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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
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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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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