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## Report

**of the Court of Auditors**

**on the/1979 accounts  
of the European Centre for the  
Development of Vocational Training  
(BERLIN)**

**accompanied by the Centre's replies**



COURT OF AUDITORS  
OF THE  
EUROPEAN COMMUNITIES  
MICHAEL N. MURPHY  
President

24 September 1980

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 Centre for the Development of Vocational Training together with the replies of the Centre.

Yours sincerely,

Michael N. Murphy  
President.



REPORT OF THE COURT OF AUDITORS ON  
THE 1979 ACCOUNTS OF THE EUROPEAN CENTRE FOR THE  
DEVELOPMENT OF VOCATIONAL TRAINING (BERLIN) ACCOMPANIED  
BY THE CENTRE'S REPLIES . . . . .

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REPORT OF THE COURT OF AUDITORS TO THE COMMISSION  
ON THE 1979 ACCOUNTS OF THE EUROPEAN CENTRE FOR THE  
DEVELOPMENT OF VOCATIONAL TRAINING (BERLIN) ACCOMPANIED  
BY THE CENTRE'S REPLIES

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1. MATTERS ARISING FROM THE 1978 AUDIT

Conflict between staff regulations and national social security provisions.

1.1. At point 2.3.2 of its 1978 Report, the Court drew attention to the conflict between the staff regulations of the Centre and national social security arrangements whereby the correcting factor or weighting under the former is to be applied after deduction of social security contributions; but under the latter the deductions are based on salary after the correcting factor has been applied. The Commission sent to the Council on 11 December 1979 a proposal for modifications which could resolve the matter by incorporating the staff in the Community social security scheme.

Computer installation

1.2. At point 2.4 and point (4(i) of its 1978 Report, the Court concluded, on the basis of its examination of the computer installation and the manual accounting system, that a proper study was not carried out to analyse and improve methods of work before the decision to hire a computer was taken and that the need for such equipment had not been properly established.

The 1979 audit included a special examination of the operation of this installation. The findings are summarised in Annex I to this report.

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Reply of the Centre to paragraph 1.2.

The Centre stated its position on this point in its comments on the Court's 1978 Report and in its reply to the Court's letter of 15 October 1979 and wishes to make no further comment.

#### Vocational training bulletin

1.3. At point 3.2.5. of the 1978 Report, the Court drew attention to the excessive cost of this publication. There was no significant improvement in 1979 but it is understood that the director has been instructed to achieve a reduction of 25% in total costs in 1981. This could still mean an approximate cost of some 20 DM per copy, excluding the cost of Centre staff involved in the preparation of the bulletin. If 90% of the copies continue to be distributed free of charge and if the current selling price of DM 11 is maintained the net cost will still remain at an exceptionally high level. The Centre should examine every means of achieving further reductions (particularly with regard to the fees paid to contributors, and the possibility of a more economical standard of production).

Reply of the Centre to paragraph 1.3.

As the Court points out, the Centre's Management Board has taken decisions that will considerably reduce the Bulletin's cost in 1981. In particular, the system of fees paid to contributors has already been restructured and this will result in a significant reduction in 1980. The Management Board will also be examining free distribution vs charging for all of the Centre's publications.

The Centre would submit that publishing a Bulletin in six languages



sets a limit to possible cost reductions as far as translation and printing (i.e. setting) are concerned.

#### Accounting for recoverable value added tax

1.4. Point 1.3.3 of the 1978 Report drew attention to 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 Centre's reply justified its practice by reference to Article 4 of its financial provisions (Council Regulation (EEC) No 1416/76). Article 4 stipulates that no expenditure should be effected unless charged against an article of the budget, while Article 22b 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 their name and not charged against the Centre's budget.

#### Reply of the Centre to paragraph 1.4.

The Centre's practice complies with its financial provisions (Council Regulation No 1416/76). The Centre will however examine the possibility of following the Court's suggestion with Commission services.

#### Expenditure incorrectly allocated

1.5. The Court commented (point 3.2.3) that costs of outside translation should be charged to Item 1172 and not to Chapter III under the present budget nomenclature. In 1979 some 120 000 EUA of expenditure was again charged wrongly to Articles 301, 302 and 303.

Reply of the Centre to paragraph 1.5.

In accordance with the suggestion made by the Court in its 1978 Report, from 1981 the budget nomenclature will contain a specific item for translation costs in chapter 3 of its statement of revenue and expenditure.

## 2. SYSTEMS AND PROCEDURES 1979

### Mission expenses

2.1. The Centre staff are not properly applying the provisions of the Commission's "Guide des missions" which covers the way in which claims for reimbursement of expenses are to be presented.

Provisions not strictly observed include those covering the submission of expense statements immediately after missions (delays of more than six months were noted), time allowances for travelling to and from airports and stations at the beginning and end of missions, the fixing of the time at which a mission is considered to end when combined with leave, and the stipulation that staff on mission should return by the first available authorised means of transport.

Total payments in respect of missions for 1979 were 229 767 DM and proper checking and supervision would almost certainly have paid for itself. It was only late in 1979 that staff were for the first time required to produce reports for management on the missions they carried out.

Even during the systems examination in April 1980 it was clear that no systematic check was being made as to whether all'missions were justified in this way.

Reply of the Centre to paragraph 2.1.

Subsequent to the Court's comments the Centre is strictly observing the provisions of the Commission's "Guide des missions".

Staff Mission requests have always been subject to stringent examination. Steps have been taken to ensure that the directorate's missions file contains a report on every mission made.

Minutes and records of meetings and conferences

2.2. There is no established procedure for drawing up minutes or otherwise recording meetings and seminars, so it is not readily apparent exactly how many meetings or seminars were organised by the Centre or were attended by the Centre staff, in Berlin or elsewhere. It is thus difficult to assess the results or be certain of the role played by the Centre staff.

Reply of the Centre to paragraph 2.2.

The authorising procedure for meetings ensures that management is always aware of the number and aim of the meetings organised by the Centre.

Instructions have been issued formalising the drawing up of minutes on all these events.

## Accounting in EUA,

2.3. The Centre converts its receipts and payments during the year into EUA although not required to do so. The fact that its budget is shown in EUA does not require the Centre to incur the extra costs and complications of EUA accounting throughout the year. One result is that the amount of 628 778 44 EUA due from the Commission as shown on the balance sheet does not agree with the amount shown on the Centre's revenue and expenditure statement of 631 888 29 EUA (see point 3.5).

Reply of the Centre to paragraph 2.3.

The conversion in EUA of the "monthly statement of accounts" is made at the request of the Commission. Concerning the difference between the balance sheet and revenue and expenditure statement due to the conversion in EUA of the monthly statement of accounts, the Centre will in future treat this item as a year-end exchange adjustment, as suggested by the Court (see point 3.5 of the Court's report).

## Files and documentation of research contracts

2.4. An examination of the general organisation of files and documentation revealed that there is no uniform system of filing for all study contracts. Individual research experts keep what files they choose. As a result the links between the contract with the research contractor, the pre-planning of a contract and the details of its execution, correspondence between the contractor and the Centre, and the study or other results finally achieved are frequently not clear. It is not always apparent whether the work has

been carried out, at what date the relevant documentation was received and by whom. A standard contract control file should be introduced.

Reply of the Centre to paragraph 2.4.

A standard contract control file will be introduced as soon as possible.

#### Costing of proposed research contracts

2.5. The selection of research contractors is made by the responsible project officer. Tenders for contracts are not sought publicly; the project officer simply contacts universities, research institutes, national professional training institutes or, indeed, individual researchers personally known to him and is not obliged to give any reasons for the choice he makes. Potential contractors are asked to give estimates of the time and cost within an outline suggested by the project officer. These estimates are then accepted or modified in discussion between the contractor and the project officer. The only formal guide given to the project officer is that the cost of a researcher should fall between the salary minimum of an A7 employee and the salary maximum of an A5, the former being about 52% of the latter. No systematic attempt is made to evaluate the cost of services included in a contract, to make any explicit comparison with standard costs, or to obtain the maximum results at minimum cost.

Reply of the Centre to paragraph 2.5.

The Centre considers that it is not always feasible to seek publicly tenders for research contracts. The Centre normally avails

itself of the detailed knowledge of its project officers for locating prospective contractors. The final choice is made by the directorate.

Concerning the costs of research contracts the Court points out that "the only formal guide given to the project officer is that the cost of a researcher should fall between the salary minimum of an A7 employee and the salary maximum of an A5 ...". Whereas this is correct, the Centre would like to stress that its project officers do attempt to evaluate the time required for fulfilling the contract; in fact, as the Court remarks, the estimates submitted by the contractors "are then accepted or modified in discussion between the contractor and the project officer." In accordance with the Court's comment, the Centre will establish a more consistent set of formal guides.

### 3. THE 1979 ACCOUNTS

#### Use of appropriations

3.1. Tables 1, 2 & 3 attached have been prepared by the Court. Tables 1 and 2 indicate the degree of utilisation of 1979 appropriations (Table 1) and of appropriations brought forward from 1978 (Table 2), whilst Table 3 shows the development and use over the past four financial years of the appropriations for operational expenditure.

As will be seen from Table 3 the degree of utilisation of final appropriations for operational expenditure has

increased sharply to 94,7% in 1979. (This may be reduced by cancellations in 1980 out of the 690 647 EUA of operational expenditure committed and carried forward to 1980).

Charges to the wrong budget year

3.2. In 1978 final appropriations for Item 1300 (mission expenses) were 106 800 EUA of which 87 321 EUA were covered by payments, 374 EUA carried forward to 1979 and 19 105 EUA cancelled. The 374 EUA which were carried forward were used for outstanding commitments in respect of 1978 but there were further payments totalling 10 922.23 DM (approximately 4364 EUA) for missions which were carried out in 1978 but subsequently charged to the budget of 1979. It is clear that insufficient care was taken when establishing the need for appropriations to be carried forward in respect of mission expenses.

Reply of the Centre to paragraph 3.2.

In establishing the appropriations to be carried forward under Article 6(1)c of the financial provisions the Centre overlooked a number of mission expenses accounts which had been submitted for approval to the financial controller.

The procedure for reserving amounts corresponding to the expenditure to be incurred has since been improved, so as to avoid this sort of error recurring.

Changing of allocation after obtaining the financial controller's approval

3.3. Of the mission expenses of 10 922.23 DM mentioned

at point 3.1. above, payments totalling 7985.74 DM concerned vouchers where the allocation to the year was changed by a member of the staff after the financial controller had approved the original allocation. These changes should have been approved by the Financial Controller.

Reply of the Centre to paragraph 3.3.

On receiving the mission expenses accounts mentioned at point 3.2. above from the financial controller the accounts for 1978 had already been closed. As the Centre had no choice but to charge the expenditure to the 1979 appropriations and as the mission expenses accounts had been approved by the financial controller, the Centre omitted having the change of allocation from 1978 to 1979 approved by the financial controller.

The Centre has taken note of the point raised by the Court and will act accordingly in future.

Long-outstanding liability for social security

3.4. Account No 44 030 entitled "Nicht geklärte Fälle (social security)" contains an amount of 14 238 DM (5762.09 EUA) of employer's and employee's contributions in respect of the former Director of the Centre which awaits final settlement by payment to the Danish social security since September 1977. Every effort should be made to clear this long-outstanding liability.



Reply of the Centre to paragraph 3.4.

The Centre having finally obtained a satisfactory answer to the queries it addressed to the Danish authorities, payment has now been made.

Reconciliation of Commission subsidy with the revenue of the Centre

3.5. The Commission's "comptes de gestion" and the Centre's published statement of revenue and expenditure show different amounts in respect of the Commission's subvention as follows:

(in EUA)	<u>Commission</u>	<u>Centre</u>
Payments to Centre	2400 000	2394 148 17
Still to be paid/collected	628 778 44	631 888 29

The difference in the amounts shown for actual payments is simply the result of different exchange rates being used for accounting purposes. However, the Centre's practice of keeping its accounts in EUAs as well as in DM has led it to show different amounts in its revenue and expenditure statement and in its balance sheet in respect of the amount of subvention still to be collected. The balance sheet agrees with the amount shown as carried forward in the Commission's "comptes de gestion". To be consistent, the Centre should have adjusted this item in its revenue and expenditure statement

by treating the difference as a year-end exchange adjustment. However, this problem only arose because the Centre was unnecessarily keeping accounts in EUAs throughout the year, rather than simply converting its DM accounts at year-end (see point 2.3. above).

Reply of the Centre to paragraph 3.5.

In accordance with the Court's suggestion, the Centre will introduce an item "year-end exchange adjustment" in its 1980 revenue and expenditure statement.

4. FINANCIAL MANAGEMENT - Conclusions and recommendations

Simplicity of accounting

4.1. The Court recommends that accounting and administrative procedures be made as simple as legal and managerial requirements permit. Accounting in EUA throughout the year involves much extra work without benefit to management (see 2.3. above). Furthermore, the system of accounting for the re-use of sums recovered (point 1.3.3. of the 1978 Report and point 1.4. above) is unnecessarily complicated and offers no practical advantage in compensation.

Reply of the Centre to paragraph 4.1.

The Centre will examine what steps can be taken within existing legal requirements.

Hire of an IBM 32 computer

4.2. After a further examination the Court maintains its view that the decision to hire the computer was taken on inadequate grounds.

Furthermore, having regard to the advisory role which the Commission exercises in relation to the external bodies and the fact that the expenditure of those bodies is subject to the financial control of the Commission, the Court is puzzled that the Centre and the European Foundation for the Improvement of Living and Working Conditions (Dublin) should have developed different accounting systems (one manual and one computerised). In size and operating conditions the two bodies are practically identical. The Court would be glad to have the Commission's views on this.

Management of research contracts

4.3. The Court notes that the Centre has no proper system of assessment of the cost of proposed research contracts. Management should subject all elements of cost to advance critical examination so as to ensure maximum economy.

Points 2.2. and 2.4. above indicate a need for improvement with regard to the records of meetings/conferences and files in respect of research contracts. The Court recommends a more formal reporting and documentation system for the activities of project officers.

Reply of the Centre to paragraph 4.3.

The Centre will bear in mind the Court's recommendations.

This report, the original of which was written in English, was issued by the Court of Auditors of the European Communities on 19 IX 1980

Michael H. Murphy.

PRINCIPAL FINDINGS OF A SPECIAL EXAMINATION OF  
THE OPERATION OF THE HIRED IBM 32 COMPUTER

1. The Court's comment in its 1978 Report that the decision to acquire this equipment was taken without adequate assessment of needs is confirmed by the following findings:

- no account was taken of possible improvements to the previous manual accounting system which was unnecessarily cumbersome;
- the prior cost/savings analysis did not include information on current and projected volumes for key transactions;
- granted the decision to computerise, no consideration was given to computer alternatives (a different computer, use of another organization's computer);
- the volume of transactions actually being processed does not indicate a case for computerisation;
- of the staff employed by the Centre only the salaries of local agents are processed by the computer. All other salaries continue to be processed manually.

2. The Centre claims that appreciable savings in staff time have resulted from the introduction of the computer. However, no staff have been made redundant, or formally transferred to new duties. An attempt was made by the Court to assess the extent to which staff time formerly spent on book-keeping and associated clerical work was now occupied in performing other duties. The evidence produced by the Centre was insufficient for any firm conclusions to be reached.

3. The Centre's own estimates of staff savings take as their basis of comparison the previous manual system which was more cumbersome than that still being operated by the Dublin Foundation, which has a similar volume of transactions and the same number of staff dealing with accounting matters. The mistaken belief that the Centre was obliged to keep its books both in Deutschmarks and European Units of Account was a further factor in the decision to computerise. Elimination of EUA accounting would further reduce significantly the volume of operations to be processed by the computer.

4. From the internal control and financial audit standpoint significant system weaknesses were not detected in the accounting operations carried out on the computer.

EUROPEAN CENTRE FOR THE DEVELOPMENT OF VOCATIONAL TRAINING

Table 1. Use of Appropriations 1979 (in EUA)

	Final Appropriations	Payments	Carried forward to 1980	% carried forward 1)	Appropriations cancelled	% cancelled
Chapter I (Staff)	1.665.800	1.566.611	15.286	0,9	83.903	5,0
Chapter II (Administrative expenditure)	309.200	253.093	28.140	9,1	27.967	9,0
Chapter III (Operating expenditure)	1.245.000	488.693	690.647	55,5	65.660	5,3
<b>TOTAL</b>	<b>3.220.000</b>	<b>2.308.397</b>	<b>734.073</b>	<b>22,8</b>	<b>177.530</b>	<b>5,5</b>

1) as compared with final appropriations

EUROPEAN CENTRE FOR THE DEVELOPMENT OF VOCATIONAL TRAINING

Table 2. Use of Appropriations brought forward from 1978 to 1979 (in EUA)

	Brought forward appropriations	Payments	Appropriations cancelled	% cancelled <sup>1)</sup>
Chapter I	19.864	17.368	2.496	12,6
Chapter II	6.508	5.615	893	13,7
Chapter III	375.889	331.394	44.495	11,8
TOTAL	402.261	354.377	47.884	11,9

1) as compared with brought forward appropriations



EUROPEAN CENTRE FOR THE DEVELOPMENT OF VOCATIONAL TRAINING

Table 3. Use of Appropriations, Chapter III in 1976, 1977, 1978 and 1979

	Final Appropriations	Amounts cancelled including "carry forwards"	% cancelled
1976 (u.a.)	360.000	253.465	70,4
1977 (u.a.)	760.000	417.391	54,9
1978 (EUA)	1.158.900	484.037	41,8
1979 (EUA)	1.245.000	65.660 <sup>1)</sup>	5,3 <sup>1)</sup>

<sup>1)</sup> For 1979 this is the minimum, as cancellations of 1979 "carry forwards" will only be known at the end of 1980.

