

REPORT**on the financial statements and the management of the European Foundation for the Improvement of Living and Working Conditions for the financial year ended 31 December 2000, together with the Foundation's replies**

(2001/C 372/07)

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THE COURT'S OPINION

1. This report is addressed to the Council and the European Parliament, in accordance with Article 16 of Council Regulation (EEC) No 1365/75 ⁽¹⁾, as amended by Article 1(4) of Council Regulation (EEC) No 1947/93 ⁽²⁾.

2. The Court has examined the financial statements of the European Foundation for the Improvement of Living and Working Conditions for the financial year ended 31 December 2000. In accordance with Article 1(16) of Council Regulation (EEC) No 1949/93 ⁽³⁾ amending Council Regulation (EEC) No 1417/76 ⁽⁴⁾, the budget was implemented under the responsibility of the Administrative Board of the Foundation. This responsibility includes the drawing up and presentation of the financial statements ⁽⁵⁾, in accordance with the internal financial provisions provided for under Article 1(52), (54) and (55) of Council Regulation (EEC) No 1949/93 amending Council Regulation (EEC) No 1417/76. The Court of Auditors is required under Article 248 of the Treaty establishing the European Community to examine these accounts.

3. The Court undertook its audit in accordance with its audit policies and standards. These have been adapted from generally accepted international auditing standards to reflect the specific characteristics of the Community context. Accordingly, the Court carried out such tests of the accounting records and other audit procedures as it deemed necessary in the circumstances. Through this audit, the Court obtained a reasonable basis for the opinion expressed below.

4. This examination has allowed the Court to obtain reasonable assurance that the accounts for the financial year ended 31 December 2000 are reliable and that the underlying operations are, taken as a whole, legal and regular.

MAIN OBSERVATIONS CONCERNING THE IMPLEMENTATION OF THE BUDGET OF THE FOUNDATION FOR THE IMPROVEMENT OF LIVING AND WORKING CONDITIONS (DUBLIN) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2000

Implementation of the budget

5. The budget for 2000 amounted to 15 million euro as against 14,8 million euro in 1999, representing an increase of 1,4 %. Of

this total, 14,4 % million euro was committed of which 3,6 million euro was carried over to the financial year 2001 and 0,5 million euro was cancelled. The implementation of the budget for the year 2000 is shown in *Table 1*.

6. In 2000, the Foundation again made heavy use of carryovers of appropriations. By far the largest part was in Title III with 3,2 million euro or 89 % of total carryovers. As was the case last year for Title III, the appropriations carried over were in excess of the financial payments for the year.

7. For some budget lines (for example, 1 400 canteen, 2 200 purchases of technical equipment), the cancellations of appropriations made at the end of the year actually exceed the amounts of transfers which had been made to these lines. The Foundation should seek to minimise the cancellation of appropriations, particularly in cases such as these.

8. The continued high level of under-implementation of the appropriations for the year, as well as the high level of carryovers, is evidence of weaknesses in the Foundation's monitoring of its annual programme, a situation which has shown little improvement compared to the previous year.

Financial statements and accounting

9. *Tables 2 and 3* show, respectively, the revenue and expenditure account for the financial year 2000 and the balance sheet as at 31 December 2000.

Follow-up to previous observations

Budgetary and general accounting systems

10. In its 1999 Annual Report ⁽⁶⁾ on the Foundation, the Court referred to the weakness of the Foundation's accounting systems. In 2000, this shortcoming still exists: the SI2 budgetary accounting system has been only partially tested.

11. The general accounts were still kept using a spreadsheet, with the attendant risks. The introduction in 2000 of the SAGE general accounting system had to be abandoned as it was unable to handle the electronic management of bank payments. The replacement system chosen was still not operational in April 2001.

12. The monitoring of the implementation of the Foundation's work programme and of the financial implementation of projects was hampered throughout the year by an inability to obtain from the accounts financial data on individual projects.

⁽¹⁾ OJ L 139, 30.5.1975, p. 1.

⁽²⁾ OJ L 181, 23.7.1993, p. 13.

⁽³⁾ OJ L 181, 23.7.1993, p. 26.

⁽⁴⁾ OJ L 164, 24.6.1976, p. 16.

⁽⁵⁾ As required under Article 16 of Council Regulation (EEC) No 1365/75, as amended by Regulation (EEC) No 1947/93, the accounts for all the Foundation's revenue and expenditure for the financial year 2000 were drawn up on 30 March 2001 and forwarded to the Foundation's Management Board, the Commission and the Court of Auditors. These accounts were received by the Court on 18 May 2001. A summarised version of the financial statements is presented in the tables attached to this report.

⁽⁶⁾ OJ C 373, 27.12.2000, paragraphs 9 and 10, p. 40.

Imprest account

13. In 2000, the Foundation continued to make excessive use of the imprest account. Payments represented 18 % of all payments in 2000 (the equivalent figure in 1999 was 20 %). Of the imprest payments made, one million euro was on staff, 0,7 million euro was administrative expenditure and 0,9 million euro was operational expenditure. A reason for the high use of the imprest account appears to be the slowness of the normal payment procedures. However, the Foundation should take measures to address that issue rather than having recourse to the imprest account, which should only be used exceptionally.

Management of human resources

Staffing policy

14. The Foundation, which was created by Council Regulation (EEC) No 1365/75 of 26 May 1975, has its own staff regulations. The Director is the Appointing Authority for all of the Foundation's staff.

15. Although the Foundation's staff do not enjoy the status of officials, its staff regulations provide for open-ended contracts, which is the case of the majority of the Foundation's staff (88 %).

Recruitment procedures

16. Article 3 of the Foundation's staff regulations lays down that each vacancy must be adequately advertised. In practice, the Foundation recruits from external sources on the basis of widely advertised 'notices of competition' (published in the Official Journal).

17. For each recruitment procedure, the Appointing Authority appoints a selection board which draws up the list of successful candidates. In the past, these lists were not drawn up on the basis of candidates' results; under these circumstances, it is difficult to evaluate the criteria employed for recruitment. For the sake of greater transparency, the list of successful candidates should systematically be drawn up on the basis of candidates' results; where this principle is not observed during the recruitment process, a written explanation should be provided.

Appraisal of staff performance

18. Since 1997, the Foundation has not drawn up staff reports as it is required to do at least every two years and it has still not produced a 'Guide to staff reports'. An examination of six staff files shows that for previous years staff reports are often lacking. Under these circumstances, promotions for 1999 and 2000 were

approved without consideration being given to this essential means of comparing employees' relative merits.

Description of tasks

19. As laid down in Article 43(a) of the Foundation's financial regulation ⁽¹⁾, a file identifying the posts and containing a job description for each category A post was drawn up. The latest version of the file was not up to date and included the description of tasks published in the vacancy notices.

Keeping of staff files

20. The organisation and documentation of staff files are very inconsistent, although files on staff recruited more recently are more complete and better organised. None of the eight files examined was complete. Documents providing details of an employee's career are also lacking from most files.

Changes in the Foundation's staff and activities

21. The Foundation's establishment plan includes only staff on open-ended contracts (TEs). The number of posts to be filled is authorised by the budgetary authority each year at the same time as the budget is drawn up. In addition, the budget may grant appropriations for the recruitment of seconded national 'experts' (SNEs).

22. *Table 4* shows changes in the Foundation's staff and its distribution since 1996. It indicates that the number of staff has been virtually stable. The shortage of staff was partly covered by employment-agency staff for which the budget has been approximately 1 million euro since 1998. Thus, in 2000, although the Foundation's budget authorised a staff of 85 employees, the number actually employed was only 72; the shortfall was partially covered by 12 employment-agency staff recruited through a private company.

23. Since 1996, the Foundation has recruited 36 employees, 30 of whom as TEs and the remainder as SNEs. At the end of 2000, 72 employees were on temporary contracts. On average, recruitment costs amounted to 9 810 euro per recruit.

24. Staff departures lead to a turnover rate (TEs and SNEs) averaging 8 % per year. This rate is essentially due to the departure of several translators following the discontinuation of translation services within the Foundation.

⁽¹⁾ Regulation (EEC) No 1417/76 of 1 June 1976, as amended by Council Regulation (EEC) No 1949/93 of 30 June 1993.

25. For the purposes of the audit, staff were placed in two categories:

- staff responsible for support activities (support staff), i.e. activities which ensure that the Foundation can continue to operate (e.g. administrative, accounting and secretarial services);
- other, so-called operational, staff who contribute directly to achieving the Foundation's objectives.

26. On average, 64 % of A-grade staff, i.e. 23 % of all staff, may be regarded as operational. All other staff, i.e. 77 % of the total, may be regarded as support staff.

27. Table 5 describes changes in staff-related costs and administrative expenditure. Over the 1996-2000 period, salary costs increased more quickly than the number of staff.

28. As regards other staff-related costs, the audit paid particular attention to professional training (PT) expenditure and administrative expenditure. PT and administrative expenditure increased more quickly than the number of staff.

29. In order to grasp the relationship between the Office's activities and the increase in its staff and related costs, the increase in these items was compared with the increase in the amount of operating appropriations (Title III) which were actually disbursed (appropriations for the year and appropriations carried over) in the course of one year.

30. On average, the number of staff has increased more slowly than the Foundation's workload. However, the Foundation should take great care to maintain control of the increase in salary costs and administrative expenditure which is greater than the increase in its activities over the 1995-2000 period. This observation is corroborated by the fact that the growth rate for expenditure under Titles I and II, Personnel and Administration, is higher than the rate for expenditure charged to Title III which comprises the expenditure linked to the attainment of the Foundation's objectives.

Conclusion

31. Even if the Foundation has been unable, since it was set up, to recruit the number of staff provided for by its budget in the establishment plan, it has been able to make up the shortfall by recruiting SNEs and by hiring employment-agency staff.

32. In order to recruit its permanent employees, in the majority of cases the Foundation follows an external recruitment model, as envisaged in its own staff regulations.

33. The Foundation should keep a close eye on changes in its salary costs and administrative expenditure. It might be preferable for the Foundation, in the case of posts involving support and administrative activities which require qualifications of an administrative nature, to join forces with the Community Institutions and the other decentralised bodies with a view to recruiting staff on the broadest possible basis. Furthermore, in general terms it should improve its staff management and information system.

This report was adopted by the Court of Auditors in Luxembourg at the Court meeting of 10 October 2001.

For the Court of Auditors

Jan. O. KARLSSON

President

TABLES 1 TO 5

Table 1
Implementation of the budget

Title		Appropriations	Commitments	Payments	%	Carryovers	Cancellations	%
		(a)	(b)	(c)	(d=c/b)	(f)	(g=a-c-f)	(h=g/a)
I — Staff	Budget 2000	7,3	7,2	7,1	98 %	0,1	0,1	1 %
	Carryovers 1999	0,1	0,1	0,0	24 %		0,0	76 %
	Total	7,4	7,3	7,1	97 %	0,1	0,1	2 %
II — Administration	Budget 2000	1,5	1,4	1,1	82 %	0,2	0,1	9 %
	Carryovers 1999	0,2	0,2	0,2	85 %		0,0	15 %
	Total	1,7	1,6	1,3	82 %	0,2	0,2	9 %
III — Operations	Budget 2000	6,2	5,9	2,7	46 %	3,2	0,3	5 %
	Carryovers 1999	3,4	3,4	3,3	97 %		0,1	3 %
	Total	9,6	9,3	6,0	65 %	3,2	0,4	4 %
Total	Budget 2000	15,0	14,4	10,9	75 %	3,6	0,5	4 %
	Carryovers 1999	3,6	3,6	3,5	96 %		0,2	4 %
	Total	18,6	18,1	14,3	79 %	3,6	0,7	4 %

Table 2
Revenue and expenditure account for the financial years 2000 and 1999

	2000	1999
Revenue		
Subsidy received from the Commission	14 700	14 500
Miscellaneous revenue	212	107
Revenue from services rendered against payment	29	14
Total revenue	14 941	14 621
Expenditure		
<i>Staff expenditure — Title I of the budget</i>		
Payments of the year	7 057	6 934
Appropriations carried over	146	56
<i>Buildings, equipment and miscellaneous administrative expenditure — Title II of the budget</i>		
Payments of the year	1 123	1 195
Appropriations carried over	248	180
<i>Operating expenditure — Title III of the budget</i>		
Payments of the year	2 681	2 748
Appropriations carried over	3 183	3 405
Total expenditure	14 438	14 518
Outturn for the financial year		
Balance carried over from previous financial years	503	103
Appropriations carried over from the previous financial year which lapse	-1 859	-2 148
Exchange-rate differences	158	202
	-14	-16
Balance for the financial year (including outstanding balance 1999)	-1 212	-1 859

Source: Prepared by the Court of Auditors on the basis of data compiled by the Foundation.

Table 3

Balance sheet as at 31 December 2000 and 1999

(1 000 EUR)

Assets	2000	1999	Liabilities	2000	1999
Fixed Assets			Fixed Capital		
Buildings	7 106	7 106	Own Capital	8 668	9 014
Furniture and equipment	1 546	1 879	Balance for the financial year 1999	- 159	- 1 859
<i>Subtotal</i>	8 652	8 985	Balance for the financial year 2000	- 1 051	
			<i>Subtotal</i>	7 458	7 155
Current Assets			Current Liabilities		
Stocks	17	29	Appropriations carried over	3 577	3 640
Recoverable VAT	236	242	Sums to be recovered from EU bodies	1 219	1 880
Sums to be recovered from EU bodies	1 219	1 880	Salary deductions	124	185
Sundry accounts receivable	17	21	VAT	236	242
Sundry expenditure to be charged	10	57	Sundry accounts payable	17	21
Advances of mission expenses	13		Payments in progress	4	1 101
Miscellaneous advances	5	8	<i>Subtotal</i>	5 177	7 069
<i>Subtotal</i>	1 517	2 237			
Cash accounts			Sums to be reused	315	415
Imprest account	77	68			
Bank	2 704	3 349			
<i>Subtotal</i>	2 781	3 417			
Total assets	12 950	14 639	Total liabilities	12 950	14 639

Source: Prepared by the Court of Auditors on the basis of data compiled by the Foundation.

Table 4

Changes in staff numbers

	Establishment plan		Posts filled		Other staff		Total
	TEs	Total	TEs	Total	SNEs	Total	
1996	82	82	69	69	3	3	72
1997	83	83	76	76	3	3	79
1998	83	83	76	76	3	3	79
1999	84	84	70	70	3	3	73
2000	85	85	72	72	3	3	75

TEs: Temporary employees.

SNEs: Seconded national experts.

Table 5
Changes in staff numbers and related costs

(1 000 EUR)

	Total staff	Salary costs			Other salary-related costs ⁽³⁾	Overall total ⁽⁴⁾	Salary costs/head			Other staff-related costs			Administrative expenditure			
		Direct ⁽¹⁾	Indirect ⁽²⁾	Total			Direct	Indirect	Total	PT ⁽⁵⁾	PT/head	Recruitment and installation	Total	Of which IT ⁽⁶⁾	Total/head	IT/head
1995	70	3 743,6	255,5	3 999,1	719,0	4 718,1	53,5	3,7	57,1	31,7	0,5	43,0	973,8	0,0	13,9	0,0
1996	72	3 989,3	266,1	4 255,4	1 064,4	5 319,8	55,4	3,7	59,1	37,8	0,5	49,1	1 149,6	0,0	16,0	0,0
1997	79	4 774,5	306,8	5 081,3	873,4	5 954,7	60,4	3,9	64,3	44,7	0,6	155,7	1 075,5	0,0	13,6	0,0
1998	79	4 745,9	323,8	5 069,7	964,5	6 034,2	60,1	4,1	64,2	41,6	0,5	141,5	925,9	0,0	11,7	0,0
1999	73	4 829,4	310,9	5 140,3	986,1	6 126,4	66,2	4,3	70,4	48,6	0,7	358,5	1 311,9	0,0	18,0	0,0
2000	75	5 060,3	325,2	5 385,5	956,9	6 342,4	67,5	4,3	71,8	70,1	0,9	263,5	1 275,9	0,0	17,0	0,0

⁽¹⁾ Salaries paid to staff in active employment (all categories taken together).

⁽²⁾ Social benefits and other salary adjustments.

⁽³⁾ Overtime and supplementary services.

⁽⁴⁾ Expenditure related to salaries under Title I, excluding mission expenses, etc.

⁽⁵⁾ PT: Professional training.

⁽⁶⁾ IT: Expenditure on informatics.

THE FOUNDATION'S REPLIES

Cancellations

7. The Court's comment is noted. It should be understood, however, that it is Foundation practice to transfer surpluses arising towards the end of the financial year to budgetary items where there is a potential for utilisation, notwithstanding the fact that usage of these funds is not always possible on all occasions. The Foundation seeks to minimise any cancellations resulting from this exercise.

8. In general monitoring is carried out in a comprehensive and effective manner.

With regard to the level of carryovers, it should be noted that:

- The nature of Foundation operational activities is essentially innovative/exploratory and not repetitive. This requires that relatively complex and time-consuming procedures are necessary for thorough preparation prior to the initiation of research on a contractual basis. These procedures are an important factor in the duration of projects, which, in general, spans two years.
- The level of carryovers in Title 3 is affected by the relation of the Foundation's annual budgeting cycle to its operational cycle (which involves programme design, programme initiation, outline project design, tendering, detailed project design and implementation).

However, particularly in those cases where contracts are repetitive in nature, steps have been taken to bring forward the timing of contracting procedures.

Budget Ledger and General Ledger Accounting Systems

10. In its 1999 Report the Court stated that there was a weakness in relation to the General Ledger accounting system on the basis that the accounts were maintained manually. However, in its reply the Foundation stated that it maintained the General Ledger using an Excel computer programme. This was an interim arrangement and the Foundation has now installed the Exact accounting system for maintenance of this ledger.

11. During the course of 2000, because the system is used in other agencies, a full feasibility exercise was conducted in relation to the usage of the SAGE system. The system was found in general to be satisfactory but did not have a full EFT (electronic funds transfer) facility. An alternative approach became possible in relation to developments concerning the Exact system where an EFT facility became available for the Irish market in the latter half of 2000. This system is now installed.

12. It has not been possible until the delivery of the SI2 system to produce project costs. This issue is being addressed in the context of the 2001 Budget using the facilities provided by SI2.

Imprest Account

13. Subsequent on delivery of the SI2 system the Foundation is in contact with the Financial Control with regard to full exploitation of the on-line visa facility. This should further reduce the level of usage of the Imprest Account. (1997: 40 % of total payments; 2000: 18 %).

Human Resource Management

18. Where staff reports were not available during the promotions exercise for 2000, the Appointing Authority consulted fully with managers concerning the performance of eligible staff members. On the basis of such consultations, it was decided not to promote some individuals. Measures in place to ensure completion of staff reports, in conjunction with an on-going performance appraisal scheme, and in consultation with line managers, should ensure that promotions exercises in the future are conducted in the context of full information.

19. Comment noted.

20. It is accepted that in certain cases all necessary documentation is not available on one single file. In that context, the situation will be reviewed. In the case of older files, it will not be possible to supply the missing documentation. Measures are being put in place to ensure that the recruitment checklist specifies all documentation necessary for files.

23. Because of its geographical location the Foundation tends to incur higher travel and installation costs since it recruits largely from the EU mainland. Access costs to Ireland are high but are a necessary cost in ensuring that the Foundation continues to have a multinational workforce that is representative of all Member States of the Union.

25 to 26. Comment noted. Of the B category staff, 14 in all, a total of 6 (43 %) are involved in operational activities. This includes 4 information liaison officers, an English-language editor and an information systems officer. For the purposes of this exercise, all C category staff have been treated as being involved only in support activities. However, many C category staff are in practice involved in operational activities and make a direct contribution to the added value of the Foundation's output.

27. When exchange rates, salary table increases and weighting factors for the years 1996 to 2000 are excluded, there was an increase in salary costs of only 0.4 % compared to an increase in staff of 4 %. The actual increases in salary costs are due largely to the increase in the weighting factor for Ireland from 93,6 in 1996 to 116,5 in 2000. In effect this has resulted in an increase of 24,5 % in salary costs.

30 to 32. Over the period under review there has been a shift in the role of Research Manager from collecting information to also playing a key role in disseminating this information. The factors outlined in regard to point 27 should also be taken into account in relation to the increase in Title 1 costs.

The breakdown shown in the Foundation's Activity Based Budget provides a more rational indication of the relationship between resources allocated to support and those allocated to operational activities.

33. See reply under point 30.

Where possible, the Foundation tries to minimise recruitment costs in regard to generic posts. For instance, the candidates for the current competition for secretary have been drawn from Commission reserve lists. It is proposed to fill four positions from this competition and to establish a reserve list from which future vacancies will be filled. Due to the fact that the Foundation has its own Staff Regulation, follows closely the recruitment procedures of the European Commission and appoints staff members on indefinite contracts, collaboration with other agencies could be problematic. The majority of recent competitions have been for Foundation specific posts, requiring specific skills and experience, and collaboration with other agencies would not have been appropriate.

The Foundation is actively considering the implementation of the SIC-personnel system in order to improve the quality of its administrative information. Discussions have already taken place with DG Admin and a decision on the establishment of a project group will be taken shortly.