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Report

of the Court of Auditors of the European Communities

on the ~~the~~ accounts of the European Schools for the year 1979

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THE UNIVERSITY OF CHICAGO

PHYSICS DEPARTMENT

PHYSICS 435

LECTURE 1

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COURT OF AUDITORS
OF THE
EUROPEAN COMMUNITIES

MICHAEL N. MURPHY
PRESIDENT

Luxembourg, 10 April 1981

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

Dear Madam Veil,

The enclosed report on the accounts of the European Schools for 1979 has been sent to Mr M. Schmit, the Representative of the Board of Governors of the European Schools which has to give discharge to each Headmaster for the management of the budget of his school.

The comments of the Headmasters and those of the Representative of the Board of Governors upon the draft report have been taken into consideration in drawing up this final text.

Yours sincerely,

Michael N. Murphy



REPORT OF THE COURT OF AUDITORS
ON THE ACCOUNTS
OF THE EUROPEAN SCHOOLS
FOR THE YEAR 1979

REPORT OF THE COURT OF AUDITORS ON THE ACCOUNTS OF
THE EUROPEAN SCHOOLS FOR THE YEAR 1979

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REPORT OF THE COURT OF AUDITORS ON THE
ACCOUNTS OF THE EUROPEAN SCHOOLS FOR
THE YEAR 1979

1. AUDIT OBJECTIVES

It is difficult to apply a normal systems-based audit approach to the European Schools because of the lack of internal control and the relative autonomy of individual schools, which are linked only by the secretariat of the Representative of the Board of Governors.

In order to carry out an audit which will enable the Board of Governors to take its decision giving discharge on a sufficiently informed basis, each school should ideally be subject to an audit on the spot each year, in addition to the examination of documents and final accounts at the Court's own offices.

Staff constraints and cost considerations have so far made it impossible to visit every school as part of each year's audit. Priority for visits has therefore been related to previous audit findings and the known changes in relevant circumstances (such as the rapid expansion of a school or administrative staff replacements).

Prior to the setting up of the Court it was the practice to publish the Report of the auditors some 18 months after the close of the financial year to which it referred. The Court's aim is to ensure that its reports are produced as quickly as possible, so that

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the budgetary authority is rapidly informed of problems and necessary remedial action may be taken more promptly than in the past. The ultimate target is the issue of reports 6 months after the year-end. Despite shortage of audit staff, considerable progress has been made and it is hoped to reach the target with the publication of the 1981 report.

2. DISCHARGE PROCEDURE

The Court's report on the accounts is submitted to the Board of Governors of the European Schools to enable the Board to grant discharge to the Administrative Board of each school.

At the time of writing of this report the Board of Governors had not yet given its discharge decisions on the 1978 accounts. Absence of information as to what action is to be taken in respect of observations in the 1978 Report has therefore imposed certain constraints on the content of the present Report. Nevertheless the Court takes note and where appropriate comments herein on progress made by schools independently of the discharge procedure in implementing recommendations contained in the 1978 Report.

The Court wishes to re-emphasise to the discharge authority the seriousness of the need, highlighted in

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the 1977 and 1978 Reports, to install a reliable system of internal control common to all schools. Apart from its significance for the proper management of the schools the continuing lack of such a system means that the Court's Report is the only method by which assessment and advice on matters of financial and administrative control given to particular schools can be disseminated throughout the schools' organisation. As a result, the Report contains observations relating to individual schools which might not otherwise be regarded as worthy of mention.

3. MATTERS ARISING FROM THE 1978 REPORT

3,1 Conversion of currencies (Points 3,1 and 6 (iii) of 1978 Report)

The Court requested in its 1977 Report that balance sheets and accounts be presented on a current exchange rate basis with effect from 1978 instead of the final accounts of schools outside Belgium and Luxembourg being converted into Belgian francs at the IMF 1971 rates.

The Board of Governors decided to change to the use of EUA parities at its meeting on 22 and 23 May 1979 and the Court, in its 1978 Report, considered that in view of the significant difference between current rates and the outdated IMF rates which led to a misleading presentation of the accounts of some schools when expressed in Belgian francs, current rates should have been introduced immediately in the context of the final accounts for 1979. However the change decided by the Board of Governors only came into force in 1980.

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3,2

Cash holdings and short-term investments

At point 4,1 of the 1978 Report, the Court noted that the schools held on average sufficient funds to meet 2 months' cash requirement and remarked that, as schools' actual payments are more than 85 % salaries, cash requirements can be forecast with great precision so that the holding of substantial balances is unjustified. It was suggested that the Board of Governors should give consideration to the utility of holding so much cash and near cash (i.e. time deposits) and it was suggested that the Board of Governors might wish to consider some centralisation of funds holdings with the aim of improving return on investments by pursuing a more active investment policy.

The accounts of the schools and of the Board of Governors at the 31st of December 1979 reveal total balances (adjusted for non Belgian francs accounts at current rates) of 179 million BF. Although this amount represents somewhat less than the 2 months' cash requirement that was held at 31 December 1978, the Court still emphasizes its belief that cash management could be improved.

3,3

Value Added Tax

At point 4,3 of the 1978 Report, it was noted that four schools (those of Karlsruhe, Munich, Varese and Culham) were not recovering Value Added Tax on their purchases of goods and services. The intervention of the Representative of the Board of Governors to obtain the national authorities approval for tax to be recovered has not to date succeeded in obtaining recovery or exemption from V.A.T. for these schools.

However, the Italian and German delegations to the Board have undertaken to intervene at the national level to obtain exemption from V.A.T. for the schools of Varese, Karlsruhe and Munich.

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A draft agreement between the United Kingdom and the Board of Governors which is being prepared foresees reimbursement of V.A.T. for Culham school, and the British delegation has let it be understood that this provision could be retroactive.

3,4 Accounting for advance payments

In its 1978 Report the Court drew attention to the practice whereby schools charged directly to budgetary expense accounts advance payments either to staff or to suppliers and emphasized that proper control required all advances to be treated as debtor items, to be cleared when transactions are finalised and the definitive expenditure charged against the budget. The practice criticized continued in 1979. Schools should ensure that these debtors are properly accounted for in 1980 and future years.

3,5 Recovery of overpayments

At point 6 (ii) of the 1978 Report, the Court expressed its view that every effort should be made to recover amounts improperly paid to members of the schools staff. It suggested that decisions to waive recovery should be taken by the Board of Governors rather than by the individual school authorities.

In 1979 there were several cases where school boards decided not to recover overpayments. As the boards are responsible for the execution of the schools budget they should be required to justify each of their decisions to the Board of Governors and their own decisions should not be regarded as final until that is done.

At its meeting on 10 and 11 December 1980 the Board of Governors stated its position as being that the Headmaster and administrative board of each school are responsible for applying the staff regulations, but when the Court finds errors giving rise to possible recovery of overpayments, each case must be submitted to the Board of Governors for decision.

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This stipulation, however, only covers cases which are discovered by the auditors. These cases are very probably only a minority. Decisions not to recover overpayments have often been taken, explicitly or implicitly, by school managements in the course of their day to day business. All such decisions should be referred to a higher level.

3,6 Observations concerning particular schools

Many of the matters mentioned concerning particular schools in previous Reports apply also at least in part to the 1979 accounting year. Some of the more important items are therefore repeated in a condensed form here, with further comment when this is considered appropriate.

3,6,1 Luxembourg

At point 2,1 of the 1977 Report and point 3,2,4 of the 1978 Report attention was drawn to outstanding balances with Member states governments. One of these still remains. On the balance sheet of 31 December 1979 appears an amount of 743.030flux under the heading "Débiteur gouvernements, Allemagne". A difference as to the precise amount owed to the school had prevented a settlement during the course of 1979. After further contacts with the German authorities, the school obtained permission from the Board of Governors (at its meeting of 10 and 11 December 1980) to write off the balance as unrecoverable.

3,6,2 Brussels I

In paragraph 5,2,1 of the 1978 Report it was noted that a prolonged medical incapacity of a member of the teaching staff had not been mentioned to the national authority which had seconded him, nor had there been any review of the employee's own medical advisor's opinion by a doctor acting on behalf either of the school or of the Member state authority concerned. As a result of this observation the School Board ruled that, in future, in such cases

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the national authorities would be informed, but only after 4 months' sick leave had been taken. The Court suggested that the opinion of the national authorities who are the principal employers of detached staff should be sought in the matter, it being at least probable that some of them might consider a 4 months' delay to be excessive.

The Headmaster has recently informed the Court that with effect from the 1980/81 school year the national authorities are informed quarterly of all absences of more than a week of seconded staff. When the school is informed in advance that a teacher will be absent for a long period the national authorities are told immediately.

In three of its observations on the audit of local staff salaries (points 5,2,2 - 5,2,4 and 5,2,6 of the 1978 Report) the Court considered that the school should disclose to the Belgian Tax and Social Security authorities its failure to apply national regulations. In the first of these 3 cases the member of staff concerned resigned and in the third case matters were rectified from 1979 onwards.

Following the observations of the Court in its 1977 Report and at point 5,2,5 of its 1978 Report the school undertook to improve its procedure with regard to tenders for work to be done on the school's premises and the Headmaster has confirmed that in 1980 the school has strictly followed the proper procedure.

3,6,3 Varese

The Court drew attention to the way in which Varese School was calculating the basic compensatory allowance with reference to June 1977 salaries, arguing that the decision authorizing the allowance was only taken in May 1977. The Court pointed out that the Board of Governors' decision was retroactive to 1 January 1977 and that this was born out by the fact that the salaries were re-calculated in accordance with the changes in

article 30 with effect from 1 January 1977 rather than from June. The School's interpretation of the text decision, though the Court considers it to be inconsistent, was supported by the Representative of the Board of Governors and at its meeting of 10 and 11 December 1980, the Board approved the Varese School's interpretation of the original decision.

4. OBSERVATIONS CONCERNING ALL SCHOOLS ARISING FROM THE AUDIT OF THE 1979 ACCOUNTS

4,1. Payment of August salaries in July

Salaries for the month of August each year have been calculated at the same time as those of July.

This is clearly convenient in view of administrative staff holidays. However, the practice of paying the salaries with those of July is totally unjustified; paying salaries a month early means, at any of the larger schools, foregoing bank interest in excess of 100,000 FB.

The Court recommended that August salaries no longer be paid in advance of the due date and the Representative of the Board of Governors issued instructions accordingly on 13 March 1981.

4,2. Adjustment of salary scales

The Board of Governors decided, at its meeting of 21 and 22 May 1980, to adopt for the calculation of seconded teaching staff salaries, with effect from 1 July 1979, the system of adjustment of the salary scale ("nettoyage de la grille") as applied for staff of Community Institutions. (Council Decisions No 160 and 161/80 of 21.01.1980).

The Board's decision introduced considerable extra complexity into a salary system that was already more complicated than that for staff of the Institutions.

Essential to the adjustment are the provisions whereby a staff member continues to benefit from the old scale until such time as transfer to the new one does not reduce his income. The system, designed for the Community, has therein resulted in the great majority of civil servants already being paid according to the new method. In the schools, however, most teachers are still paid according to the old system (though with their salary calculations greatly complicated) and the implementation of the Board's decision has had some results which are clearly inequitable.

The peculiarity of the schools' system which creates these problems is the rule that the "differential allowance" (reimbursement of national tax paid over and above the notional Community tax) can only be positive, i.e. no Community income tax deduction is made when calculating the European topping up element of salary although any excess of national tax over the notional Community tax is compensated by additional payment. (As the Board of Governors, when it introduced the allowance, decided not to levy any Community tax, the inequality of treatment of seconded teachers which is a consequence of their different national tax systems was reduced, but not eliminated).

For Community civil servants the changeover meant that the reduction in basic salary on changing from the old to the new scale was offset in the majority of individual cases by the reduction in the rate of the Community tax. This is not the case for teachers, who get reimbursements of national tax above the Community level, but do not pay any additional Community tax when their national tax is lower. As most teachers continue to pay much the same national tax at a level which does not entitle them to the differential allowance they are financially better off under the old system and remain therein much longer than Community staff at the same point on the scales. Furthermore, as long as a teacher has not

moved on to the new scale his salary for any particular month has to be calculated (in most cases) not less than six separate times. This happens for the following reasons:

Firstly, the decision as to whether a teacher is to move to the new system or not requires that his salary without overtime be calculated according to the old and the new scales. It then has to be calculated again with overtime incorporated and will subsequently have to be calculated a further three times to take account of the regular retroactive changes of weightings. The calculations in respect of an individual teacher at a school where salaries are not calculated with the help of a computer may take a full day for an experienced accountant. Moreover, the complications of the calculations involve an inevitable risk of a high level of errors which will never be detected as there is no effective double check. (No internal check exists in the schools' system and the Court of Auditors is unable to check a reasonable sample of the calculations in view of the limited staff resources that it has available for such work).

As a result of the way in which the differential allowance is calculated the changeover from the old to the new scale involves notably the following anomalies and inequities.

Firstly, as French and Italian teachers pay no or very little national tax they will stay longer than teachers of other nationalities on the old scale, possibly even until its date of expiration on 31 December 1985. (This will depend upon the extent to which any cost of living increases are compensated by Council decisions).

Secondly, because the lump sum "pécule de vacance" of Belgian teachers is paid in the month of May they

are more rapidly transferred to the new system. German teachers, however, simply because they receive their "Weihnachtsgeld" in December, in the average case stay considerably longer in the old system than their Belgian colleagues, though still not as long as their French and Italian ones. Thus it can be argued that the application of the changeover is discriminatory between teachers of different nationalities.

Moreover, the changeover may be inequitable between teachers of a single nationality where backdated adjustments of national salary are made since the month in which a teacher receives these arrears can decide whether he stays in the old system or is transferred to the new.

Perhaps the most important weakness of the implementation of the new method in the European Schools is that it does not ensure that no teacher has a lower net income when he moves from the old to the new system despite the fact that for the Community civil servants the changeover method was designed with this object in view. In the Schools many teachers who work overtime actually receive a lower net income in the first month on the new scale than they did under the old.

On this particular point the Representative of the Board of Governors has stated that overtime is not part of "salary guaranteed by the staff regulations" and should hence be excluded from comparisons of income before and after the changeover. Nevertheless overtime worked by seconded teachers is generally scheduled on a regular basis for lengthy periods. It is thus reasonable to consider overtime payments as part of regular income at the time that a teacher passes from one scale to the other.

We may sum up by concluding that the Board of Governors' decision to adjust salaries failed to ensure:

- 1) that no-one's income would be reduced when moving from the old to the new scale,
- 2) that staff should be on the new scale as soon as possible so as to correct the anomalies involved in the application of the old scale.

It is fair to add that unequal treatment of different teachers and/or of different nationalities of teachers has been increased and that the already excessively complicated salaries administration in the European School system has been even further complicated (see point 6,3 page 29).

4,3. Personal files

Following the Court's previous remarks (notably in its 1977 report) measures have been taken to improve the personal files of seconded teachers with the aim of providing sufficient support to the payrolls.

Whilst there has been progress, this has not been uniform throughout the schools and one significant problem remains. It is the very variable quality of information communicated by national administrations. A possible solution would be for all schools to request such information in a standard format from all the national administrations concerned.

4,4. Family allowances

Seconded teachers are paid "European" family allowances net of any national allowances. These national allowances have traditionally appeared on the national salary payslip. However, apparently as a result of

changes in the national organization of the payment of family allowances, some German, Danish and Dutch teachers allowances no longer appear on their payslip. The allowances (which could reach a level of 2000 florins a month for a Dutch family with six children) are thus no longer declared to the Schools' Administration and hence are not deducted from the European allowance. Either the staff concerned are in breach of point 7 of article 18 of the Regulations for members of the Teaching Staff and the Board of Governors should remind staff of their responsibility in this matter or the national administrations have transferred to the Community part of the cost of seconded staff which was formerly borne by the member states concerned. Sound financial management requires that any School Administration before making any payment of allowances under article 18 should obtain certified documentation indicating the reasons why the teachers concerned do not receive, or no longer receive, in their country of origin the same type of allowances as those described in article 18.

4,5. Income tax rebates

In several Member States staff receive at or after the end of each year a rebate or adjustment of income tax for the year. In Germany this would be referred to as "Lohnsteurejahresausgleich". The Court's audit has not so far revealed that any German teacher has ever declared such a tax reimbursement to a School. As such a reimbursement would diminish a possible differential allowance some teachers are undoubtedly in breach of the obligations of articles 24(ii) and 30 of the Staff Regulations. All teachers who receive the differential allowance should be reminded of their obligation to report tax rebates and it is suggested that they be required to sign an appropriate declaration at each year-end.

4,6 School fees

Education is provided free of charge for children of Community officials, of members of the teaching staff and of national civil servants of Community countries stationed in a country where there is a European School and of staff of institutions with which the Board of Governors has made an agreement by which these institutions make a financial contribution. Other pupils (except for hardship cases for which a special procedure is envisaged) are accepted subject to the payment of school fees. These were fixed at 4000 FB per year for the secondary school, 2000 FB per year for the primary school and 1000 FB per year for the kindergarten for the year 1966/67 and have remained unchanged (families with more than one child at a school obtain reductions of fees down to a minimum of 500 francs per year).

These fees could hardly be regarded as high in 1966. They are extremely low thirteen years later. As the Board has foreseen special arrangements for hardship cases, the Court considers that the level of school fees should be reviewed.

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5. OBSERVATIONS CONCERNING PARTICULAR SCHOOLS ARISING
FROM THE AUDIT OF THE 1979 ACCOUNTS

5,1 LUXEMBOURG

5,1,1 National salary of a seconded teacher

Among debtors on the balance sheet at 31 December 1979 is an amount of 472.000 fLux of advance of salary. This amount concerns a teacher who has not been seconded by a national authority but by a local one, so that the normal national salary was not paid in 1979. Unless the Belgian Government changes the administrative status of this teacher and pays a normal monthly salary the school will continue to bear directly an unusually high proportion (+ 50%) of this teacher's salary which is thus, through the Commission subvention, split between the Member states. This is the first case the Court has encountered where a teacher is being detached without continuing to receive a full national salary.

The school has taken the matter up with the Belgian authorities to try to find a solution to this most unusual problem and has raised the possibility of ceasing to recognize this teacher as entitled to seconded conditions of service.

5,1,2 Place of origin of a seconded teacher

The Court's audit revealed that a seconded teacher had declared Brussels as his place of origin and consequently benefited from leave transport allowance for the distance between Luxembourg and Brussels whereas when previously employed at the Bergen School he had declared his place of origin as being Arlon. As it appears that the earlier declaration was the correct one it was suggested to the school administration that recovery should be made of the overpayments to this

teacher since his arrival at the school. The Headmaster has informed the Court that all the expenditure was recovered in 1980.

False declarations of this type would be readily detected if the complete personal file of a teacher on transfer were sent to his new school.

5,1,3 Accounting for books for sale

A visit on the spot by the Court of Auditors revealed that stocks of books for sale were not properly physically controlled, nor was sale's income reconciled with issues from stock. The school has undertaken to make suitable improvements in handling of these quite substantial quantities of books. A stock book with details of receipts and issues has been introduced.

5,2 BRUSSELS I

The 1979 audit revealed a more disquieting state of affairs than in the other schools, just as had the audits of the two previous years. This Report contains only a selection of the more important matters on which audit observations were made.

5,2,1 Deputy Headmaster in the secondary school

In December 1974 the Board of Governors authorized a second post of deputy headmaster for the secondary school. This was in fact followed by the nomination of two additional deputy headmasters, each of whom continued to teach half-time. Reasons given for the additional assistance to the Headmaster were the preparation of the opening of the Woluwe School and the very high number of pupils in the Brussels I School at the time. As the excess of pupils has now been absorbed by the new school, these reasons are no

longer valid. As the European Schools normally have only one Deputy Headmaster at the secondary level, in the interest of economy and administrative simplicity the Board of Governors might wish to re-examine whether the additional post is still required, bearing in mind that one of the deputies may be retiring in the near future.

5,2,2 Replacement of absent teachers

Article 33 (iii) of the Staff Regulations foresees that teachers and educational advisors may be required on the basis of a roster drawn up by the Headmaster to replace absent colleagues. Where such additional duties continue for more than a week they are to be remunerated on the same basis as overtime. Where absence is protracted the Headmaster shall take steps to engage a substitute.

No detailed roster had been drawn up in Brussels I School and the replacement of absent teachers was arranged in a less orderly fashion than foreseen in the Regulations. The Court pointed out that the enforcement of a properly drawn up roster might well lead to economies in payments of overtime and substitutes.

The Headmaster has confirmed that in 1981 article 33(iii) is being strictly applied.

5,2,3 Social Security of part-time teachers

The Court pointed out the economies in Social Security costs which could be realised if the average number of weekly hours taught by each part-time teacher could be increased with a consequent reduction in the number of such teachers. The possibility of economy is greatest in the case of teachers of religion and morals where 52 part-time teachers were teaching on average about 4 hours each a week.

The Headmaster has stated that in the school-year 1981-1982 the School will endeavour to reduce the number of teachers of religion and morals.

5,2,4 Payments for hours not worked

It was noted by the auditors that one member of the staff was being paid for 40 hours' work a week but had only 30 hours of actual duties to perform. Following the Court's remark the person concerned was given additional duties.

5,2,5 Overtime payments for drafting of the school time-table

A deputy Headmaster had been paid overtime hours for working in the holiday period on the preparation of the school time-table, although this work is generally completed before the beginning of the summer holidays.

Following the audit observation the School Administrative Board decided that these payments would with effect from the 1981/82 school year no longer be made.

5,2,6 Fixed asset inventory

During the auditors' visit to the school, it was noted that very little progress had been made on the proper recording and control of fixed assets since a previous visit to the school in the autumn of 1978. The auditors suggested that an administrative employee whose work on salaries had been much reduced by computerization should be given the task of setting up and operating a system combining a central register of fixed assets with room or location cards and the indelible marking of the assets themselves. The Headmaster subsequently informed the Court that it was hoped to complete these tasks before the end of 1981.

The Court once again stresses the importance of the proper control of fixed assets.

5,2,7 Stocks of books

Audit of the school's extra-budgetary accounts revealed a loss of 106 atlases each having a sales value of about 600 francs. School staff were unable to explain the loss. Stock control was so poor that it was impossible to fix responsibility. The Court would stress that physical security of valuable stocks and proper recording of stock movements are basic requirements of proper financial management.

The Headmaster has instructed the School Bursar to take personal responsibility for the proper control of stocks.

5,2,8 Method of payment of salaries and fees

The school made payments from its convertible Belgian francs bank accounts to other people's convertible Belgian francs bank accounts in respect of salaries or fees of persons who do not have seconded staff status i.e. whose services are rendered in every sense locally in Belgium. It was pointed out by the auditors that in such cases payments to external accounts for local services are very probably in breach of exchange control regulations. The Headmaster assured the Court that the school would ask persons who render services locally to open internal (regnicole) bank accounts to which payments would be made in future, and the Headmaster has now confirmed that this is being done in all cases.

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5,2,9 Use of school premises by third parties

Various outsiders, amongst them private teachers of music and speech therapists, regularly use the school premises for their private business. The auditors were unable to discover any contracts or even evidence of approval by the school authorities of the various activities. It was suggested that the relationship between the school and these various outsiders should be put on a formal and open basis. Aspects to be considered when school premises are put at the disposition of third parties are :

- (i) the respective responsibility of the School Management and of the outsiders with regard to the premises and to the supervision of the pupils.
- (ii) insurance matters relating to the third party activities.
- (iii) the School authorities' responsibility to national authorities when facilities which have been put at the disposition of the European Schools by the national authorities are used for purposes other than the normal work of the school. Such matters as the observance by the outsiders of national legislation concerning Value Added Tax or Income Tax on their services or the acceptability of their professional qualification may become matters of legitimate concern to school management. Furthermore the outsiders are receiving a benefit in kind when using the school premises for their own business.

Following the Court's observation on these matters the Headmaster introduced in September 1980 a written procedure with a standard form whereby he authorises organizations who occupy school premises or use school equipment and specifies who is responsible, the nature of the activity, when it is to occur and incorporating

a declaration by the third party recognizing its responsibilities. The school does not ask for any payment from any of these outsiders.

5,3 BRUSSELS II

5,3,1 Control of fixed assets

Whilst considerable progress was noted in the establishment of proper fixed asset records the physical marking of the fixed assets was nevertheless not up-to-date at the end of 1979. The school was advised that this matter should be dealt with before the problem increases with the purchase of more assets. The Headmaster informed the Court in February 1981 that the physical marking of fixed assets would be finished by the end of that month.

5,3,2 Sales of books

The audit revealed that there were no complete and regular reconciliations of the purchases, stocks, sales and cash receipts. No adequate stock records were found. It was recommended that proper control be introduced as a matter of urgency.

The Headmaster has subsequently informed the Court that a system has been "set up to control and administer the purchases, stocks, sales and cash receipts of books".

5,4 MOL

The audit of the 1979 Accounts did not reveal any matters requiring comment in this Report. The cost per pupil is high because the school was designed for larger numbers; the research centre has not developed as foreseen.

5,5 VARESE5,5,1 Personal files

A check of a sample of the personal files of members of the teaching staff revealed that no action had been taken to correct the unsatisfactory situation discovered at the beginning of the year. The school had not acted upon the Court's recommendation nor did it act immediately upon the decision of the Board of Governors of the 18 and 19th December 1979 concerning the content of personal files.

The Court's view that proper personal files are necessary as backing for the payments of salaries was again expressed and the Headmaster addressed a request to all teachers for them to supply missing documents. He has subsequently informed the Court that from the start of the 1980/81 school year, personal files contain the necessary documentation.

5,5,2 Accounting for photocopying expenditure

Expenditure in respect of photocopying is found under four separate budget items in the 1979 accounts. Rental has been charged to items 211, 214 and 215. Insurance and contract fees were also charged to 211. Servicing has been charged to 217 and paper purchases to 215. When available appropriations on items 211 and 214 had all been used, expenditure was allocated elsewhere instead of the necessary transfers or appropriations being requested to enable a more consistent pattern of charging in the accounts.

The budgetary nomenclature includes the four items mentioned above and two others, items 301 and 217, to which various expenditure in respect of photocopying could legitimately be charged. Schools have

.... /

adopted different practices : Karlsruhe for instance appears to charge all photocopying costs to item 215 and Mol to item 211. The absence of an accounting manual has clearly given rise to different practices in different schools in respect of expenditure of the same type. Given the comparatively large amounts spent on photocopying in the European Schools it is most desirable that all schools account for this expenditure in the same way. An appropriate solution would be for the Board of Governors to add a specific item to the existing nomenclature solely for all expenditure in respect of photocopying.

The administrative board of the school decided on 9 February 1981, that all expenses in respect of photocopies would be charged to the single heading, item 215.

5,5,3 Stocks of books for sale

This asset account had simply been debited with the cost of book purchases and credited with the realized value of sales. Each year-end a physical stock check and a valuation at selling price of the stocks found was compared with the balance of the account and, provided the balance was lower, no action was taken. As a result unrealized gains or profits were concealed within the account balance. Normal accounting convention should have been followed; stocks should have been valued at cost or sale price, whichever was the lower, and profits and losses should have been taken into account in the year in which they were realized.

The Headmaster has informed the Court that proper procedures will be introduced from the end of the current school year (July 1981).

5,6 KARLSRUHE5,6,1 Accounting for interest earned

An amount of DM 2933,33 of interest earned on deposit was not credited by the school's banker until 3 January 1980. The school correctly "accrued" the interest earned in its 1979 accounts by the credit of income account No 311, "intérêts bancaires" but, instead of debiting an account entitled "intérêts à recevoir" (or something similar), inflated the bank account balance on the balance sheet by this amount. Care should be taken to ensure that the position is more exactly shown in future years.

5,6,2 Petty cash fund

The maximum permissible fund is 20.000 BF (+ 1.260 DM). The school's accounts indicate that this level was several times exceeded, to a maximum of DM 3.018.

Moreover the account had a negative balance on several occasions, which indicates that vouchers were not being regularly posted to the petty cash book.

The school has taken steps to ensure that the fund is managed in conformity with the rules.

Schools are reminded that the petty cash book must always show the real situation so that its balance is in agreement with the cash holding.

5,7 BERGEN5,7,1 Purchase of office equipment

When criticized for not following the provisions of the financial regulation of the European Schools concerning the obtaining of offers from several suppliers, the school replied that its practice of making all

important purchases through the Rijksinkoopbureau (Central government purchasing organisation) ensured that the most favourable purchase conditions were obtained. It was pointed out to the school management that even if the use of a central purchasing organization were to ensure the best possible conditions for the School, it would nevertheless be necessary, before taking advantage of the facility, to obtain from the Board of Governors a derogation from the financial regulation, Such a derogation has been requested by the Bergen School in February 1981.

In the same context there was a case in 1979 where the Headmaster of the School, without receiving a proper derogation, authorized the purchase of a photocopier which cost more than the amount that he was authorized to spend on his own signature. The chairman of the school's Administrative Board should have signed the particular transaction.

5,8 MUNICH

5,8,1 Accounting problems

As in previous years, in 1979 the closing of accounts at the year-end has not been properly carried out as a book-keeping operation. There is no account "Fonds de réserve" (Reserve Fund). The amount on the balance sheet is simply the difference between the assets and the liabilities for which accounts are kept.

This is the sort of error that only arises because there is no accounting or administrative manual for the European Schools.

5,9 CULHAM5,9,1 Accounting system

As in 1978 the books of account were carefully kept but seriously incomplete. There was no proper ledger only an "analysis journal" for budget accounts. The petty cashbook and journal were inadequately cross referenced to the "analysis journal" and the system involved unnecessary duplication of some entries and failure to record others properly.

In its 1978 Report the Court noted that a copywriter system of accounting was to be introduced with effect from the 1st of January 1980 and expressed the hope that this would provide a comprehensive solution to the School's need. As actually introduced, however it was found by the auditor to be incomplete and in some respects inappropriate, though nevertheless a considerable improvement on the previous system. The auditor was able to make a number of suggestions for improving and completing the copywriter system.

The Headmaster has stated that the necessary improvements will, subject to the constraints of staff availability, be undertaken.

5,9,2 Balance sheet at 31 December 1979

Because of the problems referred to in 5,9,1 above it was impossible to reconcile completely with the books of account the "Créditeurs divers", and the "Comptes transitoires" for the "Recettes et dépenses de la période additive".

For the various "Débiteurs divers" (other than the "Comptes de livres" which should have been shown as a stock account) no ledger accounts had been

opened, nor had this been done for the "Fonds de réserve" and other liabilities. It was however possible to establish the correctness of the amounts shown on the balance sheet from records of receipts and payments.

5,10 BOARD OF GOVERNORS

5,10,1 Exchange rate for mission expenses

In April 1979 the Office of the Representative of the Board of Governors issued a new set of exchange rates for converting into Belgian francs the mission expenses paid in other currencies of members of the Board of Governors, of the Inspection Boards and of the Administrative and Financial Committee.

The "buying rate" which was formerly used (and which continues to be used for expenses of members of the School staff) is so close to the Commission "Taux mensuel" that it would be a reasonable administrative economy to adopt the latter for all such operations.

The introduction of the new rate, however, gave an average advantage of more than 5 % to the beneficiaries. Whilst the small number of missions involved means that the annual extra-cost would not exceed 100.000 Belgian francs, the adoption of a special rate is unnecessary. The objective of ensuring that no-one is out of pocket because of the cost of necessary currency exchanges can be realised, as it generally is in the institutions, by making all conversions at standard rates unless the individual claimant produces documentary proof that he has had to purchase currency at a higher rate, in which case he is reimbursed accordingly.

6. CONCLUSIONS

As this Report is being issued before the Budget Authorities has given discharge to the Schools for the implementation of their 1978 budgets, and as the numerous examples of errors and malpractices mentioned in this Report serve to confirm the conclusions of the Court's previous Reports, it is necessary substantially to repeat conclusions that figured therein.

6,1 Lack of internal control

The continuing absence of an internal control function leaves the school's system in a position in which it lacks a basic pre-requisite of sound financial management. What is required is the appointment of a qualified accountant reporting to the Representative of the Board of Governors with overall responsibility for laying down clearly in writing detailed procedures to be followed by all schools in implementing the budget, executing and recording financial transactions, and compiling accounts. This accountant should also have responsibility for carrying out a continuous internal review of accounting and administrative systems and practices so as to ensure consistency throughout the schools in accounting practices, in the interpretation and application of regulations, and in the solutions adopted to administrative problems. He should moreover be responsible for critically examining the draft budgets of all schools so as to ensure across the board consistency of provisions.

The decision of the Board of Governors of 30 January 1981 to seek an expert for a one year examination of accounting and administrative practices and the drawing up of an accounting manual, does not amount to the installation

of a system of internal control, which the Court considers essential. No provision is made for a continuous internal review of accounting and administrative systems and practices throughout the schools, nor for more critical comparative examination of draft budgets.

6,2 Recovery of overpayments

The Court wishes to repeat its previous recommendation that every effort should be made to recover amounts improperly paid. Decisions to waive recovery should not be taken except in the most trivial of cases by the management of individual schools.

6,3 Need to simplify the salary system of seconded teachers

Whereas the use of computers may well resolve the calculation problems in the present very complex salary system, the continuing attempt to combine a community and 9 (10 in 1980) national systems for seconded staff salaries produces increasing anomalies and problems of application of regulations which are considerable in both quantity and complexity.

The Court recommends that the Board of Governors give serious consideration to reviewing the salary arrangements for seconded teachers, with a view to simplifying the system.

This Report the original of which was written in English, was issued by the Court of Auditors of the European Communities on 10 April 1981.

Michael M. Murphy,

| | ASSETS | | | TOTAL | LIABILITIES | | | |
|--------------------|----------------|----------------------|---|------------|-------------------|---------------------|--|------------------------|
| | Cash and banks | Other current assets | Receipts to (2) be collected (1 January 1980) | | Reserve Funds (5) | Current liabilities | Provision for charges (2) (1 January 1980) | Surplus for allocation |
| Luxembourg | 32.590.041 | 1.989.339 (1) | 4.140.437 | 38.719.817 | 16.692.124 | 71.485 | 4.287.848 | 17.668.360 |
| Brussels I | 35.476.181 | 1.454.557 | 395.587 | 37.326.325 | 24.360.810 | 196.069 | 8.133.763 | 4.635.683 |
| Brussels II | 27.889.536 | 100.000 | 1.969.722 | 29.959.258 | 15.858.403 | - | 3.497.614 | 10.603.241 |
| Mol | 21.410.640 | 4.585.507 (3) | 308.407 | 26.304.554 | 12.303.300 | 3.933.880 (4) | 2.665.253 | 7.402.121 |
| Varese | 53.045.556 | 6.846.251 | 5.491.926 | 65.383.733 | 37.282.269 | 493.115 | 16.948.516 | 10.659.833 |
| Karlsruhe | 12.155.232 | 2.240.191 | 666.286 | 15.061.709 | 8.355.900 | 355.693 | 1.292.787 | 5.057.329 |
| Bergen | 8.753.700 | 186.281 | 1.893.748 | 10.833.729 | 4.932.107 | 190 | 1.605.718 | 4.295.714 |
| Munich | 6.456.672 | 61.101 | 7.817 | 6.525.590 | 2.341.473 | 1.624.578 | 43.893 | 2.515.440 |
| Culham | 12.662.520 | 1.236.600 | 1.238.040 | 15.137.160 | 1.024.957 | 24.509 | 1.251.120 | 12.836.574 |
| Board of Governors | 3.507.707 | 30.967 | 30.659 | 3.569.333 | - | - | 1.463.044 | 2.106.289 |

(1) of which 743.030 BF debtors as Member State Governments (Germany)

(2) article 2 of the Financial Regulations

(3) of which 3.402.968 BF in respect of the contribution to the School's budget of the "C.E.N." research centre

(4) of which 2.500.000 BF is in respect of funds deposited with the School by its Canteen (a separate a.s.b.l.)

(5) Chapter VI of the Financial Regulation of 13/14 April 1962 lays down that Reserve Funds are set up out of annual surpluses to a maximum level of 10 % of the budget of each school for the following year. Any surplus above this level is to be deducted from the next year's contributions to the budget.

| Source | Luxembourg | Brussels I | Brussels II | Mol | Varese | Karlsruhe | Birgen | Munich | Culham | Board of Governors | Total | Increase over 1978 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|--------------------|----------------|--------------------|
| Mission of the | 238.660.270 | 287.896.017 | 154.016.269 | 137.832.414 | 353.220.321 | 88.100.918 | 72.301.249 | - | 37.141.080 | - | 1.369.168.538 | + 20,5% |
| Open Patent Organization | - | - | - | - | - | - | - | 19.423.663 | - | - | 19.423.663 | + 65,3% |
| Schools | - | - | - | - | - | - | - | - | - | 18.991.649 (1) | 18.991.649 (1) | + 8,6% |
| Government Contributions | 87.789.532 | 116.657.341 | 46.928.423 | 60.180.146 | 150.936.482 | 34.862.872 | 33.175.904 | - | 9.475.741 | 974.000 | 540.980.441 | + 12,8% |
| U.S. Grants and Receipts | - | - | - | 12.240.000 | - | - | - | - | - | - | 12.240.000 | + 3,6% |
| | 8.344.044 | 8.955.832 | 3.557.803 | 1.000.000 | 11.094.894 | 3.156.321 | 2.425.938 | 266.175 | 1.574.372 | 250.047 | 45.102.140 | + 31,6% |
| Receipts | 334.793.846 | 413.509.190 | 204.502.495 | 216.729.274 | 515.251.697 | 126.120.111 | 107.903.091 | 19.689.838 | 48.191.193 | 20.215.696 | 2.006.906.431 | + 18,6% |
| 78 surplus 1/2 to cover appropriations 1/2 | 1.194.099 | 1.651.044 | 352.402 | 275.489 | 3.144.520 | - | 671.874 | 2.840 | 551.403 | - | 7.843.671 | + 68,6% |
| deducted from contributions of the Commission | 12.697.729 | 17.346.969 | 28.254 | 7.854.330 | 87.626 | 8.511.957 | 5.859.770 | - | - | - | 52.386.635 | - 36,2% |
| deducted from contributions of the schools | - | - | - | - | - | - | - | - | - | 1.533.351 | 1.533.351 | + 31,0% |
| deducted from contributions of the European Patent Organization | - | - | - | - | - | - | - | - | - | - | 1.038.600 | 100% |
| TOTAL | 348.685.674 | 432.507.203 | 204.883.151 | 224.859.093 | 518.483.843 | 134.632.068 | 114.434.735 | 20.731.278 | 48.742.596 | 21.749.047 | 2.069.708.688 | + 16,3% |
| Increase over 1978 | + 11,8% | + 3,1% | + 34,6% | + 5,9% | + 24,5% | + 6,6% | + 14,5% | + 73,2% | + 380,7% | + 10,7% | + 16,3% | |

Teachers' "national" salaries

) Schools make contributions to the budget of the Board of Governors. They account for these as expenses (item 501) Hence this table overstates the total income of the system by this amount.

EXPENDITURE BY SCHOOLS FOR 1979 (1) (In Belgian Francs)

| | Staff costs | % of total (2) | | Other expenses | Total |
|--------------------|----------------------|----------------|-------------|--------------------|----------------------|
| Luxembourg | 302.435.243 | 91 | (93) | 28.582.071 | 331.017.314 |
| Brussels I | 399.953.428 | 93 | (95) | 27.805.579 | 427.759.007 |
| Brussels II | 172.057.517 | 89 | (90) | 22.222.393 | 194.279.910 |
| Mol | 188.506.483 | 87 | (89) | 28.950.489 | 217.456.972 |
| Varese | 454.894.584 | 90 | (94) | 52.862.898 | 507.757.482 |
| Karlsruhe | 112.571.491 | 87 | (89) | 17.003.248 | 129.574.739 |
| Bergen | 97.964.082 | 89 | (91) | 12.174.939 | 110.139.021 |
| Munich | 14.953.047 | 82 | (88) | 3.262.791 | 18.215.838 |
| Culham | 27.986.600 | 78 | (86) | 7.919.422 | 35.906.022 |
| Board of Governors | 11.394.254 | 58 | (58) | 8.248.504 | 19.642.758 |
| Total | 1.782.716.729 | 90 | (92) | 209.032.334 | 1.991.749.063 |

(1) includes payments against appropriations brought forward from 1978

(2) second figures (in brackets including staff costs of chapter IV (Expenditure associated with building up and ...

| | Luxembourg | Brussels I | Brussels II | Mol | Varese | Karlsruhe | Bergen | Munich | Culham | Total |
|---|------------|------------|-------------|-------|--------|-----------|--------|--------|--------|---------|
| <u>Staff seconded by Governments</u> | | | | | | | | | | |
| Headmasters, Bursar | 4 | 7 | 4 | 4 | 3 | 3 | 3 | 2 | 1 | 31 (2) |
| Teachers | 136 | 181 | 79 | 83 | 122 | 66 | 50 | 12 | 17 | 746 (3) |
| "Chargés de cours" | 5 | | | | | | | | | 5 |
| <u>Staff not seconded by Governments :</u> | | | | | | | | | | |
| Teachers of religion and morals | 25 | 38 | 31 | 13 | 24 | 16 | 11 | | 4 | 162 |
| Chargés de cours " | 5 28 | 1 11 | 2 13 | 10 | 23 | 6 | 13 | 11 | 12 | 8 127 |
| "emplacements" (substitutes for absent teachers) | 42 | 41 | 25 | 5 | 48 | 14 | 4 | | 6 | 185 |
| <u>Administrative staff</u> | | | | | | | | | | |
| (4) | | | | | | | | | | |
| Bursar, accountants, typists &c | 7 | 10 6 | 5 | 6 1 | 7 1 | 5 1 | 3 | 1 | 2 1 | 46 10 |
| Technical assistants, nurses &c | 11 1 | 7 | 3 | 2 2 | 4 | 2 | 2 | | | 31 2 |
| <u>Personnel de service"</u> | | | | | | | | | | |
| Cleaners | 50 | 62 2 | 42 | 8 | 29 | | 1 | | | 192 2 |
| Workers, caretakers &c | 5 | 7 | 3 | 5 | 6 | 2 | 3 2 | 1 | 1 1 | 32 4 |
| <u>"Surveillance", and "surveillance de midi" (5)</u> | | | | | | | | | | |
| Persons engaged in an "activité ériscolaire" | 4 | 10 | 5 | | | | | | | 19 |
| Doctors and psychologists | 32 | 43 | 5 | | | 8 | 1 | 2 | 4 | 95 |
| | 3 | 2 | 2 | 2 | 2 | | | | 1 | 12 |

- 1) Where a column is divided into two the figure on the left shows full-time staff, the one on the right indicates part-time staff.
- 2) The comparative figure on 31.12.19 '8 was 32
- 3) The comparative figure on 31.12.19 '8 was 717 (+ 4,0 %)
- 4) Not seconded by a government
- 5) Non-teaching staff

TABLE 5

PUPILS AT SCHOOLS AT 31.12.1979 AND PUPILS PER TEACHER

| | Kindergarten | Primary | Secondary | Total | Full-time teachers | Pupils per teacher |
|---------------------|--------------|---------|-----------|---------|--------------------|--------------------|
| Luxembourg | 305 | 999 | 1205 | 2509 | 136 | 18,4 |
| Brussels I | 114 | 772 | 1552 | 2438 | 181 | 13,5 |
| Brussels II | 125 | 665 | 600 | 1390 | 79 | 17,6 |
| Mol | 65 | 298 | 542 | 905 | 83 | 10,9 |
| Varese | 106 | 586 | 982 | 1674 | 122 | 13,7 |
| Karlsruhe | 63 | 402 | 419 | 884 | 66 | 13,4 |
| Bergen | 59 | 272 | 330 | 661 | 50 | 13,2 |
| Munich | 21 | 69 | 37 | 127 | 12 | 10,6 |
| Culham | 26 | 130 | 87 | 243 | 17 | 14,3 |
| Total on 31.12.79 | 884 | 4193 | 5754 | 10831 | 746 | 14,5 |
| Total on 31.12.78 | 820 | 4149 | 5529 | 10498 | 717 | 14,6 |
| Total on 31.12.77 | 827 | 4215 | 5202 | 10244 | 646 | 15,9 |
| Increase 1979/78 | + 7,8% | + 1,1 % | + 4,1 % | + 3,2 % | + 4,0 % | |
| Increase 1978/77 | - 0,8 % | - 1,6 % | + 6,3 % | + 2,5 % | + 11,0 % | |

| | Communities Institutions | European Schools and others (1) | Joint research centres and (2) other internatio- nal organizations | Others from Member States and Embassies of the Nine | Others from non-Member States | Total | Increase <u>1979</u> 1978 |
|----------------------------|-----------------------------|--|---|--|-------------------------------------|-------------|---------------------------------|
| Luxembourg | 1609 | 149 | 44 | 665 | 42 | 2509 | + 3,7 % |
| Brussels I | 1344 | 276 | 160 | 582 | 76 | 2438 | - 4,0 % |
| Brussels II | 1054 | 70 | 82 | 164 | 20 | 1390 | + 13,5 % |
| Mol | 172 | 73 | 260 | 360 | 40 | 905 | - 2,9 % |
| Varese | 1038 | 131 | - | 474 | 31 | 1674 | - 3,8 % |
| Karlsruhe | 135 | 79 | 86 | 574 | 10 | 884 | + 4,1 % |
| Bergen | 157 | 66 | 121 | 255 | 62 | 661 | + 3,6 % |
| Munich | 2 | 93 | - | 31 | 1 | 127 | + 108,2 % |
| Culham | 1 | 34 | 111 | 83 | 14 | 243 | + 167,0 % |
| Total on 31.12.1979 - % | 5512 51 % | 971 9 % | 864 8 % | 3188 29 % | 296 3 % | 10831 100 % | |
| Total on 31.12.1978 - % | 5590 53 % | 837 8 % | 885 8 % | 2929 28 % | 257 3 % | 10498 100 % | + 1,8 % |
| Increase 1979 : 1978 % | - 1,4 % | + 16 % | - 2,4 % | + 8,8 % | + 15,2 % | | |

(1) Permanent Representations of the Member States

European Patent Office

(2) Eurochemic, Nato, Eurocontrol

COST PER PUPIL

TABLE 7

| | Expenditure (1) 1979 (in B.F.) | Expenditure (2) at actual rates 1979 (in B.F.) | Pupils at 31.12.1979 | Expenditure per pupil 1979 (2) | Expenditure per pupil 1978 (3) | Expenditure per pupil 1977 (4) | Increase 1979 % 1978 | Increase 1978 % 1977 |
|--------------------|--------------------------------------|--|-------------------------|--------------------------------------|--------------------------------------|--------------------------------------|----------------------------|----------------------------|
| Luxembourg | 331.017.314 | 331.017.314 | 2.509 | 131.932 | 123.076 | 120.891 | + 7,1 % | + 1,8 % |
| Brussels I | 427.759.007 | 427.759.007 | 2.438 | 175.455 | 157.513 | 156.244 | + 11,4 % | + 0,8 % |
| Brussels II | 194.279.910 | 194.279.910 | 1.390 | 139.770 | 116.020 | 85.286 | + 20,5 % | + 36,0 % |
| Nol | 217.456.972 | 217.456.972 | 905 | 240.284 | 219.063 | 194.470 | + 9,7 % | + 12,6 % |
| Varese | 507.757.482 | 220.764.122 | 1.674 | 131.878 | 102.716 | 97.034 | + 28,4 % | + 5,9 % |
| Karlsruhe | 129.574.739 | 154.121.332 | 884 | 174.345 | 160.460 | 152.520 | + 8,7 % | + 5,2 % |
| Bergen | 110.139.021 | 105.110.431 | 661 | 159.017 | 154.888 | 131.977 | + 2,7 % | + 17,4 |
| Munich | 18.215.838 | 21.666.639 | 127 | 170.603 | 207.359 | 168.876 (6) | - 17,7 % | - |
| Culham | 35.906.022 | 18.645.133 | 243 | 76.729 | 46.046 (5) | - | - | - |
| Board of Governors | 19.642.758 | 19.642.758 | - | - | - | - | - | - |
| TOTAL | 1.991.749.063 | 1.710.463.618 | 10.831 | 157.923 | 142.289 | 133.640 | + 11,0 % | + 6,5 % |

- (1) At IMF rates of 18 December 1971 - 100 BF = 1.250 Lit.; = 7,32 DM; = 7,24 Hfl; = 0,8333 Lst.
- (2) At "actual" rates of 27 Dec. 1979 : 100 BF = 2.875 Lit.; = 6,1547 DM; = 6,8066 Hfl; = 1,6048 Lst.
- (3) " " " " 29 Dec. 1978 : 100 BF = 2.875 Lit.; = 6,3264 DM; = 6,8455 Hfl; = 1,7029 Lst.
- (4) " " " " 30 Dec. 1977 : 100 BF = 2.645,37 L.it.; = 6,39493 DM; = 6,91236 Hfl; = 1,5901 Lst.
- (5) September to December 1978 only
- (6) November to December 1977 only