

EAAE General Assembly, Hasselt 28-29 March 2014

Council Reply to the Report of the former Council as presented to the General Assembly of June 15th 2013 at KU Leuven

The present Council takes notice of the Report of its predecessors dated 15/06/2013. The Council will use the opportunity of the GA to provide answers to the accusations of "improper financial conduct" and other eventual irregularities.

The present Council regrets the course of actions that have created tensions and disruption within the EAAE. The Council will distance itself from allegations and suggestions of financial fraud. Generally our opinion is that personal conflicts and conflicts of interests have eclipsed objective facts. The Council argues that it is important to look ahead and to re-establish credibility in the EAAE, as its mission is more relevant than ever.

This report from the EAAE Council will focus on matters directly concerning the accounts and financial situation of the EAAE. The object is not to discuss or analyse the internal financial structure of ENHSA. ENHSA is an organization that was initiated from the EAAE, and EAAE is one of many of its members. EAAE members have cooperated with ENHSA in a multitude of networks and projects. ENHSA is however, a separate economic entity financed through EU-projects, with its own accounting system, administered by the University of Thessaloniki and subject to defined EU regulations for auditing.

This report follows the order of the previous report:

- EAAE financial relationship with ENHSA
- EAAE accounting & administration
- EAAE secretariat and agreement with KU Leuven
- Notes relating to the EAAE lawyers

In order to prepare this reply the Council has gathered information from various sources:

- Audit ordered by the present Council from PriceWaterHouseCoopers, titled: *EAAE-AEEA: Review of international cash transactions* (PWC report from now onwards)
- Discussions with accountant De Kleine Prins, appointed by the former Council
- EU administration
- Interviews with Lou Schol and Herman Neuckermans
- Previously recorded reactions to the outgoing Council's report (KUL & ENHSA in particular)

1. EAAE financial relationship with ENHSA

One could argue that the basis of the economically based conflict between the previous Council (U.Hirshberg) and ENHSA (C.Spiridonidis, M.Voyatzaki) is generated by two different sets of facts or patterns:

- A. Between 2002-2012 ENHSA organised jointly with EAAE the heads meeting in Chania, as an EU funded project.

Participants paid their annual contribution towards the organisation of the event (c. 700€) into the EAAE account in Leuven.

From this account two payments each year were made to the coordinator of the event C. Spiridonidis, to allow ENHSA to practically organize the event. A typical total amount was c. 50.000€, representing c. 60% of the cost of a Chania meeting. These payments took place in two steps, the first in August to make arrangements before the Heads meeting, and the second payment before the end of the year to settle all the bills. These payments were not made to the University of Thessaloniki, but directly to a private account that was managed by the ENHSA coordinator.

The President of the former Council asked for receipts to be made available before approving EAAE-payments in 2012.

Each year about 10% of the contributions (c. 10.000€) remained in the EAAE accounts as an overhead.

- B. There was a perception that participants who took part in EAAE-ENHSA events(Chania, other conferences, the thematic networks,) had paid 'fees' for activities that ought to have been covered by EU-funding, channeled through ENHSA

The former Council makes the following remarks/accusations with regards to this practice:

1.1. The report states that "The collection of ENHSA entry fees is hidden from the EU by the ENHSA coordinators, effectively involving the EAAE in a double-accounting system" and there is a "dual accounting designed to defraud the EU".

This strong accusation is incorrect. The simple, but obviously confusing fact is that not all ENHSA-members are also EAAE members. In the fall of 2013 a series of questions – that would eventually lead to the current allegations – were addressed to ENHSA coordinators. They posted their reaction on the website <http://www.enhsa.net/questions.htm>. Regarding the "double-accounting system", the reply was: "... The finances are designed as follows: on the basis of an estimation of the number of participants, an estimation of the total cost of the event is made taking into account the cost of the services in the location and the time of the event. From the total estimated cost we subtract the possible contribution from the ENHSA budget and we divide the rest by the number of participants, which gives us the participation fees, which, this way, are equal to all participants? The participation fees paid by the ENHSA members constitute part of the own contribution of partners of the project".

A better definition of the mutual roles of EAAE and ENHSA might have avoided the antagonistic situation of 2013. Definitions and regulations of the relationship should have been established in 2002 when ENHSA was first initiated. One of the recommendations of the PWC report

therefore said: “We noted that there is no written agreement in place with ENHSA regarding the organisation of the activities related to the yearly conference in Chania. We recommend to formalise the collaboration between EAAE and ENHSA in a written agreement in which roles and responsibilities are clearly set out. Detailed modalities regarding the expenses should also be included in the agreement. E.g. What kind of expenses are covered, how is the repartition of the expenses between EAAE participants and ENHSA, how and when to report on the expenses, which supporting documentation is needed when requesting a payment, etc.”

Secondly the term ‘entry fee’ is incorrect. The participants have paid a contribution to the organisation of the event into the EAAE-account in Leuven. This distinction is not merely semantic. In the report of the former council the concept of ‘fee’ is systematically used and thereby a link to the term ‘income’ is made, thus creating legal expectations towards VAT and TAX, which is not correct. Several allegations can be neutralised by this argument

Finally the word ‘defraud’ is unnecessary and has created a false perception. The Council regrets that this tone has been used in publicized and official documents from the organisation. We trust that the EU administration exercises internal controls on their programs – as does the Thessaloniki University with theirs. Apart from this it is not part of the EAAE’s responsibilities to analyse ENHSA finances as long as it does not affect EAAE accounts.

The Council will underline that EU money never appeared in the EAAE accounts. There can be no suggestion that EAAE has tapped into EU money. EAAE has not been involved in a double-accounting system.

The report from the former Council states that “The costs of all ENHSA events (not just Chania) are covered by the EU, and so partners and non-partners alike should be able to attend (almost) free of charge!”. This question is also addressed on the ENHSA website: “If we would cover all costs of the event (as the Council proposes) or a bigger percentage so that the fees would become smaller, then it would not be possible to organise all the events we have presented in the application. The ENHSA project, in the three years of the contractual period is obliged to organise in total three (3) meetings of Heads, nine (9) conferences on architectural education pedagogy, two (2) conferences on doctoral education and (2) events on education and professional practice. In total 16 events. For travel and subsistence expenses we have in total 390.000€ in which we have to estimate also the travel expenses for meetings in Brussels, dissemination initiatives, coordination meetings etc. That means that the Chania event, as a big event in the beginning of the contractual period could in no way absorb more money from the ENHSA budget”.

EAAE does not want to intervene or judge internal financial policy of ENHSA, and ENHSA answered these very same questions, along with many others, on its website:
<http://www.enhsa.net/questions.htm>.

The transfer of money to ENHSA through a private account and the possibility of the misuse of funds:

- As stated in the PWC report this was not good practice
- From 2012 the practice was abolished
- The financial transactions from recent years have been audited by PWC and the auditor finds the accounts acceptable. There are no signs of misuse of funds.

- The system was developed in a period of trust between partners in an academic network. Relationships with this type of informal character are not unusual in academic partnerships.
- The size of the event in Chania has been substantial in terms of economy, and the possibilities for any kind of surplus are limited.

1.2. The report of the former Council states that "The EAAE should stop collecting fee money on behalf of ENHSA. In the context of an EU-project, this income may not be legal and the EU may seek refund of its subsidy from EAAE as well as from ENHSA"

This statement is misleading and incorrect. EAAE never collected fee money on behalf of ENHSA and therefore it was certainly not an 'income' – as mentioned earlier. Participants paid to EAAE accounts their contributions to the shared EAAE-ENHSA events. Because the former Council considered this as 'entry fees' they also stated that:

"unpaid VAT on ENHSA entry fees is owed by the EAAE, not by ENHSA"

Again, this is incorrect. There is no VAT on meetings related to education and scientific research. This is the case in Belgium and in Greece. Every year the EAAE has declared its accounts to the Belgian revenue and there has never been any problem. EAAE tax declarations were also checked annually by internal KU Leuven financial departments.

To conclude and set aside the allegations and the suggested threat of heavy penalties that could "bankrupt the EAAE", we include recent email communication with the EAAE from Accountant De Kleine Prins:

2014-02-26 16:53 GMT+01:00 bruno <bruno@dekleineprins-accounting.be>:
 dear all,
 attached you will find the fiscal documents we have declared to the Belgian tax authorities for the years 2011 and 2012.
 in doing this, the threat of 'secret commissions' (possible fine of 309% for the EAAE) is no longer there.
 we did our part, namely declare this money as 'commission fee'.
 if the Belgian tax authorities send these data to the Greek tax authorities, and they in their turn contact the receivers of the payments, then it is up to the receivers to prove to the Greek tax authorities that these payments are covered by project costs and should not be considered as private income.
 we believe that this has settled this matter.
 regards,
 bruno deprins.

Van: Koenraad VAN CLEEMPOEL [mailto:koenraad.vanCleempoel@uhasselt.be] **Verzonden:** woensdag 26 februari 2014 21:33 **Aan:** bruno **CC:** Karl Otto Ellefsen; Ahmed Karrouche **Onderwerp:** Re: EAAE vs ENHSA

Dear Bruno De Prins,
 Thank you very much indeed for this information.
 I have one question though: if Urs asked you to file these documents with the Belgian Tax department in order to clean EAAE from any possible future accusations, why, then, did he still

reserve 50.000€ in the 2014 for 'possible tax penalties'? Any suggestions?

Best regards,
konrad

dear all,

the provision for possible VAT claims was booked following a worst-case scenario in which the Greek VAT office would be reclaiming VAT for the past years. it had nothing to do with income tax, which we discussed earlier.

we did not know at that time how the Greek VAT office would treat income fees to the events that were organised by EAAE.

if these activities could be considered as being VAT exempt according to Greek fiscal law, the provision can be removed, as the possible threat would be no longer there.

regards,
bruno deprins.

1.3. The former Council report states that "EAAE has spent a large part of its own income on subsidizing ENHSA's activities through its secretariat. The report even states that: "Over the 10-year period (ie. 2002-2012), the EAAE contributed towards the ENHSA projects by providing secretarial and accounting services and printing and mailing proceedings. EAAE financial contribution towards ENHSA (2002-2012) = 161,000 Euros. ENHSA reimbursement of EAAE costs = nil"

This is incorrect and strongly contested by Lou Schol, EAAE Secretary. The Heads meeting in Chania has been EAAE's most important yearly event, and has included its General Assembly with over 100 members present. It is obvious that EAAE's secretariat had been involved and used extra time to prepare and manage the conference. The statement made by the former Council is also misleading as it implies that ENHSA and EAAE are two very separate organisations with entirely different missions. Many of the ENHSA activities are co-organised by EAAE, the secretary of which is Lou Schol. In the 10 year period of ENHSA, she never made any remark or comment in relation to of the former Council's accusation.

As with earlier statements, the tone and vocabulary is suggestive and provocative. EAAE has never "subsidized" ENHSA.

The member's contribution to the Chania event generated a yearly overhead of c. 10.000€. The Report refers to this "Since 2002, fees paid to ENHSA conference created cash benefit to the EAAE. It is worth noting that none of this money was ever declared. VAT due was not paid".

Again, these were not "fees" but overheads. Moreover, every year EAAE declared taxes with all the accounts in addendum, without receiving any comments relating to these accounts.

In the former Council's report it is also mentioned that "EU money is used to the financial benefit of a few schools and individuals". We believe that this is incorrect as both EAAE and ENHSA websites show the many activities that have taken place and the consequent proceedings have been published. It also lists the hundreds of participants and the Schools they belong to.

Generally speaking we would also like to underline that both the program and the use of the funding at the Chania meetings has been the responsibility of the ENHSA coordinators. From time to time disagreements over program and priorities have surfaced, but this does not change the principle of who carries responsibility.

2. EAAE accounting & administration

The former Council judged it to be wise to upgrade the EAAE book-keeping to a double-entry system for, what it called, sophisticated accounting and legal work. This was done by accountant De Kleine Prins, who had been engaged for a period of two years.

By Belgian law EAAE is considered as a small 'vzw, which does not require a double-entry system. The appointed accountant generated an extra annual cost of 3.000€. The departing Council recommended the continued use of a professional accountant.

The accountant has registered EAAE for VAT payment (in Belgium) and is charged with ensuring that the EAAE settles its VAT debts in Belgium, Greece or elsewhere. Deprins prepared the 2011 and 2012 annual accounts and made relevant declarations to the Belgian authorities.

The Report incorrectly states that participation fees for educational purposes are liable for VAT and that unpaid VAT is now due on the past 3 years, i.e. from 2010-2012. The former Council set apart a provisional sum of 50,000 Euros, to cover possible VAT owed by EAAE for their meetings in Greece.

Recent communication between the new Council and the EAAE accountant made it clear that we no longer run such risks (cfr. supra).

The report of the former Council includes a reference to that "Missing tax-declarations concerning the past 3 years from 2010-2012 (the period of relevance to the tax authorities) have been completed and lodged by Deprins. Proofs of expenses relating to the sums transferred to Greece are inexistent and so all payments to the ENHSA organizers are considered as fees for services. Having thus declared the fees to the Belgian and Greek authorities, the EAAE is free from the threat of a crippling tax-penalty, which could have potentially bankrupted it."

This quoted paragraph is strongly exaggerated and has deeply offended Lou Schol, who, for many years had declared the EAAE tax report without any problems. There are no 'missing tax-declarations' whatsoever. All the EAAE transfers, including the ones to the ENHSA account in Thessaloniki, were listed in the excel sheets attached to the tax declaration. This has happened every year since 2002. It seems very unlikely that this practice would have 'potentially bankrupted' the EAAE. The actual money was used to cover the costs for Chania meetings that took place, consequently they were not fees for services.

3. EAAE secretariat and agreement with KUL

The observations made by the former Council on increased cost for the EAAE secretariat, have been addressed by Hilde Heynen in a public statement to the Leuven GA in June 2013. She concludes: "This evolution is clearly visible in the books of EAAE, as kept by Lou Schol, and has been repeatedly explained to Urs Hirschberg and other members of the council. We at KULeuven are extremely sorry that this is apparently very hard to understand."

There is also email correspondence between Urs Hirschberg and Willy Brams, Head of internal control and finance of KU Leuven. In an email dated 27/07/2012 Brams replies to Hirschberg: 'Dear sir, I am

quite a bit angry about your phone call and letter dated the 24th of July 2012 especially about the paragraph where you are telling me that the staff members of KULeuven were not aware of the increases in the amount of invoices....”

From 1 July 2014 onward the secretariat will move to Hasselt, at an annual cost of c.15.000€.

4. Notes on the EAAE lawyers

The departing EAAE Council consulted Belgian lawyers, Claeys and Engels, for advice on a long list of questions. Many of these questions refer to earlier accusations and deal with the issues discussed above.

We regret that their fees (including translation costs) add up to 10.264€ for services, that seem to have created no added value to the Association, but on the contrary added to the sense of insecurity. It seems that the practice of these lawyers has been merely to articulate the already existing accusations of the former Council by rephrasing them in legal terms.

Conclusion

We regret the strong tone of the report of the former Council. We also observe that the former Council systematically ignored previous responses by C. Spiridonidis and H. Heynen to their questions. Indeed, many of the open and provocative questions of the June/13 report, had already been raised and answered in January/13. To have, at least included, these responses in the report would have been helpful to members.

The present Council has taken action with regards to potential financial risks and believes that the organisation is fit to continue its mission. Indeed, the present Council strongly believes in the future of the EAAE and proposes a new mission statement as well as new statutes. It reaches out to external partners and encourages Schools of Architecture to join the Association.

In all of its future activities, EAAE makes the commitment to be a fully transparent Association and trustworthy Partner.