

EUROPEAN PARLIAMENT

Working Documents

1980 - 1981

14 May 1980

DOCUMENT 1-150/80

Report

drawn up on behalf of the Committee on Budgetary Control

on

- I. the accounts of the European Parliament and the discharge in respect of the 1978 financial year**
- II. the discharge to be granted to the Commission on the implementation of the budget of the European Communities for the 1978 financial year and the report of the Court of Auditors (Doc. 1-567/79)**
- III. the discharge to be granted to the Commission of the European Communities in respect of the utilization of the appropriations of the fourth European Development Fund in the 1978 financial year (Doc. 1-138/80)**
- IV. the comments accompanying the decisions granting a discharge on the implementation of the budget of the European Communities for the 1978 financial year (Article 85 of the Financial Regulation of 21 December 1977)**
- V. the discharge to be granted to the Commission of the European Communities in respect of the activities of the first, second and third European Development Funds for the 1978 financial year**

Rapporteur: Mr R.C. BATTERSBY

On 10 December 1979 the President of the European Parliament transmitted to the Committee on Budgetary Control the report of the Court of Auditors in respect of the 1978 financial year (Doc. 1-567/79).

On 4 September 1979, the Committee on Budgetary Control appointed Mr BATTERSBY rapporteur for the discharge to be granted in respect of the 1978 financial year.

By letter of 14 February 1980 the Committee on Development and Cooperation was authorized to deliver an ~~opinion~~ on Doc 1-567/79.

The Committee on Budgetary Control considered the revenue and expenditure accounts of the Community, the report of the Court of Auditors and the special reports of its draftsmen on the various policy sectors of the Community at its meetings on 26/27 November 1979, 17/18 December 1979, 23/24 January 1980, 31 January/1 February 1980, 20/21 February 1980, 17/18 March 1980, 31 March/1 April 1980, 21/22 April 1980 and 29/30 April 1980.

At its meeting on 29 April 1980, the Committee unanimously adopted Part IV - comments accompanying the decisions granting a discharge on the implementation of the budget and of the amending and supplementary budgets of the European Community for the 1978 financial year.

Present at time of voting: Mr Aigner, Chairman; Mrs Boserup, Vice-Chairman; Mr Price, Vice-Chairman; Mr Battersby, rapporteur; Mr Balfe (deputizing for Mrs Fuillet), Mr Irmer, Mr Edward Kellett-Bowman, Mr Key, Mr Simonnet and Mr John Mark Taylor.

At its meeting on 30 April 1980 the Committee on Budgetary Control unanimously adopted Parts I, II and III; it adopted Part V by 11 votes in favour with 1 against.

Present at time of voting: Mr Aigner, Chairman; Mrs Boserup, Vice-Chairman; Mr Battersby, rapporteur; Mr Alber, Mr Gabert, Mr Gallagher (deputizing for Mr O'Leary), Mr Irmer, Mr Edward Kellett-Bowman, Mr Key, Mr Langes (deputizing for Mr Notenboom), Mr Simonnet and Mr Wawrzik (deputizing for Mr Pflimlin).

The opinion of the Committee on Development and Cooperation is attached.

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A

I

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

PROPOSED DECISION

on the accounts of the European Parliament and the discharge in respect of the 1978 financial year

The European Parliament,

- having regard to the interim report of the Committee on Budgets (Doc 102/79)
 - having regard to its resolution of 25 April 1979⁽¹⁾
 - having regard to the revenue and expenditure accounts and the statements of assets and liabilities of the Communities for the accountancy procedures in respect of the 1978 budget and to the report of the Court of Auditors for the accounts for the 1978 financial year (Doc 1-567/79)
 - having regard to the report of the Committee on Budgetary Control (Doc. 1-150/80),
1. Fixes the accounts of the European Parliament as at 31 December 1978 at a final figure of 93,001,844.08 EUA including expenditure commitments incurred during that financial year of 78,468,862.14 EUA actually spent and of 14,532,981.94 EUA still to be paid out at the end of that financial year.
 2. Grants a discharge to its President and Secretary-General, pursuant to Rule 50 a (3) of its Rules of Procedure, in respect of the 1978 financial year.

(1) OJ No C 127 of 21.5.1979, p. 38

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

PROPOSED DECISION

on the discharge to be granted to the Commission in respect of the implementation of the budget of the European Communities for the 1978 financial year and the supplementary and amending budgets and the report of the Court of Auditors.

The European Parliament,

- having regard to the Treaty establishing the ECSC and in particular Article 78g thereof,
- having regard to the Treaty establishing the EEC and in particular Article 206b thereof,
- having regard to the Treaty establishing the EAEC and in particular Article 180b thereof,
- having regard to the revenue and expenditure accounts and the financial statements for the accountancy procedures in respect of the budget for the 1978 financial year,
- having regard to the report of the Court of Auditors on the accounts for the 1978 financial year and the answers of the Institutions to the report (Doc 1-567/79),
- having regard to the Council recommendation on the granting of a discharge to the Commission in respect of the implementation of the budget and of the amending and supplementary budgets for the 1978 financial year (Doc. 1-77/80)
- having regard to the report of the Committee on Budgetary Control, the annexed working documents on the various Community policy sectors, and the opinion of the Committee on Development and Cooperation (Doc. 1-150/80),

1. Notes that

(a) Estimates of revenue for the 1978 financial year totalled		EUA 12,362,654,592.00
Made up as follows	EUA	
Own resources	6,896,000,000.00	
Contributions provided for in Decision of 21 April 1970	5,341,382,366.00	
Other	125,272,226.00	
(b) Estimates of expenditure for the 1978 financial year totalled		12,362,654,592.00

2. Notes that	EUA	EUA
The surplus of the 1978 financial year to be carried forward ⁽¹⁾ amounted to		41,618,638.39
Comprised as follows:		
Revenue collected in respect of 1978	12,181,666,326.45	
Payments made against appropriations for 1978	10,733,847,301.50	
Appropriations for 1978 carried forward	1,527,721,076.53	
Net amount resulting from cancellations of appropriations carried forward from previous financial years	166,581,492.06	
Deficit arising on conversion of the balance sheet at 31 December 1977 into EUA on 1 January 1978	45,060,802.09	
	o o o	
3. <u>Grants a discharge to the Commission in respect of the following amounts shown in the revenue and expenditure accounts</u>		
(a) Revenue		
- Entitlements established for the 1978 financial year		12,188,984,757.72
- Entitlements collected at 31 December 1978 broken down as follows:		11,884,191,574.11
1. Amounts collected from the entitlements for the financial year		12,181,666,326.45
Broken down as follows:		
Own resources	6,674,219,710.84	
Contributions under the Decision of 21.4.1970	5,340,296,846.66	
Other	167,149,768.95	
2. Amounts collected from entitlements carried forward from the preceding financial year		(297,474,752.34)
Made up as follows:		
Own resources	16,991,387.60	
Contributions provided for under the Decision of 21.4.1970	(364,466,139.94)	
Other	50,000,000.00	

¹ In accordance with Article 15 of Regulation 2891/77
OJ L 336, 27.12.1977, page 5.

(b) Expenditure (payments shown
in the accounts for the
financial year)

10,733,847,301.50

4. Draws attention to its resolution embodying the comments accompanying the decision granting a discharge and requests the Institutions to report on the measures taken following those comments in accordance with Article 85 of the Financial Regulation;
5. Instructs its President to communicate this decision and the attached comments to the Commission of the European Communities, to forward them to the other Institutions and to arrange for their publication in the Official Journal (L series).

III

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

PROPOSED DECISION

on the discharge to be granted to the Commission of the European Communities in respect of the utilization of the appropriations of the fourth European Development Fund for the 1978 financial year

The European Parliament

- having regard to the Treaty establishing the European Economic Community and in particular Article 206b thereof,
 - having regard to the ACP-EEC Convention of Lomé,
 - having regard to the internal agreement on the financing and administration of Community aid,
 - having regard to the revenue and expenditure account, the balance sheet and the report on the activities of the fourth European Development Fund (Doc.1-138/80)
 - having regard to the report of the Court of Auditors on the accounts for the 1978 financial year and the answers of the Institutions to the report (Doc.1-567/79),
 - having regard to the report of the Committee on Budgetary Control and the Opinion of the Committee on Development and Cooperation (Doc.1-150/80).
1. Grants a discharge to the Commission in respect of the following amounts shown in the revenue and expenditure accounts for the 1978 financial year:
 - revenue: amounting to 147,300,535.89 EUA
 - expenditure (payments): amounting to 319,791,308.98 EUA
 2. Instructs its President to communicate this decision to the Commission of the European Communities, to forward it to the other Institutions and to arrange for its publication in the Official Journal (L series).

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

MOTION FOR A RESOLUTION

containing the comments accompanying the decisions granting a discharge on the implementation of the budget of the European Communities for the 1978 financial year

The European Parliament

1. Calls upon all the institutions to take the necessary measures to comply with the following comments and asks them to submit a written report on these measures, pursuant to the provisions of Article 85, third paragraph, of the Financial Regulation;
2. Believes that it is necessary to ensure continuity in the matter of the follow-up to the comments set out in the present resolution and will consider a report in the matter at its November part session;
3. Notes the comments which accompanied the Council's recommendation in regard to the 1978 discharge and welcomes the evidence of a more positive attitude by the other arm of the budgetary authority towards its responsibility in regard to the control of the Community budget;
4. Deplores the fact that, once again, most of Parliament's amendments to the payments appropriations were implemented in a totally inadequate way and finds this virtual non-implementation unacceptable;
5. Finds that the reasons for this failure are twofold: firstly, there was a lack of political courage on the part of the Commission in not implementing amendments that were of the utmost significance to the well-being of Europe and, secondly, there was an inadequate response by the Council and by the administration of the Member States ;

6. Lays special emphasis on the view, stated by Parliament on numerous occasions, that the programme or management committees may have only an advisory role, which must not impede the Commission in the exercise of its decision-making powers; points out in particular that, in regard to the implementation of the budget, the Commission is answerable to the budgetary authority alone;
7. Demands that, henceforth, the Commission acts in a far more positive way in regard to the amendments effected by Parliament to the budget;
8. Observes that transfers within and between chapters during the course of the financial year have the effect of grossly distorting the budget as adopted;
9. Considers that the levels of carry overs from one financial year to another drastically distort the accounts, take from transparency and clarity, and frustrate the intentions of Parliament as reflected in the annual budget, as adopted;

As regards the general accounts

10. Notes that, on the basis of the report of the Court of Auditors, the general accounts are in an unsatisfactory state and asks the Commission to report to Parliament on proposals for across-the-board improvements in the transparency, management and presentation of the budget;

As regards agricultural stocks

11. Is disturbed (a) at the high level of stocks of certain commodities carried at significant cost to the Community budget, (b) at the lack of clarity as to the precise ownership of these stocks, and (c) that the amounts of the stocks had not always been physically verified;
12. Considers that it is essential that a comprehensive study be made of all aspects of these stocks with a view to establishing the full financial facts and implications and requests that a report be made to Parliament in the matter before the end of 1980;

Revenue

13. Asks its Committee on Budgetary Control to investigate whether the present rules and implementation procedure can guarantee the fair and uniform collection of revenue, particularly in view of the recent ruling of the Court of Justice in regard to the Rotterdam-Roubaix-Como case no. 267/78;

14. Urges the Council to act as soon as possible on the Commission's proposals for strengthening its powers in the fields of information, control and the collection of amounts due;
15. Suggests that the number of professionally qualified staff responsible for the control of Community revenue as well as for the management of Community expenditure should be increased;
16. Asks the Commission to inform it, as soon as possible, of the results of investigations into matters relating to the uniform application of Community rules on the assessment of customs value and the effects of the new system which enters into force in the second half of 1980;

Administrative expenditure and staff

17. Recommends that the institutions should consider jointly the most appropriate permanent structure to ensure a continuing review of their management methods and staff deployment (the Commission participating simply to make some of the expertise of their existing department available to the other institutions);
18. Asks the Commission to submit a report on the action it has taken on the proposals for reform of the Commission of the European Communities and its services (report of Mr Spierenburg);
19. Urges the Commission, in the interests of greater clarity and budgetary transparency, (a) to give effect to the main recommendations of the Court of Auditors in its report on the 1978 financial year in regard to transport; (b) to ensure that the contract for supply is open to competitive tender at least once every three years; and (c) that the report called for in Doc. 1-537/79 be made available as soon as possible; notes that a precise procedure for the use of air-taxis is now in operation following the discussions between the Commission, the Parliament and the Court of Auditors;
20. Observes that the provisions of the Financial Regulation applying to the settling of advances on staff mission expenses are often not being respected and urges that adjustments to salaries should be made promptly in future cases;
21. Urges that a simpler and speedier system of reviewing the level of staff subsistence allowances be adopted;

22. Commends the Commission's recent endeavours to coordinate the mission activities of its directorates-general and urges that (a) representation at meetings outside the normal work places of the Community be kept to the minimum level that is consistent with the efficient discharge of the Commission's role and (b) a single official on mission should act on behalf of more than one directorate-general where this is practicable and expects the other institutions to follow the Commission's practice;
23. Considers that the authorization of missions outside the normal work places of the Community should be followed up, where appropriate, by a report enabling a check on the results achieved and a sharing of the information gained with other relevant officials;
24. Deplores the absence of up-to-date standardized implementing rules for the Financial Regulation because this makes control harder to operate and could give rise to variations between the systems operated in the different institutions of the Community and urges that this matter be set right by the end of 1980;
25. Urges that the opportunity be taken when the Financial Regulation is next amended to find practical solutions to the end-of-year accounting problems which have arisen;
26. Calls on its Committee on Budgetary Control to look at the procedures and arrangements for making grants to societies and associations benefiting from Community financial assistance;
27. Recommends that, where possible, the information offices of the Commission and the Parliament should be housed in the same building so that they can share common facilities such as a library, publications stores, conference room and telex equipment;
28. Calls upon the Commission to put forward draft amendments to the implementing provisions of the Staff Regulations to reinforce the exceptional nature of the payment of family allowances for adult dependants and that, in the meantime, it should confine its discretionary power in the grant of this allowance to genuinely exceptional cases;
29. Calls upon the other institutions to work with the Commission in preparing similarly amended implementing provisions and to follow the same policy, in the meantime, in the award of the allowance;
30. Asks the Committee on Budgetary Control to review the situation regarding the payment of the allowance for arduous working conditions to officials in the field of nuclear science at a later date and urges the Commission to exercise strict control over the payment of this allowance at all its Research Centres;

Research, investment, energy and industrial policy

31. Notes a considerable degree of underspending, which, in the case of energy in particular, may be attributed to the delays in the adoption of regulations by the Council, and to the nature of some of the regulations, under which the Council must approve each individual project;
32. Calls for strengthening of internal control and stricter rules concerning:
 - the JRC as regards inventory checks, stock accounts and the calculation of charges for contracts for research or the supply of services,
 - Indirect Action as regards the percentage participation in and advances paid on cost-sharing research contracts;
33. Considers that in regard to research it is necessary to establish closer links between Direct and Indirect Action, improve the administrative coordination of research as a whole, concentrate Indirect Action on specific themes, rationalize the advisory system and further improve evaluation of research;
34. Takes the view that, as regards energy and research: greater budgetary discipline is called for; increased budgetary and accounting transparency is required; the possibility should be investigated of simplifying the procedures for the conclusion of contracts;
35. Will consider an ad hoc report on the budgetary accounting and control aspects of the JRC on the basis of a report prepared by its Committee on Budgetary Control;
36. Condemns the low level of utilization of the appropriations earmarked for industrial policy, technological research and training programmes;

European Social Fund

37. Regrets that, despite the increase in unemployment, the Commission has been hindered in implementing the Social Fund by the slowness of the Member States to submit applications for assistance and requests the Council to take the necessary steps to ensure that the national authorities in the States concerned improve the situation;

Aid to disaster victims in the Community

38. Calls on the Commission to develop Community measures guaranteeing that the money made available to help disaster victims reaches the people concerned as quickly as possible and with the minimum of bureaucratic complications;

39. Emphasizes the need for the recipients of payments, when they accept the aid, to submit to checks by the Commission or by the Court of Auditors and to hold themselves accountable for the use of such aid;

European Regional Development Fund

40. Stresses the importance of speeding up the flow of payments so that Fund aid can be more effective and deplores the fact that delays have occurred and calls on the Council to take the necessary corrective measures;
41. Expresses its dissatisfaction at the delays and inefficiencies on the part of Member States in transmitting to the Commission the statistical data needed to gauge the impact of Fund expenditure;
42. Asks that the Court of Auditors should carry out more on-the-spot control visits and should inform the European Parliament of the results;
43. Asks, also, that the Court of Auditors should check that funded projects form part of a systematic development plan;
44. Draws attention to the principle of additionality and insists that contributions from the Fund should complement, rather than replace, national expenditure on regional development; and asks that an assessment be made by the Commission as to how far the principle is, in fact, being observed;

EAGGF

45. Whilst appreciating the difficulties, deplores the inexactitude of estimation of agricultural expenditure;
46. Believes, furthermore, that there is need for greater coordination between the agricultural price review and the budgetary estimating procedure so as to ensure more accurate estimates of agricultural appropriations;
47. Urges the Commission to prevent overlapping between different items in titles 6 and 7 and to desist from creating random financial reserves which delay measures likely to restrain the growth of agricultural spending;

48. Considers that the Member States should endeavour to adhere to the deadlines laid down for the transmission of justifying documents and asks the Commission to report regularly to the Parliament in this matter;
49. Points to the risks of possible speculation in the agricultural sector and insists that the Commission takes all possible measures to close off opportunities for market manipulation;
50. Demands that the budgetary authority be informed before any decision is taken concerning the sale of substantial amounts of agricultural products subsidised by refunds likely to lead to an exceeding of the budgetary cover;
51. Underlines the problems confronting the auditing authorities in the combat against fraud and irregularities and instructs the Committee on Budgetary Control to organize a meeting to which should be invited representatives from the national audit bodies, national administrations and the Court of Auditors to study these difficulties and to suggest remedies;

EDF, Stabex and food aid

52. Observes that the fact that the EDF is not yet budgetized presents many technical disadvantages and is, politically, abnormal and unacceptable and calls once again for its budgetization;
53. Will consider a separate report on the functioning, effectiveness, mechanisms and control procedures for STABEX;
54. Considers that the problems concerning the implementation of food aid raised by the Court of Auditors should be solved as a matter of urgency, particularly the lack of transparency; affirms that, as regards food aid, priority should be given to humanitarian and development aspects over agricultural policy aspects and awaits (a) the report which is being drawn up by the Court of Auditors and (b) the report of the Committee on Development and Cooperation on this subject in order to be able to pronounce on the matter, as early as possible, in a well-informed manner;
55. Notes that there have been considerable delays in implementing financial and commercial cooperation with the non-associated developing countries resulting in the need to reinscribe 36 million EUA following the failure of the Council to take decisions in good time causing hesitation on the part of the Commission to implement the appropriations provided in the budget;

Decentralized agencies, autonomous organizations and satellite bodies

56. Accepts that the complicated role of the EC entails, of necessity, the setting up of a number of specialized agencies and the granting of a degree of autonomy to certain administrative units but considers that a close watch should be kept on such bodies and the justification for their continued existence should be reviewed from time to time;
57. Considers that the financial regulations governing such bodies should be standardized as far as possible and discharge for them should be a matter for Parliament;
58. Believes that cost-effectiveness yardsticks should be applied to these bodies and their management standards should be examined with a view to ensuring that best value is obtained for the Community outlay involved;
59. Expresses a formal reserve in respect of the discharge for the European Schools and will consider the issues further in the light of a report from the Committee on Budgetary Control;

Borrowing and lending

60. Attaches a special priority to the need to have the borrowing and lending policies of the Community brought fully within the framework of the budgetary procedures and is of the opinion that the present system of budgetization, as used in the 1978 budget, provides a totally inadequate basis for control by the political bodies of the Community over the Commission's management policy and points out that only a part of the Community's borrowing and lending activities are actually entered in the budget;
61. Notes that, although the Community enjoys an excellent reputation as a borrower on the world market, Parliament considers that it has had too little information to fully assess the management aspect of the 1978 budget in this context, and expresses its wish to receive much more adequate information in respect of future financial years;
62. Stresses that the sharing of responsibility for management and implementation of overall Community policy in this sphere makes a coordination of policy decisions highly important;
63. Calls on the Committee on Budgetary Control to exercise effective control not only over the borrowing and lending operations managed by the Commission but also over the activities managed by the EIB using Community funds, as regards both the policy pursued and the economic results achieved;

64. Asks the Commission of the EC to present a detailed report, if necessary on a confidential basis, on borrowing and lending activities in a manner which will satisfy the requirements of the specialized committees of Parliament;
65. Proposes that greater use should be made of interest rebates to ensure that investments correspond more effectively to political objectives;
66. Asks its Committee on Budgetary Control to draft a report on a system of centralized political responsibility for borrowing and lending activities;
67. Requests the Court of Auditors to comment on borrowing and lending operations in its next annual report;

As regards Institutions other than the Commission

68. Stresses the need for respect by all the Institutions of the Community for the provisions of the financial regulation in regard to the post of financial controller;
69. Urges all the Institutions to ensure that the provisions of the Staff Regulations are fully observed in the matter of the recruitment of staff.

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

PROPOSED DECISION

on the discharge to be granted to the Commission of the European Communities in respect of the activities of the first, second and third European Development Funds for the 1978 financial year

The European Parliament,

- having regard to the report of the Court of Auditors on the accounts for the 1978 financial year and the answers of the Institutions to the report (Doc. 1-567/79),
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Development and Cooperation (Doc. 1-150/80),
 - considering that the Treaty of 22 July 1975, which, notably, conferred on Parliament the power of discharge in respect of the implementation of the annual budget applied to the accounts for the 1978 financial year, including of course the financial operations of that year in regard to the activities of the first, second and third European Development Funds;
1. Grants a discharge to the Commission in respect of the financial management of the first, second and third EDFs during the 1978 financial year;
 2. Instructs its President to communicate this decision to the Commission of the EC, to forward it to the other institutions and to arrange for its publication in the Official Journal (L series).

EXPLANATORY STATEMENT

Introduction

1. Two acts of the European Parliament have great political significance. These are, firstly, the adoption of the general budget of the EC which sets out the annual expenditure and revenue programmes of the Community and in which Parliament enacts its fiscal policy; and, secondly, the political closing of the accounts - "the discharge" - by which Parliament puts its seal of approval on the budget as implemented. Specialised work in relation to the first is assigned to the Committee on Budgets. Last July, the European Parliament established the Committee on Budgetary Control to look after control and auditing matters. The two Committees are linked. Although both are completely independent, they have a very close working relationship.

2. During the course of the financial year, the Committee on Budgetary Control follows closely the pace of the implementation of the budget. Apart from dealing with ad hoc matters and following up specific issues noted in the course of the study of the accounts for earlier years, the Committee considers the quarterly reports which are specifically provided for at Article 29 of the Financial Regulation as well as transfers.

3. The present report on the 1978 accounts is very much a team effort. The principal rapporteur was assisted by twelve colleagues who prepared working documents on different aspects of the 1978 budget and its implementation. These working documents, which are annexed to the report, have simplified considerably the task of the rapporteur; they have also identified areas where reforms are needed and, by their positive and constructive approach, will make it possible for the reader to have a better comprehension of the complicated Community budget.

4. In the following paragraphs, the rapporteur describes the significance of the discharge - refusal of which would be tantamount to a vote of censure of the Commission, the special political importance attaching to amendments, certain shortcomings in the accounts of the Community, the reaction of the executive to the comments on the 1976 accounts (as the 1977 accounts were granted discharge in November 1979 only, it is too early to expect a considered reaction from the Commission), and makes a series of observations on specific points that he considered warranted special attention.

5. In examining the implementation of the budget, the Committee on Budgetary Control endeavours to check that the budget, as voted, has been carried into effect, due account being taken of the criterion of sound financial management. Thus, whilst the degree of implementation of

European Parliament amendments is checked, the Committee does not find fault with underspending on certain lines of lesser political significance. A special watch is kept for extravagance, irregularities and infringements of proper procedures. Above all, emphasis is placed on ensuring that worthwhile use is made of taxpayers' funds.

Significance of the discharge

6. Article 17 of the Treaty of 22 July 1975, which amended the Treaty establishing the European Communities, provided for the addition of an article 206b as follows:

"The Assembly, acting on a recommendation from the Council which shall act by a qualified majority, shall give a discharge to the Commission in respect of the implementation of the budget. To this end, the Council and the Assembly in turn shall examine the accounts and the financial statement referred to in Article 205 and the annual report by the Court of Auditors together with the replies of the institutions under audit to the observations of the Court of Auditors."

7. This new article, which was ratified by all the Member States, strengthened the role of Parliament considerably by giving it the last say in determining whether or not the annual budget of the Community was implemented satisfactorily from the political viewpoint and whether the Commission had carried out its duties fully.

8. This alteration in financial procedures reflected a significant shift within the budgetary authority in regard to control over the use of Community funds. Previously, the grant of discharge was a responsibility which was shared between Council and the Parliament to be exercised jointly. Since 1975, the Council has furnished an annual recommendation and the final decision has been made by Parliament.

Special importance attaching to the implementation of amendments

9. Because Parliament's main powers are in the budgetary sphere, it is quite appropriate that it should be empowered to pronounce definitively on the implementation of the budget. Parliament can amend the budget substantially during the course of its adoption. Such amendments require heavy majorities and political support extending across several groups. Once voted, however, their direct implementation lies with Institutions other than Parliament itself. If such amendments are not implemented, then a serious situation exists. The political will of Parliament is thwarted. And this has, in fact, been the case. Year after year, Parliament has amended the draft

general budget of the European Communities; these amendments have been accepted by the Council and the Commission has been charged with the task of carrying out its responsibilities under Article 205 of the EEC Treaty which states that

"The Commission shall implement the budget, in accordance with the provisions of the regulations made pursuant to Article 209, on its own responsibility and within the limits of the appropriations".

Year after year, when the outturn is examined, it is discovered that the overwhelming majority of the amendments voted by Parliament has not been implemented. The results for 1978 implementation are set out in Annex XIII to this text.

Amendments to the 1978 budget

10. Of the 52 amendments at table 1 of the annex referred to in the preceding paragraph - which provided for payments being made in the course of the 1978 financial year, less than one-third was implemented to a reasonably satisfactory extent. The following table gives fuller details of the degree of implementation:

<u>Percentage of payment appropriations provided in the amendments that was actually used in the financial year 1978</u>	<u>Number of amendments</u>	<u>Total of appropriations involved mEUA</u>
non implemented	34	476.3
0 - 10	5	7.3
10 - 25	1	19.0
25 - 50	7	75.8
51 - 75	2	8.0
75 - 90	2	0.3
90 - 100	1	0.1
	<u>52</u>	<u>586.9</u>

11. This, clearly, is unacceptable. The Commission has explained that some of the appropriations for payment not used in the budget year are carried over into the following year. However, Parliament's wish has been to have the money used during the budget year for which it was voted - and not in ensuing years. Of course, the under-utilisation is not confined to lines amended by Parliament: it also affects many other budget lines.

The Commission's argument that it has eventually used a proportion of the funds in ensuing years is not really relevant.

Criticism by the Court of Auditors

12. The Court of Auditors, which assists Parliament in its control work, makes the following critical observations⁽¹⁾ concerning delays in spending voted funds:

"The under-utilisation of payments appropriations on the present scale is a very serious matter since it calls into question both the basis on which the budgetary estimates were drawn up and the soundness of the financial management The principal objective in introducing differentiation i.e. separate appropriations for commitment and payment was to enable the amount of payment appropriations entered into the budget for the year in question to be reduced to the absolute minimum necessary to meet commitments falling due for payment in that year without restricting the Commission's ability to commit expenditure up to the predetermined level. Experience has shown that this objective has not been attained: the situation as regards under-utilisation of payment appropriations is just as serious as it was under the former regime of non-differentiated appropriations."

Moreover, the introduction of the system of differentiated appropriations enormously complicated the presentation of the budget and the accounts - apparently to little purpose.

13. However, in fairness to the Commission, it must be pointed out that the ECA recognises that part of the blame lies with Member States who are slow in submitting satisfactory claims for payments. The Council is also partly at fault because of the cumbersome and slow-moving legislative procedures it follows.

The Commission's explanations

14. In its report⁽²⁾ on the financial situation of the Communities at 31 December 1978, the Commission provides detailed explanations in regard to the implementation of the 1978 general budget. This text describes - from the Commission's viewpoint - the difficulties and delays that hampered the execution of the budget. In far too many cases, the difficulties and delays cited are hardy annuals, as the annexes to this report show. As well as this formal explanation, the rapporteur received detailed notes on individual amendments. The rapporteur noted with interest the suggestion of the rapporteur for the 1979 budget and the Chairman of the Committee on Budgetary Control concerning a revamped 'magic formula'. This is referred to later in the report⁽³⁾.

1 Para 1.6 of the ECA report on the 1978 financial year.

2 Doc 153/79

3 See paras 55-58 below

Carry overs

15. A significant feature of the implementation of the general budget of the EC is the existence of arrangements for the carry over of unused appropriations from one financial year to another. This possibility is provided for in the financial regulation and is quite in order providing that (i) it does not lead to excessive delays in implementing the annual budget and (ii) recourse is not made to it on such a scale as to distort the budget. Given the nature of the Community budget, the complexity of the legislative procedure and the need to operate through the services of the Member States, the flexibility, which judicious use of the carry over mechanism would give, is useful. However, the rapporteur considers that the size of the sums carried over and the readiness with which persistent recourse is had to this technique, obscure budgetary transparency and frustrate the wishes of the budgetary authority.

The following table ⁽¹⁾ shows the sums involved for the years 1973-1978.

	1	2	3
	Carry overs m.u.a.	total payments m.u.a.	1 as % of 2
1973	1,330.1	4,004.6	33.2
1974	1,980.3	4,516.4	43.8
1975	2,322.9	6,411.2	36.2
1976	2,123.8	7,287.6	29.1
1977	2,787.4	8,704.9	32.0
	<u>MEUA</u>	<u>MEUA</u>	
1978	2,007.0	11,973.1	16.8

These large movements of funds between financial years have the effect of substantially altering the character of the budget as adopted, and go far beyond the limits of acceptable flexibility.

16. The following table shows the fate of total budget carry overs, given as a percentage, in the financial years 1973-1978.

	Carried over from previous year and utilised	Carried over from previous year and cancelled at end of first year of carry over	Carried over to subsequent years
1973	35.4	43.4	21.2
1974	54.3	32.1	13.6
1975	60.6	38.1	1.3
1976	48.5	37.7	13.8
1977	53.0	32.1	14.9
1978	61.7	30.0	8.3

¹ Source: Doc 1-567/79, page 238

Thus, whilst a substantial part of sums carried over are used in the ensuing year, there is still approximately one-third which is carried forward again. This disturbs the budgetary arithmetic of later years.

Transfers

17. The financial regulation provides, at Article 21, for a transfer mechanism. Where non-compulsory expenditure is concerned, the provision for Parliamentary control is broadly satisfactory, the last word residing with Parliament. In the case of transfers in the EAGGF, Guarantee Section, Parliamentary control is non-existent. Under Article 101 of the financial regulation, the Commission submits proposals to the Council for transfers of appropriations from one EAGGF chapter to another, the Council acting by a qualified majority within three weeks. If it does not act within that period, the transfers are deemed to have been approved. The Council informs Parliament of such transfers.

18. Parliament has pointed out in the past that the volume of such transfers runs counter to the desiderata of budgetary transparency and clarity. As stated by the ECA at page 12 of the report on the 1978 financial year

"The size of these transfers and the fact that all of the budgetary headings are quite radically affected by them tend to detract in large measure from the value of the initial decision of the budgetary authority."

	%	EUA
Following are the figures for 1978 ⁽¹⁾		
Transfers within chapters	18	1,665,424,800.12
Transfers between chapters	13	1,147,384,902.37
TOTAL	31	<u>2,812,809,702.49</u>

It is evident that these uncontrolled movements of funds, which gravely distort the budget as adopted, cannot be tolerated. Therefore, amendments to the financial regulation must be considered during the course of this year's review,⁽²⁾ so as to provide for closer Parliamentary control over these movements of funds.

(1) Source: Table 13, Doc 1-567/79

(2) Provided for at Article 107 of the financial regulation

Closure of EAGGF accounts for earlier years

19. In the past, Parliament has expressed its concern at the long delays in closing the EAGGF accounts for earlier years. As pointed out by Mr DANKERT in his working document at Annex to this report, delays in the closure of accounts weaken the significance of the granting of a discharge, thus compromising Parliament's budgetary control powers.

20. For some years, the delays were of an unacceptable length. The final closing of the accounts for 1967/68 to 1970 took place after delays extending from eight to eleven years⁽¹⁾. The accounts for 1971-73 have just been closed and those for 1974 and 1975 are likely to be closed this year.⁽²⁾ The accounts for the financial years 1976 and 1977 are likely to be closed early in 1981.⁽³⁾

21. The blame for these delays is not solely that of the Commission, partly, it can be placed at the doorsteps of the Member States, although the need to have Court of Justice rulings to clarify certain doubtful points in regulations was a contributory factor.⁽⁴⁾ A full explanation of the situation is provided by the Commission at Title IV of its Eighth Financial report on the EAGGF.⁽⁵⁾ Apart from a shortage of Commission staff to carry out the necessary verification work, late transmission of data by the Member States is responsible. The following table shows the position for the 1977 accounts:

(Source: Table 12 of COM(79) 596 final)

Member State	Dates of dispatch and declarations for the purpose of the audit and clearance of 1977 accounts	
	First communication	Final communication
Belgium	13 Oct 1978	17 Nov 1978 (complete)
Denmark	19 Sept 1978 (complete)	
Germany	26 Sept 1978	11 Dec 1978 (complete)
France	20 Feb 1979 (complete)	
Ireland	end May 1979 (incomplete)	
Italy	31 Jan 1979 (incomplete)	26 Mar 1979 (complete)
Luxembourg	17 Oct 1978 (complete)	
Netherlands	31 Oct 1978	
United Kingdom	08 Mar 1979 (incomplete)	

Member States were asked to have submitted their accounts by 10 October 1978: the table reveals that only one Member State met the deadline. The Committee on Budgetary Control will continue to insist on further improvements and greater expedition in the closure of EAGGF accounts.

(1) Doc 1-567/79, para 2.24

(2) Doc " " " " 2.27

(3) Doc " " " " 2.28

(4) Cases Nos 47/75 and 11,15,16 and 18/76.

(5) COM (79) 596 final

Frauds, irregularities and loopholes

22. In his working document prepared in the context of the 1977 discharge, Mr SHAW drew attention to the deplorable fact that certain Member States appeared to have failed to pursue effectively the detection of irregularities involving Community funds.⁽¹⁾ The number of cases reported varies significantly from one Member State to another. Given that certain irregularities arise because of the incorrect application of highly complicated Community regulations and procedures - and not necessarily always from deliberate fraudulent practices - the rapporteur finds the situation particularly regrettable as it exposes the Community to avoidable criticism.

23. The following table shows that three Member States account for the preponderant share of notified irregularities, whilst other major States with sizeable agricultural sectors have reported significantly fewer cases.

	Number of EAGGF irregularities reported			% of final agricultural production 1977(2)
	1976	1977	1978	
United Kingdom	126	58	43	11.2
Germany	89	49	49	23.4
Ireland	11	5	1	2.3
France	5	8	9	26.1
Belgium	3	4	0	4.2
Netherlands	2	9	3	8.6
Denmark	1	14	11	4.9
Italy	2	5	1	19.2
Luxembourg	0	0	0	0.1
TOTAL	<u>239</u>	<u>152</u>	<u>117</u>	<u>100.0</u>

24. The amounts recovered have been relatively small and the pace of recovery has shown a certain sluggishness. The rapporteur has dealt with aspects of this problem in his report on the Seventh and Eighth Financial Reports of the EAGGF.⁽³⁾ In his working document, Annex to this report, Mr DANKERT discusses these problems and suggests that a hearing be organised to make public the insufficiency of control means available, and also to improve effective cooperation and coordination in combatting fraud. This proposal must be followed up as a matter of urgency, since rumours regarding the scale of irregularity perpetrated accompanied by the incapacity on the part of the Community to detect such irregularity is damaging to the image of the Community as a whole.

(1) Doc 1/463/79, para 63

(2) Basic Statistics of the Community 1979. Table 41 - Agricultural Accounts

(3) PE 62.221

Comments on certain key areas

- Hydrocarbons and uranium prospecting

25. Under Chapter 32, a sum of 80 million EUA in commitment appropriations was entered in the budget in respect of actions adopted for the hydrocarbon sector and for uranium prospecting. In the event, it appears that only 17 per cent of these appropriations was used. Because of the great urgency which attaches to endeavours to overcome Europe's energy problems, this slow rate of development is unacceptable.

- Failure to use funds in relation to technology

26. A special feature of the 1978 budget was the effort made to encourage small and medium sized firms to improve their innovatory capacity and to weather the economic difficulties arising from the recession of recent years. Appropriate amendments were made to the budget by Parliament. 15 million EUA were provided at item 3751 and 2 million EUAwere entered (in Chapter 100) for Article 390. As regards reorganisation and redevelopment operations in connection with crises in certain industrial sectors, the Commission put forward a proposal for a regulation on 31 October 1978, which was far too late for any effective action to be taken in 1978, and carryover procedures had to be used. As regards research projects in the field of technology and industry, the Commission did send a proposal to the Council. The Council, however, asked for a more thorough study to be made and, to save the appropriations, the Commission transferred them from Chapter 100 with a request for carryover. In both of these budgetary lines, therefore, nothing concrete came of Parliament's initiative in 1978.

- Inadequacy of the Social Fund

27. An examination of the results of Social Fund actions in 1978 reveals that 270 million EUA of "less urgent" applications were dropped in order to bring down the level of demands to the level of appropriations available after urgent priorities had been granted. A further sum of 259 million EUA was dropped because the applications in question were "not allowable, ineligible, or not urgent. The Fund's total allocation (570 million EUA for chapter 50 and 51) was therefore exceeded by 529 million EUA (270 + 259 million EUA) i.e. by almost 100 per cent."⁽¹⁾ It is to be regretted further that administrative difficulties prevented certain Member States from benefiting fully from the Social Fund.⁽²⁾ The overall situation is deplorable, as can be seen from Annex to this report.

¹ COM (79) 220, pages 79/80 (i.e. demands were double the available allocation)

² COM (79) 220, page 84, final para.

Decentralised agencies, autonomous organisations and satellite bodies

28. Over recent years, Parliament has devoted increasing attention⁽¹⁾ to the problems relating to agencies or departments that are either geographically or legally decentralised, satellite bodies and sections of the Commission that enjoy varying degrees of administrative autonomy. Parliament was particularly concerned about the exercise of political control over the activities of these and over the use made by them of the funds allocated to them in the budget.

29. In Annex I to his report, Mr KELLETT-BOWMAN has listed these various bodies and sections, and has summarised in detail the criteria that should be applied when judging them from the political audit viewpoint. He has also provided a helpful and informative series of conclusions which were endorsed unanimously by the Committee on Budgetary Control.

30. Each of the major satellites will have to be examined by the Committee in order to confirm that the criteria listed at paragraph 12 of Mr KELLETT-BOWMAN's annexed paper have been complied with. This work has already begun: a report⁽²⁾ on the Foundation for the Improvement of Living and Working Conditions, containing many positive recommendations, has been adopted by the Committee. Reports on the Centre for the Development of Vocational Training and on the Community Data-Processing Centre are in hand.

31. The Committee considers that the grant of discharge for satellites is a matter for the Parliament. Where regulations provide otherwise, such provisions are in conflict with the Treaty of 22 July 1975 and they should be amended accordingly.

Deferral of discharge for the European Schools

32. The Committee on Budgetary Control took careful note of the comments made by the Court of Auditors concerning the European Schools.⁽³⁾ It would appear that the school authorities have not carried out their accounting responsibilities in a manner befitting senior public officials. Therefore, the committee expressed a reserve in regard to the discharge for the European schools and will consider the issue further later. The ECA references in Doc. 1-567/79 to errors and defects are quite clear and point to the urgent need for detailed investigation.

(1) See, for example, Doc 1-458/79, pages 118-119
Doc 400/78, pages 133-136
Doc 150/78, pages 45-56
Doc 341/77, pages 70-76

(2) Doc 1-726/79

(3) Doc 1-567/79, paras 10.11 - 10.14

Entertainment and representation allowances and expenses of members of the Commission and their mission expenses

33. Early in 1979, responding to public opinion, the Control Sub-Committee of the Committee on Budgets - which was the predecessor of the Committee on Budgetary Control - took initiatives which led to the Court of Auditors being asked to furnish a special report⁽¹⁾ on items 1003, 1300 and 2400 of the Commission's part of the Community budget.

34. The Committee on Budgetary Control considered the report of the Community auditors at five meetings - including a public meeting held on 4 October 1979. This was the first public hearing to be organised by the directly-elected Parliament. The President of the Commission, Mr. Tugendhat - the Member of the Commission responsible for budgetary matters, and two members of the Court of Auditors, assisted the Committee in its work.

35. The Committee found that claims for reimbursement were completed cursorily, that there was an absence of certain rules, that there had been breaches of annuality, that there was need for more rigorous control of the use of air-taxis, that adequate justifications were not always furnished, and that the systematic recourse to the transfer mechanism in the case of items 2401 and 2400 diminished budgetary clarity and transparency.

36. The Committee noted, however, that the bulk of the amounts at issue had been spent correctly and in accordance with normally acceptable accounting standards. Moreover, the Committee appreciated the fact that the Commission had speedily adopted new procedures which tightened the internal control arrangements. The Committee's report⁽²⁾ was adopted by Parliament at the December part-session. Paragraph 4 of the relevant resolution stated that the making of the necessary repayments, in cases when the operative rules were not respected and where the Court of Auditors was not satisfied that the relevant criteria had been complied with, would be verified in the context of the 1978 discharge report.

37. In accordance with this mandate, the rapporteur consulted the Court of Auditors, checked the records and was assured by the Court that the required repayments had been made. In the rapporteur's opinion, discharge, therefore, may be given for the relevant appropriations for 1977 and 1978. Nevertheless, he considers that such slack accounting by the Commission is regrettable and welcomes the fact that the various Institutions are now tightening up and harmonizing their regulations relating to allowances and expenses.

¹ In accordance with Article 206a of the EC Treaty

² Doc 1-537/79 - Report by Mr Brian KEY

The three main funds

38. At paragraph 9 above, the rapporteur stressed the importance of implementing Parliament's amendments in regard to payments appropriations in the year for which they were voted - and not thirteen months or more after they were voted. The budget is an annual exercise and any action - or failure to act - which diminishes its impact on the financial year diminishes also the power of Parliament. In paragraph 10, the rapporteur has shown underspending on the 1978 amendments. Now, the rapporteur wishes to describe the situation in regard to the overall implementation of the budget.

39. The major spheres of EC activity are agriculture, social, and regional policy. These together amounted to 10,210,851 million EUA and accounted for 82.6% of the payment appropriations in the 1978 budget. Sectors 4 and 5 also are politically important and are given in the table below. Payments made out of these main sectors and the carryovers show a deplorable management situation. This can be seen from the following table⁽¹⁾:

<u>Sector</u>	<u>Appropriations</u> million EUA	<u>Percentage of appropriations</u>	
		<u>Commitment</u>	<u>Appropriations to be carried over</u>
1. Agriculture	9,126,744	96.3	3.7
2. Social	559,107	45.0	54.5
3. Regional	525,000	32.7	67.3
4. Research, energy, industry, transport	267,380	41.6	55.7
5. Development cooperation	380,563	36.6	62.6
	<u>10,858,793</u>	<u>86.9</u>	<u>12.9</u>

The impact of the figures for agriculture

40. The first impression given by the total figures for this table - 86.9% of payments committed - could be favourable. However, the situation is distorted by the figures for the agricultural sector.⁽²⁾ In this sector, the accounts were totally distorted by the volume of transfers between chapters and within chapters. This has already been described at paragraph 18 of the report. In the words of the Court of Auditors, this factor quite radically affected all the budgetary headings: The rapporteur reiterates his view that this situation is quite intolerable and reflects a major weakness in the estimating process. To remove this weakness may entail making certain alterations to the existing budgetary procedure.

¹ Source: Bulletin of the EC, No 5/79, table 10.

² For the Guarantee part, the appropriations are fully utilised because they are advanced to the intervention agencies: see also para 2.4 of the ECA report for 1978.

Use of intervention payments (other than those for agriculture)

41. The following table shows the extent to which intervention appropriations - other than those for agriculture - listed in the table in paragraph 39, were used in 1978:

(1)	(2)	(3)
Intervention Appropriations in the initial 1978 budget (million EUA)	Payments made in 1978 (million EUA)	To be carried over to 1979 (million EUA)
1,732,050	695,770	1,074,911

Thus, only about 40% of the payment appropriations voted in the 1978 budget for the regional, social, research, energy, industry, transport and development cooperation sectors were actually spent in 1978.

Still, it was possible to spend over 96% of the agriculture intervention appropriations, leaving only 4% of the payment appropriations for agriculture to be carried over. On the other hand some 60% of the payment appropriations set aside for the other key intervention areas were carried over unused.

42. In inflationary conditions, the impact and the value of funds are lessened if they are used later than in the year for which they were allocated. Opportunities, moreover, are lost and if procrastination - and not action - becomes an accepted feature of budget implementation - the image of the Community will suffer.

43. The considerations set out in the preceding paragraph apply to most financial years. However, in the case of the 1978 budget, Parliament made a special effort to convince the Council of the need to take positive steps in spheres 2,3,4 and 5 listed in paragraph 39. At the December 1977 part-session, Parliament noted that the political dialogue on the 1978 budget "reflected the evolution of budgetary and economic policy thinking during the second half of 1977 which enabled the Council to begin to appreciate the view of Parliament that a more expansive policy was essential to the well-being of the Community as a whole."⁽¹⁾ As a result of this shift in attitudes within both partners in the budgetary authority, a very considerable increase in non-compulsory amendments to the budget 1978 was effected. This expression of political will was, nevertheless, substantially thwarted by the Commission's failure to implement those amendments.

¹ Para 3, Motion for a Resolution, Doc 441/77

44. The Commission has put forward explanations which, taken individually, could be accepted as a plausible justification for not spending the appropriations available on a given line. However, the cumulative effect is very negative and represents an indictment of the overall management of payment appropriations in 1978.

The EAGGF

45. Looking at the EAGGF, one is aware of three major imbalances in the Community budget:

- the imbalance within the budget between expenditure on the EAGGF and other expenditure;
- the imbalance within the EAGGF guarantee sector between expenditure on dairy products and meat surpluses and the rest of agriculture; and
- the imbalance in implementation, i.e. appropriations can be spent readily in the EAGGF sector whilst there is tardy implementation in other sectors of the budget.

46. Mr Dankert's working document¹ is a clear summary of the problems in the guarantee sector of the EAGGF and renders superfluous the need to go into several issues in this part of the report. Moreover, his own report² on the 1977 and 1978 financial reports³ of the Commission on the EAGGF raises a number of important issues. In paragraphs 19 - 24 above he also goes into the issues of the closure of old accounts and the scandals of frauds and irregularities.

Associating his own findings in the separate report cited above with Mr DANKERT's conclusions, the rapporteur considers that the formal observations on the EAGGF, set out in accordance with Article 85 of the Financial Regulation, are amply justified.

The ERDF

47. Mr GOUTHIER's working document⁴ summarises the situation in regard to the Regional Fund. Of the 608 million EUA available in 1978, only one-

1 Annex

2 PE 62/221/rev

3 COM (78) 633 final and COM (79) 596 final

4 Annex

third was utilised. At paragraphs 5.8 to 5.12 of its annual report, the ECA dwells on this unhappy situation. Indeed, looking at the inadequate size of the Regional Fund and at the slow operations of the Community and the Member States, Members of the Committee on Budgetary Control, noting the widening gap between the various regions, were inclined to echo the pessimistic comments of the Member of the Commission, responsible for the Regional Fund.¹

The ESF

48. The inadequate size of the European Social Fund has been touched on at paragraph 27 above. The slowness of Member States to submit claims, the failure of certain Member States to submit claims at all and the apparent absence of a real Community social policy are regrettable features in this sector. It seems almost incredible that a sum of about 45 million u.a. - almost half of it for Italy - was cancelled in 1978.

The EDFs

49. The problems of a control nature which arose in the case of the European Development Funds are set out clearly in Mr IRMER's working document and in the relevant section of the report of the ECA. Sensitive areas identified have been

- the quality of preparatory studies;
- the suitability of equipment to local technological, climatic, social and economic conditions;
- the allocation of responsibilities;
- consistency of the projects financed with the policies pursued by the ACPs;
- the role of technical assistance.

50. The fact that the EDF is not yet budgetised presents many technical disadvantages and is, politically, abnormal and unacceptable. The problems relating to the effectiveness of investments are summarised in PE 62.415 at paragraphs 59 to 63.

51. As regards STABEX, the functioning, effectiveness and mechanisms of this system will form the subject of a separate report to be published later in which the control aspects raised by Mr IRMER at paragraphs 64 to 73 of his working document will be developed further.

¹ As reported in 'Agence Europe' of 3/4 March 1980.

Food Aid

52. For the first time, the report of the ECA on 1978 indicated that it had extended its activities in the food aid sector to the beneficiary countries and to an international organisation. The criticisms made in its report⁽¹⁾ are noteworthy: they are supported by Mr IRMER, in his thorough working document, who seeks to introduce a greater degree of transparency into the management of the appropriations in this sector. In toto, his comments indicate a disturbing state of affairs. The main problems appear to be:

- the complexity of the administration,
- budgetary management characterised by erratic movements of appropriations which distort the political intentions expressed in the budget as adopted,
- weak Community control at the point of mobilising the food aid as well as in regard to transport and delivery⁽²⁾, and
- serious irregularities⁽³⁾.

Against this background, it is evident that the regulations, control mechanisms and procedures governing food aid need to be overhauled and rendered far more effective.

Agricultural Stocks

53. It is essential that the general public, as well as their representatives, should be fully aware (i) of the nature, size and value of the agricultural stocks of the Community and (ii) the locations at which these are held. The following tables, prepared by the Commission, give certain particulars for the years 1978 and 1979:

Products in private storage

Product	As at 31 December 1978		As at 30 June 1979	
	Quantity	Value mEUA	Quantity	Value mEUA
Butter	186,504 tonnes	540.7	150,946 tonnes	501.3
Beef	55,000 tonnes	132.9	5,500 tonnes	14.0
Wine	7,538,300 hls	158.3	11,080,000 hls	281.7
Pigmeat	25,000 tonnes	41.9	78,000 tonnes	210.9
EC Total		873.8		1,007.9

1 See e.g. para 7.4 of the ECA report

2 See e.g. para 7.22-7.60 of the ECA report

3 See e.g. para 7.39, 7.46 and 7.49 of the ECA report

Public storage (1)

Product	As at 31 December 1978		As at 30 June 1979	
	Quantities (tonnes)	Value (mEUA)	Quantities (tonnes)	Value (mEUA)
Common wheat	1,050,778	182,315	1,046,406	181,245
Barley	181,895	29,338	63,171	10,909
Rye	600,782	109,041	461,713	85,708
Durum wheat	150,466	27,015	180,512	35,294
Milk powder	721,827	680,090	437,536	450,179
Butter	258,100	572,068	376,138	957,319
Olive oil	104,895	106,225	96,298	114,944
Oilseeds	820	0,272	121	0,044
Frozen beef	135,917	226,908	113,119	211,793
Boned beef	79,362	190,598	41,658	45,440
Preserved beef	37,090	67,167	6,294	12,934
Tobacco	21,617	42,151	27,192	53,028
EC Total		2,233,198		2,158,637

54. Clearly, the amounts involved are enormous and the cost to the Community of carrying them is very great. It is disturbing, therefore, that precise ownership of the commodities cannot readily be established, and that there is no clear proof that the exact amounts of the stocks have been physically verified. Further, the point raised by the Court of Auditors at para 1.23 regarding control procedures is very disturbing. The rapporteur considers that it is essential that a comprehensive study be made of all aspects of these stocks with a view to establishing the full facts.

(1) Source: OJ No C 7 of 9.1.1980, pages 22-3.

Explanations for the non-implementation of certain amendments

55. At paragraphs 9 - 14 above, the rapporteur has outlined the position in regard to the non-implementation of amendments. There are several reasons for this situation. National administrative structures are not adapted to Community needs; administrative difficulties within the Commission itself; some procedures are over-complex; and there is a reticence on the part of the Commission to spend appropriations without the explicit or implicit approval of the Council. This latter possible explanation has particularly preoccupied Parliament in recent years because of its political nature and because of the implications for inter-institutional balance.

56. To overcome the ambiguous situation which arises from the existence of an appropriation in the budget and uncertainty over the regulations, Parliament proposed, during the 1979 budgetary procedure, that items in the budget where the appropriations could be used by the Commission (without any other condition save their inscription in the budget) should be clearly indicated. Such items should carry in their remarks column a formula indicating that the appropriations could be implemented directly. The effect of this "magic formula" would be to place the Commission face-to-face with its responsibilities.

57. The conditions under which the 1979 budget was adopted at the second reading did not allow of the adoption of the "magic formula" amendment. A list of the budgetary items concerned was adopted by the rapporteur and by the services of the Commission on the basis of the following criteria:

- operational appropriations for the Commission;
- current expenditures;
- studies and subventions; and
- once-off operations

58. The rapporteur considers that this initiative must be taken up again it is an essential element in a clear definition of the responsibilities of the Commission in regard to the implementation of the budget. It is also vital to the budgetary powers of Parliament. It is appropriate that this matter should be considered in the context of the discharge, since it is within this framework that the weak extent to which the Commission takes account of Parliament's budgetary decisions comes to light. Indeed, the rapporteur considers that an assurance by the Commission that it will collaborate in operating the 'magic formula' is desirable.

Accounts aspects

Budget accounts

59. In earlier paragraphs, the rapporteur expressed his concern at the distortions caused to the budgetary accounts by the extensive transfers between and within chapters which significantly alter the budget as adopted. At paragraphs 15 and 16 above, the impact of carryovers is described. Not only do these distort the arithmetic of the year following that for which the appropriations were voted but also the accounts for the second successive year.

60. Parliament's concern at (i) the delays in the closure of the EAGGF accounts for earlier years - which weaken the effect of the discharge decision - and (ii) the situation in regard to agricultural stocks is well documented. These aspects are dealt with by the Court of Auditors in its report on 1978. An aspect of this is the storage costs. Here, the Court of Auditors states that it "has not yet been able to check the control procedures during storage on the valuations on which these charges are based¹".

General Accounts

61. In its conclusions to Chapter 11, the Court of Auditors states as follows:

- "(a) the general accounts of the institutions, as operated at present, notably those of the Commission, do not permit the ascertainment of the institution's situation in respect of assets and liabilities, as provided for in Article 76 of the implementing measures of the Financial Regulation;
- (b) the balance sheet of assets and liabilities of the Communities, as required by Article 76 of the Financial Regulation, has been drawn up in an incomplete manner and still falls short of meeting the requirements of proper consolidation;
- (c) the accounting for exchange differences shows serious shortcomings which lead to distortions in financial reporting and have led in 1978 to a material mis-statement in calculating the result of the conversion from u.a. to EUA at 1 January 1978;
- (d) the overall effectiveness of internal controls is a matter of concern."

62. This summary is quoted in full because it is a very serious indictment of the Community's accounting system and, in the measured and formal language used by the ECA, stands out as a very strong criticism indeed. The rapporteur endorses this conclusion of the Court of Auditors which reflects a very serious situation - especially as the Commission states that "the existing presentation is the end-product of an evolving process²". In particular, the rapporteur endorses the conclusions of the Court of Auditors set out at paragraphs 11.13, and 11.22.

¹ ECA report on 1978, para 1.23., see also paras 53 and 54 above

² Reply of the Commission to paragraph 11.22.

63. Transparency, clarity and comprehensiveness should be the key considerations in the presentation of the accounts of the Community. The Commission is asked to report to the Parliament on their proposals for across-the-board improvements in the transparency and presentation of the budget to make it a more effective political and financial management instrument.

The Council's recommendation on 1978

64. The rapporteur noted with approval that the recommendation made by the Council in relation to the 1978 discharge was accompanied, for the first time, by a series of comments. It is to be hoped that this represents the beginning of a far more positive approach on the part of the other arm of the budgetary authority to the discharge procedure.

Follow up to the discharge report

65. The report on the discharge is a major element in Parliament's control work. The comments accompanying the discharge - usually addressed to the Commission as the Institution responsible for implementing the budget - need to be followed up closely so that the extent to which the Commission took them into effect can be gauged. The rapporteur considers that this could appropriately be done by way of a report taken at the November part session so that it can be examined before the process of preparing the discharge report on the following year is commenced.

Reaction of the Commission to the discharge decision in respect of the 1976 financial year

66. The third sub-paragraph of paragraph 85 of the Financial Regulation⁽¹⁾ applicable to the EC budget provides for a report being made on the measures taken in the light of the comments of Parliament accompanying the discharge. By way of an annex to the revenue and expenditure account for the 1978 financial year, the Commission responded to the comments accompanying the 1976 discharge decision.

67. The document in question is a wide-ranging answer to Mr COINTAT's report⁽²⁾ on the 1976 accounts of the Community. The main points are set out hereunder:

- on Community revenue protection, the Commission points to its proposal⁽³⁾ of 15 March 1979 for a Regulation providing that the Commission be informed automatically about cases of irregularities affecting own resources;
- the Commission fully concurs with Parliament's views on the need to fully coordinate on-the-spot auditing and to ensure that Member States comply strictly with the obligation imposed on them by Community regulations to provide the Commission with all necessary information;
- on cooperation with Parliament's control Committee, the Commission stresses the very high degree of cooperation that has already been established;
- to meet the wishes of Parliament, the Commission standardised the employment of seconded national experts and put into practice a new procedure for the employment of consultants;
- the Commission agrees that it should present a number of specific measures designed to add substantially to the existing arrangements for the coordination of recruitment procedures and mobility between Institutions;

(1) OJ No L 356, 31.12.1977

(2) Doc 489/78

(3) COM (79) 111 final

- on the clarity and transparency of research and investment appropriations, the Commission summarised the measures taken recently, in close collaboration with the budgetary authority, to improve the situation;
- the Commission agrees on the need for simplification of decision-making procedures if further delays (of the nature of that in the case of JET), prejudicial to the expansion of research and development policy in science and technology, are to be avoided in the future;
- on the evaluation of the results of research, the Commission summarised the results of recent efforts to find a satisfactory solution to this problem;
- the reaction of the Commission to the points regarding mobility of research workers, and the balance between staff expenditure and expenditure on research, is positive also;
- as regards the unsatisfactory situation in the sphere of the Social Fund, the Commission points to changes made⁽¹⁾; although extensive, these have not resolved the problems as the examination of the 1978 accounts revealed;
- on the Regional Fund suggestions, the Commission spelled out the steps it has taken in an effort to comply with the wishes of Parliament as regards expedited utilisation and the maximising of the effectiveness of assistance from the Fund;
- as regards the EAGGF Guarantee Section, however, the rapporteur found the tone of the Commission's reply on this point to be out of harmony with the general positive and constructive attitude adopted by it with regard to Parliament's recommendations on the other sections of the budget;
- as regards the EAGGF Guidance Section, the rapporteur was pleased to note that the Commission "entirely agrees with Parliament on the role of the farm structures guidance policy";
- on development aid, the Commission summarised proposals put forward by it which would enable it to exercise the powers conferred by Article 205 of the EEC Treaty;
- on food aid, the Commission stated that it is fully aware of the shortcomings in the management of food aid which have caused serious

(1) See OJ No L 337, 27.12.1977, page 1, OJ No C 116, 19.5.1978, page 2, OJ No L 248, 11.9.1978, page 1 and OJ No L 238, 30.8.1978, page 20.

delays in the implementation of aid and a loss of efficiency; the Commission described a number of proposals designed to improve the situation.

68. In general, therefore, the rapporteur is satisfied that the Commission has responded satisfactorily - except in the case of the EAGGF Guarantee section - to the comments of Parliament on the 1976 discharge. The procedure is a new one and the generally positive reaction augurs well for future relations between Parliament and the Commission in the budgetary control sphere.

However, while the reaction has been positive, the rapporteur feels obliged to remark that the results of the initiatives taken by the Commission have, so far, rarely brought about real improvements in the overall situation concerning the implementation of the annual budget.

Summary

69. The rapporteur has found that budgetary clarity and transparency are clouded by the volume of transfers within and between chapters and by carry overs from one financial year to another. The size of the transfers and of the carry overs far exceeds the volume of the amendments to the budget effected by Parliament. As regards Parliament's amendments - these are tardily implemented and only to a fractional extent. The failure to close old EAGGF accounts within a reasonable span of time diminishes the significance of the discharge decision. Loopholes and possibilities for fraud exist and the pursuit of irregularities by the separate Member States is uneven. The continuing imbalance between expenditure on agriculture and other sectors - and within the agricultural sector - is damaging to the effectiveness of the budget as an instrument of Community policy and is also harmful to the image of the Community itself. The huge stocks of surplus products which are allowed to mount up at enormous cost to the taxpayer call for decisive corrective action. Moreover, the ease with which transfers can be effected by the Commission without prior reference to Parliament between the various agricultural chapters of the budget makes a nonsense of the procedures whereby the budget is adopted. Although the President of Parliament declares the budget adopted and Parliament has the last say in regard to the grant of discharge, in reality, up to now, control over budget implementation has largely escaped Parliament. The Commission, which is charged with the implementation of the budget in accordance with Article 205 of the Treaty, bears a large share of the responsibility for this state of affairs. It is appreciated, however, that the implementation of certain amendments to the budget entails the cooperation of the Council. This aspect was recognised some time ago by Parliament⁽¹⁾ when the need for a special conciliation committee which would meet on the problems related to the implementing of the budget was envisaged. Prior to a successful conciliation meeting on this matter, a further positive step would be the putting into effect of the reinforced 'magic formula' described at paras 55-58 above.

70. The shortcomings listed in this report are the result of an accumulation of a lack of political will in certain Member States, faulty budgetary techniques and poor accountancy methods that have grown up over the years. Their main consequences appear to have been an erosion of annuality, and a lack of fiscal transparency which make the application of political control over the Community budget extremely difficult. Setting this unsatisfactory situation right will call for the application of improved financial, and more professional, management and accounting techniques by the Commission, prompt implementation of the budget, which must be regarded as an annual policy instrument, a higher degree of commitment to budgetary discipline by the Member States, more political courage on the part of the Commission, and, finally, greater respect for the changes voted by Parliament when adopting the budget.

¹See Doc. 434/77, para. 9 of the explanatory statement

Conclusions

71. On the basis of (i) the preceding paragraphs and (ii) the working documents which are annexed hereto, the following conclusions may be drawn regarding the implementation of the budget:

- (i) Parliament's amendments to the payments appropriations are implemented in a totally inadequate way;
- (ii) This virtual non-implementation is quite unacceptable because it sets at nought the political wishes of Europe's elected representatives expressed by majority vote in the Parliament;
- (iii) The reasons are twofold:
 - (i) a lack of political courage on the part of the Commission (all the amendments concerned are for purposes of the utmost significance to the well-being of Europe), and
 - (ii) an inadequate response by Council and by the administrations of the Member States;
- (iv) To overcome this, the rapporteur proposes that the 'magic formula', discussed during the period leading up to the adoption of the 1979 budget, be made operational so that Parliament's power of amending the budget can be safeguarded¹;
- (v) Transfers within and between chapters during the course of the financial year have the effect of grossly distorting the budget as adopted and must be made subject to a ceiling by way of an amendment to the financial regulation;
- (vi) The excessively high level of carry overs from one financial year to another has the effect of drastically altering the accounts, take from transparency and clarity, and frustrate the intentions of Parliament as reflected in the annual budget, as adopted;
- (vii) The inadequacy of the pursuit of fraud and irregularities within the EAGGF sectors calls out for early correction;
- (viii) The delays in the closing of the EAGGF accounts for earlier years are quite unacceptable - although an improvement is noted;
- (ix) Community accounting generally is in an unsatisfactory state, as evidenced by the strictures in the special chapter of the report of the Court of Auditors;

¹ See paras. 55-58 above

- (x) Within the budget, three major imbalances are evident: between EAGGF and other expenditure; within the EAGGF, between the Guarantee and Guidance sectors; and between the commitment of EAGGF appropriations and other appropriations;
- (xi) The size and impact of the appropriations available for the Social and Regional Funds are so minimal that the question arises as to whether the Community has serious policies in regard to these sectors;
- (xii) Particular problems arose in the case of the accounts for the European Schools;
- (xiii) In the food aid sector, serious difficulties have been noted;
- (xiv) The Commission has reacted positively to the remarks made by Parliament, under Article 85 of the financial regulation, on the 1976 accounts but the results of the initiatives taken so far by the Commission have rarely brought about improvements in the implementation of the budget;
- (xv) The more thoroughly prepared recommendation of the Council in relation to the 1978 discharge is welcomed;
- (xvi) There is need for a follow-up to the discharge decision to ensure that effect is given to the comments made by Parliament and this will necessitate a report to plenary for the November session.

