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Report

drawn up on behalf of the Committee on Budgets

on the report of the ECSC Auditor for the financial year 1973 (Doc. 266/74)

Rapporteur: Mr Heinrich AIGNER

1.2.1

PE 40.444/fin.

By letter of 13 September 1974, the Commission of the European Communities forwarded to the European Parliament the report of the ECSC Auditor for the financial year 1973.

The President of the European Parliament referred this report to the Committee on Budgets as the committee responsible on 30 September 1974.

On 30 September 1974, the Committee on Budgets appointed Mr Aigner rapporteur.

It considered the report at its meetings of 3 February, 24 March, 21 May and 9 June 1975.

At its meeting of 9 June, the committee adopted the motion for a resolution and the explanatory statement unanimously with two abstentions.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman and rapporteur; Mr Durand, vice-chairman; Mr Artzinger, Mr Cointat, Mr de Keersmaeker (deputizing for Mr Galli), Mr Delmotte (deputizing for Mr Radoux), Mr Fabbrini, Mr Lagorce, Mr Lautenschlager, Lord Lothian, Mr Maigaard, Mr Notenboom, Mr Pêtre, Mr Scholten, Mr Shaw, Mr Yeats.

C O N T E N T S

	<u>Pages</u>
A - MOTION FOR A RESOLUTION	5
B - EXPLANATORY STATEMENT	9
I - Expenditure on technical, economic and social research	11
II - Borrowing, lending and guarantee operations	20

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

MOTION FOR A RESOLUTION

on the report of the ECSC Auditor for the financial year 1973

The European Parliament,

- having regard to the report of the ECSC Auditor for the financial year 1973 (Doc. 266/74);
 - having regard to the report by the Committee on Budgets (Doc. 140/75);
- I. - The importance of the audit of the ECSC's financial and budgetary operations
1. Considers, as the recipient of the Auditor's report and as the institution first called upon to assess the financial activities of the ECSC - which the Commission of the Communities determines and administers - that:
 - (a) external control by the Auditor should go beyond the purely accounting aspect of the subject matter involved, and should be strengthened in its capacity and ability to obtain all necessary information for providing Parliament with a complete assessment of the financial management and the results achieved;
 - (b) it is increasingly important that the precise aims of the audit be fixed during the year;
 2. Notes with satisfaction that the Auditor's report for 1973 reflects these needs and does enable Parliament to assess not only the accounting responsibilities but - and above all - the financial responsibilities linked to the administration of the policies laid down in the ECSC Treaty;
- II. - The Commission's responsibilities as regards the policies laid down in the ECSC Treaty
3. Notes with satisfaction the commitments entered into and the decisions taken by the Commission in response to Parliament's resolution of 11.12.1973 and concerning:
 - (a) more precise definition of its general and financial policy;
 - (b) the attempt by the Commission's services to achieve greater coordination of ECSC activities;

(c) the decision to have the Commission adopt the annual balance sheet;

4. Is, however, of the opinion, particularly in view of the criticisms in the Auditor's report for 1973, that the activities resulting from the application of the ECSC Treaty should be reimbued with the scope and impact given to them by the ECSC High Authority; therefore calls upon the Commission to strengthen its efforts with a view to maintaining and reinvigorating these activities;

III. - The nature and establishment of the annual balance sheet

5. Notes that, following the auditor's remarks, the annual balance sheet of the ECSC is now also being drawn up according to the principles of the directives issued by the Council on 28 January 1972;
6. Considers it essential, to enable Parliament to exercise its powers in full knowledge of the situation, that the ECSC's accounts should indicate the precise nature of commitments entered into, account being taken of the currencies concerned, thus allowing the necessary comparisons to be made;

IV. - Specific observations

7. Appreciates the Auditor's work in the field of technical, economic and social research, which has finally led to the setting up of a schedule of due dates that makes possible the control of expenditure at different stages of the procedures and consequently an assessment of the merits of the various policies;
8. Notes that, since 1973, the Auditor has been able to carry out part of the task assigned to him by Parliament in the fields referred to above, and expects him to draw, as he has indicated, final and complete conclusions in his 1974 report;
9. Appreciates the efforts made by the Commission
- (a) to shorten the decision-making procedures involved in the financing of research;
 - (b) to assure proper application of financial agreements linked to each contract;
 - (c) to draw up rapidly financial reports summarizing the performance of contracts and detailed technical and scientific reports;
 - (d) to try to prepare technical research programmes in accordance with the annual timetable used by the High Authority;
 - (e) to put at the disposal of the Committee on Budgets all essential details of the schedule of due dates for research;

10. Is compelled, however, in view of the large number of comments made by the auditor on research activities, to ask the Commission to exercise greater care in its management with a view, among other things, to preventing other causes of deterioration of the present situation from arising;
11. Emphasizes the increasing significance of the ECSC's borrowing and lending activities and repeats its request that it be kept informed of the overall credit policy pursued by the Commission and of the general criteria governing its development;
12. Calls upon the Commission to devise and keep constantly under review a precisely defined policy for the investment of its funds;
13. Approves the Commission's policy which offers, on the basis of its financial assets, reliable guarantees to lenders of funds, thus assuring the success of the ECSC's financial activities on the capital market; emphasizes, moreover, that these guarantees are strengthened by the existence of the ECSC's own powers of levy;

V. - The main figures in the 1973 financial year

14. Notes that:

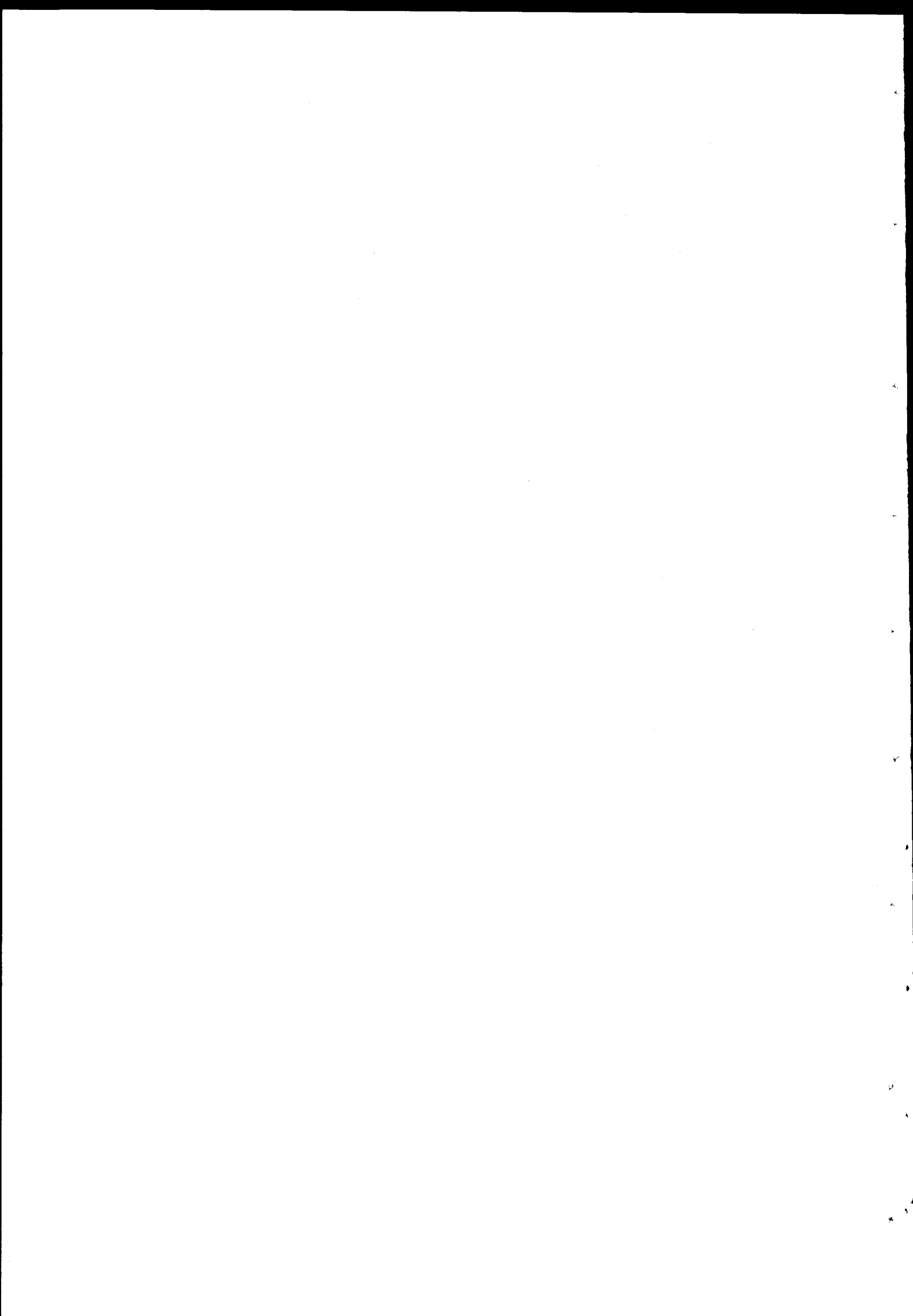
(a) expenditure rose to 175,034,035 u.a. allocated broadly as follows:

- servicing of borrowings and guarantees	.....	79,566,780 u.a.
- budgetary expenditure	.....	40,042,094 u.a.
including readaptation	5,081,991 u.a.	
research	11,670,438 u.a.	
administrative expenditure	18,000,000 u.a.	
other expenditure	5,289,665 u.a.	

(b) revenues apportioned as follows:

- servicing of loans and guarantees	.....	73,352,500 u.a.
- levy	.....	62,894,027 u.a.
- income from bank accounts and contribution from the new Member States, etc.	.....	38,787,508 u.a.

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



EXPLANATORY STATEMENTINTRODUCTION

1. The last report by Parliament on the ECSC Auditor's report was that covering the financial years 1971/72, adopted on 11 December 1973.

On that occasion, when the Committee on Budgets delivered its opinion on two financial years, it was able to form a more valid overall view than usual of the problems discussed. It accordingly drew general conclusions and indicated the general direction that reform of the financial management of the ECSC should take.

Parliament

2. In its resolution, Parliament called for:

(a) coordination of all the activities of the ECSC which, since 1967, (application of the merger treaty of the ECSC, EEC and Euratom executives) had been spread over seven Directorates-General;

(b) a uniform impetus for all such activities;

(c) adoption of the financial statement at the level of the institution instead of at the level of the departments which it considered to be an irregular practice;

(d) a considerable improvement in the accounting system for ECSC activities and, more particularly, in the data for the various research projects;

(e) strengthening of the Commission's borrowing and lending policy which would be directed more towards industrial investment and loans for industrial adaptation.

3. To ensure that all the reforms and improvements listed in its resolution of 11 December 1973 were carried out, Parliament asked the Commission to define more clearly its general and financial policy in the areas covered by the ECSC Treaty and insisted that it submit a series of decisions or suggestions to follow up its proposals.

4. It has to be noted, however, that despite this impetus, the Auditor's 1973 report shows that much remains to be done.

The Committee on Budgets has to assess the financial activities of the ECSC even more carefully for the following reasons:

(a) As regards ECSC activities, the Commission of the Communities has autonomy of decision and management;

(b) 1973 is the first year of operation since the enlargement of the Communities;

(c) As has been stressed, the Commission's responsibilities should also be assessed on the basis of the fact that it has not followed up Parliament's resolution of November 1973, which is of fundamental importance in many respects;

(d) In view of the often rather unanalytical nature of the Commission's annual report on ECSC activities, consideration of the ECSC Auditor's report, which gives much attention to efficient and genuine auditing becomes, for the Committee on Budgets and Parliament as a whole, the annual event at which the financial aspects of ECSC activities can be assessed.

5. The Commission replied as follows to these general suggestions and remarks:

(a) Regular coordination of ECSC activities in the budgetary field exists at the initiative of the Directorate-General for Budgets. It gives rise to regular discussions by the working party and regular meetings with the Secretary-General of the Commission. The Commission gives the assurance that from now on - as was the case when the draft budget for 1975 was drawn up - it itself is responsible for coordinating ECSC activities and integrating them into Community activities in general;

(b) The Commission departments are so organized that some divisions deal only with ECSC activities, whether they are integrated vertically into Directorates-General (such as the Directorate-General for Energy, the Directorate-General for Industrial and Technological Affairs and the Directorate-General for Social Affairs) or horizontally (as in the Directorate-General for Budgets). Moreover, one directorate-general, the Directorate-General for Credit and Investment, is almost exclusively responsible for ECSC matters, because of the ECSC's recognized lending power;

(c) The 1974 financial statement will be drawn up by the institution itself;

(d) The accounting system for research data was amended in 1974;

(e) The general report on the activities of the Community in 1973 devotes at least thirty pages to ECSC activities, and an interim document on ECSC budgetary activities was submitted to Parliament in July 1974;

(f) The departments involved in managing ECSC research have always answered the Auditor's questions and remarks.

Assessment of the Committee on Budgets

6. In view of the general suggestions made in Parliament's resolution of 11 December 1973 and the decisions now being taken by the Commission, the Committee on Budgets concludes that the Commission has embarked on a better management of ECSC activities at least subsequent to the Auditor's report for the financial year 1973. However, the Auditor states in his report (which is the subject of this explanatory statement) that at the end of 1973 the situation in regard to the main issues was still as described the previous year, and stresses in his conclusions the lack of direction and its increasingly negative effects on ECSC activities, so that the Committee on Budgets' assessment of the improved situation remains cautious. It will give a clear and unqualified positive assessment only if, in his 1974 report, the Auditor also considers that his reservations and criticisms no longer apply.

I

Expenditure on technical, economic and social research

Parliament

7. In paragraph 11 of its resolution of 11 December 1973, Parliament asked 'the Auditor to make a special effort with regard to audits in the research field and to make particular reference to this in his report for the financial year 1973'.

The Auditor

The Auditor complied with these suggestions by devoting special attention to research expenditure. In the first sub-paragraph of paragraph 46, he states that, in such a vast and complex field, it was not possible for him 'to arrive at any final and comprehensive conclusions very quickly, particularly as the introduction of new methods of checking - which in any event tends to be progressive - has taken some time'.

8. Both because of the wealth of observations already made by the Auditor in his report for 1973 and in order to follow the logic of the position of Parliament, which wants to examine audit problems in some detail by devoting special attention to a specific sector each year, your rapporteur feels that a considerable part of his report should be devoted to consideration of the information given by the Auditor concerning expenditure on technical economic and social research.

9. The Auditor used two new methods in regard to documentary evidence and spot checks, requesting the Commission to keep a work register and participating in spot checks of some forty research projects.

10. The following points emerge from his conclusions (and from the work of the Committee on Budgets):

(a) The lack prior to that date of a work register showing progress made in all research projects;

(b) The excessively long delays between the submission of applications, the Commission's decision, the end of the research project and financial closure (there is a three-year delay between the submission of applications and the signing of contracts);

(c) The fact that this state of affairs is due to lack of overall direction in the ECSC policy and the fact that the institution fails to take decisions;

(d) The fact that, because of these inadequacies, the rapid system of financing introduced by the High Authority - which serves as a model - is thus strongly jeopardized;

(Moreover, the Committee on Budgets should have at its disposal not only tables giving the names of research projects and the accounting situation, but also the date of submission of applications, the dates of Commission decisions and the dates when the work is expected to be completed.)

(e) The contracts signed in 1973 for the iron and steel, coal, ore and social sectors (about 5.6 m u.a.) represent approximately one-third of commitments in the previous financial year;

11. Taking each sector separately, the following points should be noted:

(a) For the coal sector, eight contracts were signed in 1973 compared with fourteen in 1972;

(b) Twelve research projects which, under the terms of their contracts, were due for completion between 30 June 1971 and 30 June 1973 'were still awaiting final scientific reports or financial closures - sometimes both - at 31 December 1973, although both these stages should be completed not more than six months following the end of the project.' (paragraph 42.1)

(c) In the steel sector fifteen new contracts were signed in 1973, but no indication is given of how many were signed the previous year. Nineteen research projects came to an end during the financial year, and thirty research projects were still awaiting financial reports.

12. Analysing nineteen closing reports, the Auditor frequently draws attention to the too numerous transfers between the categories provided for. He points out that this considerably reduces the significance of the agreed financial breakdown, and that the files do not provide any reasons for the changes. He concludes that 'the reasonable flexibility tolerated in the management of research contracts should not have the effect of preventing those responsible for external inspection from commenting on modifications to those contracts ...' (paragraph 43(b))

13. In the iron ore, industrial safety, health and medicine sectors, according to the Auditor's report, the problems are as follows: the delay in closing some contracts, the fact that no contract had been signed at 31 December 1973 pursuant to the last programme for this sector, and the fact that research equipment bought with Community funds was, in some cases, passed on to the beneficiaries.

The Commission

14. The Commission has replied as follows to these remarks:

Paragraph 10(b), delays: The considerable delays in the allocation of financial aid for research projects in 1973 were caused by the Commission's desire to involve the new Member countries as far as possible in ECSC research activities from that year on. As a result some decisions on the grant of aid had to wait until December 1973.

The administrative negotiations and procedures which necessarily precede the signing of research contracts (which are the legal basis for the inclusion of provisions) sometimes involve unforeseeable delays and thus make it impossible for contracts to be signed before 31 December of the financial year in question.

Paragraph 10(d): The Commission states that activities increased in the same year (18.5 m u.a. in 1973 compared with 15.2 m u.a. in 1972). In the sector of technical research the preparation of programmes is now up to the annual rhythm of the period of the High Authority.

It is true, however, that delays may arise in the case of research projects considered to be of second priority.

In the social sector the system of outline programmes is used. This reduces delays in the case of projects started when the outline programme is introduced.

Lastly, the Commission states that in 1974 a plan was drawn up on the basis of existing staffing possibilities in order to bring the excessive delays in the closure of files down to a minimum. It undertakes to close all files by 1 July 1975 and to make up for the excessive delays noted in the auditor's report.

Paragraph 10(d), second paragraph: The Commission is willing to provide the Committee on Budgets with all information concerning the titles of research projects, the accounting situation and the date on which requests are submitted, in other words, the main items on the research register.

Paragraph 10(e): Replying to the remark on the smaller number of commitments in 1973, the Commission states that it decided on 21 December 1973 to include provisional amounts representing estimated commitments that would have to be concluded in the next six months, in the financial statement, in order to ensure implementation of the budget and make up for the delays which arose in 1973.

15. Paragraph 11(a): The Commission provides further information, so that the situation in the coal sector is as follows: 'To the eight contracts signed in 1973 compared with fourteen in 1972 should be added eighteen more signed during the additional six-month period to be paid out of 1973 appropriations. The comparison should therefore be between fourteen contracts in 1972 and twenty-six in 1973'.

Paragraph 11(b): The Commission's reply is as follows: 'As regards research projects which, under the terms of their contracts, were completed and for which no final or technical report was submitted to the Commission six months after the contractual date, it should be noted that, when carrying out a research project it is difficult to determine exactly the date of completion'.

The Commission completes its detailed reply as follows: 'The general terms of research agreements stipulate, however, that the final scientific reports and the summary financial report should be submitted within six months of completion of the work and that the research accounts should be closed six months after the reports are received so that, where necessary, pressure can be put on the beneficiaries. For various reasons (absence of the technician responsible, amendment of the report after a first reading by the expert groups, longer analysis and synthesis of the results than planned), some delay may arise between the actual completion of the work and the official submission of the scientific report. The research contract is always extended by means of a rider to the original agreement except when the extension is less than six months. Requests for extension submitted by beneficiaries of research aid are always considered by an expert group appointed by the Commission for the purpose of giving an opinion on the justification of the request. Since the expert groups meet twice a year, it follows that for short extensions a rider is not signed until after the research work is finally completed. The authorizing and budget directorate had therefore decided in agreement with the legal department and the financial control directorate not to draw up riders for requests to extend the work for less than six months.'

Paragraph 11(c): The information at our disposal has been amended by the Commission's reply: 'Compared with 56 steel contracts in 1972, only 15 were signed in 1973, but to this 74 other contracts signed in 1974 payable out of 1973 appropriations should be added. The comparison should therefore be between 56 contracts in 1972 and 89 in 1973'.

16. As regards the numerous transfers between categories provided for, the Commission refers inter alia to the High Authority's communication of 24 April 1963, which states that: 'The beneficiary should use aid granted only for the purpose of carrying out the research programme drawn up by him and the High Authority in common agreement in accordance with the budget approved. Budget changes which prove necessary while the research project is being carried out and which would not have the effect of fundamentally changing the nature of the project may, however, be made by the beneficiary. The Commission should be notified of any such substantial changes.'

The Commission adds that in practice its relevant departments are always notified either in writing by the beneficiary or through an opinion expressed by the expert group instructed by the Commission to follow the development of the research project on its behalf. Since the practice has been to agree to amendments proposed by beneficiaries, it was considered unnecessary to include a detailed breakdown of estimates in future agreements. The Commission is not of the opinion that such an approach risks transforming research aid into an endowment.

17. As regards social research in the industrial safety, health and medicine sector, the Commission notes that:

'- Implementation of the outline programme to combat dust in mines was delayed by the need to recruit an official to manage the programme (creation of a new post in the 1973 budget);

'- The preliminary consultations were completed in the first half of 1973 and the first decision to grant individual aid was taken on 27 September 1973 (written procedure C/2737/73) for aid amounting to 1.9 m u.a.

'Research agreements pursuant to this decision were signed at the beginning of 1974.'

18. The Commission has given the following replies to the rapporteur's observations:

'- transfer of equipment to universities: - On 11 July 1972, PE No. C/1601/72, the Commission decided that equipment purchased with ECSC funds could, upon completion of the research work pursuant to the ECSC agreement, be made available to universities and/or institutions engaged in ECSC research.

The justification for this decision is the fact that the establishments listed in the decision are engaged in research and that the equipment involved cannot in any case be used for production purposes and cannot thus create problems of discrimination between undertakings within the meaning of the ECSC Treaty.'

The rapporteur

19. Having chosen as his working method the examination in detail of a specific subject each year, the rapporteur asked several other questions on the chapter dealing with technical, economic and social research.

The auditor

20. The auditor has also made several other remarks covering:

(a) The execution of social research agreements; (He feels that there are serious shortcomings in the detailed estimates and adds that there is a danger that Community aid could be transformed into an outright endowment since all too often in the case of changes the files made available to him did not show any of the changes made to the original estimates);

(b) The delay in submitting the final financial report and the final scientific report in the case of several files;

(c) Serious deficiencies in the production of final technical and scientific reports (use of funds earmarked for the dissemination of findings) and the resultant lack of specialized documentation which in the case of these files is mandatory under the terms of Community participation in research contracts.

The Commission

21. As regards responsibility for research expenditure the Commission states that the derogations provided by the official procedures¹ since the fusion of the executives of the three communities have been applied in accordance with the advice of the technical directorate and the directorate for budgets.

22. As regards the question in paragraph 16(a), the Commission states that, for technical and social research projects, working parties are responsible for following the development and progress of the outline programmes and that there is no laxity whatever in the execution of social research agreements.

23. As regards the question in paragraph 16(b), the Commission attaches no fundamental importance to the summary financial report. It regards it as merely a summary of the various half-yearly financial reports and thus affirms that the absence of a summary report drawn up by the beneficiary in no way prejudices the sound financial management of the research contracts. It also assures the Committee on Budgets that only the report drawn up by the Commission representatives serves as a basis for closing the accounts. Lastly, it lists the following changes to be made in 1975 as regards final reports:

¹ The Commission recalls that in the High Authority decision of 28 June 1967 adopted by the Commission on 28 November 1967:
'Only expenditure incurred after the date of signature of research contracts may be considered as research expenditure to which the High Authority should contribute. With the express agreement of the working party, however, the general rule may be waived in the following cases:
(a) Individual projects covering a single topic and carried out by a single beneficiary; such derogations should not entail responsibility for research expenditure incurred before the High Authority decision to forward projects for the opinion of the consultative committee;
(b) Extensions to complete research projects already financed by the High Authority; such derogations should not entail responsibility for research expenditure incurred before the date of the receipt of the final request for an extension on the basis of which the agreement will be drawn up.'

- Final technical reports: adoption of a clearly defined form to facilitate publication;

- Final financial reports: to be abolished since the ECSC has already been given all the information in the half-yearly reports.

24. One further assurance is given to the Committee on Budgets about authorization of the last payment of aid for research contracts. Payment is made only after verification that the contractual obligations have been fulfilled.

25. As regards the question in paragraph 16(c), the Commission states that the provisions of the research agreement on the distribution of information have been remodelled and that delays in publishing the results of ECSC research projects have been considerably shortened.

The Committee on Budgets

26. The number of remarks made by the auditor and the serious and analytical nature of the Commission's replies show how essential it was for the Committee on Budgets to raise several matters over the past year and to provide an incentive for solutions to unsatisfactory situations through its proposals.

Can it be claimed that, compared with the year in question, 1973, considerable improvements have been made?

27. We have seen both in the chapter devoted to research projects and in the conclusions of the auditor's report that he has many reservations. Rationalization of the work of the departments concerned, elimination of the mistakes which are still too numerous and better use of the management funds therefore appear to the auditor to be battles still to be won.

28. On the basis of the Commission's replies which list improvements made after the period under consideration, in other words, in 1974 and 1975, the Committee on Budgets for its part can state that it considers the existing situation an improvement despite the fact that there seem to be other causes for the shortcomings. As the auditor points out (paragraph 65.7, last paragraph), the shortcomings mentioned are growing worse from year to year 'insofar as activities are following the rising trend reflected by the management of more and more contracts'.

It is not, however, proven that the increase in the number of contracts automatically implies an increase in the number of shortcomings mentioned. It is, however, true that when the auditor makes such a statement it must be because he considers the shortcomings to be structural and such as to necessitate basic remedies and a clearer conception by the institution of its programme and management tasks in the activities of the ECSC.

29. In view of this, and since the auditor gives a qualified assessment of the current situation in research financing, the Committee on Budgets, having noted the improvements that have nevertheless been made, awaits the auditor's report for 1974 in which he will follow up Parliament's strong recommendations and give his final assessment of the current situation in the sector of technical, economic and social research financing.

30. By adopting this temporary position, the Committee on Budgets supports the auditor's remark that it is extremely important that the requisite information for good auditing should be forthcoming especially from the Commission, where, in the case of the activities under consideration, all the records - in his opinion - are of an internal nature, only very few of them being officially published.

Borrowing, lending and guarantee operations

31. The rapporteur also wishes to consider briefly but with particular emphasis, the chapter in the Auditor's Report on ECSC borrowing, lending and guarantee operations. His attention has been drawn to these operations in particular, because of the increasing importance of ECSC borrowing activity.

As stated by the Commission of the European Communities in its note of reply, growth in this policy has been as follows:

(million u.a.)

	<u>Borrowings</u>	<u>Loans</u>
1972	230	188
1973	263	286
1974	600	412

32. The rapporteur also asked what criteria the growth in this policy was based on: the Commission's answer was as follows: The credit policy followed by the Commission as regards the ECSC is aimed exclusively at achieving the overall objectives. These are, as is well known, worked out and defined at regular intervals by the Commission services and the Advisory Consultative Committee in close collaboration with each other.

ECSC borrowing operations are related to the volume of loan applications submitted, insofar as these are intended to finance investment projects which form part of the overall objectives.

33. The Commission also explained what had led it to some extent to operate a 'reserves policy'. It felt this was necessary to guarantee its operations to its financial backers. Its answer was in detail, as follows:

The ECSC's solvency and privileged position as regards borrowing operations are the result of three main factors, namely the existence of the Guarantee Fund, the substantial bank guarantees by which the loans are secured and the levy.

If an ECSC loan cannot be honoured, the ECSC loan service can be called on to meet commitments through recourse to the Guarantee Fund appropriations which, to deal with the matter in detail, are available for as long as is necessary to meet the guarantees given to obtain the loan in question. If the total amount of the loan cannot be repaid when the guarantees have been met, recourse can be had to the levy.

Moreover, the ECSC's legal status, together with regular presentation of accounts based on cautiously chosen criteria, including an orthodox reserves policy, are naturally of great importance, given the financial risk.

34. The Committee on Budgets has noted that the balance sheet structure of the ECSC for the management of financial and banking operations conforms to the text currently in force, i.e. the Fourth Directive submitted by the Commission to the Council on 16 November 1971. It has also noted that the High Authority has succeeded in investing borrowings on the American market in view, in particular, of its reputation for financial reliability.

Conclusions

35. Given these explanations, the Committee on Budgets feels that the Auditor's views on the policy of holding reserve funds with the High Authority should be modified. While it would not approve indiscriminately of 'reserves policies' as such, it feels that the existing reserves which have been built up at the established rates, as well as those necessary to maintain the financial reliability of the ECSC on the world's financial markets, should nevertheless be viewed positively.

36. On the other hand, the Committee shares the Auditor's view that the rate of amortization of mission expenses applied by the Commission is often excessive and that a change in amortization rates of 10 to 13% from one year to the next (1971/72) can hardly be justified.

37. Finally, the Committee on Budgets would like to see the rates of interest required on investments generally coming more into line with the market rates.

38. Two years ago the rapporteur gave particular attention to the control of the management of the High Authority's fiscal policy, namely, declarations of levies, verification and collection of receipts, etc. Its conclusions and suggestions enabled the Commission to carry out improvements in management.

It must also be stressed in this connection that the number of corrections to tax returns by the firms concerned was equal to half the number of spot checks made by the Commission (9/21). The Commission should, therefore, be asked to consider whether the number of spot checks is sufficient and whether there should not be more thorough retrospective analysis of the reasons for such corrections, to see whether the mistakes occur for reasons other than divergent interpretations of the regulations in force.

39. A year ago the Committee on Budgets stressed a fundamental chapter of the Auditor's Report: namely, the one on the policy on financing technological, economic and social research. Here, too, the interim results of the ECSC Auditor's work and the corrections to the existing situation carried out by the Commission can be considered satisfactory. The

Committee on Budgets must nevertheless reconsider this problem in the light of the final conclusions which the Auditor expects to submit in his report on the accounts for the 1974 financial year. At the same time, it appreciates the fact that the Auditor's work has led to the setting up of a schedule of due dates that makes possible the control of expenditure at different stages of the procedures, and consequently an assessment of the merits of the various policies. It was also satisfied with the efforts made by the Commission

- (a) to shorten the decision-making procedures involved in the financing of research;
- (b) to assure proper application of financial agreements linked to each contract;
- (c) to draw up rapidly financial reports summarizing the performance of contracts and detailed technical and scientific reports;
- (d) to try to prepare technical research programmes in accordance with the annual timetable issued by the High Authority;
- (e) to put at the disposal of the Committee on Budgets all essential details of the schedule of due dates for research.

40. Your rapporteur, must nevertheless, in view of the many remarks made by the Auditor on these subjects, ask the Commission to exercise greater care in its management with a view, among other things, to preventing other causes of deterioration of the present situation from arising.

41. This year, when the ECSC Auditor's activity is soon to be replaced by a European Community Audit Office, your rapporteur wishes to end with two considerations (which are taken up in the motion for a resolution) relating to:

- (a) the importance of the audit of the ECSC's financial and budgetary operations;
- (b) the Commission's responsibilities as regards the policies laid down in the ECSC Treaty;
- (c) Finally, the nature and establishment of the annual balance sheet.

42. As regards point (a)

The Committee on Budgets, aware of the importance of an activity as fundamental as the annual presentation of accounts, considers, as the recipient of the Auditor's report and as the institution first called upon to assess the financial activities of the ECSC - which the Commission of the Communities determines and administrates - that the presentation of accounts should assume, both at political and at financial level, greater importance and that therefore:

- (a) external control (by the Auditor) should go beyond the purely accounting aspect of the subject matter involved, and should be strengthened in its capacity and ability to obtain all necessary information for providing Parliament with a complete assessment of the financial management and results achieved.
- (b) since the financial management should be assessed with regard to the various policies being pursued, it is increasingly important that the precise aims of the audit be fixed during the year.

43. As regards point (b)

With regard to these requirements, the Committee on Budgets notes with satisfaction the commitments entered into and the decision taken by the Commission in response to Parliament's resolution on the Auditor's reports for 1971 and 1972, and concerning:

- (a) more precise definition of the general and financial policy;
- (b) the attempt by the Commission's services to achieve greater coordination of ECSC activities;
- (c) the decision to have the Commission adopt the annual balance sheet.

The committee is satisfied without reservations as regards the principle on which the Commission has based its commitments and decisions, but it must nevertheless uphold in particular the criticisms in the Auditor's report for 1973 on this matter. The Committee on Budgets at least is convinced, the Commission's assertions notwithstanding, that since the merger of the Community executive authorities (1967) the latter have still not recovered the dynamism given to them by the ECSC High Authority. As it considers this dynamism essential, the Committee on Budgets therefore calls on the Commission to strengthen its efforts with a view to maintaining and reinvigorating these activities.

44. As regards point (c)

Last year, the most important criticism made on the establishment of the balance sheet was that it was not signed by the Commission of the European Communities itself.

This requirement now seems to be satisfied. The Committee on Budgets nevertheless considers, as does the Auditor, that as regards the nature of the balance sheet, the Commission should give an account of the management of the ECSC's activities by submitting each year a balance sheet which:

- (a) should be drawn up, as regards the ECSC's policy on borrowing, on the basis of accepted international criteria and in accordance with the principles of the directive adopted to this effect by the Council on 28 January 1972;

(b) meets clear and accepted criteria for the allocation of appropriations and the financial assessment of assets and liabilities.

As the ECSC Auditor has moreover referred to difficulties encountered in drawing up accounts based on varying criteria which do not make it easy to make the necessary comparisons, the Committee on Budgets would not consider its report complete if it did not stress how essential it considers it, to enable Parliament to exercise its powers in full knowledge of the situation, that the ECSC's accounts should indicate the precise nature of commitments entered into, account being taken of the currencies concerned, thus allowing for the necessary comparisons to be made.