EUROPEAN
COURT
OF AUDITORS

Report

on the annual accounts of the European Schools for the financial year 2020

together with the final replies of the European Schools

Contents

Executive summary

I In accordance with the Financial Regulation of the European Schools and International Standard on Review Engagements (ISRE) 2400[1], we have reviewed the Schools' consolidated annual accounts for the 2020 financial year. We have also examined the accounts and the internal control systems (recruitment, procurement and payments) of the Central Office and two of the Schools (Luxembourg II and Mol).We have also reviewed the work of the Schools' external auditor, which examined the accounts and internal control systems of seven Schools before consolidation took place. As we did not carry out an audit of the Schools' consolidated accounts, we do not express an audit opinion on them.

II Our review did not reveal material errors in the final consolidated annual accounts for 2020 The Central Accounting Officer has not issued a reservation for the consolidated Financial Statements, but has added an emphasis of matter concerning the validation of accounting systems and the Munich School's remaining liability for the reimbursement of emoluments for seconded teachers.

III Although the quality of the Schools' accounts has improved compared to previous years, the external auditor, in its audits of seven selected Schools, continued to find errors. These once again relate mainly to the calculation of employee benefits and the capitalisation and depreciation of fixed assets. The Schools have corrected these errors in the final accounts.

IV We noted further improvements at the Central Office and in accounting in general, and that the newly introduced Internal Control Capability's ex-post checks had resulted in remedial actions. However, our review revealed weaknesses in the internal control systems. In the area of recruitment, these concerned non-compliance with minimum requirements and deadlines for vacancy notices. In the area of procurement, our review showed that serious weaknesses persisted concerning compliance with competition rules in the Schools examined. It also revealed mistakes in implementing procurement procedures. We also found that payment deadlines had been insufficiently monitored and that the segregation of duties in the payment workflow was not always observed. Most Schools and the Central Office did not have a business continuity plan in case of major disruptions. In view of these findings, we are still

[1] International Standard on Review Engagements (ISRE) 2400.

unable to confirm that the Schools' financial management in 2020 was fully compliant with their Financial Regulation and Staff Regulations.

V The Board of Governors, the Central Office and the Schools should take action to implement a series of recommendations made in this report and those of previous years to improve their accounting and internal control systems. In particular, we recommend that the Central Office and the Schools address the weaknesses detected in their accounting, their business continuity, and their recruitment, procurement and payment procedures, and give particular attention to the persistent weaknesses in procurement to ensure compliance with the applicable rules.

Introduction

Background

01 The primary legal basis for the European Schools is the Convention setting out their Statute[2]. The Schools' financial and operational management tasks are governed by their Financial Regulation[3] and a set of Staff Regulations[4]. Together these make up the 'General Framework' of rules.

02 The Financial Regulation applicable to the 2020 financial year entered into force on 1 January 2018. The revised version of the Financial Regulation became applicable as of 1 January 2021. Among other things, it introduced significant changes to the process and deadlines for preparing and approving the Schools' accounts, and for transmitting them to us. We issued our opinion 10/2020 on a proposal for amending the Financial Regulation on 10 October 2020, before the Board of Governors of the European Schools approved the revised Regulation at its meeting of 1-3 December 2020[5].

03 The Central Accounting Officer is responsible for preparing, presenting and keeping the consolidated accounts[6]. For 2020, for the third time, the Central Accounting Officer signed off the consolidated accounts of the Schools and of the Office of the Secretary-General (the 'Central Office'). The Secretary-General is required to forward the final consolidated annual accounts to us by 15 September (of year n+1) at the latest, in accordance with Article 73 of the revised Financial Regulation.

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

[3] Financial Regulation of 5 September 2017 applicable to the budget of the European Schools (Ref: 2017-12-D-21-en-1).

[4] Regulations for Members of the Seconded Staff of the European Schools (Ref: 2011-04-D-14-en-13), Service Regulations for the Locally Recruited Teachers in the European Schools (Ref: 2016-05-D-11-en-7), Service Regulations for the Administrative and Ancillary Staff (AAS) of the European Schools (Ref: 2007-D-153-en-10). Service Regulations for Locally Recruited Managerial Staff (Ref: 2020-04-D-23-en-1).

[5] Opinion No 10/2020 on a proposal for amending the Financial Regulation applicable to the budget of the European Schools.

[6] Articles 35 and 68 of the Financial Regulation.

04 Appropriations of €338.7 million were available in the 2020 budget (€321.1 million in 2019).[7] The funding came from the European Commission (€185.8 million, 55 %), Member States (€51.0 million, 15 %) and school fees (€22.6 million, 7 %), complemented by miscellaneous income (€79.3 million, 23 %). Staff costs totalled €295.5 million (87%), other administrative expenditure €35.1 million (10 %) and pedagogical expenditure €8.1 million (3 %).

05 By 30 November of each year, pursuant to Article 86 of the Financial Regulation, we send a report on the Schools' consolidated annual accounts, together with the Schools' replies, to the Schools' Board of Governors, which is responsible for giving discharge.

Accounting and control environment

06 Since 2015, the Schools have prepared their accounts using the accrual accounting principles set out in the International Public Sector Accounting Standards (IPSAS). While the 2018 Financial Regulation introduced the new function of Central Accounting Officer for the European Schools at the Central Office, full centralisation of the Authorising Officer function took effect on 1 January 2020. Our review confirmed, as we noted last year, that centralisation had helped to harmonise the accounting procedures and consolidate the Schools' accounts[8]. The 2020 revision of the Financial Regulation has added changes to the tasks, responsibilities and liability of staff working on the accounts, including the Central Accounting Officer and the local Accounting Correspondents, who prepare individual Schools' provisional accounts. The revised Regulation also requires stronger protection against conflict of interest.

07 In 2020, the European Commission's Internal Audit Service (IAS) followed up 13 outstanding recommendations and closed three of these. It also concluded that there were considerable delays in the implementation of the remaining outstanding recommendations. These delays concerned two critical recommendations (on outgoing payments and the roles and responsibilities of parents' associations in relation to security), one very important recommendation (on the Schools' risk management) and seven important recommendations, including on the blocking of accounting transactions, procurement of translation services and internal repository of documents.

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[7] Final consolidated accounts of the European Schools for the financial year 2020, p. 6.

[8] Our 2019 report on the annual accounts, paragraph 6.

Audit scope and approach

Scope and approach of our engagement

08 Article 73 of the Schools' Financial Regulation provides that we issue an annual report on their consolidated annual accounts.

09 We reviewed the Schools' consolidated annual accounts based on International Standard on Review Engagements (ISRE) 2400. This standard requires us to plan and perform reviews to obtain limited assurance as to whether the accounts as a whole are free of material misstatement. To this end, our review was limited primarily to questioning Schools' staff and applying analytical procedures to financial statements; it thus provides less assurance than an audit. As we did not carry out an audit of the Schools' consolidated accounts, we do not express an audit opinion on them.

10 We also reviewed the annual accounts of the six Schools[9] and the Central Office, which had not been audited by the Schools' external auditor, and examined elements of the internal control systems of the Central Office and two of the thirteen Schools (Luxembourg II and Mol). Our work included a review of staff recruitment, procurement and payments selected on a judgmental basis. We once again had to perform our work remotely due to COVID-19 travel restrictions. Although this allowed us to complete our work, it meant that for the second consecutive year, we had no on-the-spot contact with auditees, which significantly slowed our work.

11 In addition to our own work, we reviewed the work of the Schools' external auditor. The external auditor audited the accounts and related internal control systems of seven Schools[10] before consolidation took place.

12 The ***Annex*** summarises our follow-up of the recommendations we made in our review of the 2019 financial statements (covering the Brussels I and II Schools and the Central Office). We refer to the results of the IAS's follow-up of its recommendations in paragraph ***07*** above.

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[9] The Bergen, Frankfurt, Luxembourg I and II, Mol, and Varese Schools.

[10] The external auditor audited the accounts of the Schools in Alicante, Brussels I to IV, Karlsruhe and Munich.

Observations

Accounting

13 When preparing the 2020 accounts, the Schools applied accrual accounting principles as defined in the IPSAS. The final version of the accounts, which we received on 15 September 2021, included corrections proposed by the external auditor for the seven Schools it had audited, as well as corrections of the errors we had identified in the provisional consolidated accounts.

14 Although the quality of the accounts has further improved compared to previous years, the external auditor detected a number of issues, for which the corrections deemed necessary were made in the final version of the consolidated accounts:

- The calculation of provisions for employee benefits still remains an issue: the external auditor noted that all of the Schools audited (see Schools and impact on profit and loss account below):
  - had either calculated the benefits using assumptions for different categories of staff that could lead to an overestimation of reinstallation allowances (Brussels I: €216 000, Brussels III: €218 900, Brussels IV: €91 900);
  - calculated average costs incorrectly (Karlsruhe: €66 000);
  - or both (Alicante: €24 600, Munich: €631 000);
  - or had booked them on the wrong account (Brussels II: €386 000, no impact on profit and loss account).
- The Karlsruhe School had overstated assets by €19 000. The Brussels I School had included assets worth €14 000 in its accrued charges. The Munich School had entered licences, desktops and network equipment worth €78 000 as costs instead of capitalising and depreciating them.

15 Our review of the provisional consolidated financial statements of the European Schools revealed that revenue and expenses resulting from transactions between different consolidated entities were not eliminated. Moreover, we noted that amounts were shown incorrectly in two lines of the cash flow statement. The Schools corrected all these issues in the final consolidated financial statements.

16 Based on our own work on payments, we found that:

- At the Mol and Luxembourg II Schools, expenditure related to the next financial year was not always deferred. We found five cases for Mol and two for Luxembourg II, relating to compensation allowance, replacement, gas supply, anti-bullying measures, school trips and other costs paid for the whole school year, which spans two calendar years. The Mol School has already taken mitigating actions to better monitor these costs in the future.
- We found six cases (five for Mol, one for Luxembourg II) of expenses where we considered the choice of account charged inappropriate. In one of the Mol cases, there was no account available for the underlying business transaction. We also noted that, in the Luxembourg II case, the School had booked expenditure on similar expert services on a different account than the Central Office.

Internal control system

New internal control structure

17 In December 2019, the Schools' Board of Governors approved the definition of the structure and responsibilities of the Central Office's Internal Control Capability (ICC), which replaced the earlier Financial Controller function. The Financial Controller was responsible for financial control on expenditure and revenue, internal control, and carrying out ex-post and ex-ante checks.

18 The ICC consists of two functions: a control function and an advisory function. These have been kept separate to provide a clear division of responsibilities.

19 The ICC control function's tasks and responsibilities include performing ex-post checks, validating the segregation of duties, checking compliance with an integrated anti-fraud, compliance and ethics programme, and reviewing the achievement of objectives, payments, financial statements and the implementation of the budget. In duly justified and exceptional cases, it can also re-establish ex-ante checks.

20 The ICC advisory function's main tasks and responsibilities are: planning (annual and multi-annual), reporting (annual activity report), risk management (risk register), supporting and harmonising the implementation of internal control standards, providing the Schools and Central Office with advice on financial matters, and following up open issues arising from the IAS's work.

21 We noted that there were no ex-post checks in 2019; in 2020, however, based on the 2019 control plan, the ICC performed ex-post checks on segregation of duties, removal allowances, pre-commitments and recruitment procedures. These resulted in several findings in all four areas[11]. The Schools took remedial action to address the weaknesses found, such as updating the guidelines for recruiting temporary administrative and ancillary staff, making corrections in SAP and establishing plans for follow-up and continued control.

Recruitments

22 We examined nine recruitment procedures – three each for seconded teachers, locally recruited teachers and administrative staff. We found three cases where temporarily recruited candidates did not meet the minimum requirements set out in the vacancy notice for the post. The Central Office selected a system engineer even though he did not speak the required language. The Mol School selected a locally recruited teacher with a Bachelor of Arts in English literature, history and political science for an ethics course. The Luxembourg II School recruited an English-speaking teacher with a masters degree in chemistry for a post teaching integrated science and mathematics which – according to the vacancy notice – required a university degree in mathematics.

23 We also noted that selection procedures did not always comply with the application deadline defined in the regulations. In one case, the Luxembourg II School gave candidates four days less than the minimum two weeks to submit their applications, and in another case it gave them five days less.

[11] See 2020 annual activity report of the European Schools for a summary of the ex-post checks performed.

Procurement

24 We examined 12 procurement procedures and the lists of purchase orders of the Central Office and the two Schools selected. We also looked at their registers of exceptions and followed up on previous cases. Based on this work, we noted the following weaknesses affecting procurement procedures and competition:

- In general, in 2020 the Mol School did not apply the regulation[12] that sets the thresholds applicable to public procurement procedures and governs the extension of existing contracts under certain conditions. In its register of exceptions, the Mol School reported 44 procurement procedures for which it did not comply with applicable procurement provisions, representing around 27 % of all invoices paid in 2020 (€1.2 million out of €4.5 million). However, the declaration of assurance by the authorising officer by delegation (the School director) in the School's 2020 annual activity report did not include a reservation with an estimate of the amounts at stake. In early 2021, the School adopted an action plan to remedy this serious weakness by the end of the year;
- Our analysis of payments made by the Central Office and the Luxembourg II School, including our follow-up of previous Central Office cases, revealed similar weaknesses to last year. We found several cases where services (e.g. translation, travel agency services for work travel and school trips) were used without any contract and where contract extensions (e.g. for payroll, ICT services and interpretation[13]) did not comply with the conditions defined in the procurement rules, resulting in a lack of competitive tendering;
- The Mol School included two criteria in the two calls for tenders organised in 2020, but assessed only one. In one procurement procedure organised by the Luxembourg II School, the final award depended on two criteria. The calculation method for one of these criteria was not fully followed, albeit that, by chance, this had no impact on the final ranking of the bids in this case. Such failures to follow previously published methods for awarding contracts are contrary to Articles 167 and 170 of Regulation 2018/1046;
- The declaration-on-honour template sent to tenderers by the Mol and Luxembourg II Schools in Dutch and French respectively did not contain the points about creating an entity in a different jurisdiction with the intent to circumvent

[12] Regulation (EU, Euratom) 2018/1046 (with its Annex I) repealing Regulation (EU, Euratom) No 966/2012 applicable since 1 January 2019 (OJ L 193, 30.7.2018, p. 1).

[13] Until September 2020, when Central Office awarded the tender related to interpretation.

fiscal, social or any other legal obligations, as described in points (g) and (h) of Article 136(1) of Regulation 2018/1046.

25 In addition, we found the following errors at the Luxembourg II School:

- One contract, for the maintenance of an old phone system, stipulated that it could be extended indefinitely, which is contrary to Regulation 2018/1046;
- In one case, there were only eight days between the signing of the award decision and of the contracts, which exceeded the threshold of €139 000. This is less than the ten-day standstill period required by Article 175 of Regulation 2018/1046;
- In another case, the amount stated in the procurement procedure result published in 'Tenders Electronic Daily' (a supplement to the EU Official Journal concerning EU procurement) did not correspond to the amount legally committed in the contract, as stipulated in Article 38(2)(c) of Regulation 2018/1046, but to the initial estimate, which was 40 % lower.

Payments

26 We examined a sample of 60 payments – 20 each for the Central Office and the two Schools. We found weaknesses related to their control environments, including temporary mismatches in the segregation of duties (SoD) due to late revocation of rights. In eight cases (two for the Central Office, four for Mol and two for Luxembourg II), SAP user rights and SoD tables[14] were not promptly aligned.

27 In 2020, the Central Office's ICC performed an ex-post check on the correct implementation of SoD tables in SAP by the Central Office and all Schools, covering the first half of 2020 (paragraph ***21***). It found relatively few cases of error (68 from a total of 17 148 transactions), representing less than 1 % of the total population. However, these included cases where a staff member who had initiated[15]/verified the transaction was not listed as an initiator/verifier in the School's SoD, where the approval threshold amount had been exceeded, where staff members had initiated and executed payments without being entitled to do so[16], and where the SAP team

[14] Showing actors in their roles in the financial circuit.

[15] Including two cases for the Luxembourg II School.

[16] Including three cases for the Luxembourg II School and two cases for the Mol School.

had not removed user rights when necessary. According to the Central Office, all cases detected were resolved.

28 In our sample totalling 60 transactions, there were ten late payments (two for the Central Office, three for the Mol School and five for the Luxembourg II School). Currently, there is no standard aging report in SAP to provide the Central Office and the Schools with sufficient information on the status of delays and the amounts involved. However, as an interim solution, in November 2019 the Central Office gave the Schools guidance to on how to extract a report on all open vendor items, indicating the due dates and the number of days overdue.

29 We noted a lack of appropriate supporting documentation at the Mol School, with several missing goods receipts. For the Schools in general, a new training manual for the salary process in SAP was introduced in 2020, including process flowcharts documenting large parts of the payroll process (employee benefit expenses represent €289.6 million or 88 %[17] of all budgetary expenditure).

30 Extra-budgetary accounts represent €4.2 million of the Schools' total budget. We found weaknesses in the planning, implementation and monitoring of the related procedures in the two Schools we examined before the memorandum on managing these accounts was adopted. These weaknesses concerned the accurate treatment of transfers, refunds and offsetting of payments. Since the memorandum entered into force in October 2020, the Schools have gradually started to apply the new rules, including on the use of profit centres for extra-budgetary activities. However, as of the end of 2020, the Mol School was using only two of the 50 available extra-budgetary accounts: one for the primary school and one for the secondary school. In our view, this limits budgetary transparency.

31 Since March 2020, the Luxembourg II School's bank transfer statements have shown confidential salary transfer details (including IBAN account number, BIC code, name and salary amount) for individual employees. The School has recorded this issue in its register of exceptions, highlighting that these details are accessible to staff not directly involved in processing salaries.

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[17] Consolidated accounts of the European Schools for the financial year 2020, p. 3.

Business continuity

32 The European Schools have an IT plan for 2018-2022, which includes an analysis of the situation of the European Schools' Information System, seven key objectives (vision, governance, IT security, organisation, digital competencies, data control, IT services) with 25 operational objectives and a roadmap. The plan is overly complex and has too many objectives, and according to the Deputy Director-General, in the past three years there have not been sufficient resources to implement it.

33 As of the end of 2020, most Schools and the Central Office did not have an emergency plan[18], covering possible major incidents, or a business continuity plan[19] (BCP) in case of major disruptions. The Central Office has planned, for 2021, to:

- develop a plan based on a vulnerability assessment in order to identify systems and services crucial for business operations; it intends to focus on securing the ability to restore sensitive services and data;
- work on a disaster recovery plan (DRP), that will form part of the future business continuity plan; and
- develop an incident response plan with different scenarios and response strategies, this should include a communication plan.

34 The COVID-19 pandemic also posed a major challenge for the Schools' ICT units. Their efforts focused mainly on providing the laptops needed for teleworking, VPN and video-conference solutions to facilitate secure remote working, teaching and learning, and providing staff with additional teleworking equipment (such as keyboards, monitors and office chairs).

35 In 2020, the Central Office experienced a breakdown of the fixed cooling system in the server room. This event, which carried the risk of complete loss of servers and data, was presented in the Central Office's 2020 register of exceptions (no 2020011).

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[18] See and the 2020 Annual Activity Report of the European Schools, and ICT Report for 2020.

[19] Internal control standard 11. Continuity of operations: the Secretary-General, Deputy Secretary-General, and each Director should establish appropriate arrangements to ensure continuity of operations to the extent possible whatever is the nature of a major disruption (e.g. absence of staff, migration to new IT system, breakdown of IT systems, and change of processes).

Declarations of the Central Accounting Officer

36 In 2020, the Board of Governors did not adopt a procedure for reimbursing the national emoluments of staff seconded to the Munich School. The Central Accounting Officer (CAO) therefore initiated a confirmation procedure with the national administrations. This improved the situation considerably and reduced the open amounts, but not all administrations replied conclusively. The total debt amounts to €8 565 041, of which the Munich School had already received invoices for €4 047 385; the remainder of €4 517 656 is presented as an 'other current liability'.

37 The external auditor of the Munich School issued a reservation concerning the uncertain liability amount for the emoluments of seconded teachers. The CAO of the European Schools signed off the accounts for all Schools and the Central Office, but issued an emphasis of matter concerning these debts of the Munich School. The second emphasis of matter relates to the validation of the accounting system.

Conclusions and recommendations

38 While in general we noted improvement in the Schools' accounts, our review showed some weaknesses relating to the calculation of employee benefits and the activation of fixed assets, for which the corrections deemed necessary were made in the final accounts (paragraphs ***13***-***15***). There is still an emphasis of matter concerning the validation of the accounting system and the Munich School's remaining liability for the reimbursement of emoluments for seconded teachers (paragraphs ***36***-***37***).

Recommendation 1 – Accounting

The Central Office and the Schools should ensure that:

- the outstanding Member State confirmations for the Munich School continue to be closely monitored and followed up, based on clear arrangements concluded with the Member States;
- the number of staff and the average costs used to calculate employee benefits are as close as possible to reality;
- fixed assets are activated and depreciated instead of being expensed immediately;
- accounting staff charge expenditure to the correct accounts;
- necessary accruals and year-end adjustments are made.

Timeframe: Immediately

39 In the area of recruitment, we noted that the candidates selected did not always meet the minimum requirements, and found cases where candidates were given less time to submit their applications than the two-week minimum set in the applicable regulation (paragraphs ***22***-***23***).

Recommendation 2 – Recruitment

The Central Office and the Schools should ensure that:

- selected candidates meet the minimum requirements set out in the vacancy notice, regardless of the contract duration;
- selection procedures comply with the deadlines set in the applicable regulations.

Timeframe: Immediately

40 In the area of procurement, our review showed that serious weaknesses persisted concerning the procurement procedures and related compliance with competition rules in the Schools examined. A major problem was that, in general, the Mol School did not apply the regulation appropriately in its 2020 procurement. Our review also revealed mistakes in implementing procurement procedures, concerning the incorrect use of award criteria and incomplete templates in Dutch and French. We also found that the standstill period had not been fully observed in one case, that one contract could be extended indefinitely, contrary to the regulation, and that the outcome of one procurement procedure had been published with incorrect information (paragraphs *24*-*25*).

Recommendation 3 – Procurement

The Central Office and the Schools should:

- based on a complete list of contracts, each draw up and implement an action plan to remedy all cases with no or inappropriate procurement procedures, taking proper account of future needs that might lead to thresholds being exceeded;
- in parallel, update all 2021 registers of exceptions appropriately, including an estimate of the financial impact of the cases reported.

Timeframe: By the end of 2021

The Schools should:

- use all award criteria and the method announced in their calls for tenders;
- use complete and up-to-date templates in their working languages, corresponding to the regulations in force at the time of the procurement procedure;
- no longer conclude contracts that can be extended indefinitely;

- observe the standstill period of ten days between the award and the signature of a contract;
- ensure they publish the correct information corresponding to the signed contract in question.

Timeframe: Immediately

41 In the area of payments, our review showed that weaknesses continued to exist. We found a number of late payments, missing supporting documents and inappropriate choices of accounts for booking payments. We also found that the management of extra-budgetary accounts was still not transparent. We noted temporary mismatches in the segregation of duties in the payment workflow (paragraphs *26*-*31*).

Recommendation 4 – Payments

The Central Office and the Schools should:

- ensure that duties are always segregated consistently in line with promptly updated and approved SAP and SoD authorisation tables;
- ensure they meet payment deadlines by avoiding delays in receiving invoices (e.g. through electronic invoicing) and in approval procedures, and by better keeping track of amounts due;
- ensure that complete supporting documentation for payments is available;
- improve their management of the extra-budgetary accounts in accordance with the new memorandum, and make it more transparent.

Timeframe: Immediately

42 In the area of business continuity, three years after the IT plan was adopted, we noted weaknesses in the application of the internal control standards of the Central Office and the Schools, and that most Schools and the Central Office did not have an emergency or a business continuity plan (paragraphs *32*-*35*).

Recommendation 5 – Business Continuity

The Central Office and the Schools should ensure that:

- business continuity requirements derived from internal control standards are followed;
- they have tested business continuity and disaster recovery plans in place, based on assessments of risks and business impacts, in order to be able to respond effectively to disruptions.

Timeframe: 2022

This Report was adopted by Chamber V, headed by Mr Tony MURPHY, Member of the Court of Auditors, in Luxembourg on 27 October 2021.

For the Court of Auditors

Klaus-Heiner LEHNE

President

Annex

Follow-up to the recommendations in our annual report for the financial year 2019

<table>
<tr><th rowspan="3">Our recommendations (paragraphs 28 to 34 of the report on the accounts of the European Schools for the financial year 2019)</th><th colspan="2">European Schools</th><th rowspan="2">Central Office</th><th rowspan="3">Comments</th></tr>
<tr><th>Brussels I</th><th>Brussels II</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>The Schools should address weaknesses in the preparation of individual accounts, and in particular:</td><td colspan="3"></td><td rowspan="5">Errors in the 2020 accounts have been corrected. An accounting manual is available and the closing bundle has been improved.</td></tr>
<tr><td>o follow up on the outstanding Member States’ confirmations for the Munich School;</td><td colspan="3">In progress</td></tr>
<tr><td>o ensure that employee benefits and the capitalisation of assets are calculated correctly;</td><td colspan="3">In progress</td></tr>
<tr><td>o ensure that invoices are registered and provisions are made properly;</td><td colspan="3">In progress</td></tr>
<tr><td>o comply with the annuality principle and the rules for taking physical inventories when performing the cut-off at year-end.</td><td colspan="3">In progress</td></tr>
<tr><td>o The Central Accounting Officer, together with the Schools and the Central Office, in the future should rectify weaknesses related to the accounts, so that the need for using ‘emphasis of matter’ paragraphs can be limited.</td><td colspan="3">In progress</td><td>The CAO has reduced the number of ‘emphasis of matters’ to two cases.</td></tr>
</table>

Recommendations on recruitment procedures		
The Central Office and the Schools should:		
o clarify the documentation of selection decisions to ensure transparency;	In progress	The documentation of the selection decisions has improved.
o ensure that selection committees dealing with applications from candidates already employed by the same School or the Central Office include at least one external member.	Implemented	The reviewed cases were all treated correctly.
Recommendations on procurement procedures		
The Central Office and the Schools should:		The Central Office organised two meetings of the Schools procurement network in 2020 where they discussed our recommendations.
o ensure that the procedures used for their calls for tenders respect the procurement rules, in particular as regards the thresholds and the situations allowing the extension of existing contracts;	In progress	Significant weaknesses still remain (see paragraph ***24***). We recommend a specific action plan in each school to remedy this recurrent weakness (see ***Recommendation 3***).
o clarify the rules applicable to extra-budgetary contracts;	In progress	The memorandum on the management of extra-budgetary activities was finally issued in July 2020. However, it contains several weaknesses, as we noted in our Opinion 10/2020.
o always make a budgetary commitment before entering into any legal commitment;	In progress	We found no cases to report this year.

o publish the information on the recipients of funds exceeding €15 000 during a given year before 1 July of the following year.	In progress	We noted improvements.
Recommendations on payment procedures		
The Central Office and the Schools should:		Central Office: The accounting manual issued at the end of 2020 is applicable since the beginning of 2021. Brussels II: Verification includes more checks. Central Office: Guidelines on accounts payable were issued in December 2020. All: New budget closing bundle is available. Brussels I: Since March 2020, functional mailbox used to receive electronic invoices so they are processed faster. Excel file with due dates to track invoices (in process, to be paid, paid).
o ensure that expenditure is charged to the correct accounts;	In progress	
o ensure that supporting documents are comprehensive and readily available;	In progress	
o respect payment deadlines.	In progress	

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Orig.: EN

REPLIES OF THE EUROPEAN SCHOOLS TO THE RECOMMENDATIONS OF THE COURT OF AUDITORS IN THE FRAMEWORK OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2020

The European Schools (ES) take note of the Court of Auditors observations and recommendations and are committed to further improvement in the areas highlighted, at the level of the Schools and the OSG, and are striving for full compliance with the Financial Regulation and Staff Regulations.

Accounting

The OSG and the Schools are committed to continuous improvement in the quality of the financial statements produced. In this regard, special attention will be paid during the regular meeting to be held in November with the accountants (Accounting Correspondents) of the Europeans Schools to the findings and remarks made by the Court of Auditors and the Deloitte firm in the framework of their review/audit of the 2020 accounts, to prevent similar issues from recurring in the future.

With the objective of ensuring continuous improvement in the European Schools' accounting practices, an accounting manual, detailing the accounting treatment for the main transactions performed by the ES, has been developed with the support of the PwC firm and has been applicable since the financial year 2021. This document has been designed to be conducive to further harmonisation and correctness of accounting practices in the ES system.

Employee benefits (EB) account for a large proportion of the ES' expenditure budget and lead to the recognition of closing adjustments. We believe that calculation and recording of provisions for employee benefits has improved considerably and efforts will continue to achieve further improvement in this area.

When moving to the IPSAS in 2015, the management of the ES made some key choices regarding calculation of the provisions for EB. In view of the complexity of some calculations, the management of the ES used the possibility offered by the IPSAS framework to make assumptions for calculation of EB provisions. As regards in particular provisions for resettlement allowances, although the external auditor (Deloitte) of the individual accounts identified non-material deviations for three Schools between the amount calculated using the assumptions and the amount calculated based on the real figures, it was considered that the current calculation method applied is based on reasonable and supportable assumptions in compliance with the IPSAS rules. Furthermore, for the sake of continuous improvement in the accuracy of the figures, further analysis will be carried out at consolidated level in order to determine, in the context of the closing of the 2021 accounts, whether potential changes in the system of calculation of EB could lead to a relevant improvement in the accuracy of the figures obtained for these provisions.

On the other hand, as regards the number of staff and costs used to calculate employee benefits provisions, it should be pointed out that a new SAP module, called HCM (Human Capital Management) is currently under development, to allow management of seconded staff salaries in SAP for all Schools and the OSG. Implementation of this new module will (i) make further harmonisation of accounting practices between Schools possible and (ii) mean that there is a centralised detailed database managed in SAP, which will enable tailor-made reports for data extraction to be developed.

With reference in particular to capitalisation of assets, it should be noted that, in the framework of the last review of the Financial Regulation applicable to the Budget of the European Schools, approved in December 2020, Article 82 was amended to bring it into line with Article 87 of the Financial Regulation (FR) applicable to the General Budget of the Union. This amendment provides further flexibility for the purposes of alignment with the requirements of IPSAS in particular, and more generically, provides a legal basis conducive to provision of detailed instructions by the Central Accounting Officer for harmonised treatment of the inventory. In this context, new accounting rules have been implemented and are detailed in the aforementioned accounting manual of the ES, more particularly regarding the capitalisation of a group of assets, donated assets and costs related to refurbishment and renovation of premises/school buildings. Specific attention will be given to this topic at the next meeting with the Accounting Correspondents of the Schools, providing them with detailed application examples designed for the European Schools' environment, as well as during the closing of the 2021 accounts 2021. In particular, a harmonised model for showing the quantity and value of the permanent inventories will be made available to the Schools, in line with the provision in Article 82.1 FR. It will also facilitate compliance with the requirement of Article 82.4 FR to perform a periodical check of the physical reality of the entries in the inventory, as far as documentation of the results of these checks is concerned.

With regard to year-end activities, it is planned to review the template of the closing bundle used by the Schools/OSG to calculate and prepare the IPSAS adjustments for the year-end closing. In this connection,

i. whenever necessary, additional guidelines will be provided for the critical topics (i.e. employee benefits, accruals and assets capitalisation).

ii. guidelines for the registration of invoices to be received will be amended in the light of the remarks and findings received from the audit firm Deloitte and the European Court of Auditors.

We are convinced that all these efforts should improve the accuracy and consistency of the Schools' accounts.

Finally, as regards the choice of accounts for booking transactions, in order to facilitate the completeness and accuracy of the chart of accounts for the ES, a detailed review exercise was conducted in the year 2018, resulting in a new chart of accounts applicable as from the financial year 2019. In addition to this global review exercise, this is an area where continuous improvement is being pursued and whenever a justified need for a modification in the chart is identified (e.g. a new account required for a specific underlying business transaction/group of transactions) appropriate action is taken. Efforts will continue in this area in order to ensure the completeness and accuracy of the chart of accounts to be used by the ES for the different accounting entries.

Internal control systems

Recruitment procedures

With reference to paragraph 21 and in particular the recruitment procedure carried out by the OSG, for which one of the requirements defined in the vacancy notice was not met, a permanent appointment was not made but an alternative solution through a temporary recruitment was considered to ensure business continuity.

As regards the two recruitments of locally recruited teachers in the Schools, those were also made on a temporary basis with teachers demonstrating compatible qualifications for the position to ensure the needs of the ES.

Additionally, attention is and will continue to be paid to ensuring that deadlines are respected.

The OSG and the Schools would point out that during 2020, guidelines for the recruitment of temporary AAS (document reference: 2020-07-D-21) and Service Regulations for Locally Recruited Managerial Staff (document reference 2020-04-D-23) were published, helping the Schools and the OSG to improve the recruitment processes. Additionally, during 2020 and 2021, the Internal Control Capability Unit performed ex-post controls on different recruitment areas.

Procurement procedures

The ES have taken note of the Court's recommendation and will continue to strive towards correct implementation of the Financial Regulation in the procurement area. A number of measures have been put in place over the past few years in order to meet this objective, including the common platform with instructions and templates, regular training sessions and meetings of the procurement network, as well as individual guidance to Schools when required. In addition, participation in the Framework Contracts procured by the EU Institutions represents major added value.

The OSG and the Schools would draw attention to the existence of a shared procurement portal. The shared portal presents all Framework Contracts but also a file including all the contracts signed by the OSG. This list includes the main information on the contracts (contractor, date of beginning, end, date of renewal to be foreseen) amongst other details. The OSG will provide guidance to the Schools to follow the same approach, namely to produce an updated list of all their contracts with all relevant information.

With regard to paragraph 24, the ES would point out that the School which did not apply the regulation properly in 2020 has since recognised this mistake and registered the cases in the register of exceptions. It has also set up an action plan to remedy all such cases in subsequent years.

At the level of the OSG, significant efforts have been made to implement procurement procedures properly for old irregular contractual situations. The considerable backlog is gradually being managed with the limited resources available. A procurement procedure for translation services was launched in 2021 and the contract will be signed this autumn. The use of a travel agency was stopped during 2020. As regards school trips, a proposal will be tabled with the Board of Governors this year to include them in the 2023 Budget of the Schools in order to fully apply the Financial Regulation. A procurement procedure will be launched in 2022. In addition, all irregular operations are listed in the register of exceptions.

The use of templates in the Schools' working languages will also be improved. All templates have been translated into all languages, are now being checked and will soon be available on the SharePoint.

During 2021, the register of exceptions process was improved. The analysis of exceptions in a detailed report has been extended to two times a year instead of one. The ES have taken note of the Court's recommendation regarding inclusion of the financial impact in the register of exceptions and will revise the memorandum and template of the register of exceptions accordingly. As a first step, it is planned to include the financial impact for exceptions for which the impact is relatively easy to estimate (e.g., procurement and payment-related exceptions). Further measures can then be considered at a later stage.

Payments procedures

Late revocations, to which the Court refers in paragraph 26, were promptly corrected, further to regular ex-post controls in that area. Furthermore, the guidance on SOD tables was updated in 2021 to ensure proper application across the system. Although late payments can occasionally occur, progress continues to be made. In order to meet payment deadlines, new reporting requirements entered into force as from October 2021, including a quarterly report on manual payments and quarterly clearing of payments. Schools also agreed to use electronic invoicing whenever possible.

The ES have taken note of the Court's recommendation regarding extra-budgetary accounts. The Memorandum on the management of the extra-budgetary accounts was issued in July 2020 and is gradually being implemented in the Schools.
In parallel with implementation of the new Memorandum, a profit centre structure has been set up in SAP that allows easy follow-up per activity. Its use has been possible since 1 January 2021 and is mandatory for any extra-budgetary revenue item registered in SAP.
The Memorandum requires the Schools to use the query PROFIT_CENTRE to present the extra-budgetary activities in further detail. Use of the query allows extraction of reports following a profit centre structure common to all Schools and provides an overview of the income and expenditure per profit centre. It shows the balance at the beginning of the year, the total revenue and expenditure during the year and the year-end balance and covers all activities registered in SAP.

In relation to access to confidential salary data, the Schools concerned were requested to limit access to this information as much as possible and to sign a declaration of confidentiality.

Business Continuity

The OSG and the Schools have taken note of the Court's recommendations regarding Business Continuity.

During 2021, the ICT Unit put in place a first version of an ICT Disaster Recovery Plan, which needs further development and refinement. An assessment of IT security and vulnerability will be carried out later this year. That might lead to a new action plan with further improvements and the task of reinforcing the ICT Security and Disaster Recovery Plan. It should be feasible for the ICT Unit to adhere to recommendation 5 in the proposed timeframe.

Andreas BECKMANN
Secretary-General