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Report

of the Court of Auditors

**on the ~~the~~ accounts for the year 1979
of the European Foundation for the
Improvement of living and working conditions**

accompanied by the Foundation's replies

1.2.1

COURT OF AUDITORS
OF THE
EUROPEAN COMMUNITIES

24 September 1980

MICHAEL N. MURPHY

President

Mme S. Veil,
President of the European Parliament,
Plateau du Kirchberg,
Luxembourg.

Dear Madame Veil,

I have pleasure in enclosing the Court's report on the 1979 accounts of the European Foundation for the Improvement of Living and Working Conditions together with the replies of the Foundation.

Yours sincerely,

Michael N. Murphy
President.

PE 71.138

REPORT OF THE COURT OF AUDITORS ON THE ACCOUNTS FOR THE
YEAR 1979 OF THE EUROPEAN FOUNDATION FOR THE IMPROVEMENT
OF LIVING AND WORKING CONDITIONS ACCOMPANIED BY THE
FOUNDATION'S REPLIES

1. MATTERS ARISING FROM THE 1978 AUDIT REPORT

Accounting for recoverable value added tax

1.1. At point 3,3,2 of its 1978 Report, the Court stated that the system of accounting should be modified to ensure that the amount of value-added tax to be recovered appeared as a debtor on the balance sheet.

In the balance sheet at 31.12.1979 the amount of EUA 15.476,42 appears among the assets as "VAT Refund 1979" offset by a liability entitled "Receipts to be re-used 1980'81". Although this "contra-accounts" presentation reveals the amount concerned, it achieves no more than would a note to the balance sheet. Moreover it is misleading in that the "Refund" and "Receipts" had not occurred at the balance sheet date.

At point 1,3,3 of its 1978 Report the Court pointed out the disadvantages of charging the recoverable tax-content of purchases against the budget and accounting in a complex way for its re-use when recovered.

The reply of the Foundation justified its practice by reference to articles 4 and 22(b) of its "financial provisions" (Council Regulation [EEC] 1417'76). Article 4 stipulates that no expenditure shall be effected unless charged against an article of the budget, and article 22(b) permits the re-use of the amount of refund of fiscal charges. Notwithstanding these provisions the Court considers that the payment of the recoverable tax element of a purchase is, in effect, a payment for the account of the tax authorities and should be debited to an account in the name of that party, not charged against the Foundation's budget.

Reply of the Foundation to paragraph 1.1.

Following consultation with the Commission's services, the Foundation has clearly shown the amount of VAT to be recovered on its Balance Sheet, thereby complying with the specific requirements of the Court. The term "Receipts" is used in keeping with common accounting practice. It indicates amounts to be received as well as those already received. In future years the Foundation will designate these amounts as "amounts to be received" on the Balance Sheet.

With regard to the question of charging the recoverable tax-content of purchases against the budget, the Foundation notes that the Court does not dispute the fact that the Foundation is operating strictly in accordance with its Financial Provisions (Council Regulation /EEC/ No 1417/76 of 1 June 1976) and is following the system applicable in the Commission.

An objective of the Foundation, which the Court (in point 4.2. of the Conclusions and Recommendations of its own Report) supports, is the keeping of the number of administrative personnel to the minimum. This it achieves by standardising and simplifying administrative procedure wherever possible. In this regard it is felt that these suggestions of the Court would increase the administrative workload with no real corresponding economic compensation. It should also be noted that the amounts involved are of relatively small and reducing proportions (1978 - 21,400 EUA; 1979 - 15,476 EUA).

Chronological voucher record (transactions journal)

1.2. Point 1,3,5 of the 1978 Report drew attention to the continuing lack of a transactions journal. Following an audit visit on the spot in February 1980 the Court proposed that the format and posting of the imprest analysis sheet be modified and a similar record introduced for non-imprest payments. If the Foundation were to adopt the suggestion the Court's requirement would be fully met, with the following advantages for the Foundation :

- a separate petty cash analysis would no longer be required;
- the imprest might be closed and despatched to financial control more quickly at month end ;
- individual posting to the ledger of non-imprest vouchers would no longer be necessary.

Reply of the Foundation to paragraph 1.2.

The Foundation has found the suggestion of the Court regarding a transactions journal a useful one and has already fully implemented it. The operation has resulted in a reduction in the accounting workload.

"Living conditions"

1.3. The Court noted (point 5(iii) of the 1978 Report) that the Foundation's activities had been confined to projects on the "working conditions" element of its general objectives and raised the question whether and how the Foundation intends to discharge the other main element of its statutory task, that relating to living conditions. No progress was made in 1979 in relation to living conditions.

Reply of the Foundation to paragraph 1.3.

The Council Regulation establishing the European Foundation states in Article 7 that the Administrative Board shall lay down, after consultation with the Committee of Experts, the guidelines of the Foundation and shall adopt the programme of work in agreement with the Commission, on the basis of a draft submitted by the Director. The first Four-Year Programme 1977-1980 was endorsed by the Board, which has a quadripartite composition, in February 1977. Considering limited resources in terms of staff and budget, priority was given to working conditions and to those living conditions which are closely related to them. The four annual Working Programmes 1977, 1978, 1979, 1980 have been a very accurate reflection of this established principle for the first four years of the Foundation's existence.

Supplementary group insurance scheme

1.4. The arrangements described in point 4 of the 1978 Report, and for which no statutory provision existed, continued in force throughout 1979.

A proposal for a regulation to improve the staff social security system has been put before the budgetary authorities and is at present being examined by the Council.

Reply of the Foundation to paragraph 1.4.

The Foundation notes what the Court says and draws attention to its reply on this point to the Court's Report on the 1978 Accounts.

Construction and fitting out of premises

1.5. At point 3,2,2 of its 1978 Report the Court noted its intention to complete its examination of the costs of construction and fitting out of the Foundation's premises. A comprehensive financial analysis of the expenditure has now been completed and all significant problems with regard to the allocation of expenditure to specific works have been settled. A table prepared by the Court showing total construction expenditure and fees thereon for each separate capital project is attached (as table IV) to this report.

Whilst the Court is, in general, satisfied that management control was properly exercised during the course of the setting-up period, it notes that separate accounts were not kept for each separate works contract or, in the case of major contracts, for each separately identifiable part of the works undertaken. Moreover differences between the various accounts produced by the architect and the cumulative figures in the Foundation's books were, at times, difficult to resolve. It will be noted that the total of fees paid to architects and consultants is a high proportion (16%) of total cost (which includes

retentions). There were a number of changes of plan during construction. Although the Foundation was assisted by the technical services of the Commission and all expenditure approved by the Commission's financial controller, the Court has nevertheless suggested that the Foundation's management undertake a further review of fees charged, before regarding the various construction projects as closed.

Reply of the Foundation to paragraph 1.5.

The Foundation notes that in general the Court is satisfied that management control was properly exercised during the course of the setting-up period. With regard to the question of keeping separate accounts for each separate works contract, it should be noted that the Foundation's Financial Regulation provides that the major part of the expenditure involved should be charged to article 214 of the Foundation's Budget and it has been so shown in the annual accounts. The Foundation accepts that the figures provided by the architect were far from satisfactory and therefore from the outset did not place undue reliance on these figures.

The Court notes that the cost of fees paid to the architect and consultants is a high proportion (16%) of total cost. In view of the complexity of the work being undertaken and the nature of the site at Loughlinstown House, viz. a mixture of modifications to existing buildings (an 18th century manor house from domestic to office use) and the construction of new buildings, the fees, in the context of construction costs in Ireland, are quite normal. It should be pointed out that all fees paid were paid in accordance with the very exact legal regulations, with regard to their scale of professional fees and conditions of engagement, laid down by the appropriate institute concerned in Ireland. At the Court's suggestion a very detailed review of the construction costs and the fees charged is being undertaken.

To date only one of the construction projects mentioned in Table IV of the Court's Report has been closed and the Foundation will naturally

ensure that all final payments either to contractors or to professional advisers will be in accordance with the terms of the relevant contracts or the appropriate scale of fees of the professional bodies concerned.

2. SYST³EMS AND PROCEDURES

The examination of accounting and administrative procedures, which was started during a visit by the Court in October 1978, was carried further during a second visit, in connection with the 1979 accounts, in February 1980.

As a result, it was possible to make recommendations for improvements, particularly in the areas mentioned below.

Personal files

2.1. These did not contain all the documentation required to support the various elements of the staff payroll. The Foundation's management are acting to remedy this.

Reply of the Foundation to paragraph 2.1.

The personal files have been revised on the lines suggested by the Court.

Social Security payments

2.2. The Foundation, for reasons of administrative convenience, paid its (employer's) contribution under various overseas social security schemes not to the organisations concerned but to individual staff members, who subsequently made the transfers themselves. The employer's contribution was paid to staff monthly, in some cases on the basis only of an estimate of liability. The various schemes typically require the employer to deduct the employee's contribution from salary and make quarterly or half-yearly transfers of the employer's contributions.

The Court has recommended that the Foundation should act as any normal employer would, both to ensure that employees are properly covered and to be certain that the correct amounts are duly transferred.

Reply of the Foundation to paragraph 2.2.

The Foundation notes the Court's comments. It would like to point out that the practice referred to by the Court applied to only four (including the Director) of the twenty-eight staff members. The procedures followed had the full authorisation of the Financial Control and were not introduced for reasons of administrative convenience but in order to reduce the already heavy workload in the accounting section arising out of the administration of eighteen different social security schemes (covering a staff of twenty-eight) which are extremely complex and consume a disproportionate amount of administrative time. Nevertheless, in view of the Court's comments, the Foundation will examine the feasibility of following the Court's recommendation in the four cases concerned.

Cheques and banking arrangements

2.3. The Court suggested improvements in handling cheques and increased security measures with regard to letters of instruction to the Foundation's bankers.

Reply of the Foundation to paragraph 2.3.

The Foundation welcomes the suggestions regarding improved security measures and will seek to implement them.

Forecasting of operational expenditure

2.4. It was found that although the accountant of the Foundation could quite precisely forecast cash requirements for Chapters I and II, the requisite information was not available in respect of Chapter III, Operational Expenditure.

A regular reporting system, whereby each "project officer" would inform management monthly of payments due for three months ahead, was proposed.

Reply of the Foundation to paragraph 2.4.

The Foundation will adopt the proposal concerning a cash forecast system.

Costs of the Conference Centre

2.5. The Foundation should keep a memorandum account of all expenditure on services and upkeep of this building, which is used for about 30 days a year only, so that the cost of maintaining it may be known with precision.

Reply of the Foundation to paragraph 2.5.

The Foundation will adopt the Court's recommendation to keep a memorandum account on all expenditure for service and upkeep for the Conference Centre.

Costing of proposed research contracts

2.6. The Foundation has a quite elaborate system of approval of research contracts before they are signed, but the evaluation of the cost of services included in the contract makes no explicit comparison with any standard costs nor any systematic attempt to obtain the maximum results at minimum cost.

The Foundation's management are aware of the problem and the appointment of a new deputy director in the autumn of 1979 is expected to lead to improvement in this area.

Reply of the Foundation to paragraph 2.6.

With regard to the costing of research contracts, the Court will be aware that the labour costs for researchers vary from country to country and also with the area of research. Moreover, with regard to the salaries of researchers, most institutes the Foundation is dealing with use governmental scales agreed for researchers, and the Foundation, where relevant, has to accept these applied scales. Other costs such as administration, printing and travelling expenses, are examined in detail on the basis of guidelines developed by the Foundation. Research costs are being kept under continuous review and are being constantly refined in the light of experience gained. The Foundation accepts the need to standardise this area of expenditure as much as possible.

3. MATTERS ARISING FROM THE AUDIT OF 1979 ACCOUNTS

Use of appropriations

3.1. Tables I and II attached indicate the degree of utilisation of 1979 appropriations (table I) and of appropriations brought forward from 1978 (table II), whilst table III shows the development and use over the past four financial years of the appropriations for operational expenditure.

Only 69% of final appropriations for Chapter I, Staff Expenditure, were committed and only 82% of final appropriations for Chapter II, Administrative Expenditure. Whilst this is a higher degree of utilisation than in the previous year, the Court considers that attention should still be drawn to such overbudgeting, which it ought to be possible to reduce further.

Reply of the Foundation to paragraph 3.1.

The Foundation notes what the Court says in this regard. The fact that only 69% of final appropriations for Chapter I were committed was in part due to the fact that the vacancy for Deputy Director was

only filled in September 1979 and that the Foundation was short three additional staff members in the course of the year. Use of appropriations in Chapter I is still influenced by the unsatisfactory social security situation and the impossibility of budgeting accurately here until the Council has decided on the Commission's proposal to amend the Staff Regulation. Nevertheless, it is foreseen that the utilisation of appropriations in 1980 will again show an improvement on the figures for the previous year.

Transfers abroad from salary

3.2. A charge on the Foundation of some Irish £53.000 a year, which arises from the application of different weightings in calculating local salary and the amount deducted therefrom for transfer either to countries of origin of staff or, more importantly, to the B.H.W. (a German based organisation of the building society type), was borne by the account "Loss on exchange". This is an inappropriate heading for the charge. In the Court's view article 116, "weighting", ought rather to have been debited. For the sake of 'transparency' it would be better to open a separate line for this type of staff cost in future budgets.

Reply of the Foundation to paragraph 3.2.

Here again the Foundation follows the same procedure as obtains in the Commission.

The subvention of the Commission

3.3. The Commission made three payments totalling £Irl 1005.523,54 to the Foundation. In the Commission's accounts these payments total EUA 1.510.775, the rates of conversion used being the monthly accounting rates of the Commission. In the EUA version of the Foundation's statement of its Revenue and Expenditure account for 1979, the total amount is shown as EUA 1499.485,58,

as the Foundation's accounts are established in Irish pounds and converted into EUA only for the presentation of the annual accounts. The Court does not disapprove of this difference of treatment, as the Foundation's autonomy requires the production of wholly separate accounts and no purpose would be served by requiring it to keep accounts in anything but Irish pounds. It is simply noted that the difference between the Commission's books and the Foundation's statement is EUA 11.289,42.

Reply of the Foundation to paragraph 3.3.

The Foundation notes the Court's comment.

Exchange differences on balance sheet at 31.12.1979

3.4. Account no 45.310 was used to accumulate exchange differences (totalling a loss of 79 401.68 EUA) throughout the year and the Foundation's management, at year end, requested a transfer of appropriations to budget expense account 2321 "Exchange losses", which had only a token entry, so as to be able to charge the amount of expenditure incurred.

The Commission refused approval on the grounds that the application for transfer was too late. There is, moreover, no amount to cover exchange losses in the 1979 appropriations carried forward to 1980.

The expenditure of the Foundation and the amount due from the Commission for the year ended 31 December 1979 are therefore understated by 79 401.68 EUA.

Reply of the Foundation to paragraph 3.4.

The Foundation notes the Court's comments.

4. FINANCIAL MANAGEMENT - Conclusions and recommendations

Accounting for capital expenditure projects

4.1. The examination (point 1.75 above) of the expenditure incurred in setting up the premises of the Foundation leads the Court to stress the importance of proper detailed accounting for every significant element of such expenditure, particularly where construction works contracts are concerned. The Financial Controller and the technical advisory services of the Commission should insist that detailed accounts are kept for any future projects of this type. It is not sufficient to rely upon professional advisors (architects etc.) whose own accounting may, as the Foundation discovered, be less than reliable.

Reply of the Foundation to paragraph 4.1.

The Foundation accepts the Court's suggestion that detailed accounts should be kept for any future project of this kind.

Accounting for sums recovered

4.2. The Court recommends that accounting and administrative procedures be made as simple as legal and managerial requirements permit. The system of accounting for the re-use of sums recovered (point 1.3.3 of the 1978 report and point 1.1 above) is unnecessarily complicated and offers no practical advantage in compensation.

Reply of the Foundation to paragraph 4.2.

The Foundation agrees fully with the Court's comments regarding the present system. However, this is the system in use in the Commission and as such is that which the Foundation was recommended to use by the Financial Control of the Commission.

Costing of research contracts

4.3. The Court notes that the Foundation has no proper system of assessment of the cost of proposed research contracts. Management should subject all elements of cost to critical examination in advance to ensure that contract prices based thereon are determined with the maximum economy.

Rēply of the Foundation to paragraph 4.3.

Because research is carried out in all Member States of the European Communities, comparative costing is not always easy for the reasons already mentioned under 2.6. However, the procedure for refining costing is kept under review and the Foundation accepts the Court's comments that this is an area which should be subject to continuing improvement each year.

This report, the original of which was written in English, was issued by the Court of Auditors of the European Communities on 24 September 1980.

Michael M. Murphy

EUROPEAN FOUNDATION FOR THE IMPROVEMENT OF LIVING AND WORKING CONDITIONS, DUBLIN

Use of Appropriations 1979 (in EUA)

	Final Appropriations	Payments	Carried forward to 1980	% carried forward (1)	Appropriations cancelled	% cancelled (1)
Chapter I (Staff)	1.012.000	674.204	22.199	2,1%	315.597	31,1%
Chapter II (Administrative expenditure)	315.500	180.299	78.959	25%	56.242	17,8%
Chapter III (Operating expenditure)	1.262.500	407.239	782.958	62%	72.303	5,7%
TOTAL	2.590.000	1.261.742	884.116	34,1%	444.142	17,1%

(1) As compared with final appropriations

TABLE I

EUROPEAN FOUNDATION FOR THE IMPROVEMENT OF LIVING AND WORKING CONDITIONS, DUBLIN

Use of Appropriations brought forward from 1978 to 1979 (in EUA)

	Brought forward appropriations	Payments	Appropriations cancelled	% cancelled ⁽¹⁾
Chapter I	27.454	23.068	4.386	15,9%
Chapter II	18.696	17.613	1.083	5,7%
Chapter III	618.273	617.905	368	0.005%
TOTAL	664.423	658.586	5.837	0,8%

(1) As compared with brought forward appropriations

EUROPEAN FOUNDATION FOR THE IMPROVEMENT OF LIVING AND WORKING CONDITIONS, DUBLIN

Use of Appropriations, Chapter III in 1976, 1977, 1978 and 1979

	Final Appropriations	Amounts cancelled including "carry forwards"	Cancelled %
1976 (in u.a.)	48.000	48.000	100%
1977 (in u.a.)	494.800	95.003*	19,2%
1978 (in EUA)	989.900	77.964	7,8%
1979 (in EUA)	1.262.500	72.303*	5,7%*

* For 1979 this is the minimum, as cancellations of 1979 "carry forwards" will only be known at the end of 1980

Setting up of premises - capital expenditure

Payments up to 31.12.1979 in £Irl

	(1) Paid on construction work	(2) Professional fees	(3) Total
1. Conversion of swimming pool	-	15.063	15.063
2. Separate (new) Conference Centre	249.771	36.119 (12,0%)	299.860
3. Security booth	6.771		
4. Floor & fascia for swimming pool	6.509 690 1)		
5. Repair of the Main House	86.994		
6. Security fence	39.212	13.968 (13,8%)	100.962
7. Conversion of stables	36.226	3.872 (09,0%)	43.084
8. Driveway and car park	9.607	5.594 (13,4%)	41.820
9. Clerk of works	-	1.228 (11,3%)	10.835
10. Generator	4.032 2)	4.623	4.623
11. Out-door lighting	8.317	459 2) (10,2%)	4.491 2)
12. Miscellaneous 4)	-	607 (06,8%)	8.924
13. Expenses not directly related to any of the building contracts 5)	-	657 3)	657 3)
	17.545	229 3)	229 3)
Total payments made out of budget item 214	460.952	-	17.545
+ other payments (1,2,3)	4.722	81.731 (15,1%)	542.683
Total of capital expenditure	465.674	688	5.410
		82.419 (15,0%)	548.093

1) paid out of item 2130

3) re-use of VAT

5) mainly furniture, painting, carpeting, curtains, light fittings plus the costs for the planting of a hedge (£1.386)

2) charged to item 2220

4) travel expenses and a feasibility study

Note: Of the various construction projects only item No 8 above is actually closed; under column (1) there are included £Irl 50.405 paid as retentions on a joint deposit account, of which approximately £Irl 6.500 represents fees, bringing up the total amount of fees to about £Irl 89.000.

TABLE IV