2022

Report on the accounts of the European Schools for the 2022 financial year

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Contents

Executive summary

I In accordance with the Financial Regulation of the European Schools and the International Standard on Review Engagements 2400, we reviewed the European Schools' accounts for the 2022 financial year. We also examined the internal control systems (recruitment, procurement and payments). Furthermore, we reviewed the internal control procedures for the revenues of the Central Office and two of the Schools (Frankfurt and Luxembourg I). We also reviewed the work of the Schools' external auditor, who examined the individual accounts of seven Schools. We carried out this review to obtain limited assurance as to whether the consolidated accounts as a whole were free from material misstatement. As we did not audit the Schools' consolidated accounts, we do not express an audit opinion for these accounts.

II Based on our review, nothing has come to our attention that causes us to believe that the final consolidated accounts for 2022 are not prepared, in all material respects, in accordance with the International Public Sector Accounting Standards. We note, however, that the external auditor qualified its opinion in its 2022 audit report for the Munich School as it was unable to conclude on the accuracy of the material amounts of debt. The Central Accounting Officer did not issue any reservation for the final consolidated accounts.

III The quality of the Schools' final individual and consolidated accounts has further improved compared to previous years. Both we and the external auditor found immaterial errors, which mainly related to the calculation of provisions for post-employment benefits. The Schools corrected these errors in the final accounts. We also noted that the Schools' provisional individual financial statements did not include all the components required by the Schools' Financial Regulation. All these components were added to the final individual financial statements. Furthermore, we noted that the audit opinions of the external auditor are not in line with the framework contract concluded with the Central Office.

IV Our review showed improvements in recruitment and procurement procedures in the Central Office. For the two Schools we reviewed, we found some shortcomings in these procedures. Furthermore, we once again noted weaknesses in terms of payment procedures for both the Central Office and the two Schools.

V The Central Office, and the Schools themselves should take action to implement the recommendations made in this report along with those of previous years with a view to further improving their accounting and internal control systems. We recommend that the Central Office and/or the Schools:

- align the yearly specific contracts of the external auditor and the framework contract;
- implement *ex post* controls on revenues;
- perform appropriate procurement procedures; and
- improve reporting on open vendors and the availability of supporting documents.

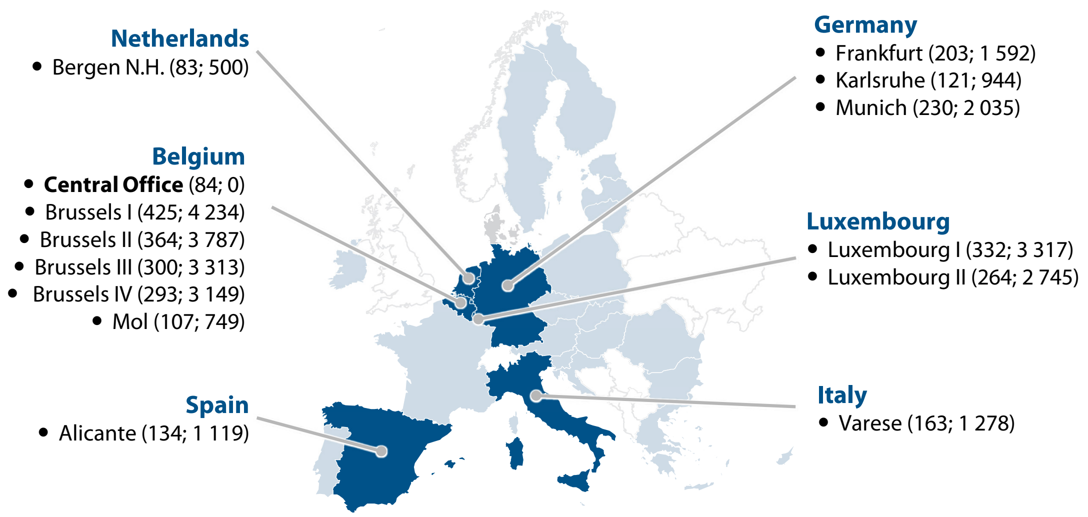
Introduction

Background

01 The primary legal basis for the European Schools (the "Schools") is the Convention that defines their Statute[1]. The Schools' financial and operational management tasks are governed by their own Financial Regulation ("Schools' Financial Regulation")[2] and a set of Staff Regulations. Together, these make up the "General Framework" of rules.

02 Currently, the Schools' system consists of 13 Schools and the Office of the Secretary-General (the "Central Office"). In 2022, the Schools had a total of 3 103 staff members employed and 28 765 pupils enrolled. Distribution per entities is available in ***Figure 1***. The Board of Governors, which comprises the ministers of education of the EU member states, deals with strategic, educational and general policy questions concerning the Schools' system as a whole. The Central Office performs day-to-day executive management duties and provides the Schools with advice on educational, administrative, financial, legal and human resources issues.

Figure 1 – Location of the European Schools



Note: The numbers in the brackets provide the number of staff followed by number of pupils.

Source: ECA, based on the Schools' Facts and figures at the beginning of the 2022-2023 school year.

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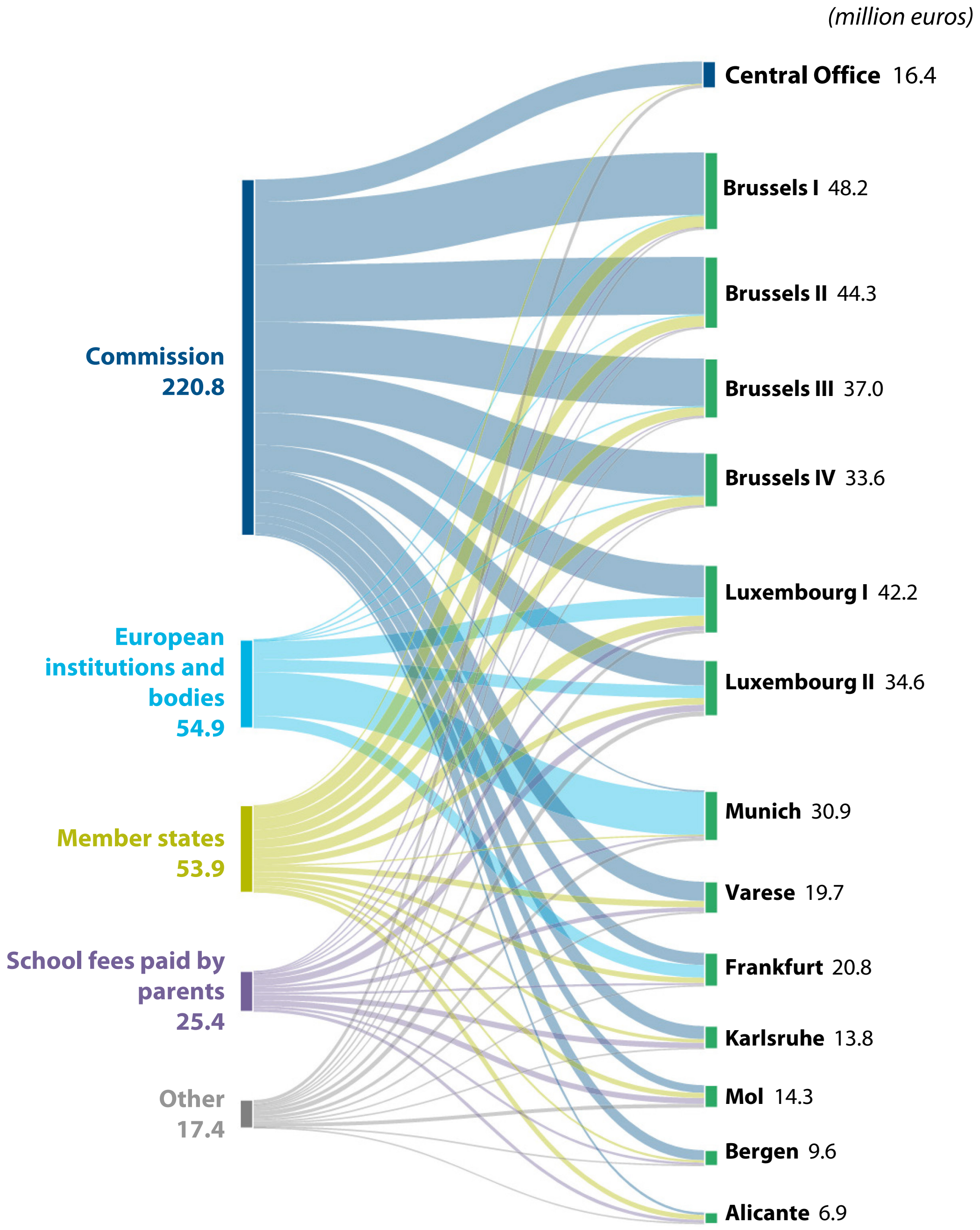
[1] Convention defining the Statute of the European Schools (OJ L 212, 17.8.1994, p. 3).

[2] Financial Regulation applicable to the budget of the European Schools (Ref: 2017-12-D-21-en-3).

03 The overall budget of the Schools for 2022 was €380.8 million. The funding mainly came from the European Commission, EU institutions and bodies, member states, school fees paid by parents and other (see ***Figure 2***). Staff costs totalled €327.5 million (86 %), other administrative expenditure €44.8 million (11.8 %) and educational expenditure €8.6 million (2.2 %).

Figure 2 – Sources of funding in 2022



Source: ECA, based on the data from the Central Office.

04 The Secretary-General is required to forward the final consolidated accounts to us by 15 September (of year n+1) at the latest, in accordance with Article 73 of the Schools' Financial Regulation. We send a report on the Schools' accounts, together with the Schools' replies every year, by 30 November to the European Parliament, the Council, the Commission and the Schools' Board of Governors. The Board of Governors is responsible for giving discharge.

Accounting and control environment

05 The Schools use the International Public Sector Accounting Standards ('IPSAS') accruals accounting principles. The role of the Central Office's Central Accounting Officer was established on 1 January 2020. The Central Accounting Officer is responsible for preparing, presenting and keeping the accounts in accordance with the Schools' Financial Regulation.

06 The Commission's Internal Audit Service (IAS) carries out audits on the quality of the Schools' internal control systems and the way in which they operate. The IAS's audit reports include recommendations and indicate their levels of priority. The internal control capability (ICC) is the Schools' internal control and advisory function. Its control function includes *ex post* controls of transactions and compliance with standards, while its advisory role includes harmonising the implementation of standards, annual reporting, and providing guidance and support to the Schools and their respective administrations.

Review scope and approach

07 Articles 73 and 86 of the Schools' Financial Regulation provide that we issue a yearly report on European Schools' accounts.

08 We reviewed the Schools' consolidated accounts for the financial year which ended on 31 December 2022. We based our review on the International Standard on Review Engagements (ISRE) 2400. This standard requires that we plan and carry out reviews to obtain limited assurance as to whether the accounts as a whole are free of material misstatement. "Limited assurance" refers to a level of assurance that is considered meaningful but is lower than the assurance provided by an audit. Our review procedures are generally limited to making inquiries, speaking to school staff and management, and applying analytical procedures to financial statements. We comply with the ethical requirements set out in the standard. Since we did not audit the consolidated accounts, we will not express an audit opinion on these accounts.

09 We reviewed the work of the Schools' external auditor. Each year the external auditor audits half of the Schools on a rotational basis. The external auditor audited the individual 2022 accounts of seven Schools (the Alicante, Brussels I to IV, Karlsruhe and Munich Schools) before consolidation took place.

10 We also reviewed the individual accounts of the six Schools[3] and the Central Office, which had not been audited by the Schools' external auditor. Furthermore, we examined elements relating to the internal control systems of the Central Office and two of the thirteen Schools (Frankfurt and Luxembourg I), which were selected on a rotational basis. Our work included a review of staff recruitment, procurement and payments selected on a judgmental basis. Furthermore, we reviewed the Schools' internal control procedures regarding revenue by carrying out "walk-through" checks.

11 We followed up recommendations we made in our report for the 2021 financial year (covering the Brussels III and Karlsruhe Schools and the Central Office).

[3] The Bergen, Frankfurt, Luxembourg I and II, Mol and Varese School.

Observations

Accounting

12 When preparing the 2022 accounts, the Schools applied accruals accounting principles as defined in the IPSAS. The final version of the accounts, which we received on 15 September 2023, included corrections proposed by the external auditor for the seven Schools audited, and corrections of the errors we had identified in the provisional consolidated accounts.

13 We noted that the Schools' provisional individual financial statements for the 2022 financial year did not include all the financial statement components required by Article 69 of the Schools' Financial Regulation and IPSAS 1, such as the cash-flow statement. All those components were added to the final individual financial statements.

14 We also noted that the external auditor's opinion for the 2022 financial year for the seven Schools was not in line with the framework contract signed with the Central Office. In particular, the objective of the external auditor was to "obtain reasonable assurance about whether the balance sheet and income statement as a whole are free from material misstatement"[4]. However, the framework contract requires an audit of the Schools' annual accounts (comprising all the financial statement components and the budget implementation reports). This means that the cash-flow statements, the statements of changes in net assets, the comparisons between the budget and the accrual amounts, the accompanying notes and the budget implementation reports of the individual Schools are not covered by the external auditor's opinion.

15 The external auditor did not propose any adjustments or reclassifications for two of the seven Schools audited (Alicante and Brussels IV). For the other five Schools, the external auditor detected a number of booking issues that had an impact on the profit and loss account. These immaterial booking issues, which mostly related to employee benefits provisions, were corrected in the final versions of the individual accounts.

16 The consolidated accounts of the Schools and individual accounts of Munich School disclose liabilities linked to the reimbursement of national emoluments of its seconded staff who are still paid by member states of origin while working at this

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[4] Independent auditor's report for the year ended 31 December 2022.

School. The external auditor had issued a qualified opinion in its audit report for the 2020 financial year as it was unable to obtain sufficient appropriate evidence about the accuracy of the recorded debts of €8.6 million as at 31 December 2020. For the 2022 financial year, since the confirmation procedures with member states were inconclusive, the external auditor issued again a qualified audit opinion because the audit evidence was insufficient to conclude whether the material amounts of debt remaining to be paid as at 31 December 2022 (€5.9 million) were accurate.

17 From 1 September 2022, a new harmonised procedure entered into force to address the reimbursement of national emoluments of seconded staff to the member states concerned. The Central Office expects this procedure to help tackle the clearing of open amounts with the member states. By the end of 2022, total debts amounted to €5.9 million, which was significantly higher than at the end of 2021 (€3.1 million).

18 Our review of the Central Office's and the Schools' provisional accounts revealed an understatement of the provision for the departure allowance for seconded staff by around €4.8 million in total. This was because they had not used the latest data on seconded staff available in their accounting system SAP for their underlying assumptions to calculate post-employment benefit provisions. The understatement was corrected in the final individual and consolidated financial statements.

Internal control system

Internal auditor

19 In 2022, the IAS, which acts as the Schools' internal auditor (see paragraph ***06***), performed an audit on IT governance in the Schools, resulting in three recommendations for IT support, security, and risk management. The IAS also followed up on audit recommendations that had previously been made to the Central Office or the Schools. In total, four recommendations that are particularly relevant for our review were still open on 31 December 2022. See ***Table 1***.

Table 1 – Selected open IAS recommendations for the Schools or the Central Office

Audit year	Recommendation	Status	Priority level	Original target date	Revised target date
2014	Internal document repository and underlying document management policy	Significantly delayed*	Important	31.12.2014	30.6.2023
2021	Ethics arrangements	Open	Very important	31.7.2022	n/a
2021	Information/IT security	Open	Very important	31.7.2023	n/a
2021	Data storage platforms and IT tools used by the Schools	Open	Important	31.12.2023	n/a

* Significantly delayed means still open more than six months after the original target date.

Source: ECA, based on information from the Central Office.

Internal control capability

20 In 2022, the ICC performed most of the *ex post* checks that had been planned for that year. These *ex post* checks covered recruitment (salary calculations and payments), procurement (respecting contract thresholds) and the correct implementation of segregation of duties tables in the School's accounting system SAP. The ICC found that the tables it had checked on a quarterly basis had been implemented correctly in SAP in most respects. We noted that ICC identified a number of cases of incorrect implementation of segregation of duties in SAP, which represented 4.0 % of the total population checked in the first quarter of 2022 (compared to 4.3 % identified in 2021). The number of cases decreased substantially to 0.2 % in the fourth quarter of 2022.

21 Overall, the ICC did not encounter any material findings from their 2022 *ex post* controls that needed to be reported to the Board of Governors immediately[5]. We noted, however, that the ICC had not conducted, or included in their annual plans, *ex post* controls on revenue since it became operational in 2020.

[5] Global Annual Activity Report, p. 41 (Ref: 2023-02-D-2-en-3).

22 The Schools' Financial Regulation requires the Schools' Authorising Officer to periodically update information about the internal control standards[6]. We noted that in 2022, the Central Office had started the process of updating their internal control framework to align it with international best practices.

Recruitment

23 We examined 21 recruitment procedures in total – three for the Frankfurt and Luxembourg I Schools' seconded teachers, three for their locally recruited teachers and three for administrative and ancillary staff. We also examined three for the Central Office's administrative staff.

24 Overall, our checks did not reveal any significant weaknesses in the recruitment procedures. The Central Office has implemented all the recommendations we reported in our 2021 report, and we did not identify any shortcomings in the three procedures we examined. We did, however, find two cases of incomplete documentation (one at the Frankfurt School and one at the Luxembourg I School), where the candidates did not have a medical certificate, which is required by the Service Regulations[7]. We reported similar findings in the previous year[8].

25 Furthermore, we found two cases of non-compliance with the Schools' recruitment rules[9], where for locally recruited teaching positions, the Frankfurt School did not consult a national inspector about selected candidates' qualifications.

Procurement

26 We examined 14 procurement procedures launched in 2022 (6 for the Central Office, 4 for the Frankfurt School and 4 for the Luxembourg I School), and the lists of contracts in force in 2022 from both the Central Office and the two Schools selected. We also looked at their 2022 registers of exceptions and followed up on previous

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[6] The Schools' Financial Regulation, Article 32.7.

[7] Article 8.3 of the Service Regulations for the Locally Recruited Teachers (2016-05-D-11-en-11).

[8] Report for the annual accounts of the European Schools for the 2021 financial year, paragraph 22.

[9] Article 7.6 of the Service Regulations for the Locally Recruited Teachers (2016-05-D-11-en-11).

observations. Based on this work, we noted progress at the Central Office but several weaknesses at the two Schools concerning the choice and the implementation of procurement procedures regarding the applicable rules[10].

Inappropriate procurement procedures, or lack thereof

27 In 2022, the Luxembourg I School started to remedy identified cases without or with inappropriate procurement procedures:

- Following-up on our recommendation for the 2020 financial year[11], the School identified three types of recurrent expenditures (gardening, specific gas supply and IT services) without appropriate procurement procedures. It launched one procurement procedure in 2022 and planned to launch the other two procedures only by the second quarter of 2023.

- We identified three additional types of expenditure (labware, school furniture and office furniture) which were also not based on appropriate procurement procedures. From 2019 to 2022, €460 000 was paid for these supplies. To remedy the situation, the Central Office on behalf of all Schools, had concluded one related call for tenders at the end of 2022, and the other two were still ongoing.

28 We found that the Frankfurt School continued to use three contracts which had not resulted from an appropriate call for tenders since 2002/2003. Furthermore, the contracts had expired in 2020 as a basis for payments (totalling €21 500 per year). The School intends to launch a call for tenders to resolve this issue.

29 We also found that this School failed to choose the appropriate procurement procedure in two situations:

- The School negotiated a one-year (renewable for one more year) contract with a service provider without going through a competitive tendering procedure. However, this contract covered one of the School's recurrent needs with an estimated related cost over four years, which amounted to more than €21 000. For such an amount, the School is required to launch a low value (instead of very

[10] Article 66 on procurement of the Schools' Financial Regulation is based on the EU Financial Regulation (EU, Euratom) 2018/1046, which refers to Directive 2014/24/EU on public procurement.

[11] First bullet point in recommendation 3 of the Report on the annual accounts of the European Schools for the 2020 financial year, p. 17.

low value) procurement procedure, and include at least three potential candidates[12].

- In the other situation, the School launched a call for tenders for a middle value contract of €220 000. However, the resulting contract related to services as opposed to works, and exceeded the procurement threshold of €140 000[13]. The School therefore should not have opted for a negotiated procedure for a middle value contract, but instead should have followed a restricted procedure or equivalent.

Non-compliance with the implementation of the procurement procedures

30 The Frankfurt School did not publish the estimated value of two sampled procurement procedures[14], which affects the transparency of these procedures.

31 Furthermore, for one of these procurement procedures, we noted that the members of the opening and evaluation committees did not sign declarations about the absence of conflict of interest, nor did the members of the evaluation committee sign and date any final evaluation report, although legally required[15] to do so.

Payments

32 We examined a sample of 61 payments – 21 for the Central Office and 20 for each of the two Schools. We also considered exceptions related to payments that had been registered by the Central Office and the two Schools in 2022, and observations made by the ICC, and we followed up on our observations from previous years. Based on this work, we noted several weaknesses.

Weaknesses in monitoring of open vendors

33 We noted that on a quarterly basis, the accountants of the two reviewed Schools and the Central Office reported to the Central Accounting Officer on the clearing of open vendor items and open vendor invoices using checklists. However, the confirmation in the checklists was not always supported by evidence of analysis of overdue items, differed in format, and did not always contain the identification of

[12] Point 6.2 of Annex I of the EU Financial Regulation.

[13] Article 4 of Directive 2014/24/EU.

[14] Point 8 of Annex V part C of Directive 2014/24.

[15] Point 30.1 of Annex I of the EU Financial Regulation.

vendors, number of overdue days and qualitative information (justification) regarding overdue invoices.

34 We analysed the time taken to make commercial vendor payments in 2022, based on the data available from the accounting system. For the Central Office, we identified 29 overdue payments to commercial vendors. Around 10 % of these were overdue by more than 30 days (34 % in 2021[16]). For the two Schools, we identified much higher percentages of more than 30 days overdue payments (up to 35 %). The Schools mainly attributed the overdue payments to the following:

- setting incorrect payment terms for contracts and the relevance of invoice dates entered in the Schools' accounting system, instead of dates on which invoices were received;
- the amount of time taken for vendor master data and invoices to be validated operationally;
- delayed invoice processing due to internal problems within the accounting department (e.g. limited resources, temporary work overload);
- invoice receipt around the summer holiday period; and
- delayed invoice payment due to ongoing disputes with vendors.

Missing supporting documents

35 In our sample, we noted missing supporting documents for five payments to seconded staff (three in the Frankfurt School and two in the Luxembourg I School). We found that there was no record of the Director's decisions as Authorising Officer with regard to the secondment's start date, the initial salary step and allowance entitlements.

Continued issues with taxation and weighting coefficient

36 One payment in our sample (at the Frankfurt School) concerned a severance grant paid to seconded staff from the United Kingdom whose contract finished in 2021. We noted that the components used to calculate the payment included a weighting rate linked to seconded staff members' country of origin. We found that following a memorandum from the Central Office, the School had calculated the

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[16] Report of the annual accounts of the European Schools for the 2021 financial year, paragraph 29.

payments using a weighting rate (of 1.409) based on the Central Office's own calculations. As already noted in our 2021 report[17], applying this rate was contrary to the Commission's advice to use the lower rate (of 1.285). The reviewed payment was therefore overstated by about £10 300. We also reiterate our view that there is no legal basis for the Secretary-General to set its own weighting rates for seconded staff.

37 Similar to last year[18], we noted that in 2022, the EU tax calculation did not include all of the components required in the legislation. In our sample, we found two cases of special allowances for certain managerial positions (both for the Central Office) and five cases of severance grant payments to seconded staff (four for the Frankfurt School and one for the Luxembourg I School), which were not included in the calculation of taxable amounts. The EU tax calculation also affected the accuracy of the differential allowances that were paid to seconded staff to compensate for differences between national and EU taxes and salaries.

38 Based on a simulation, the Central Office estimated the total monetary impact on payroll of taxing special allowances amounting up to €81 000 per year for all 15 members of staff who received a special allowance across the Central Office and all Schools. The Central Office also estimated the impact of taxing the severance grant. With, on average, 150 seconded staff across the Central Office and all Schools that leave per year, its estimate per member of staff would result in an approximate decrease of the net severance grant payment of around €195 000 per year. Taxing special allowances and severance grants was discussed at the Board of Governors meeting from 12 to 14 April 2023. The Board of Governors decided to postpone the decision on the taxation of the severance grant, of the special allowance and the recovery of related amounts until either a potential extraordinary meeting in October 2023, or its next ordinary meeting in December 2023. We refer to our related recommendation to comply with taxation and weighting coefficient rules, and recover any wrongly paid amounts[19], which remains valid.

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[17] Report of the annual accounts of the European Schools for the 2021 financial year, paragraph 32.

[18] Report of the annual accounts of the European Schools for the 2021 financial year, paragraph 33.

[19] Report of the annual accounts of the European Schools for the 2021 financial year, paragraph 44, Recommendation 4, fourth, fifth and seventh bullet points.

Shortcomings in the segregation of duties

39 In the Frankfurt School, we found shortcomings related to the segregation of duties. We noted that the member of staff responsible for seconded staff payroll was also responsible for verifying their salaries. In addition, the local accounting correspondent back-up member of staff was assigned roles to perform tasks not foreseen for this function in the segregation of duties tables. The School attributed these shortcomings to the staff shortage in the finance department.

Revenue

40 In the context of our review on the Schools' internal control procedures, we analysed a total of 36 revenue transactions (4 for the Central Office, 15 for the Frankfurt School and 17 for the Luxembourg I School). While the Central Office's revenue transactions we analysed were exclusively from the Commission and member states, the two Schools also received income from other institutions (from European Central Bank for Frankfurt and the European Investment Bank and European Stability Mechanism for Luxembourg I) and School fees. See ***Figure 2***.

41 Based on our review, we noted one weakness. There was no evidence in any of the reviewed cases that the Accounting Officer informed the Authorising Officer of the recovery of amounts receivable as required by the Schools' Financial Regulation[20].

Follow-up to our 2021 recommendations

42 Based on our follow-up we noted that 11 out of 22 recommendations have been implemented. Two recommendations on payments have not been implemented. The remaining recommendations which are still in progress relate to accounting (one), recruitment (two), procurement (three) and payments (three). ***Annex I*** summarises our follow-up to the recommendations for the 2021 financial year. Significant open recommendations relate to:

- the calculation of employee benefits provisions;
- launching of appropriate tender procedures on time; and
- the calculation of EU tax on seconded staff salaries.

[20] Article 47.4 of the Schools' Financial Regulation.

Declarations of the Authorising Officer and Authorising Officers by delegation

43 The Schools' 2022 Global Annual Activity Report[21] includes a declaration of assurance signed by the Secretary-General in his capacity as the Authorising Officer of the Schools and the declarations of assurance signed by the Authorising Officers by delegation for the individual Schools. With these declarations, the Authorising Officer and the Authorising Officers by delegation confirmed the use of the resources for their intended purpose in accordance with the principle of sound financial management and the proper functioning of the control procedures put in place. They have not made any reservations in their assurance declarations. Our review did not result in findings that would indicate a need to make a reservation.

Declarations of the Central Accounting Officer

44 For 2022, the Central Accounting Officer of the Schools signed off the individual and consolidated accounts for all Schools and the Central Office, thereby certifying that he has reasonable assurance that the accounts give a fair presentation of the financial situation of the Schools. No reservation was expressed to reflect the uncertainty relating to the recorded debts of the Munich School (see paragraphs ***16*** to ***17***). Furthermore, the emphasis of matter previously included for the 2021 individual and consolidated accounts relating to validating accounting systems was removed.

[21] Global Annual Activity Report 2022 (Ref: 2023-02-D-2-en-3).

Conclusions and recommendations

45 In the area of accounting, our review did not reveal any material errors in the final consolidated accounts for the financial year which ended on 31 December 2022. The quality of the Schools' final individual and consolidated accounts has further improved compared to previous years. We note, however, that the external auditor qualified its opinion in its 2022 audit report for the Munich School as it was unable to conclude on the accuracy of the material amounts of debt. We and the external auditor found immaterial errors, which the Schools had corrected in the final accounts. We noted that the Schools' provisional individual financial statements for the 2022 financial year did not include all components required by Article 69 of the Schools' Financial Regulation and IPSAS 1. All of these components were added to the final individual financial statements. In addition, the audit opinions of the external auditor were not in line with the framework contract concluded with the Central Office (paragraphs ***12*** to ***18***).

Recommendation 1 – Align the yearly specific contracts of the external auditor and the framework contract

The Central Office should ensure alignment between the yearly specific contracts concluded with the external auditor and the framework contract, while keeping at least the coverage of individual Schools that are currently audited by the external auditor.

Target implementation date: by January 2026

46 For internal control, we noted that by December 2022, the four recommendations made by the Schools' internal auditor had not yet been implemented. There were no material findings that resulted from the 2022 *ex post* controls by the Central Office's internal control capability unit. However, since the unit became operational in 2020, the *ex post* controls have not covered revenue (paragraphs ***19*** to ***22***).

Recommendation 2 – Implement *ex post* controls on revenues

The Central Office should ensure that the annual plan for the internal control capability's *ex post* controls for 2024 include controls on revenue.

Target implementation date: by December 2023

47 We noted improvements in recruitment procedures of the Central Office compared to the previous year. However, for the two Schools, we found some weaknesses involving compliance with the staff recruitment rules for locally recruited staff regarding consultation of national inspectors, and instances of missing supporting documents (paragraphs ***23*** to ***25***).

48 In the area of procurement, our review showed progress at the Central Office. However, we identified shortcomings at the two Schools, particularly regarding no or inappropriate procurement procedures (paragraphs ***26*** to ***28***).

Recommendation 3 – Perform appropriate procurement procedures

The Schools should launch calls for tenders as soon as possible, to remedy or prevent any cases without or with inappropriate procurement procedures. They should do this while taking proper account of any future needs that might lead to thresholds being exceeded.

Target implementation date: by December 2024

49 In the area of payments, our review showed weaknesses in relation to monitoring of open vendor items and missing supporting documents for payments to seconded staff. It revealed also continued issues with weighting coefficients and the calculation of taxable amounts (paragraphs ***32*** to ***39***).

Recommendation 4 – Improve reporting and the availability of supporting documents

The Central Office and the Schools should:

(a) improve reporting on open vendors by including analysis of overdue items, identification of vendors, number of days overdue and qualitative justification regarding overdue items; and

Target implementation date: by December 2023

(b) ensure that all supporting documents, in particular for seconded staff, are available and digitally archived.

Target implementation date: by December 2025

50 For revenue, our review identified one weakness. This related to the fact that the Accounting Officer did not formally inform the Authorising Officer about the recovery of the amounts receivable (paragraphs ***40*** to ***41***).

This report was adopted by Chamber V, headed by Mr Jan Gregor, Member of the Court of Auditors, in Luxembourg at its meeting of 10 October 2023.

For the Court of Auditors

Tony Murphy
President

Annex

Annex I – Follow-up to the recommendations in our annual report for the 2021 financial year

<table>
<tr><th rowspan="3">Our recommendations (paragraphs 41 to 44 of the report on the accounts of the European Schools for the 2021 financial year)</th><th colspan="2">European Schools</th><th rowspan="2">Central Office</th><th rowspan="3">Comments</th></tr>
<tr><th>Brussels III</th><th>Karlsruhe</th></tr>
<tr><th>Implemented Yes/No/NA/ in progress</th><th>Implemented Yes/No/NA/ in progress</th><th>Implemented Yes/No/NA/ in progress</th></tr>
<tr><td colspan="5">Recommendations on accounting issues</td></tr>
<tr><td colspan="5">The Central Office and the Schools should ensure that:</td></tr>
<tr><td>their calculations of employee benefits are transparent and specific, and that the related provisions are in the correct in amount; and</td><td colspan="3">In progress</td><td>Improvements with the new SAP module for processing seconded staff salaries but calculation of provisions for post-employment benefits remains an area of improvement.</td></tr>
<tr><td>fixed assets are booked in line with their accounting policy.</td><td colspan="3">Implemented</td><td>No cases were found this year.</td></tr>
</table>

<table>
<tr><th rowspan="3">Our recommendations (paragraphs 41 to 44 of the report on the accounts of the European Schools for the 2021 financial year)</th><th colspan="2">European Schools</th><th rowspan="2">Central Office</th><th rowspan="3">Comments</th></tr>
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<tr><th>Implemented Yes/No/NA/ in progress</th><th>Implemented Yes/No/NA/ in progress</th><th>Implemented Yes/No/NA/ in progress</th></tr>
<tr><td colspan="5">Recommendations on recruitment procedures</td></tr>
<tr><td colspan="5">The Central Office should ensure that:</td></tr>
<tr><td>the distribution of responsibilities for gathering and keeping key recruitment documents for staff selection are clearly set out in the Regulations or internal rules; and</td><td colspan="3">Implemented</td><td>According to the Central Office, the responsibility for gathering and keeping key recruitment documents for locally recruited teachers and administrative staff lies with the Schools, whereas for seconded staff this responsibility is shared. As of March 2023, the Central Office’s HR Unit added an Annex to the administrative and ancillary staff recruitment policy that provides a clear division between the Central Office and the Schools in terms of the roles and responsibilities.</td></tr>
<tr><td>the conditions for derogations from the grading set out in vacancy notices are fulfilled.</td><td colspan="3">Implemented</td><td>No such cases were found this year.</td></tr>
<tr><td colspan="5">The Schools, with the support of the Central Office, should ensure that:</td></tr>
<tr><td>selection criteria are clearly defined and their use documented;</td><td colspan="3">Implemented</td><td>No such cases were found this year.</td></tr>
<tr><td>national inspectors are consulted on whether the candidates selected have the required qualifications;</td><td colspan="3">In progress</td><td>We reported cases for the Schools, see paragraph 25.</td></tr>
<tr><td>staff contracts contain the necessary information, including the staff member’s salary grade; and</td><td colspan="3">Implemented</td><td>No such cases were found this year.</td></tr>
<tr><td>supporting documents required by the Staff Regulations are readily available.</td><td colspan="3">In progress</td><td>We reported two cases for the Schools, see paragraph 24.</td></tr>
</table>

Our recommendations (paragraphs 41 to 44 of the report on the accounts of the European Schools for the 2021 financial year)	European Schools		Central Office	Comments
	Brussels III	Karlsruhe		
	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	
Recommendations on procurement procedures				
The Central Office should:				
launch appropriate tender procedures on time;	In progress			We reported several cases for the Schools, see paragraphs ***26*** to ***28***. Based on the purchase orders for 2022 provided by the Central Office, the list of contracts did not present a complete view of the contracts in force. This risks to undermine the timely choice of appropriate procurement procedures.
when evaluating the bids, check that they strictly adhere to the procedures described in the calls for tender;	Implemented			No such cases were found this year.
encourage and support the Schools' use of the 'Early-Detection and Exclusion System'	In progress			No proof that this was used by the Frankfurt School because the procurement procedures under review were negotiated before the implementation of the Logins to the Early-Detection and Exclusion System.
The Schools should:				
not use selection criteria which are too specific and thus limit competition to one candidate, or are not legal due to failure to justify the required turnover exceeding the legal maximum threshold in the procurement documents;	Implemented			No such cases were found this year.
perform better needs analyses to avoid large estimate overruns;	Implemented			No such cases were found this year.

<table>
<tr><td rowspan="3">Our recommendations (paragraphs 41 to 44 of the report on the accounts of the European Schools for the 2021 financial year)</td><td colspan="2">European Schools</td><td rowspan="2">Central Office</td><td rowspan="3">Comments</td></tr>
<tr><td>Brussels III</td><td>Karlsruhe</td></tr>
<tr><td>Implemented Yes/No/NA/ in progress</td><td>Implemented Yes/No/NA/ in progress</td><td>Implemented Yes/No/NA/ in progress</td></tr>
<tr><td>update the templates they use in all their working languages, in line with the regulations in force at the time of the procurement procedure.</td><td colspan="3">In progress</td><td>The template in German language used by the Frankfurt School was not updated.</td></tr>
<tr><td colspan="5">Recommendations on payment procedures</td></tr>
<tr><td colspan="5">The Central Office and the Schools should:</td></tr>
<tr><td>correct the deadline settings in SAP in line with agreed payment terms and adequately keep track of amounts due;</td><td colspan="3">In progress</td><td>The reporting framework improved, however there is currently no accurate and complete monitoring of compliance with payment terms.</td></tr>
<tr><td>ensure that accounts payable remain current and only include items that it was not possible to clear and pay;</td><td colspan="3">Implemented</td><td>No such cases were found this year.</td></tr>
<tr><td>ensure that payments are based on valid contracts which provide sufficient detail on price calculation;</td><td colspan="3">Implemented</td><td>No such cases were found this year.</td></tr>
<tr><td>ensure that weighting rates are applied in line with the Commission´s approach to calculating payments related to termination of service;</td><td colspan="3">Not implemented</td><td>We reported a case for the Frankfurt School, see paragraph 36.</td></tr>
<tr><td>ensure that EU tax rules on the calculation of taxable amounts are fully complied with to determine the differential adjustments for seconded staff;</td><td colspan="3">Not implemented</td><td>We reported cases for the Central Office and the Frankfurt and Luxembourg I Schools, see paragraphs 37 and 38.</td></tr>
<tr><td>ensure that managerial allowances are only paid to eligible seconded staff as stipulated in the relevant Regulations, and recover any amounts wrongly paid;</td><td colspan="3">Implemented</td><td>The Board of Governors decided on its meeting on 12 to 14 April 2023 to unanimously approve the inclusion of an additional function in Article 49.3 of the Staff Regulations and approve the non-recovery of the amounts paid in a form of special allowance prior to this decision linked to this function.</td></tr>
</table>

Our recommendations (paragraphs 41 to 44 of the report on the accounts of the European Schools for the 2021 financial year)	European Schools		Central Office	Comments
	Brussels III	Karlsruhe		
	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	
analyse the impact of incorrect calculations of taxable amounts and recover any amounts wrongly paid; and	In progress			The Central Office carried out an assessment. The decision of the Board of Governors has been postponed until either a potential extraordinary meeting in October 2023, or its next ordinary meeting in December 2023. See paragraph ***38***.
ensure that duties are segregated consistently in line with promptly updated and approved SAP tables and comprehensive segregation of duties authorisation tables, which should include all staff with SAP access.	In progress			We reported cases for the Frankfurt School, see paragraph ***39***.

List of abbreviations

IAS: Internal audit service.

ICC: Internal control capability.

IPSAS: International public sector accounting standards.

ISA: International standard on auditing.

ISRE: Internal standard review engagement.

Replies of the European Schools

Ref.: 2023-09-D-17-en
Orig.: EN

REPLIES OF THE EUROPEAN SCHOOLS TO THE REPORT ON THE ACCOUNTS OF THE EUROPEAN SCHOOLS FOR THE 2022 FINANCIAL YEAR

The European Schools (ES) take note of the observations of the Court of Auditors, accept its recommendations and are committed to further improvements in the areas highlighted, in both the Schools and the Office of the Secretary-General (OSG).

Accounting

Replies to observations raised concerning accounting

From an accounting perspective, we would like to share the following points of clarification:

- For point 16, concerning the Munich School and its liabilities linked to the reimbursement of national emoluments of its seconded staff, we would like to underline the statement from the report of the external auditor, which confirms that 'the implementation of the harmonised procedure has brought the school much closer to resolving the issue of the national salary reimbursement, and the debt to most member states is now under control'.

  The issue remains outstanding for German and Italian seconded staff for a total amount of EUR 5.4 million at year-end 2022 (of a total debt of EUR 5.9 million) as both administrations have failed to completely meet the requirements of the new Harmonised Procedure.

  However, important progress has been made in 2023 for Germany, of a total outstanding amount of EUR 4.2 million as of end 2022, the School, in cooperation with the German administration, obtained the necessary information to reimburse the German

Administration for a total amount of EUR 2 626 000 (EUR 905 000 already reimbursed in June 2023 and the remaining amount to be reimbursed very soon).

- For point 18, the initial calculation method for the provision for departure allowance involved the use of assumptions linked to the seniority of the seconded staff population (assumptions established in consultation with external consultants during conversion of the accounts to IPSAS), which were considered reasonable and had the advantage of allowing simple and homogenous application of the calculation formula while reducing the risk of errors. The subsequent changes to those original assumptions used to calculate the provision for departure allowance led to a higher estimate of future debt.

  Moreover, the OSG confirms that the HCM tool (a SAP module used for the remuneration of seconded staff) is already used for the calculation of certain short-term provisions (e.g. unpaid salaries or unpaid installation allowances for seconded staff) when the information extracted from the SAP ERP accounting system is insufficiently precise.

  Finally, the OSG confirms that it will continue this practice and is also committed to ensuring optimal use of the HCM tool for the calculation of provisions for other employee benefits (if applicable) during the preparation of the Schools' future individual and consolidated accounts.

Reply to the recommendation made concerning accounting

The OSG accepts the Court's recommendation 1 to ensure alignment between the yearly specific contract concluded with the external auditor and the framework contract by January 2026.

Internal control systems

Replies to the observations raised concerning internal control systems

Regarding the observations raised by the Court concerning internal control systems, the European Schools would like to make the following addition:

- point 19 of the report mentions four specific pending recommendations issued by the internal auditor (IAS) at the end of 2022. In June 2023, the one relating to ethics arrangements (rated very important) was closed.

Reply to the recommendation on internal control systems

The OSG accepts the Court's Recommendation 2 concerning ex post controls to be performed on revenues.

Recruitment procedures

We appreciate the Court's recognition of the efforts made in recruitment during the last year.

Procurement procedures

The ES accept the Court's recommendation concerning the appropriateness of procurement procedures and will continue to strive to implement the Financial Regulation correctly in the area of procurement; attention will be given to the timeliness and correct choice of procedures.

The simplification framework will include the following measures, which will further harmonise the quality of procurement:

- deployment of the Commission's Public Procurement Management Tool (PPMT),
- management of more procurement procedures by the OSG (refer to the decision of the Board of Governors of April 2023 on simplification).

In addition, a number of other actions have been taken over the last months:

- the OSG Procurement Unit published the European Commission Guidelines on public procurement for practitioners on its SharePoint in November 2022;
- a training session was organised in February 2023 to address the operational treatment of contract specificities in the SAP accounting system (pre-commitments and contract management) with the aim of eliminating any possible misinterpretation of the applicable rules acrossall Schools;
- procurement network meetings continued to be held and in June 2023 the rules relating to tender planning, price revision and technical specifications were reminded;
- during the winter Administration Board meetings, there was a follow-up of the harmonised list of contracts 2022–2023. This harmonised list of contracts was created in response to the recommendations issued by the Court of Auditors in 2021.

Payment procedures

<u>Replies to observations raised concerning payment procedures</u>

We would like to provide the following clarification regarding the Court's observations on payments:

- Regarding observation 33 concerning the checklists and supporting documents used for thereporting of open vendor items, the current guidelines do not specify the exact information that should be added to the report. As a result, we believe they were properly implemented by the Local Accounting Officer Correspondent (LAOC) of the Schools/OSG.

- Regarding observation 36 concerning the weighting rate used for the calculation of the severance grant,we would like to highlight that the last employees seconded by the UK left the European Schools in summer 2021. They have been informed about the amount to be received as severance grant.

- As regards point 39 concerning shortcomings in relation to the segregation of duties at the Frankfurt School, we would like to emphasise that the School acknowledged the shortcomings, which were due to temporary staff shortages and reported them in its register of exceptions. In the meantime, the school has addressed the shortcomings and reestablished segregation of duties in line with the principles of sound financial management.

Replies to the recommendation concerning payment procedures

We accept the Court's recommendation in the area of payments.

- Although we believe that the current instructions are being followed correctly, the OSG will address recommendation 4a) on the monitoring of open vendor balances to reduce overdue payments at School level. This will be done by improving the reporting package of the LAOC as from the last quarter of 2023, taking into consideration the Court's remarks concerning the format of the report.

- In order to address recommendation 4b), a project to digitalise staff files in the long run (2025) was initiated in 2023. In addition, a training session was organised in October 2022 for Authorising Officers by delegation, to remind them of their roles and responsibilities in the SAP financial system and workflows (including checking supporting evidence in SAP).

Revenue

Replies to the observation raised concerning revenue

As regards the weakness raised in point 41 concerning missing information from the Local Accounting Officer Correspondents to the responsible Authorising Officer (AO) on correct received amounts receivables, it should be noted that the quarterly report on current and ageing amounts receivable that is submitted to the Central Accounting Officer is currently not systematically sent to the AO responsible.

Declarations of the Central Accounting Officer

- With respect to the first part of the observation, no reservation has been included for the financial year 2022 as there is internally (from the point of view of preparation of the accounts) reasonable assurance of the correctness and consistency of the figures booked at the School of Munich.
- With respect to the second part of the observation, for the financial year 2022, taking into account the information/assurance obtained in exercise of the functions, together with the assistance provided by an external consultant, it is considered that the appropriate approach is to include a generic reference under Note 2.7 to the consolidated financial statements rather than raise a specific point of attention for this matter.

Andreas BECKMANN
Secretary-General

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