# REPORT

## on the financial statements of the European Monitoring Centre on Racism and Xenophobia (Vienna) for the financial year ended 31 December 1999 together with the Centre's replies

(2000/C 373/09)

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**THE COURT'S OPINION**

1. This report is addressed to the Management Board of the European Monitoring Centre on Racism and Xenophobia (hereinafter referred to as 'the Centre'), in accordance with Article 12(11) of Council Regulation (EC) No 1035/97 ([1]).

2. The Court has examined the financial statements of the Centre for the financial year ended 31 December 1999. In accordance with Article 12(8) of Council Regulation (EC) No 1035/97, the budget was implemented on the responsibility of the Director. This responsibility includes drawing up and presenting the financial statements ([2]), in accordance with the internal financial provisions stipulated in Article 12(12) of Council Regulation (EC) No 1035/97. The Court of Auditors is required under Article 248 of the Treaty establishing the European Community to examine these accounts.

3. The Court performed its audit in accordance with its auditing 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 auditing procedures as it deemed necessary in the circumstances. By means of this audit, the Court obtained a reasonable basis for the opinion expressed below.

4. This examination has enabled the Court to obtain reasonable assurance that the annual accounts for the financial year ended 31 December 1999 are reliable. However, a large number of errors were found in respect of the underlying transactions, due notably to weaknesses in the internal control system (see paragraph 8).

**MAIN OBSERVATIONS ON THE IMPLEMENTATION OF THE BUDGET OF THE EUROPEAN MONITORING CENTRE ON RACISM AND XENOPHOBIA (VIENNA) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1999**

***Analysis of the budgetary implementation***

5. Total final appropriations for the financial year were 3,9 million euro, of which 2,8 million euro were committed: the balance was cancelled, except for a non-automatic carry-over of 0,3 million euro. The 2,8 million euro of commitments gave rise to payments worth 1,8 million euro and 1,0 million euro in carry-overs to the following financial year: for the most part, these carry-overs concerned administrative expenditure (furniture and computer equipment) and operating expenditure (organisation of conferences). The scale of the carry-overs, which account for over a third of the commitments, should prompt the Centre to monitor its activities more closely so as to cut carry-overs down to a minimum.

***Budgetary and general accounts***

6. The Centre drew up its budgetary accounts using a spreadsheet, with all the risks that this type of tool entails. No computerised accounting system has yet been introduced for keeping the general accounts. Furthermore, the Court found many errors in the accounts which ought to have been rectified before the accounts were closed. The Centre should take immediate steps to equip itself with complete, reliable accounting systems. Whilst observing the principles of sound financial management, these systems should take account of expected developments in the regulations and of the volume of operations to be handled.

***Booking of VAT***

7. Until December 1998, the general Financial Regulation stipulated that expenditure was to be booked inclusive of VAT, as the latter, once refunded, could be reused. Since then ([3]), the general Financial Regulation has laid down that expenditure must be charged exclusive of VAT. The Court invites the Centre to incorporate these new provisions into its own rules.

***Contracts***

8. An examination of the commitments for the financial year has revealed poor application of the rules in force: in total, 25 % of the commitments, i.e. 0,7 million euro, are affected by errors. Of these irregularities, a sum of 0,2 million euro relates to Title I — Staff expenditure — (lack of proper legal contracts), 0,3 million euro to Title II — Administrative expenditure — (lack of proper legal contracts and failure to consult the market) and 0,2 million euro to Title III — Operating expenditure — (unsuitable choice of contractors, non-existent or incorrect order forms).

([1]) OJ L 151, 10.6.1997, p. 6.

([2]) As required under Article 12(10) of Council Regulation (EC) No 1035/97, the accounts for all the Centre's revenue and expenditure in respect of the financial year 1999 were drawn up on 10 March 2000 and forwarded to the Centre's Management Board, the Commission and the Court of Auditors. These accounts were received by the Court on 21 April 2000. A summarised version of these accounts is presented in the tables annexed to this report.

([3]) See Article 27(2a) of the Financial Regulation applicable to the general budget of the European Communities, as amended by Council Regulation (EC, ECSC, Euratom) No 2548/98 of 23 November 1998 (OJ L 320, 28.11.1998, p. 1).

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 26 October 2000.

*For the Court of Auditors*

Jan O. KARLSSON

*President*

*Table 1*

**Balance sheets for the financial years 1999 and 1998** ([1])

*(1 000 EUR)*

| Assets | 1999 | 1998 | Liabilities | 1999 | 1998 |
|---|---|---|---|---|---|
| **Fixed assets** | 20 | | **Fixed capital** | | |
| | | | **Capital** | 20 | |
| **Current assets** | | | Balance for the financial year | *737* | *– 42* |
| Sums to be recovered from the Commission | 0 | 42 | *Subtotal* | *757* | *– 42* |
| Advances on salaries | 36 | 78 | | | |
| Recoverable VAT | 116 | 14 | **Current liabilities** | | |
| *Subtotal* | *152* | *134* | Non-automatic carry-overs of appropriations | 290 | |
| | | | Automatic carry-overs | 1 037 | 292 |
| | | | Salaries to be paid | 66 | 118 |
| **Cash accounts** | | | Social liabilities | 64 | 29 |
| Bank account(s) | 2 200 | 310 | Commission account | 0 | 42 |
| *Subtotal* | *2 200* | *310* | VAT | 116 | 14 |
| | | | Sundry accounts payable | 37 | |
| | | | Reuse | 5 | |
| **Suspense account** | | 9 | *Subtotal* | *1 615* | *495* |
| **Total assets** | **2 372** | **453** | **Total liabilities** | **2 372** | **453** |

([1]) The financial year 1998 began on 1 May.
*Source*: Table drawn up by the Court of Auditors on the basis of data from the Centre.

*Table 2*

**Revenue and expenditure accounts for the financial years 1999 and 1998** ([1])

*(1 000 EUR)*

| | 1999 | 1998 |
|---|---|---|
| **Revenue** | | |
| Subsidy received from the Commission | 3 750 | 500 |
| Miscellaneous revenue | 27 | 4 |
| **Total revenue** | **3 777** | **504** |
| **Expenditure** | | |
| *Staff expenditure — Title I of the budget* | | |
| Payments | 985 | 212 |
| Appropriations carried over | 131 | 120 |
| *Administrative expenditure — Title II of the budget* | | |
| Payments | 392 | 14 |
| Appropriations carried over | 564 | 61 |
| *Operating expenditure — Title III of the budget* | | |
| Payments | 444 | 29 |
| Appropriations carried over | 633 | 111 |
| **Total expenditure** | **3 149** | **547** |
| **Out-turn for the financial year** | 628 | – 43 |
| Exchange-rate differences | — | 1 |
| Cancellation of appropriations carried forward from 1998 | 151 | — |
| Out-turn for the previous financial year | – 42 | — |
| **Balance for the financial year** | **737** | **– 42** |

([1]) The financial year 1998 began on 1 May.
*Source:* Table drawn up by the Court of Auditors on the basis of data from the Centre.

## THE CENTRE'S REPLIES

5. The Centre can agree with the Court that payments carried forward have been important. This is mainly due to the difficulties initiating activities during the first semester of 1999 due to the absence of an adapted location and of the length of recruitment. Necessary corrections have been implemented from the beginning of 2000 with the new annual work programme.

6. Due to the late nomination of the accounting officer at the end of 1999, computerised systems for accounting and budget execution have been implemented only during 2000. The selection of systems has taken into account the experience in the other decentralised bodies of the Union and the expected developments of the Financial Regulation.

7. When preparing a draft modification to its financial rules, the Centre has taken into account the adjustments of the VAT regime. The modifications will be submitted to the Management Board by the end of 2000 with prior notification of the Court of Auditors and Financial Control.

8. — In 1999, the Centre had a number of interim staff before statutory agents took up their duties, and can agree with the Court that no ad-hoc up contract was prepared. Concerning Title II expenditure, a survey of the market was organised for IT equipment and for furnishing the location and the Centre received a favourable opinion of the ACPC.

— Regarding expenditure under Title III, the Centre can admit that some projects were initialised without open competition but, nevertheless, had been submitted to the Management Board for prior approval. The Centre can also admit that documentation provided for some projects was not satisfactory.

— Necessary steps have already been undertaken to avoid this situation in the future.