.

- d) This problem was encountered on the first audit visits to Denmark; the procedure for customs drawback by the shipbuilding industry in that country has been under examination by the relevant Commission departments under the twofold aspect of negative establishment of own resources and of subsidy given by the Danish State to the shipyards.

At a meeting with the Danish authorities on 16 May 1975 the Commission's representatives obtained agreement that this problem should be settled from the point of view of own resources before the final introduction of the Common Customs Tariff in the new Member States (July 1977).

CHAPTER 3 : THE OPERATING EXPENDITURE OF THE INSTITUTIONS

I N T R O D U C T I O N

Before proceeding to a detailed examination of the Audit Board's observations on the accounts for operating expenditure for the financial year 1975, it is worth recalling the main characteristics of that expenditure at Community level and noting the factors which have had particular influence on the administration of operating expenditure in 1975.

1. Main characteristics of Community operating expenditure

- a) One important feature which distinguishes the Commission's administration from that of other international bodies is that six official languages are used (decision taken by the Council of Ministers in 1974) and that as a result the expenditure on the translation departments in 1976 (38% of the total) was greater than that of the operational departments (35%). This situation arises from the lack, de jure or de facto, of a single working language for use at Community level.

This means that for operational purposes the Commission had to translate 400 000 pages in 1974, nearly 500 000 pages in 1975 and even more in 1976 (a rise of 18% has been recorded for the first quarter of the year), it had to arrange for the reproduction of 400 million pages and had to maintain an average daily complement of 362 interpreters (including freelances).

- b) The Commission is able to control the trend of only part of its operating expenditure because the level of its expenditure on buildings and its associated expenditure on equipment is dependent more on policy (multiplicity of offices; increase in the Community's external representation) than on technical or budgetary factors.

In this connexion it is clear that the lack of a medium-term policy on premises weighs heavily on the level of expenditure on buildings. For

example, the Commission currently has 128 (plateaux de bureaux) in Brussels, of which the cost per square metre in the Rond-Point Schuman area is around Bfrs 3200, so that the rents for Brussels alone amount to over Bfrs 760 millions.

Other factors also have a not inconsiderable influence on the Commission's administrative expenditure. Among these, in particular, may be cited the Community's special methods of working, for example continuous consultation with experts from the nine Member States (4000 meetings in 1975) which frequently end, for reasons connected with the timetable, in night sessions (110 in 1975) or in meetings at weekends or on holidays (about 100 in 1975); or, to give another example, the composite role of the Commission, which, at one and the same time, has to draft proposals for common policies (function of planning, study, legal activity and standard-setting), to administer those policies in whole or in part when they have been adopted and to make proposals for their ^{reorganization} ~~administration by other bodies~~ where necessary (function of management and control).

As the increase in these tasks of management (in a multilingual context) and control (over an enlarged geographical area) took place at a time when the Council, for reasons of budgetary restraint, had ceased to grant the Commission more than a limited number of new posts (from the 1975 budget on), it is not surprising that the Commission has had to tailor its requirements to its resources on several occasions.

It was for this reason that it proceeded to reorganize its staff (which, it will be recalled, account for 70% of the Commission's administrative expenditure) following a thorough analysis of its establishment plan, particularly as regards staff of category A, and adopted a series of administrative reorganizations in 1975 which are reflected in the establishment plan of its departments. The Commission has also endeavoured to develop a series of measures to increase the mobility of its officials, to improve their training in the interests of the service and to develop modern methods of organization (mechanization of repetitive administrative tasks with the aid of the Computer Centre, establishment of data banks, research into aids to automatic translation, etc).

2. Factors which influenced the financial year 1975

In addition, three factors had a direct effect on the trend and administration of Community operating appropriations in 1975.

a) Expansion of external representation

The operation of the Commission's departments was affected by the expansion of the Community's external representation. In 1975 information offices were opened in Athens, Cardiff and Edinburgh and a delegation was installed in Ottawa. In the same period great efforts were made to expand the information services in Japan and Latin America.

b) Monetary fluctuations

1. Since 10 May 1971 some Member States have no longer had official rates of exchange; some have let their currencies float, while others have laid down official central rates without, however, declaring their parities to the International Monetary Fund.

Faced with the steadily increasing disparity between official rates and the rates applied by the financial institutions from day to day, the Commission was forced to consider, in 1973, whether it ought to revise the rates of exchange, as the Audit Board had suggested, rather than continue using rates fixed several years earlier which appeared to have ceased to reflect economic reality.

2. In the Commission's view it is essential, when examining this question, to distinguish between three groups of emoluments, namely:

- conversion of the remuneration expressed in Belgian francs into the currency of the place of employment (Arts. 63 and 64 of the Staff Regulations),
- transfers which officials may make to their country of origin (under Art. 17 of Annex VII),
- allowances and indemnification where payment is made:
 - . on presentation of invoices,
 - . or on a lump-sum basis.

3. The administrations of the other institutions and the staff's representatives have participated in the Commission's deliberations on this matter. It was agreed that common rules should apply in future.

So, after the necessary consultations had been effected, it was decided that the following course of action, which takes up some of the Audit Board's suggestions, should be adopted:

- For remuneration proper, the present system as laid down in Article 63 of the Staff Regulations (use of monetary parities accepted by the IMF at 1 January 1965, in conjunction with regional weighting factors adopted subsequently) shall be retained.
- For transfers, the Commission proposed an amendment to the Staff Regulations. The European Parliament gave its opinion on the proposed amendment in November 1974 and the Council is currently studying it. Pending adoption of the revision, internal directives have been issued to prevent certain abuses of the present system.

- Since 1 November 1974 the Commission has been using the revised rates of exchange for reimbursement of expenses on presentation of invoices and for sickness expenses. The same applies to experts' expenses and allowances granted to self-employed conference interpreters.

c) Inflation

All budgetary and accounting operations in 1975 took place in an inflationary climate and this compelled the Commission to make permanent changes in its staff policy and, especially, in its programmes on premises and equipment, in order to adapt these policies to its budget resources.

A. STAFF EXPENDITURE (p. 19)

9. Numbers of staff in employment at 31 December 1975 (p. 19)

It is stated in the report that "one finds that in Category C the authorized number was considerably exceeded, as there were 2662 staff but only 2623 authorized posts. Within the category the extra staff were in Grades C 1 (6), C 3 (29) and C 4 (45); there were 37 vacant posts in Grade C 2."

The deficit mentioned is based on information not in line with reality: the position is as follows:

Authorized	2 623 C
+	<u>106 BS</u>
Total	2 729
Employed	<u>2 662</u>
Balance = vacant posts	67

The B posts represent posts changed from Category C to Category B (secretariat grade). These changes are reflected in total in the list of posts but it had not yet been possible to implement them in practice because of the time required for arranging the necessary competition procedures.

The same applies to the breakdown over grades within Category C. Until the results of the B competitions are known it will be impossible to make a final breakdown of these changes over the relevant grades of Category C. The current breakdown is therefore, and can only be, purely theoretical. The situation is thus in no way one of an exceeding of the number of posts authorized but a temporary situation which should be resolved in the coming months.

10. Award to JRC officials of the compensatory allowance under Article 106 of the Staff Regulations (p. 20)

The object of the measure criticized by the Audit Board was to eliminate a disparity in the treatment of officials who were in identical situations;

the Audit Board itself, as it mentions, had stated in its report for 1960 that this disparity was regrettable.

The Commission was concerned to bring an end to this glaring and unjustified disparity in treatment.

11. Failure to apply a new provision of the Staff Regulations relating to education allowances (p. 21)

The new text appearing in Article 3, third paragraph, of Annex VII to the Staff Regulations is ambiguous. The application of that text is governed by the general implementing provisions, the current version of which came into force on 1 July 1972. The new general implementing provisions will no doubt give an interpretation which will enable the rights of officials in this matter to be stated more precisely. With the new regulations it should be possible to limit the award of the education allowance at the double rate to those cases where it is justified by the actual expenses incurred.

12. Variations from one institution to another in application of the Staff Regulations (p. 22)

a) Variations in family allowances (p. 22)

A joint decision was made by the heads of administration on this matter. The recently-confirmed intention of applying that decision should eliminate all variations.

b) Variations in pensions (p. 23)

The institutions will shortly be adopting a uniform practice on this matter.

c) Variations in classification of staff at the time of recruitment (p. 23)

In this connexion the Commission has already had occasion to point out that:

- firstly, it is studying the possibility of arranging joint recruitment competitions, at least for certain categories of staff, which is a method that would facilitate harmonization of grading and should yield considerable savings,
- secondly, at the meetings of heads of administration the administrative departments of each institution exchange information about the criteria observed in this connexion and are seeking progressively to eliminate the initial differences.

14. Award to local staff employed in Luxembourg of financial benefits not prescribed by rules or local practice (O. 24)

The course adopted by the Commission was the only practical way of remedying the serious breach of the principle of equality of treatment between the local staff of Parliament and the Commission in the matter of their remuneration.

The measure should be seen as part of the whole range of efforts continually deployed by the Commission to maintain the indispensable equality of treatment between the staff of the two institutions.

15. Irregular classification of employees promoted to a higher grade (p. 25)

In cases of secondment covered by Article 37 (2), second paragraph, the person concerned enjoys the benefit of the legal status corresponding to the grade to which he is seconded, as if he had been appointed to that grade (contrary to what happens in the case of an official who has received a temporary posting). Among other things he acquires seniority in that grade. It would therefore seem reasonable that account should be taken of that seniority.

16. Refund of emoluments incorrectly paid (p. 25)

a) The decision not to recover the part of emoluments relating to the period 9 October 1970 to 31 December 1970 was based, as is noted in the report, on the delay that had elapsed before the person concerned was notified of the Commission's decision granting him leave on personal grounds.

It should be mentioned that during this period of administrative silence the person concerned had submitted a fresh request postponing the starting date of his leave on personal grounds until 1 January 1971. Although this request was not considered by the Commission, the fact remains that it would have been difficult to implement fully the consequences of the decision - albeit notified late - in respect of the person in question, because it may be assumed that the latter was not necessarily in a position to appreciate the irregularity of the payments made during the last quarter of 1970.

As for the repayment of the sums incorrectly paid to the person concerned during the first quarter of 1971, this was delayed by the fact that he submitted his resignation in the meantime and that the resignation was accepted with effect from 1 March 1976; the amounts due to this official by reason of his definitive termination of service will now be offset against the part of his emoluments relating to the first three months of 1971.

The file is in the process of being closed.

The Commission's decision to continue paying an official his current salary (corresponding to step 5 of his grade) until such time as he advanced to step 5 in the normal way was taken so that the person concerned should not have to bear the consequences of an unforeseen reduction in his monthly salary as a result of an error for which he was in no way to blame.

It should be noted that the measure taken does however have the effect of slowing down the official's advancement to a higher step.

- b) After thorough examination of all aspects of this case, it finally seemed that the most appropriate solution would be to treat the person's residence as being his place of origin.

17. Expenditure on pensions (p. 27)

a) Entry in the accounts of expenditure on pensions (p. 27)

The Commission shares the Audit Board's opinion that it would be appropriate, for reasons of budgetary clarity, to charge all family allowances paid to those entitled to pensions to the budget heads of Article 112. Since it would be difficult for technical reasons to change the method of charging in the middle of a financial year, the Commission will introduce the new method as from 1 January 1977.

With regard to the other elements of pension charges, however, namely the employer's share of sickness insurance, which is charged to Item 1130, and the expenditure resulting from the application of the weightings, which is charged to Article 116, it should be borne in mind that this procedure complies with specific requests by the budgetary authority, since these two budget heads are intended to reflect the total incidence of all expenditure of this kind.

b) Survivors' and orphans' pensions (p. 27)

The Commission points out that the situation described by the Audit Board is the result of the application of the existing provisions of the Staff Regulations.

c) "Cumulation" of a pension and remuneration for services (p. 28)

Under Article 40 of Annex VIII "cumulation" of a retirement pension and a salary from the Community is not permissible. It would indeed be contrary to a fundamental principle of public service, which is that an official should not be able to draw simultaneously two kinds of emoluments in consideration for the holding of a single public office. In the cases raised by the Audit Board there is no question of this; what is involved is merely payment for services rendered under temporary and exceptional contracts which have no connexion with the exercise of normal duties. Moreover, the persons concerned have been used for these very specific tasks because of their special qualifications in the sectors involved. It is quite certain that such cases will remain entirely exceptional.

d) Application of Article 70 of the Staff Regulations to those opting for voluntary termination of service (p. 29)

The allowance to which an official who is the subject of a measure for termination of service is entitled takes the place, in practical terms, of all or part of the remuneration, for a certain period, which the person concerned received before termination of service.

It therefore appeared to be in keeping with the spirit of the relevant regulations to apply the principle established in Article 70 of the Staff Regulations to these cases by analogy. It goes without saying that such cases are very few.

e) Purchase of pension rights (application of Article 11 (2) of Annex VIII of the Staff Regulations) (p. 29)

- Rate of exchange applied for the purchase of pension rights (p. 29)

The Commission is aware of the need to use rates of exchange, when making calculations in connexion with the purchase of pension rights, which reflect the value of those rights during the period they were acquired. Working on the assumption that the last parities declared to the International Monetary Fund were still valid up to the end of 1971, the Commission has drafted an amendment to the general implementing provisions of Article 11 (2) and this is under discussion with the other institutions. Under the amended version the rate of exchange to be applied in calculating the proportion of rights corresponding to the period up to the end of 1971 would be the last parity declared to the International Monetary Fund, whereas for the proportion corresponding to the period from 1 January 1972 onwards an average rate for the period would be applied on the same basis as the rates revised by the Commission for other payments since November 1974. The Commission's proposal is guided by the principle that the rate of exchange to be used should reflect the value of the rights at the moment they were acquired and that fluctuations in exchange rates should be reflected by the average revised rate for the proportion of the rights corresponding to the period of instability since the end of 1971. As for the future, the proposed solution would be equally valid both in periods of monetary stability and in a situation of continuing fluctuation and would not create fresh disparities of treatment between officials in identical situations. In any event the Commission takes the view that it would be impossible to let the number of years of pensionable service acquired by purchase depend solely on the state of the currency market at the moment the official gained his entitlement.

It should be noted that the majority of the 34 cases to which the Audit Board's report refers relate to officials whose entitlement was gained before 1972, that is to say in a period when the last parities declared to the IMF were still valid.

- Calculation of years of pensionable service purchased from basic salary only (p. 30)

The Commission considers that the present system is consistent in view of the fact that contributions by officials to the pension scheme are calculated from their basic salary without weighting. Moreover, weighting would entail discrimination between officials according to their place of employment.

f) Credit of pension rights on the basis of Article 107 of the Staff Regulations (Art. 102 (2) of the former ECSC Staff Regulations) (p. 30)

1) Article 107 of the Staff Regulations

The Commission considers that application of Article 107 is justified in cases where there is a reduction in the percentage of pension

rights in the German public service because of a period of service with the Community. This is the result of the fact that Paragraph 160 b of the German law provides for a reduction of 2.14% for each year of service with the Communities, whilst the acquisition of pension rights in the German public service varies over the career of the official with a rate of increase of less than 2.14% for the final years of service.

2) Article 5 of Annex VIII of the Staff Regulations (p. 31)

The Commission applied the method of crediting provided for in Article 5 to years of pensionable service acquired under the provisions of Article 107, on the principle that rights acquired under Article 107 should be deemed to be acquired at age 60 but held in suspense until age 65.

g) Payment of a pension in a currency other than that of the country of residence (p. 32)

The anomalies pointed out by the Audit Board are directly linked with the wide fluctuations in exchange rates which have been evident for some years. The problem has been examined recently by the Commission's administrative departments in consultation with the Legal Service.

They reached the conclusion that it is impossible to give any other interpretation to the provisions of the Staff Regulations, which are clear and quite unambiguous on this point.

18. Transfer of emoluments in the currency of a country other than the country of employment (p. 32)

As emerges from the Audit Board's comments, the Commission has had to try to solve the serious problems affecting officials owing to the present currency disturbances in a controlled manner and with moderation and fairness.

Adoption by the Council of the revised Staff Regulations, mentioned in paragraph 18 g) of the report, together with the Commission's proposal

that officials' remuneration should be expressed in European units of account on the basis of the value of that unit of account at a specified date, should make it possible to remove the anomalies cited by the Audit Board.

The Commission's ability to grant housing loans to its officials has been considerably reduced in recent years and it is fortunate that it has been possible to supplement its efforts through the medium of the Beamtenheimst^{''}ättenwerk. It is essential that such an operation should have a stable and non-discriminatory foundation. Progress of the operation will be carefully monitored.

19. Expenditure relating to missions (p. 35)

The need for Members of the Commission to make short, but frequent, visits to Strasbourg during sessions of the European Parliament is the reason for the use of charter aircraft.

The Commission would prefer to use scheduled services but aircraft capacity (determined by the airlines on the basis of average use) and times of scheduled flights not corresponding to hours of meetings (which, moreover, are often changed according to the agenda) increase the necessity for recourse to charter flights.

Empty flights occur every time that it would cost more to have the aircraft wait until the return journey. It is more economical to let the aircraft return to Brussels, even empty, than to retain them overnight at Strasbourg pending the return journey.

With regard to the final paragraph of point 19, it should be noted that in connexion with missions it is sometimes necessary for a Member of the Commission to travel very rapidly to places that may be difficult of access or have poor communications between themselves.

B. EXPENDITURE RELATING TO BUILDINGS AND EQUIPMENT (p. 37)

21. Expenditure relating to buildings (Chapters 20 and 21 of the budget) (p. 37)

a) Rents:

Since an explanation of the increase in expenditure under Article 214 by the Council is given in the second paragraph, it would seem reasonable also to give an explanation of the increase in expenditure under Article 210 by the Commission in the third paragraph. The reasons for the increase may be summarized as follows:

- taking over of the first part of some new premises in Luxembourg, hence a doubling in rent;
- charging to Article 210 of expenses relating to the rental of premises for welfare purposes which were formerly charged under Chapter 14;

- full year's charge for new premises leased during 1974 to accommodate additional staff and to accommodate the Commission's delegation in Tokyo;
- lease of new premises in Athens and Ottawa.

These operations, moreover, were each the subject of prior individual authorization by the budgetary authority.

b) Level of tax charged on premises (p. 37)

Since what is involved is specifically payments relating to the tax on premises and the amount of this tax is not precisely known at the time of commitment, it would have been better, in the interests of objectivity, to have said: "A difference like this illustrates the fact that such commitments may be very rough approximations".

The approximate nature of the commitments is the result of the Commission's inability to obtain exact information from the Belgian tax authorities in connexion with new premises leased at the moment when the transaction is effected. In fact, the amount of the charge for tax on premises which is due by the freeholders is not known until the course of the second year of occupation; as the expenditure nevertheless has to be charged against the appropriations for the financial year to which it relates it is obviously necessary to use an estimated figure, which, in the case in point, proved to be higher than the actual figure owing to the fact that the tax authorities did not implement the increases that had been expected in professional circles.

Use by the institution of the procedure of carrying forward appropriations with the approval of the Council would in no way have helped to solve the problem, in this case, of estimating the expenditure, the need for which is incontestable.

d) Payment of rent for unoccupied buildings (p. 38)

In the case of the building at 69, rue Archimède, the Commission tried to persuade the freeholder to renounce his claim (for the payment of full rent for the remaining period of the lease) which appeared to be a valid claim in law. Since the financial effect of abandonment was less expensive than the amount of the claim, the Commission may be said to have had a certain degree of success; but this took time, and during that period it was of course necessary to pay the contractual rent. It should further be noted that the work carried out by the next tenant meant that the Commission did not have to carry out, at its own expense, restoration work which would have been even more costly.

In the case of the occupation of the building at 84-86, rue de la Loi, the delay in moving into the premises was due to the fact that it is almost impossible to find a department which is exactly of the size suited to a given building and that in consequence it is necessary to split up directorates-general - which causes complicated problems. Furthermore, it is not possible to install the final partitioning before it is known which department will be occupying the premises, with the result that there is always a rather long pause between the time when the department which will occupy the premises is determined and the time the necessary partitioning is installed.

22. Management of the Commission's vehicle fleet in Brussels (Article 223 of the budget) (p. 39)

- a) The Commission's calculations give the following figures for the cost per kilometre travelled (including depreciation):

- diplomatic vehicles	Bfrs 6.83
- pool vehicles	Bfrs 4.67
- commercial vehicles	Bfrs 4.36
- average, all vehicles	Bfrs 5.38

The costs, including personnel, cited by the Audit Board are appreciably below the costs found in the private sector, according to the Commission's information.

The Commission shares the Audit Board's opinion as to the ideal composition of a vehicle fleet. It would no doubt be preferable, from the economic point of view, to restrict the fleet to a single make, even a single model, but it would be difficult for an international or European institution to justify such a move, as is shown incidentally by the composition of the vehicle fleets of the other institutions.

The mean kilometrage per vehicle, calculated on the entire fleet, is only of very relative significance since the figure takes no account of the constraints on the institution. Thus the pool vehicles, including those assigned to certain departments for specific tasks (Secretariat-General, Audit Board, etc) and commercial vehicles, have to make short trips interspersed with loading and unloading throughout the day, which does not give rise to a very high kilometrage. It is therefore quite wrong to conclude from a wholly theoretical figure of average kilometrage travelled by the whole fleet that there has been under-utilization of the vehicles.

- b) The Audit Board's assertion that neither the Staff Regulations nor any other regulations of the budgetary authority provide that an official car should be made available for each director-general is surprising to say the least.

Article 15 of Annex VII of the Staff Regulations provides that:

"By decision of the appointing authority, officials in Grades A/1 and A/2 who do not have an official car at their disposal may receive a fixed allowance not exceeding, etc.".

Moreover, it should be remembered that every year, in the context of the discussions on the budget, the Commission furnishes complete tables showing the distribution and use of its entire vehicle fleet.

The Commission is of the opinion that the decision it took in 1958 to make chauffeur-driven cars available for the directors-general was dictated by real needs of the service and that that decision has been confirmed by the budgetary authority by the introduction into the Staff Regulations of Officials, which came into force only in 1962, of the clause quoted above.

- c) - The "passenger insurance" policy taken out by the Commission does not cover only the risks of occupants of a vehicle who are not considered to be third parties. This insurance covers all persons carried free of charge. The policy is primarily intended to cover visitors and experts not on the Commission's payroll who are not covered by the collective individual insurance against risks of accidents to officials. These persons are not covered if the Commission has no civil liability in case of accident.

It was therefore necessary to take out an additional policy to cover this category of persons.

- The Commission has not and could not fix a ceiling for the cost of new vehicles without linking it to an indexation clause to take account of the continual increase in the price of vehicles in the Member States. The departments have nevertheless made every effort to keep the prices paid for new vehicles within reasonable limits.

The charging to Item 2233 of expensive accessories which have been found in practice to be essential for comfort or safety is perfectly correct in the Commission's opinion in view of the comments made about this item in the remarks column of the budget.

- The Commission's decision of March 1973 related solely to cars of Members of the Commission.

It is not correct to claim that this decision has remained a dead letter. During several successive parliamentary sessions experiments have been made with hired cars in Strasbourg. However, the difficulties encountered, which were due principally to excessive demand during parliamentary sessions in relation to the number of vehicles available in Strasbourg, led to the abandonment of this solution.

23. Hire and use of mechanical data-processing equipment (Articles 224 and 226 of the budget) (p. 40)

a) ECDOC and CELEX systems

The Commission is checking that the two horizontal systems of computer-

based document retrieval (ECDOC and CELEX) cannot give rise to duplication of work. The Commission considers that the possibility of amalgamating the two systems under conditions which would enable the present tasks of both to be accomplished under a single team is worth examining. Such an examination is currently in progress in the Commission's departments.

b) - Time-sharing services

The Commission is currently considering what new arrangements should be made (keeping of registers, etc) to ensure the optimum utilization of this type of service.

- Rationalization of expenditure

Charging of data-processing expenditure will be made easier in 1977 by the grouping of this expenditure under Article 224. The article will contain the following budgetary items:

- . 2240 Processing at Computer Centre in Luxembourg
- . 2241 Processing on CETIS, JRC - Ispra
- . 2242 Processing outside the Commission's Computer Centre (service bureaux, etc)
- . 2243 Performance of data-processing applications
- . 2244 ECDOC

c) Calculation of remuneration

The Commission concurs with the Audit Board's comment that calculation of the remuneration of officials of the other institutions ought also to be handled by the Computer Centre.

24. Expenditure on stationery and office supplies (Article 230 of the budget) (p. 42)

In February 1975 negotiations were started between the institutions with a view to introducing procedures and facilities for the joint purchasing of stationery and supplies on behalf of all the institutions together. Agreement was reached before the end of the year between the institutions and joint purchasing has been carried on since the beginning of 1976. As a result no less than eight major contracts were negotiated on behalf of all the institutions together, except the Council, in the first six months of 1976.

With regard to the electronic equipment assigned to the department responsible for stock management, it must be pointed out that optimum

use is now being made of this facility. Its extension to machinery and equipment inventories is under study in collaboration with experts from the Computer Centre.

C. EXPENDITURE ON MEETINGS AND STUDIES (p. 43)

25. Expenditure for formal and informal meetings (Chapter 25 of the budget)
(p. 43)

As far as estimation of expenditure is concerned, a system of administering appropriations by means of provisional commitments was introduced on 1 October 1974. The forms for requesting the organization of meetings together with the individual letters of invitation constitute the base documents for calculating the expenditure estimates and are submitted to the Financial Controller for approval.

Payment is made on the basis of individual accounts completed by the expert and checked and passed by the chairman or secretary of the meeting. A summary statement showing the number and names of the experts and the corresponding reimbursement is drawn up and serves as the accounting document.

At the Audit Board's request, the administering department will in future group together all the payment orders relating to any one meeting; subsequently, the departments successively involved will make every effort to ensure that the accounting procedures connected with the payments take place as rapidly as possible.

It is not always possible to make payment to the body to which the expert is attached; some administrations demand it, others refuse. Moreover, private experts must always be paid individually.

In order to avoid double payment, lists of names of all the experts reimbursed by the Commission are sent each day to the relevant department of the Council. Control can be kept by making a comparison in this way.

Rubber-stamping of travel tickets in respect of which reimbursement has been made and keeping of a register of experts who receive allowances is physically impossible at the moment. This solution will, however, be looked into as soon as possible.

26. Expenditure on studies, surveys and consultations (Chapter 26 of the budget) (p. 44)

In 1975 the Commission drafted and completed the general conditions for study contracts. Adaptation of the new model contract to the individual contracts concluded with the statistical authorities of the nine Member States - the amount of such contracts accounts for the major part of the appropriations to Article 264 - took a certain amount of time and this explains the delays occurring in 1975. This cause of delay will have ceased to exist in 1976.

On another matter, the Commission adopted, in February 1976, a simplified and speeded-up procedure for authorizing commitment of appropriations for surveys under Article 264 as a result of decisions by the Council.

D. EXPENDITURE ON PUBLISHING AND INFORMATION (p. 46)

27. Information Offices (p. 46)

c) VAT paid by non-headquarters offices (p. 47)

The VAT regulations governing the transactions of Commission offices in the countries in which they are situated are known to the administrative official at the office in question. The official concerned is regularly advised of the steps to be taken and the documents to be produced in order to recover VAT from the national authorities and reminders are sent to him if necessary.

28. Expenditure on publications (p. 47)

- Publications in general (p. 47)

- a) The need for the Statistical Office to produce manuscripts for the printers very quickly, for fear that the publications will become largely out of date and will therefore lose most of their usefulness, combined with the shortage of typists at the Statistical Office, may have led to the production of faulty manuscripts. In the case of the Energy Yearbook 1970-73, the lowest-quoting printing firm, which was awarded the order, proved to have little experience at this kind of work and was very slow. The additional costs incurred as a result of the insertion of new data were therefore higher than usual. In any case the total cost of the 1970-73 edition of the Energy Yearbook was no higher than that of the previous edition which was produced by a more experienced printer.

The Commission has taken steps to ensure that technically complicated publications are entrusted only to printing firms capable of carrying out the work within a reasonable time. It has also asked for more secretaries for the Statistical Office.

- b) The Commission attaches the greatest importance to very rapid publication of the Bulletin of the European Communities.

This monthly publication is aimed at well-informed readers in political, administrative, commercial and academic fields who take an interest in the activities of the Community. From the Bulletin such readers can draw solid information through a serious study of the latest events.

As political reality changes from month to month, it is obvious that the time spent on producing the publication must be kept as short as possible. To achieve this difficult aim the Bulletin is produced in successive stages: adoption by the Commission, translation, printing and distribution according to a precise pre-arranged schedule. As a result, as far as printing, in particular, is concerned, the printer receives the manuscripts on a set date, which enables him to make all arrangements necessary for speedy production. From the technical point of view it is thus perfectly possible for type-setting and actual printing of a 120-page magazine to be performed in five days. The ten calendar days specified are thus absolutely realistic for a modern medium-sized printing works, allowing for travel, transport and corrections. The experience of the first six months of 1976 bear this out: sometimes the printers even managed to produce the Bulletin in less than ten calendar days.

- The Office for Official Publications (p. 49)

- a) Since 1971 the management reports have been forwarded to the Audit Board by the stipulated date of 1 May.

The fact that the 1975 report could not be forwarded to the Audit Board by 1 May 1976 was due to a delay in reaching agreement with the trade union organizations; the results of the discussions will appear in Chapter VI of the seventh management report.

All steps have been taken to ensure that in 1977 the management report will once again reach the Audit Board by 1 May at the latest.

- b) The Office states that the improvement noted by the Audit Board relates mainly to the national sales offices which are official bodies (the Bundesanzeiger in Germany, the Journal Officiel de la République française in France, etc). The Office has been in contact with these bodies for many years and has no difficulty in keeping up with their activities.

On the other hand, the special subscription offices for the Reports of Cases before the Court are private firms which the Office has fairly

limited means of influencing, particularly since the Report is a document aimed at a rather narrow readership.

Under these conditions, the statement of account with the Hague subscription office was finalized in August 1975, that with the Paris office in 1976 and that with the Brussels office in mid-June 1976.

In the case of the subscription office in Milan, the statements of account for 1973, 1974 and 1975 were finalized in March 1976.

Thus it has been possible to effect an improvement in the situation with regard to the subscription offices for the Reports of Cases before the Court as well.

The figure of total invoices unpaid at 31 December 1975 is of little significance. That date falls right in the middle of the period for the renewal of subscriptions to the Official Journal, when orders, giving rise to debts receivable, and payments follow each other in quick succession. Thus during the first five months of 1976 movements on customers' accounts totalled 433 215 u.a. on the debit side and 577 035 u.a. on the credit side.

In addition, attempts to recover old debts were continued.

- c) On the subject of the rates applied for converting the price of the Official Journal and other publications, the Office states that in the past the price of the Official Journal was fixed by the Management Committee in Belgian francs and converted into the other currencies at the official rate, the result of which was substantial losses on exchange for the Office and discrimination between purchasers from different countries.

For this reason the Directorate of the Office submitted proposals to its Management Committee at the end of March 1975 (pursuant to Article 10 of the Office's rules of procedure) - proposals which were not forwarded until June 1975 because reorganization of the subscription was being considered at that time, with a view to possible splitting up of the Official Journal - that the price of the Journal should be fixed in the various Community currencies according to a conversion rate based on the rates of the first six months of the previous year.

The proposals were accepted by the Management Committee and brought into operation at the end of 1975 for 1976 subscriptions.

With regard to subscriptions for other publications, notably Commission documents, the Office has received instructions from the Commission on the subject of the conversion of prices into the other Community currencies. In order to prevent the conversion rates being affected by ephemeral events in one or other Community country the Office converts these prices, which are generally not known until October, at

a rate corresponding to the arithmetical average of the controlled market rates ruling in June, August and September of the same year.

The existence of two different bases of calculation is thus due to the fact that the prices of the Official Journal on the one hand and of other publications on the other hand are ascertained and converted at different times of the year, with the result that the data to be used are different for the two categories of subscription.

The arrangements made by the Office have the effect of preventing the rates applied for certain currencies differing appreciably from current market rates.

- d) The measures taken by the Office have enabled it to mitigate the effects of a situation originating outside its control but the repercussions of which (relations with printers, loss of discount, etc) would have affected it directly.

The Office can only hope that this situation will not be repeated.

E. AIDS, SUBSIDIES AND FINANCIAL CONTRIBUTIONS (p. 50)

29. Aids, subsidies and financial contributions (Title 4 of the budget) (p. 50)

- a) As it shared the concern of the Audit Board, the Commission decided, at the end of 1975, to intensify its examination of the applications for subsidies which are submitted to it and to strengthen its control over the use of the funds granted.

With this in mind, complete files are now demanded and no payment is made until the beneficiary has signed a form undertaking to supply not only a report on how the subsidy has been used but also a utilization account showing the amount and nature of the expenditure paid out with the help of the subsidy.

In addition, the beneficiaries will now have to submit to an audit of the use of the subsidy, which had hitherto been restricted to the Audit Board pursuant to the Financial Regulation, by the Commission and its own departments.

Thus in 1976 the Directorate-General for Financial Control examined the accounts supplied by three beneficiaries and made observations to those beneficiaries.

- d) The Commission is aware of the need to achieve close co-ordination between the departments responsible for authorizing subsidies so that the total financial aid granted to applicants is readily discernible.

It has asked the Directorate-General for Financial Control to make appropriate arrangements to co-ordinate the granting of specific and general subsidies.

For its part, the Secretariat-General maintains close links with the Directorate-General for Information in examining the files.

As far as indirect aid is concerned, for example making rooms available or bearing interpreting charges, very strict control is exercised and co-ordination is effected by the Secretariat-General under the direct authority of the President of the Commission.

- e) The Commission readily agrees that the purpose of granting financial aid to a university institute is to provide a stimulus and to finance part of the cost of an initial period, a period which may however cover several years depending on the importance of the initiative taken.

It has nevertheless become apparent in the light of experience and with the Community's interests in mind that it is often essential to continue paying aid of this kind for a few years; this is further justified by the fact that the level of contributions made is relatively small and could hardly be described as annual operating subsidies.

The Commission has always endeavoured, within the limits of the budget funds at its disposal, to effect a correct and fair distribution, taking as its main criterion the interest aroused by the initiatives taken by the university establishments and institutes applying for the subsidies.

30. European Vocational Training Centre (p. 53)

In the penultimate paragraph the expression "to meet commitments incurred in 1975" should be replaced by "to cover the non-automatic carry-over of appropriations from the financial year 1975".

CHAPTER 4 : THE EUROPEAN SOCIAL FUND

33. The new European Social Fund (p. 56)

- a) In order to complete the picture provided by the Audit Board, it should be added that a non-automatic carry-over of 8 078 079.99 u.a. from 1975 to 1976 was authorized by the Council on 19 July 1976 under the head of Chapter 53 of the budget. As this carry-over is not sufficient to cover all the payments remaining to be made under the former Social Fund - 10 045 000 u.a., according to the Commission's revised estimate - the difference of 1 970 000 u.a. will have to be met by transfer of appropriations from another budget chapter.

The payments under Article 4 were entirely absorbed by the necessity for commitment and payment before the end of the year of the appropriations carried over from 1974 to 1975, which were authorized by the Council on 22 September 1975 and amounted to 21.06 m.u.a. (1). Including the payments made against appropriations carried over, a total of 30.2 m.u.a. was paid under Article 4 in 1975.

Generally speaking, it is rare for payment applications to reach the Commission in the year in which the corresponding commitments are entered into; the great majority of payment applications do not come in until the last four months of the carry-over year.

- b) Only 5.49 m.u.a. was paid out against the appropriations for the financial year out of a total of 47.68 m.u.a. paid in 1975 under Article 5 of the Council Decision of 1 February 1971. The points made under a) above apply equally to the appropriations of Article 5.

34. Delays in payment of assistance (p. 59)

The conditions under which the Fund is administered have been deteriorating owing to the increase in the appropriations allocated to it. The more the commitments increase, the greater the volume of payment applications coming in, especially during the last four months of the carry-over year.

There is therefore a considerable build-up of files awaiting processing at the end of the year. In 1975 if the length of the carry-over period for appropriations committed in 1974 had not been extended by a year an amount of 150 m.u.a. would have had to be cancelled.

(1) After transfer of 30.3 m.u.a. to the Guarantee Section of the EAGGF, approved by the Council under the "open transfer" system on 3 September 1975.

In setting out its reasons for the proposed amendment of the Financial Regulation, the Commission had analysed the situation as follows:

"The payment procedures used by the European Social Fund are the outcome of Council Regulation (EEC) No 858/72 of 24 April 1972 which lays down certain detailed administrative and financial rules for the operation of the European Social Fund. Article 4 (1), 1st paragraph, of that regulation permits the making of part payments, on application from the beneficiary, of up to 85% of the total amount of aid sanctioned. However, the balance may not be paid until the Commission has received a general statement of expenditure (accompanied by supporting documents) drawn up on the closing of the operation. As a result, the application for payment of the balance, to clear the whole of the aid granted, cannot generally be submitted until the carry-over year.

Council Regulation (EEC) No 2396/71 provides that the Commission shall grant aid from the Fund on the basis of the actual cost of the operations. It follows that the beneficiaries must collect together all the factual information and all the supporting documents relating to the operations financed in order to quantify and substantiate their applications for payment of the balance.

In view of this necessity, it is hardly possible to demand submission of the applications before 30 June.

Because of the "actual cost" rule, the Commission is compelled to subject all the payment applications to a thorough check. With a few exceptions this check entails an on-the-spot verification.

In view of the pressures on the beneficiaries, the checking of documents and the on-the-spot verifications necessarily take place in the second half of the year, especially in the closing months. The few months in question are certainly not sufficient to enable the Commission to make certain in every case that the applications are justified. Therefore the relevant appropriations have to be cancelled and the payment applications have to be paid, after

complete verification, out of the appropriations for the new year. But the main aim of the latter appropriations is not to enable final payment to be made on old operations but to promote and stimulate new projects."

In view of the foregoing, it would be desirable to examine whether a system of advances would make it possible to make payments speedily during the year. A solution of this kind could be considered on the occasion of the review provided for under Article 11 of the decision of 1 February 1971. Increasing the administrative staff of the Social Fund, desirable though it may be, could not by itself solve the problem of delays in payment of assistance aggravated by the substantial growth of appropriations.

35. Recycling of appropriations at the end of the year and financing of lower-priority projects (p. 60)

If it is not desired deliberately to allow substantial appropriations to lapse, it is necessary to recommit them at the end of the financial year, which has the effect of making administration of the Fund cumbersome and overloading the end of the year with work (projects which had to be allowed to "drift" in this way came to 130 m.u.a. for 1975 alone). Moreover, these recommitments do not make it possible to avoid cancellations entirely. And even the extension of the period for carrying forward the 1974 appropriations will probably not prevent the cancellation of some 30 m.u.a. at the end of 1976.

37. Evidence in support of applications for reimbursement of expenditure (p. 61)

The Commission has noted with interest the improvements suggested by the Audit Board and will not fail to take them into consideration in preparing opinion in connexion with the review of the basic decision, which is currently taking place.

It must be pointed out, however, that such measures cannot be taken in isolation and must be part of a consistent whole. Thus the use of random sampling, as provided for in the rules of the former Fund, presupposes not only the determination of rates varying according to the volume of operations to be checked but also, and above all, a penalty, the abatement applied (if any) from the sample used being automatically and proportionately extended to the aggregate from which the sample has been drawn.

Experience with verifications carried out by this method under the former Fund in 1976 shows, furthermore, that the performance of random sampling, in the strict sense of the term, in connexion with the new Fund would require a substantial increase in the staff engaged on such work.

38. Attendance of the Audit Board at on-the-spot audits (p. 62)

With regard to the Biella project, which is raised by the Audit Board, it should be noted that the initial agreement is dated 27 December 1972, that is to say it dates back to the start-up period of the new Fund - and this

applies to the promoters of the project, to the State which submitted the application for aid and to the Commission which examined the application. This explains the defects discovered by the Audit Board. It will be remembered that the Audit Board's letter on this matter received a reply from the Commission.

CHAPTER 5 :

THE EUROPEAN REGIONAL DEVELOPMENT FUND

The part of the Audit Board's 1975 report devoted to the European Regional Development Fund is essentially descriptive and therefore does not call for any reply from the Commission. The Commission nevertheless notes the observations made by the external audit body.

CHAPTER 6 :

THE EUROPEAN AGRICULTURAL GUIDANCE AND GUARANTEE FUND

I. GUARANTEE SECTION (p. 71)

49. Closing the accounts for previous periods (p. 71)

a) The period 1967/68 to 1970 (p. 71)

It is true that it was not possible to meet the deadline of 31 December 1974, because of delays in the work of closing the accounts. It must be acknowledged, however, in defence of the Commission, that Regulation (EEC) No 2030/73 has rapidly proved inapplicable because submission of repayment applications by Member States did not take place until a few months before that date and the problem of what parities to use was not solved by the Council until its meeting of 15 December 1974, after more than two years of discussions.

Owing to the existence of this volume of procedures and of work preparatory to clearing the accounts for 1971 and 1972 it proved impossible to close the accounts relating to the periods from 1967 to 1970 in 1975. Although this work is now reaching its end, it cannot be expected that the final aid decisions will be made before the judgment of the Court of Justice of the European Communities on the actions brought in respect of the periods 1971 and 1972, and there are similar problems in connexion with the accounts for earlier periods.

b) The financial years 1971 and 1972 (p. 72)

As the Commission has already had occasion to point out recently in its reply to a question in the European Parliament (1), it has become evident in the light of experience that the time schedules laid down by Community regulations for both the submission of annual data (31 March of the year following the year in question) and the decision

of clearance in respect of the accounts (31 December) are no longer appropriate to the real situation. This is evidenced by the fact that:

- For the first five years of the new system the time required for submitting data has varied between six months and one year instead of the three months stipulated, because of the great amount of work that has to be done at the level of the national authorities.

(1) Reply to Written Question No 168/76 tabled by Mr Aigner

- The verifications, based in the first instance on records and subsequently performed on the spot, require at least one year's work, and the procedure of consulting the Member States, to which the Member States themselves attach great importance, requires a total period of six months. In all, therefore, a minimum time of eighteen months is needed after receipt of the files to complete all the clearance work, instead of the nine months allowed by the regulations. With the delays in submission of data already mentioned, clearance can thus not finally be given in respect of the accounts until two to two and a half years after the end of the relevant financial year. These delays are being extended still further at the present time by the unsuitability of the administrative organization and the work that is being carried out in parallel to recoup time-lags incurred in the past.

The time and the volume of procedures required were in fact underestimated at the outset - in 1970 - as was the rate of growth of expenditure (since tripled) and the proliferation of financial measures. Moreover, the time schedules were not adapted to take account of the transition to a nine-Member Community in 1973. It is the Commission's intention to review the relevant regulations in the near future in order to adapt them to the existing situation.

The Commission does not concur with the objections voiced by the Audit Board in connexion with the application of Article 110 of the Financial Regulation. Article 110 is part of the "special provisions applicable to the EAGGF" (Articles 106 to 114) and is thus not in conflict with Articles 4 and 22 which form part of the general provisions applicable to the implementation of the budget. The Commission itself sees no other way of taking account of the differences than that which it has actually used, in complete conformity with Article 110. If discharge has the effect of making the expenditure less than forecast, it is reasonable that it should automatically release re-usable appropriations. In this connexion a practice of this kind does not distort the budget results for a financial year any more than does the practice of carrying appropriations over.

50. The financial year 1975 (p. 73)

As the Audit Board itself acknowledges, it is extremely difficult to estimate the expenditure to be financed by the Guarantee Section of the EAGGF with any degree of precision. The transactions queried by the Audit Board are wholly explained by this circumstance and by the critical cash position of the EAGGF, Guarantee Section, at the end of the year which meant that there was a risk that the paying agencies would have to cease making payments. The deduction from 1975 expenditure of differences arising on clearance of the accounts for earlier years represents a correct application of the relevant provision of the Financial Regulation, as has already been explained under point 49 b).

51. Independent audits by the Audit Board in the Member States (p. 74)

(i) General points and aid to skimmed milk intended for animal feeding
(p. 75)

- a) Some confusion seems to have crept into this paragraph. The quality of the skimmed-milk powder which the intervention agency must purchase under intervention when it is offered for sale is in fact laid down in the annexes to Regulation No 1108/68 (OJ L 184 of 29 July 1968, p. 34).

By contrast, Regulation No 986/68, the one quoted by the Audit Board, deals with aid to skimmed milk intended for animal feeding, which is a different measure.

The rules to be observed by firms engaged in denaturing or blending are laid down in Regulation No 990/72 (OJ L 115 of 17 May 1972, p. 1), which stipulates that firms carrying out blending of skimmed-milk powder in compound feedingstuffs must keep detailed accounting records of their stocks.

Consequently, technical analyses to detect the presence of whey can usefully be supplemented by a detailed check of those accounting records.

However, the exclusion of whey on denaturing or blending does present a special problem which is currently the subject of a thorough examination.

- b) The problem mentioned is no longer relevant, as the permissible fat content has been raised to 11% by the inclusion of buttermilk in this system of aid.
- c) The Commission acknowledges that extension of the aid to buttermilk and buttermilk powder poses certain problems which make it more difficult to control the composition of powders but it would not go so far as to say that effective control is "impossible". The problem

should be viewed in a realistic light: before the inclusion of buttermilk and, in particular, buttermilk powder in the aid system detection of that powder in skimmed-milk powder posed an even more difficult problem of control.

- d) The distinction between powder produced within the Community and powder originating from non-Member countries was abolished in an attempt to simplify the control measures. The Commission considers that in this case the advantages of simplification outweigh the risk that small quantities of non-Community origin may occasionally be purchased, particularly since all foreign powders are subject, on import, to the levy which goes into the Community's budget as an "own resource".

- e) Powder produced by the roller process is not of inferior quality to that produced by the spray method. It is excluded from intervention purely because its humidity rate makes it less suitable for storage. This type of powder is highly regarded by some branches of the food industry. For this reason the powder produced by the roller process plays a not inconsiderable part in absorbing, without the aid of subsidies, surpluses of protein products in this sector.
 - f) The Commission considers that the regulations are being complied with when a Member State combines verification of the accounting records with unannounced spot checks on denaturing, supplemented by the taking of samples, when all these checks are performed "on the ground".
 - g) The production of farm butter is an extremely useful method of encouraging the increased consumption of butter. This butter sells well on the market and thus helps to relieve the expensive surplus situation prevailing for this product. The Commission does not think that this production should be discouraged; it suggests that the controllers should also make use of the results of the livestock census which takes place twice a year.
- (ii) Aid to skimmed milk processed into casein (p. 77)
- b) The Commission notes the Audit Board's findings and will not fail to examine the implications.
 - d) A request for a preliminary decision on the conversion rate question is currently before the Court of Justice of the European Communities. The Commission therefore considers that it would be wrong to give an opinion at this stage.
- (iii) Storage of skimmed-milk powder (p. 78)
- a) At national level the storage costs payable by the intervention agencies are negotiated between the latter and the undertakings or their associations. In these negotiations account is also taken of the scales of charges applied between firms and trades.

At Community level the various costs incurred by the intervention agencies are examined, compared among themselves and compared with the results of the survey carried out by the Commission in 1975/76. The fixed amount which is then determined on the basis of representing the largest transactions and which applies uniformly to the whole of the Community, is in general set at a level likely to encourage the intervention agencies to conclude the most advantageous storage contracts possible.

The officials of the intervention agencies try not to exceed the fixed amounts. When, however, their costs exceed the fixed amount the Member State which has to meet the difference will be very vigilant. In the case of one sector (beef and veal), it was found that some costs had fallen since the introduction of certain measures in 1974. Consequently the fixed amount was reduced also.

It is questionable whether a system of tendering gives a better guarantee from the point of view of economy. 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.

- b) As the report states, the "FIFO" ("first in - first out") method is the one generally applied. However, strict application of the FIFO principle is not always sufficient to reduce the risks of deterioration for all the products purchased under intervention. In the case of substantial stocks which are issued slowly even the FIFO method means that there is a lengthy period of storage for every unit purchased. In the case of skimmed-milk powder prolonged storage makes the product less fit for human consumption and necessitates sale as animal feed. In this case a choice must be made between the two methods in the light of marketing possibilities.
- d) The Commission is aware of the existence of the problems mentioned
- e) by the Audit Board. They relate to the storage not only of skimmed-milk powder but also of butter.

The EAGGF departments when carrying out audits on the spot in connexion with the work of clearing the accounts remarked on these two points to the French intervention agency and also drew attention to them in a letter dated 25 June 1974. They made the necessary corrections at the time of the work on clearing the accounts for 1971 and 1972.

The same remarks were repeated in 1975 on the occasion of the on-the-spot audits relating to the periods 1968/69, 1969 (second half-year) and 1970.

The Commission regrets that the French authorities have not taken the action recommended. The Commission's departments will continue to pay close attention to these matters.

53. Distillation of table wines (p. 81)

The Commission has nothing to add to its reply as quoted in the Audit Board's report. Generally speaking, it is unthinkable that the criterion referred to in Article 7 (2) b) of the basic regulation should give rise to a "calculation" of a mathematical nature which could be repeated over time. It is a question of estimating, as a function of general economic data, the price level of wine for distillation which would appear appropriate for remedying a given cyclical crisis in the wine market.

As for aid to distillation, it should be pointed out that no calculation, made with the object of proposing a certain price level to the Council, has ever been either made public or submitted to the Council in the form of a working document.

In the absence of a common organization of the market for agricultural alcohol, the situation as between the different Member States involved is not homogeneous. Publishing a calculation as suggested could therefore only make agreement at the political level more difficult and would risk prejudging future Council decisions in this sector. On a point of information, it may be noted that in practice the marketing of spirits produced by distillation in 1975 brought heavy losses for the national marketing organizations or equivalent agencies in the Member States involved and these losses had to be borne by the national budgets.

II. GUIDANCE SECTION

56. Mansholt Reserve (p. 85)

It is true that the figure for the Mansholt Reserve appearing on page 96 of the analysis of financial management in respect of the revenue and expenditure account for 1975 is incorrect. The Mansholt Reserve, which amounted to 550 991 664 u.a. at 31 December 1974, moved as follows in 1975:

- 25 000 000 u.a. : transfer to Regional Fund;
- + 3 580 482 u.a. : appropriations for 1974 brought forward to 1975 (but still unused at 31 December 1975);
- + 269 833 u.a. : appropriations for 1975 unused at 31 December 1975.

Taking account of these movements (which appear on pages 45 and 117 of the analysis of financial management), the Mansholt Reserve stood at 529 841 979 u.a. at 31 December 1975.

A. Financing of individual projects (p. 86)

58. Preparation and execution of individual projects (p. 86)

It must be pointed out that the aid decisions are prepared on the basis of documents forwarded through the agency of the Member State concerned and with the favourable opinion of that Member State. The execution of many projects is spread over a number of years. The time elapsing between the submission of documents to the national authorities and completion of the project may therefore be fairly long. Sometimes there may be quite substantial alterations to the project which do not, however, give rise to the necessity for submitting preliminary plans to the Commission. This is especially true in the marketing sector where technical progress and the state of the market have particular impact on capital investment. In the cases quoted by the Audit Board it does

not seem possible to state that the changes that were made could have been foreseen on the basis of the documents submitted to the Commission.

- Project D/23/72

The technical installation was designed in collaboration with the German research institute specializing in this field. At that time there was as yet no experience with a project of such scope in Germany. The process envisaged in the original design proved inadequate and had to be modified.

A waste water purification system was included in the specifications from the outset but the local authorities demanded the installation of a more advanced system.

- Project F/18/70

For the farmers the advantage of the project lies mainly in the fact that, since completion, the processing of their basic products can take place locally whereas formerly their stock had to be transported live outside the département. It is obvious that this development will bring higher profits. It is true that the end products are not marketed by the beneficiaries themselves, but this is justified because the establishment of a marketing network is a long and costly business entailing substantial risks. In any case, even with their own marketing network the beneficiaries could not obtain higher prices than those ruling on the market.

The economic objective has thus been achieved.

- Project D/119/69

The most significant variation between the different bills of costs was that between the first and the second. But the second bill was forwarded immediately after submission of the application and before the latter had been examined. Certain later modifications were justified because of difficulties caused by the site which were only discovered later. Moreover, the modifications did not jeopardize the economic objective of the project, which was achieved.

- Project D/58/68

The German Government and the beneficiary of Project D/118/69 confirmed that physical links between the two projects were not impaired by the change in the siting of Project D/118/69. Although it is advisable to site a slaughterhouse near the centres of production, this criterion does not apply to the siting of a marketing centre such as that contained in Project D/118/69, because meat is easy to transport. Since the physical links between the slaughterhouse and the marketing centre were not changed, the advantageous situation of the slaughterhouse also remains unchanged. It should be noted further that the meat would in any case have had to be transported to the centres of commerce and

consumption, hence a need for transport. And the principal reason for changing the siting of Project D/118/69 was to bring it closer to the centres of commerce and consumption.

59. Abnormal delays in carrying out projects (p. 88)

It does happen that for various different reasons often outside the control of the beneficiaries the planned dates for commencement or completion of work are not observed.

The Guidance Section's appropriations remain available for five years from the date of the granting of the aid and it is the Commission's constant aim to propose to the budgetary authority only the non-automatic carrying over of appropriations earmarked for projects that have been in progress for longer than five years, on condition that there are good reasons for the delay.

Both Council and Parliament have always upheld the Commission's proposals. In the case of projects which have not been started, on the other hand, the Commission is introducing the procedure of cancelling the aid.

It should be noted in this connexion that the Council, conscious that there is a risk that delays will prejudice the effect of intervention by the Fund, adopted Regulation No 3171/75 on 3 December 1975 which stipulates that amounts not utilized - inter alia those granted to projects which have not been started two years after notification of the decision - may be assigned to other projects.

With regard more particularly to the three projects mentioned by the Audit Board, the following comments may be made:

- F/14/66 - by the end of 1969, two years after the Commission's decision to grant aid, the project had been more than 50% completed and the delay was not the fault of the beneficiary.
- F/60/66 - by the end of 1972, that is to say at the end of the five-year period of automatic carry-over, the project was in progress and it was almost completed in the following year. The delay arose from the need to repeat the initial study following the arrival of two companies carrying on activities connected with the slaughterhouse.
- F/9.1/68 - this land-reparcelling project had been 50% completed by mid-1971, i.e. two years after the aid decision. It was closed two years later, that is to say before the end of the five-year automatic carry-over period, for total quantities lower than planned, particularly in the case of road-building, levelling of slopes and tree-felling, which reflects a reaction against the destruction of an environment very much affected by the progressive elimination of the wooded slopes typical of this region. In view of the quantities completed, the saving should be put at 20% rather than 45%. Such a reduction is not exceptional; it is in general the result of a lack of firms available to carry out the work or of one firm handling several projects in a region.

60. Economic justification for the projects (p. 89)

On the one hand the Commission, in reaching decisions on the granting of aid, takes account of the relevant market situation. On the other hand one must bear in mind that structural policy is a long-term policy. It does not appear, however, that there has been any conflict between the objectives of the two sections of the EAGGF. The information required for making an assessment is contained in the files.

- Projects D/103/71 - F/87/70 - F/126/71

It must be pointed out that the situation in the wine sector was fairly favourable at the time the decisions to grant aid to the projects in question were taken. Project D/103/71, as indicated in the application, related to wines of good quality which were very much sought after on the market.

Project F/87/70 related mainly to bottling and maturing plants and therefore not to wine-growing as such. The wines produced are partly appellation contrôlée and partly of average quality.

Project F/126/71, although relating to wines of average quality, nevertheless led to an improvement in quality, notably by providing facilities for blending. Moreover, it has been possible to raise the prices paid to the producers in both cases.

- Project F/94/68

The area covered by the irrigation scheme is only partly used for fruit-growing (about 25%) and, furthermore, this part is itself used for different crops (cherries, apricots). The proportion devoted to apples and pears is thus quite small.

- Projects B/20/66 - B/39.1/68 - B/4-69

These projects are part of the systematic restructuring of the dairy products processing industry in the region. Under the reorganization it has been possible to amalgamate small unprofitable farms. Some problems were caused by the fact that a fall in the production of farm butter was to be expected in keeping with the trend noted since 1955 (see annexed table). This trend has continued in the other Member States but the situation has remained static in Belgium.

61. Aid to projects forming part of larger overall projects (p. 89)

It is clear that the impact of EAGGF aid is less if it applies to only part of an overall investment project. On the other hand it would be wrong to

turn down a useful project simply because it formed part of a larger overall series of measures. On the contrary, the fact that a project is integrated into a larger whole in this way will normally provide all the requisite guarantees in the context of the criteria laid down by Regulation No 17/64/EEC even though some difficulties may arise on submission of the payment applications. Besides, these difficulties are certainly not insurmountable, as is proved by the cases quoted by the Audit Board.

Moreover, it is inevitable, particularly in the case of agricultural infrastructure projects, that the projects should form part of an overall investment programme. The Guidance Section's budget does not allow it to finance all such operations and aid must therefore be limited to certain projects of special importance.

In Project F/18/69 the beneficiary association is a grouping of over 21 000 dairy farmers in a particularly mountainous region (the Alps). The cost of collection is therefore quite high. Nevertheless, by equalizing the charges it has been possible to obtain good prices for the producers.

62. Subsidies to recipients occupying dominant market positions (p. 89)

The prime objective of the Guidance Section is to improve the structure of agriculture; Regulation No 17/64/EEC does not sanction discrimination between different categories of recipient. So, if a stock-farming region needs a modern slaughterhouse the granting of aid to such a project will comply with the provisions of the regulation and the fact that the beneficiary owns other slaughterhouses will not be regarded as grounds for refusing aid.

The Fund's action is restricted, however, by Article 17 (2) of Regulation No 17/64/EEC which states that intervention "must not alter the conditions of competition in a manner incompatible with the principles contained in relevant provisions of the Treaty". In the instances quoted by the Audit Board there is nothing to suggest that the granting of aid could result in a distortion of competition.

- Project F/26/71

The importance of this project to agriculture is guaranteed by the continuing improvement in the prices paid by the beneficiary to the producers and with the help of price scales based on the quality of the milk. In addition, the beneficiary enters into contracts with the producers.

- Project F/8/72

The potatoes are supplied wholly on the basis of contracts with producers and groups of producers. The producers know in advance the quantities they will have to supply and the prices they will receive, which considerably reduces the risks attaching to production.

- Project D/128/69

The beneficiary certainly does not occupy a dominant position on the market. Furthermore, several slaughterhouse projects involving other beneficiaries, notably co-operatives, have been financed in the same region. This is a region with a very heavy concentration of stock-farming. The former communal slaughterhouse was antiquated and too small. Therefore to cater for slaughtering in the production region it was necessary to build a new slaughterhouse.

63. Economic or social effectiveness of the projects subsidized (p. 90)

Justification for granting aid from the Guidance Section lies in the effect such aid has in improving the structure of agriculture. Other social or economic effects can neither justify aid nor be a condition for its payment. Job creation, desirable as it may be, is not an objective of the Guidance Section and cannot therefore be regarded as a justification for granting aid.

In the case of Project F/155/69 the Audit Board is judging the economic effect (rise in the price paid to producers) from the results of the actual year in which the work was completed. But the overall effect will not be apparent until later because, firstly, all the installations must be fully operational and, secondly, one must allow time for the financial consequences of the contribution made by the beneficiary (who is providing the major part of the cost of the investment) to be absorbed.

64. Connexion of the subsidized projects with agriculture (p. 90)

The Audit Board appears to think that developing the exploitation of certain parts of agricultural products which have not been used in the past has only a negligible effect on the price paid to the producer. But the opposite is true. In particular, a movement towards using some items of offal is very valuable because it means an increase in net profit which can be obtained only with very great difficulty on the meat itself. What should be considered therefore is not the relation between the absolute values of the meat and the offal but the profit margin which remains to the farmer after deduction of production costs.

As for Project D/120/72, apart from the value of increased exploitation of the offal, which incidentally is systematically encouraged by the Guidance Section, the installation is complementary to the large co-operative slaughterhouse at Pfarrkirchen which is also financed by the EAGGF.

The plant is also very important from the point of view of the protection of the environment and it enables proteins to be recycled, since flour is used mainly for cattle feed.

It is difficult to see, moreover, why the main benefit from such investment is said to go to industry, when the projects are operated by co-operatives.

65. Potato grading and storage establishments (p. 90)

In its replies to the 1974 Audit Board report the Commission has already stated why the Audit Board's interpretation of Community law as it affects the storage and grading of potatoes is inadmissible.

With regard to the processing of potatoes into crisps, there is no legal uncertainty as to the possibility of financing such operations. Given that potato crisps are covered by the common organization of the market set up by Regulation (EEC) No 865/68, the conditions of Article 11 (2) of Regulation No 17/64/EEC are fulfilled. That paragraph does not require that there should be a common organization of the market for the manufacturing stage (there is no common organization of the market for the manufacturing stage for any product) but for the product itself.

66. Payment of the aid (p. 90)

As has already been pointed out in the replies to the Audit Board's report for 1974, the aid granted to a project represents a stated amount and not a fixed percentage of the capital cost.

This amount cannot be reduced unless the work carried out does not conform to the initial description.

In the particular case of Project F/8/72, after taking into account the exclusion, mentioned in the decision, of a planned operation which would have cost FF 2 million, the project gave rise to expenditure amounting to 93% of the estimates and there was no significant deviation from the items in the specifications.

Completion must therefore be deemed to have taken place in accordance with the decision and there are no grounds for reducing the amount of aid granted.

Of course, the maximum aid sanctioned cannot be paid in full if this would have the effect of making the financial contribution of the beneficiary, including national subsidies, lower than the minimum percentage specified

in the regulations. Apparently this is what the Audit Board is referring to in its final comment under this point.

67. Audit visits (p. 91)

The Commission makes it a rule that it will perform on-the-spot audits when the payment application shows that the work has been completed. It departs from this rule only when, for one reason or another, there is doubt as to whether a given project has been completed under the conditions stipulated. It follows that, because of the time required for completion of projects, there will be a certain lapse of time before audit visits can take place. Normally the audit should not be hampered by this delay. If difficulties arose in connexion with Project B/26/70 (the aid to which had to be cancelled by the Commission), it was due to special factors rather than to the lateness of the audit.

B. Financing of special measures and joint schemes (p. 92)

69. Repayment applications and Commission decisions (p. 92)

The refund of all or part of the expenditure incurred by Member States on joint schemes or special measures is based on repayment applications prepared in accordance with the conditions contained in the Commission's decisions.

Where such repayment applications are not submitted in due and proper form, Member States are asked to submit a fresh application or, in the case of minor errors, to complete or correct the application.

On the other hand, when the audit reveals that not all the expenditure listed by the Member State conforms with Community regulations or that it is calculated on an incorrect basis, the EAGGF, having obtained explanations - if necessary - from the Member State or having made a visit to the place in question, makes the necessary corrections in order to arrive at the amount of expenditure eligible.

Corrections of this kind were made in the case of the repayment applications mentioned by the Audit Board, which related to premiums for slaughter, surveys of fruit trees and surveys of agricultural structures. Moreover, explanations on the subject of calculating the amount of eligible expenditure were furnished to the Audit Board at its request.

71. Directive No 72/161 (p. 93)

It should be noted that it was on the basis of the verification of their eligibility that part of the expenditure declared by the Federal Republic of Germany under the head of Directive No 72/161 was excluded from the amount of expenditure taken into account in determining the amount of the part-payment to be made and that the Member State was asked to correct the information supplied in its repayment application to exclude the amounts paid to the treasuries of the Länder but not yet paid to the beneficiaries (cf. Point 75 of the Audit Board's report).

72. Conversion in the cod-fishing sector (p. 93)

The financing of the projects cited by the Audit Board was in accordance with the provisions of Article 21 of Council Regulation (EEC) No 2722/72 of 19 December 1972 relating to the financing by the Guidance Section of the EAGGF of measures for conversion in the cod-fishing sector: the fitting out in question did not commence until 1 January 1971 and commissioning took place after the date on which the aid applications were submitted to the Commission.

The Commission points out that aid from the Fund to Projects F/2/74 and F/3/74, like the national aid, had been only partly paid over at 31 December 1975, while in the case of Project F/4/74 the conditions for the payment of aid, namely the provisions of Article 18 of Regulation No 17/64/EEC, were met.

73. Premium for the conversion of dairy herds to meat production
(Reg. No 1353/73) (p. 94)

In the light of what has been said under Points 69 and 71, the Commission points out that it has not yet been possible to pay over the second and third instalments of the conversion premium to the United Kingdom.

With regard to the need to revise the breakdown by regions of the figure of hectolitres of milk, the Commission considers that, under present conditions, the very small quantities involved cannot justify postponement of the reimbursement requested.

74. Aid for setting up fruit and vegetable producers' organizations (p. 94)

Almost all the material errors discovered when the repayment applications were audited were corrected by the EAGGF without the need to contact the national authorities. These corrections had no effect on the amount of repayment requested which was well below the maximum amount authorized by Community regulations.

It should be pointed out that all the reimbursements made by the EAGGF without exception related to aid granted by Member States under the head of the first three years following the establishment of the producers' organization. Payment of aid by Member States to producer groups may however take place after a certain lapse of time and this explains why expenditure incurred during the fourth or fifth year following the setting up of the group has been reimbursed by the EAGGF.

78. Special report (p. 97)

On the basis of the data contained in the returns submitted by Italy on the utilization of the flat-rate sums paid, the EAGGF has drawn up the

following table showing the payments situation as at 31 December 1975:

	<u>Reg. 130/66</u> Art. 4	<u>Reg. 130/66</u> Art. 12	<u>Reg. 159/66</u>
Value of investment projects completed or in progress	62.6 m.u.a.	34.1 m.u.a.	64.3 m.u.a.
Aid paid over	35.1 m.u.a.	13.2 m.u.a.	25.1 m.u.a.

The figures for aid paid over are thus very close to those ascertained by the Audit Board in the course of its assignment, apart from those relating to the tobacco sector. In connexion with the expenditure of the latter sector, it should be pointed out that in the half-yearly return to 30 June 1976, which the Commission has just received, Italy confirms the figures forwarded earlier to the EAGGF.

With regard to the returns submitted in recent years, it must be realized that the information which they contain is provisional in character because of the continual changes which the data on projects awaiting commencement or already in progress undergo (cancellation, modification, etc). For this reason, and in view of the physical opportunities open to it, the EAGGF directs its audit, as far as projects awaiting commencement or projects in progress are concerned, to a comparison of the data appearing in successive returns, in order to reveal possible anomalies and to enable it to form an opinion as to the pace of implementation of the projects and the progress of payments. On the other hand a thorough check is made on the completed projects since the information provided about them is of a definitive character. In two audit visits to the locations involved the EAGGF verified a large number of projects by random sampling and examined the files relating to the financing of those projects.

Like the Audit Board, the EAGGF found that all the investment projects visited had been completed as stated in the information submitted and that the aid granted to them was justified.

However, because Italy has not complied with the time-limits imposed for the use of the funds, the Commission has instituted proceedings against this Member State under Article 169 of the Treaty for failure to fulfil its obligations. On this subject, it may be noted that Italian legislation - under which the investment projects in question are executed - attaches great importance to compliance with administrative procedures, without, however, mentioning observance of time-limits.

A N N E X

TREND OF PRODUCTION OF FARM BUTTER IN THE COMMUNITY

(thousand tonnes)

	1955	1956	1957	1958	1960	1962	1964	1966	1967	1968	1969	1970	1971	1972	1973	1974
Belgium	46	43	41	40	37	33	35	25	24	21	24	24	23	19	21	21
Germany	36	34	31	29	24	23	19	16	16	14	12	11	9	9	3	3
France	.	120	120	110	110	97	93	90	85	75	70	60	32	30	27	26
Italy	.	.	.	.	.	.	.	.	.	.	.	.	.	.	5	5
Luxembourg	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Netherlands	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total (1)	.	197	192	179	171	153	147	131	125	110	106	95	61	58	56	55

(1) The three new Member States do not produce farm butter.

CHAPTER 7 : DEVELOPMENT AID

Food aid (p. 102)

80. Management of budget appropriations for food aid (p. 102)

- Items 6001, 6002, 6101, 6201

The increases introduced by supplementary and amending budget no 3 were justified in the light of the estimates which it was possible to make at the time of preparation of the preliminary draft.

As for the reductions reflected in the final budget, they were principally the result of budgetary difficulties which affected the whole of Title 6 and Title 7 at the year-end. Had it not been for those difficulties, it would have been possible to retain much larger funds under Items 6001, 6002 and 6201 which would have been carried forward to 1976 to cover the commitments entered into in the food aid sector.

- Items 9200, 9201, 9212, 9221, 9240

The definitive appropriations appearing in the 1975 budget, after the transfers which were effected as the implementation of Community food aid proceeded, proved to be very close to the actual utilization up to 31 December 1975; this utilization figure has to take account of the commitments entered into by that date.

The following table shows the data on commitments:

u.a.

Item	Final budget	Commitments	% utilized
9200	31 178 075	31 178 075	100
9201	71 121 925	65 433 319	92
9211	32 900 000	32 900 000	100
9212	28 500 000	28 500 000	100
9221	2 300 000	2 300 000	100
	166 000 000	160 311 394	96.6

The revision of the initial funding, effected by means of transfers, thus proved to be effective, since the initial funding was in this way reduced to the level of actual utilization.

The difference between commitments (160.3 m.u.a.) and payments (101 m.u.a.) was due firstly to the difference between the amount of the advances granted to Member States and the amount of payments actually executed with the help of these advances and secondly to the fact that the payments for a number of operations could not be declared to the Commission before the close of the financial year because of execution times that were sometimes rather long.

81. Implementation of the aid (p. 103)

With regard to the delays in making the aid available, a special effort to simplify the implementation procedures was made in 1975. But since this greater flexibility has not produced the results that might have been expected the Commission is now examining the possibility of fresh procedural improvements with a view to reducing to the minimum delays in approving the implementation plans for the aid and delays in actual implementation which are due to dilatoriness on the part of certain beneficiary countries.

The figures shown in the table illustrating the effect of these delays represent the accounting position with regard to the advances to Member States approved during 1975; in no case do they relate to the delays in delivery of the aid. In fact, the following operations, expressed in tonnes, still remain to be implemented at 1 July 1976:

- cereals 1975	15 500
- skimmed-milk powder 1974	355
- skimmed-milk powder 1975	8 544
- butteroil 1974	300
- butteroil 1975	2 509

Action necessary to mobilize these quantities is in progress.

82. Tendering and the system of mobilization (p. 104)

With regard to the breakdown of tenders into their different component elements, the Commission has been inserting a provision into tender documents since 1975 with the aim of securing such a breakdown. Reference

should also be made to the Commission's reply to the 1974 report on this subject.

With regard to the mobilization of goods in one Member State rather than another, this is a direct consequence of the place of storage when the goods are mobilized from intervention stocks and of the tender price when that price includes the value of the goods (purchase on the market). Thus although normally, in the first case, the Member State designated to organize the tendering is also the Member State on whose territory the goods are mobilized, in the case where the goods are purchased on the market mobilization may be effected from another Member State.

This system of mobilization ensures at one and the same time that goods in areas with surpluses are placed on the market (removal from intervention agencies) and that there is wide competition over the whole territory of the Community for purchases on the market.

The mobilizations effected in Italy for the 1970/71 food aid programme did not cause losses on exchange and had no connexion with the purchasing power of the Italian lira.

In fact, at the time of mobilization, the Italian currency had not yet suffered the devaluation it has since undergone. In any case, the bids are compared on the basis of agricultural rates of exchange, which eliminates any distortion of competition due to the monetary situation of Member States in relation to the unit of account.

The transaction quoted by the Audit Board refers to the payment made by a Member State with a depreciated currency to another Member State, a transaction which took place before the introduction of Regulation No 522/73 of 14 February 1973. As the Audit Board itself remarks, this regulation has put a stop to such distortions.

83. Recovery of costs of delay (p. 104)

With regard to the recovery of costs of delay, the Commission often meets with almost insurmountable difficulties owing to the inability of the recipient countries to repay these expenses some years after the event, even when their liability has been clearly established. Nonetheless, it is the Commission's intention to continue its efforts to complete these recovery operations successfully and it hopes to be able to do this within a reasonable time.

84. Consignment of the aid (p. 105)

In connexion with the difficulties which often hamper consignment of the aid, the Commission has not failed to take steps, either directly, by making representations to the countries receiving the aid, or indirectly, through its own representatives in the ACP States, to solve the problems affecting transport and storage.

To this end, it has also started to co-operate directly with the Office of Special Relief Operations (OSRO) to ascertain the possibilities of unloading and forwarding the aid in West Africa where most of the difficulties of this kind occur.

With regard to aid to Mali, the Commission has approached the Mali authorities several times to settle problems relating to storage of cereals and to prevent deterioration of the goods by organizing fumigation partly financed by the EDF.

It should be noted that the cost of any losses sustained at the delivery points is not borne by the Community. Moreover, a quantitative tolerance of 5% is stipulated in the detailed implementation rules agreed between the Commission and the recipient countries or agencies.

As for the 710 tonnes of skimmed-milk powder despatched to Somalia, it is stated that the Member State concerned did not declare the expenditure to the Commission.

85. Control of utilization of the food aid (p. 106)

Control of utilization of the aid, particularly of the counterpart funds, has always created problems for the Commission owing to the lack of means of intervention. Nevertheless, the Commission hopes to be able to arrive at satisfactory solutions by implementing appropriate procedures and it has already started to introduce such procedures. Thus in the case of the ACP States it has drawn up a number of instructions for its representatives in these countries specifying the duties assigned to the representatives in the matter of implementing the food aid operations and monitoring utilization of the aid. In the case of non-associated States the Commission hopes to arrange in the near future for the introduction of a system of verifying the utilization of aid which will give it the possibility of obtaining the maximum of information. Such a system is already being introduced in the countries of Latin America through the medium of the Commission's delegation in Santiago de Chile.

Financial aid (p. 106)

86. Aid to the countries of the Sahel (p. 106)

In accordance with the execution contracts governing emergency aid to the countries of the Sahel suffering from drought, the operations were due to be closed on 31 December 1975. However, to enable the last cash advance to be paid, it was agreed that payment could take place after the said date provided that it did not occur later than the end of the normal period for the extension of the budget, i.e. 31 March 1976, and this only for commitments entered into before 31 December 1975.

To date, five of the seven beneficiary countries have closed their operations: Upper Volta, Mali, Mauritania, Niger and Senegal.

From the financial point of view, closure of some of the operations has given rise to savings, resulting either from gains on exchange or from the fact that it was not possible to commit the entire credit granted before 31 December 1975. The savings were as follows:

Upper Volta	2 045 316 CFA francs
Mauritania	29 141 349 CFA francs
Senegal	236 917 CFA francs
	<hr/>
	31 423 582 CFA francs
	(approx. 113 500 u.a.)

Payment of these sums to the Commission is in progress.

In the case of Ethiopia and Chad, the other beneficiary States, certain difficulties are holding up closure of the operations.

For Ethiopia, these difficulties were caused by the rates of exchange applied for the purpose of the supplies effected, with the result that the credit of 8 250 000 Ethiopian dollars specified in the execution contract could not be made available to the Ethiopian Government in entirety, whilst the credit expressed in Belgian francs, the Commission's reference currency for accounting purposes, was exhausted. As the loss suffered by the Ethiopian Government (302 126 u.a.) is reflected in an equivalent gain for the Commission, it was necessary to make arrangements to provide the funds essential for completing this operation successfully; the amount was estimated at 120 000 u.a. by the Commission's representative. To this end a procedure whereby the appropriation is transferred from Chapter 99 of the budget ("Expenditure not specifically provided for") was introduced and may be expected to be effected in a few weeks' time. If this happens, closure of the operations would follow immediately.

With regard to Chad, closure of the operations is being held up for the following reasons (relating to sheds):

- need to reorganize the construction programme,
- difficulties in obtaining the necessary materials,
- difficulty of access to construction sites owing to lack of security in certain regions.

According to information from the Commission's representative, the Government authorities are well aware of the need to close this operation as soon as possible. The steps taken to achieve this aim suggest that all

the work will be completed in the near future. Assuming that provisional acceptance can take place, financial closure can then be considered effective.

With regard to the verification of supporting documents in the possession of the Commission's representatives, the Commission can only confirm what it stated on the basis of the provisions of the execution contracts in its replies to the observations in the 1974 Audit Board report, namely:

"Article III, paragraph c, of the execution contracts also states that these supporting documents must be stored on site. There can therefore be no question of their systematic transmission to the Audit Board.

Indeed, Article IV, paragraph d, entitled 'Auditing procedures', states that 'the Audit Board also reserves the right to carry out inspection visits in accordance with Article 89 of the Financial Regulation'." (1)

87. Emergency aid to disaster victims (p. 106)

It is true that no supporting document has yet been supplied to the external audit body in connexion with application of the aid mentioned by the Audit Board. Transmission of the documents has been the subject of a complaint by the Commission which has not yet been acted upon.

88. Exceptional contribution to UNRWA (p. 107)

It would seem an exaggeration to claim that no auditing is possible from the documents made available. UNRWA is an international agency with its own audit body; utilization of the funds allotted to it can be verified with sufficient precision from its annual reports.

89. United Nations emergency measures: payments to the United Nations special account (p. 107)

It is true that, according to information from the United Nations General Secretariat, the auditors' report on the year 1974/75, which is to be published during the second half of 1976 and a copy of which will be forwarded to the Commission, will contain no information on the specific assignment of the contribution from the Community (US \$ 63 million) owing to the fact that the funds are always administered without regard to origin.

In this connexion, the Commission considers that the best course is to rely on the bodies responsible for auditing the financial operations of the United Nations and to await the report in question, which will be forwarded to the Audit Board as soon as it is received.

90. United Nations emergency measures: direct aid (p. 107)

With regard to the use of the funds granted directly by the Community, the Audit Board points out that some recipient States have departed from the list of products initially envisaged and that others have disregarded the arrangements as to quantities.

(1) Page 51 of the Commission's replies to the report of the Audit Board for 1974, Volume I.

In view of the motives influencing the initiation of this operation, the Community had to act rapidly and under an exceptionally flexible procedure, similar incidentally to that applied by the United Nations.

Thus a letter of commitment was sent to the Representative Offices of the recipient countries in the EEC; the list of products to be imported was included for guidance purposes, to enable the Commission to assure itself that the products did in fact meet essential needs. To refuse to allow changes in the list as originally proposed could have entailed a serious risk for the beneficiaries, who had to meet the time-limit of one year for execution of the first instalment under penalty of having their allotment of funds cancelled.

In the majority of cases the changes requested were justified because the products initially envisaged could not be supplied in time. For countries receiving two instalments this difficulty was overcome by a change in charging. For those countries which received only the first instalment the Commission did not agree to changes unless the substitute products met essential needs.

As to disregard for the arrangements on quantities, the Commission did not consider that excessive importance should be attached to this criterion because the letter of commitment referred only to the nature of the products. If some of the beneficiary countries mentioned quantities in their lists it was only by way of guidance. If one takes India, for example, which received US \$ 50 million, one finds that the list submitted totalled US \$ 204 million for nine products including \$ 40 million for fertilizers and \$ 11 million for various chemical products. The Commission considered that there was no reason why India should be prevented from allocating the funds granted for the import of the two products in question which are indispensable for developing the country's agriculture.

The Commission cannot agree with the assertion that Rwanda imported barley malt for use in a private brewery. Apart from the fact that there is nothing to indicate that this in fact happened, it should be noted that the name of the firm - Brasserie industrielle du Rwanda - suggested a

State-owned company such as are found in most African States. Moreover, the product in question is required for the making of beer, the national drink par excellence.

The Commission's lack of information on the distribution, allocation and utilization of the products and plant imported is the result of the fact that the recipient States were not compelled to provide such data. This type of aid should actually be considered as aid to the balance of payments following the general rise in world prices.

With regard to the implied condition that the goods imported were to originate from Community countries, the statistics prepared at the end of execution of the first instalment show that the areas of origin of the imports can be analysed as follows:

- EEC	85.99 %
- AASM	3.42 %
- Other countries (Third World)	10.99 %

To supplement its information the Audit Board has been sent a series of statistical tables giving the following details:

- Analysis of imports by product and by recipient State
- Analysis of the first instalment by product
- Origin of the imported products by geographical area

91. United Nations emergency measures: rates of exchange applied (p. 108)

With regard to payment, the letters of commitment stipulated that payment should be effected at the rates of exchange applied between the dollar and one or other of the Community currencies or, if appropriate, in any other currency with the agreement of the Commission.

The choice of an average rate calculated on the basis of the rates of exchange ruling on the date of the invoice, for the purpose of making payments to countries receiving international emergency aid, was taken with the aim of reimbursing the States the exact amount of their paid invoices. Use of the prevailing rates of exchange, at the time of payment by the Commission, could have produced substantial differences because of the time that inevitably elapses between outlay of the expenditure and reimbursement by the Commission.

For budget purposes the aid operations were entered in the accounts on the basis of $\text{₣ } 1 = \text{Bfrs } 41.45 = 0.829 \text{ u.a.}$ because the budget estimates had been made at this rate (which was applicable in 1974). If the rate of Bfrs 36 had been used for the accounts, a fictitious credit would have been thrown up, the effect on the volume of the budget being the same as a difference on exchange.

CHAPTER 8 : RESEARCH AND INVESTMENT APPROPRIATIONS

95. The revenue and expenditure account for the financial year 1974 (p. 112)

The difficulties inherent in all budget estimating were aggravated by the acceleration of price rises in Italy, particularly as a result of the oil crisis towards the end of 1973, which could not be foreseen at the time. The inevitably long time-lag between preparation of the preliminary draft budget and implementation of the adopted budget is the main reason for the underestimating of infrastructure appropriations, which was remedied by transfers within the limits authorized by the Financial Regulation.

For this reason the volume of work demanded of the study office was higher than estimated, causing an increase in personnel requirements; staff costs had in addition been burdened with increases in the course of the year.

Other disparities of the same kind were due either to the fact that the hopes for the programmes were not realized, which entailed reductions in the funds made available for these two objectives (nos 2.11 and 2.25) when the programme was reviewed in October 1975, or by the need to await ratification by a Member State of the agreement concluded with third countries in application of Article 102 of the Euratom Treaty (operations 2.30, COST 11).

The transfers of commitment appropriations from secondary charges to primary charges made at the end of the year are in accordance not only with the regulations but with the spirit of the function-orientated budget in the context of a programme extending over several years.

Direct actions

96. Expenditure for the financial year 1975 (p. 113)

The frequency of transfers and the underestimating of infrastructure appropriations are the result of the situation described under the previous point.

With regard to the criteria for the distribution of the expenditure under the appropriation accounts by objective and the Audit Board's comments in connexion therewith, the Commission would reply as follows:

a) Distribution of expenditure on staff (p. 113)

Distribution of staff expenditure was effected on the basis of uniform mean costs for the establishment of the budget. These uniform mean costs cannot reflect the disparities between establishments which are the result principally of differences in weighting factors.

b) Distribution of general infrastructure expenditure of the Ispra establishment (p. 113)

The amount of 3.13 m.u.a. was distributed according to rules laid down at the time the budget was drawn up, rules which did not use the criterion of proportionality to the large blocks of staff expenditure.

The amount was made up as follows:

- Aggregate staff expenditure of the individual Objective 2.90.0 - direction and co-ordination	1 134 479 u.a.
- Share of infrastructure of the same objective	1 533 918 u.a.
- Lump-sum contribution from the DG XII biology department working at the Ispra site	350 000 u.a.
- Contribution for subsidized housing at Ispra	107 080 u.a.
Total	<hr/> 3 125 000 u.a.

The aggregate staff expenditure of Objective 2.90.0, amounting to 1 134 479 u.a., was lower than the budget estimates because the staff working at the Brussels headquarters were under strength. Consequently, the share contributed towards the financing of the Ispra infrastructure, in accordance with the criterion of proportionality to aggregate staff expenditure, was also lower than estimated.

By contrast, Objective 2.90.0 was the subject of appropriations for the financing of safety measures, i.e. investment appropriations, which were committed in entirety. These investment appropriations for infrastructure were provided as such in the budget and did not follow the rule of proportionality. The share of infrastructure costs charged to Objective 2.90.0 eventually comprised the total of these two shares of financing the Ispra infrastructure, namely 1 533 918 u.a.

The amount of 2 209 825 u.a. represents appropriations transferred from other sources to cover unforeseen increases in infrastructure costs resulting from inflation. This financial stringency plan was adopted in agreement with the relevant departments of the Commission.

c) Expenditure of the electronics laboratory (p. 114)

The electronics laboratory was partially unused because a great many objectives to which funds for use of electronics had been allocated did not make use of those funds by giving orders to the laboratory. The loss sustained by the electronics laboratory was therefore allocated in proportion to the amounts of budget appropriations which had not been translated into actual orders, in such a way as to make the defaulting users bear a penalty - in accordance with normal commercial and industrial practice. This procedure was formally included in the charging rules for the 1977 budget.

d) Expenditure of the scientific divisions (p. 114)

To the extent that the amounts mentioned can be identified, they are the result firstly of the implementation of the financial stringency plan mentioned above and secondly of the partial effect of under-staffing.

e) Use of equipment and maintenance appropriations for investment expenditure (p. 114)

- Conference room:

The creation of a heading in the budget (Category 40) was in accordance with the regulations (application of Article 103 (2) of the Financial Regulation, in derogation from Article 21 (5), relating to research expenditure).

- Infrastructure expenditure at Geel:

The expenditure incurred took account of the latest technical necessities and was committed by means of proper transfers between categories in such a way as to achieve the most inexpensive solution possible, not exceeding the total appropriations but on the other hand enabling two very advantageous technical results to be obtained: one of them obviated the need to stop an installation during work, and the capacity of this installation was greatly increased through the use in parallel of the old VAN DE GRAAFF accelerator.

In view of developments at the technical level, the use of the appropriations gave rise to a disparity in relation to the budget estimates.

The necessary adjustments were made in accordance with the rules in force. Since then an additional effort has been made to adhere more closely to the budget estimates relating to investment.

97. Unsatisfactory organization of purchasing at the Ispra establishment (p. 115)

It should be pointed out first that as far as consultation of the ACPC is concerned, the departments involved have always paid the greatest attention to ensuring that purchase procedures take place in accordance with the regulations.

It should further be pointed out that Article 60 of the Financial Regulation envisages several situations in which there can be purchasing by direct agreement, notably the cases mentioned in subparagraphs d (where there is only one possible supplier) and e (subsidiary contracts which for technical reasons cannot be separated from the main contract); both instances occur frequently at the JRC.

As for the splitting of orders, it should be noted that several orders may be sent to the same supplier on the same day. This is the result of the decentralized ordering procedure which has hitherto been followed; it does not imply the irregular splitting of a single order. The recent measures to which the report refers have indeed as their main objective the intensification and better monitoring of invitations to tender and the guaranteeing of compliance with the rules in force.

98. Personnel management (p. 115)

a) Staff of the Karlsruhe establishment (p. 115)

The additional budgetary items necessary to accommodate the appointment of these members of staff have several times been requested of the budgetary authority, notably in the draft budget for 1977.

b) Kilometrage allowance (p. 115)

According to the JRC, the kilometrage allowance in question fulfils the conditions set by Article 15 (2) of Annex VII of the Staff Regulations. In order to qualify for the allowance, recipients have been obliged, since the abolition (in 1971) of the taxi service which used to transport them but which proved too costly, to perform their duties outside normal working hours and to travel in their own car.

The increased cost is due to two factors:

1. Increase in the cost per kilometre travelled. The price revision formula is linked to the cost of petrol (L It 162 per litre in 1971, L It 260 per litre in January 1974, L It 400 per litre in 1976).
2. Increase in the number of persons employed outside normal working hours as a result of the recruitment of 91 appaltati in 1974, nearly all of whom work outside normal hours.

c) Bonus for exceptional service (p. 115)

The bonus for exceptional service, provided for in Article 99 of the Staff Regulations, is awarded only after the merits of the candidates have been examined. Each decision is based on reasoned grounds.

The bonus has been awarded with strict regard for budgetary criteria, both as to the total volume (90 000 u.a. in 1974, 100 000 u.a. in 1975 and 1976) and the value of each bonus (400 u.a. per person in 1974 and 1975, raised to 600 u.a. in 1976).

The redistribution among certain members of staff of bonuses awarded in the proper manner by the directorate of the JRC is in no way the

fault of the latter body. This has been a private initiative wholly outside the JRC's control. Moreover, the directorate-general has taken the necessary steps to improve the conditions under which the bonus is awarded.

d) Remuneration of an official assigned to Petten but working as Ispra
(p. 116)

This is an exceptional case of irregularity arising from a series of unfortunate circumstances. The transfer of the person concerned to Ispra was anticipated in an unofficial manner for compelling social reasons. All necessary steps have been taken to put an end to this irregular situation.

Indirect actions

99. Management of research contracts (p. 116)

a) Budgetary management of contracts by the Directorate-General for Research, Science and Education (p. 116)

The Audit Board points out that budgetary management of the contracts is divided between two administrative units, one of which is responsible for clearance of expenditure, the other for authorization of expenditure, and that such a division of duties is not in accordance with the principles laid down by the Financial Regulation, which provides that clearance of expenditure shall be performed by the authorizing officer.

The authorizing officer for contracts is the Commission. The latter has delegated its powers to the director-general who thus becomes the authorizing officer within the meaning of the Financial Regulation. The duties of the authorizing officer comprise the commitment, clearance and authorization of expenditure, by virtue of Articles 40, 44 and 47 of the Financial Regulation. There is nothing in the Financial Regulation to sanction the Audit Board's interpretation. Clearance, within the meaning of Articles 44 and 45, is performed by the contracts department, as is authorization (Article 47).

100. Arrangements for calculating the Commission's contribution to costs under contracts of association (p. 117)

The Audit Board emphasizes the diversity of the annual costs of research workers, particularly in the field of biology. It considers that an explanation of these matters should appear in the contracts. It should be noted that the variations in the cost per research worker in the field of biology correspond to reality: a survey on this subject was carried out by Euratom under Article 5 of the Treaty. In the case of the programmes on energy and the environment, the proposers fill in a form which enables the Commission and the various advisory committees to obtain the information necessary for forming an opinion on the reality of the costs of the proposal.

As for the divergences found under the item "General expenses between fusion contracts", these are only apparent divergences and are the result of the framework within which this research is carried on. The fusion teams of the Commissariat à l'Energie Atomique (at Fontenay-aux-Roses and Grenoble) represent only 10% of the staff of these centres. Since these

research groups benefit from the support services provided by the centres and by headquarters as defined in Point 1 a of the annex to the contract, it is reasonable that these expenses should be passed on on the basis of a percentage negotiated with that body. As an example of a converse case, the instance of the Max Planck contract in Munich may be quoted: here the general expenses do not appear at a flat rate because the institute devotes itself entirely to fusion and consequently all the expenses, including general expenses, are charged to the association.

In the case of the Comitato Nazionale per l'Energia Nucleare (CNEN), 50% of the activities of the centre at Frascati are connected with fusion. With the United Kingdom Atomic Energy Authority (UKAEA), only the headquarters activities (in London and Harwell) are the subject of a flat-rate allocation - a very small one - because all the other general expenses appear in the accounts of the association.

There is no sense in comparing rather dissimilar situations unless those situations are analysed in detail.

As in the past, the Commission will endeavour, when concluding contracts in the context of new programmes, to treat comparable situations in a comparable fashion, taking account of the nature of the contracting parties, the type of research being undertaken and the means deployed by the contracting party.

REPLIES BY THE OTHER INSTITUTIONS
TO THE OBSERVATIONS CONTAINED IN THE REPORT OF
THE AUDIT BOARD
ON THE ACCOUNTS FOR THE FINANCIAL YEAR 1975

At 28 October 1976 the Commission had not been notified of any reply by the institutions to the observations in the report of the Audit Board on the accounts for the financial year 1975.