



European Schools
Office of the Secretary-General

Financial Control

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Annual Report of the Financial Controller for the year 2016

Board of Governors, Berlin 4-6 April 2017

1. Introduction

According to Article 20 of the Financial Regulation of 24 October 2006, Applicable to the Budget of the European Schools, "*The Financial Controller (...) shall make an annual report which shall be communicated to the Court of Auditors and to the Board of Governors*". The Financial Control Unit presents this annual report to the Board of Governors, which covers the previous financial year, 2016. The report describes the work done by the Financial Control Unit in accordance with the relevant provisions of the Financial Regulation, it provides with data on the execution of the budget, it comments on the way in which the Schools exercised their responsibilities, it refers to the main findings of the financial control made on the Schools' transactions, and it concludes with some recommendations that should be taken into account by all stakeholders involved in the administration of European Schools Budgets.

This version of the report presented in the Board of Governors takes into account the additional information requested by the Budgetary Committee and, in addition, it contains an update of the figures corresponding to Tables 2, 3, 4, 6, 7 and 12.

2. The role of the financial controller

Under the present structure, and without prejudice of the new role assigned to the central financial control unit resulting from the last revision of the Financial Regulation adopted in December 2014, the financial control unit is responsible for the monitoring of the commitments and authorisations of all expenditure and of the establishment and collection of all revenue.

The monitoring of the transactions in practise takes the form of a verification of the individual items of expenditures and revenues recorded on the accounts of the European Schools. The monitoring is carried out by means of inspection of the files relating to expenditure and revenue and, if the financial controller deems it necessary, on the spot.

The basic aim of the work done by the Financial Control Unit is to ensure that the budget is implemented in accordance with the rules decided by the Board of Governors and the principle of sound financial management laid down in article 2 of the Financial Regulation. Another second function of the Financial Controller, formally recognised by the Financial Regulation since 2007, is to make recommendations on best practice and to give advice on administrative procedures. This second aspect is increasing in importance and the unit has devoted appropriate attention to it, in particular with a view to compliance with the recommendations of the European Court of Auditors (ECA) and of the Internal Audit Service of the European Commission (IAS).

3. The activity of the IAS

In 2016 the activities of the Internal Audit Service of the European Commission (IAS), who provides for the European Schools the Internal Audit function on the basis of a Services Level Agreement, have focused on:

- A limited review of **Governance of Security** and
- An audit of **SAP Controls over Accounting and Budget Execution** in the European Schools
- Following-up on **outstanding recommendations** from past IAS audits

Concerning **recommendations resulting from previous audits**, at the beginning of 2016, 23 recommendations were **outstanding** (not yet included in these were the recommendations of the audit of the Treasury and Revenue Management which was performed in 2015). They are included in the table 1 below. With respect to the two audits performed in 2016, only the results of the review of governance of security are final and included in the table below. During the year 2016 seven recommendations were presented in a follow-up audit and were fully closed.

Table 1

	Remaining open from last year's report	Audit of Treasury Management	Audit of Governance of Security	Fully closed	Remaining Open
Critical		3	2	2	3
Very important	8	6	1	3	17
Important	15	3	3	2	14
Total	23	+ 12	+ 6	- 7	34

The 3 recommendations still open and considered as critical are:

- IAS 2015 – critical - Ensure that at least two persons are responsible for every banking operation (target date: 30.04.2017)
- IAS 2016 – critical - Roles & responsibilities of the parents associations on security (target date: 30.06.17)
- IAS 2016 – critical - Clarification of the support provided by the European Commission (target date: 30.06.17)

The 7 recommendations fully closed concern the following topics:

- IAS 2015 – critical – Payments in the online banking system (Karlsruhe), Application of the memorandum on payment procedures
- IAS 2015 – critical – Payments in the online banking system (Karlsruhe), Authorization to the bank account
- IAS 2015 – very important - Proceed with the invoicing and ensure people are trained to use the SAP invoicing module, Support remaining schools
- IAS 2015 – very important – Proceed with the invoicing and ensure people are trained to use the SAP invoicing module, Solve technical problems that restrained the Schools from sending invoices
- IAS 2013 - very important - Financial management – Data protection
- IAS 2015 – important – Human Resource management – Standard framework contracts
- IAS 2013 – important - Financial management – Disclosure of legal matters in the financial statements

For the remaining 34 outstanding recommendations action plans have been developed and the status is regularly updated on the IAS' internet platform "Issue track". It is expected that a number of recommendations will become the status "ready for review" during the first half of 2017.

The **limited review of the Governance of Security** was carried out in the Office of the Secretary-General (OSG) and the European Schools of Brussels IV and Munich. The overall objective was to assess whether the governance of security in the European Schools is adequately set up and effectively and efficiently implemented.

6 risks and recommendations were identified and formulated, accepted by the European Schools and action plans prepared. Implementation is on-going and – given the importance of the topic – a priority in the Office and the Schools.

The objective of the **audit of SAP controls over Accounting and Budget Execution** was to assess the effective and efficient design and implementation of SAP controls. For this audit the IAS visited the School of Brussels I and Munich and the OSG.

In addition to these audits the OSG and IAS have actively worked together in the working group of the review of the Financial Regulation (various meetings took place during the year and a regular contact via email).

Finally, it may be mentioned that the IAS has recently issued its **Annual Audit Plan 2017** (Ref. document: Ares(2017)730387. This year, the IAS will focus on an in-depth follow-up audit on outstanding recommendations and a limited review/consulting engagement on the management of extra-budgetary accounts.

Further information about the activity of the IAS can be found in its annual report for the year 2016, which is presented also at this Budgetary Committee (document 2017-02-D-15).

4. Progress towards a robust Internal Control System

4.1 Main areas of work during 2016

Efforts to improve the Internal Control System of the Schools and the Office of the Secretary-General have been continued throughout 2016.

The most important measures include the adoption of Service Regulations for locally recruited teachers, the closure of the accounts applying accruals based accounting according to International Public Sector Accounting Standards (IPSASs), adoption of the new Internal Control Standards by the Board of Governors and the definition of the new financial governance structure.

The following table highlights the most important measures taken. They are structured in 6 building blocks that form the pillars of the Internal Control System.

Building block (area)	Measures taken
1. Mission and Values	
2. Human Resources	<ul style="list-style-type: none"> - Adoption of a Service regulation for locally recruited teachers; - Standard contracts for locally recruited teachers (general principle contracts of employment, ad interim contracts, to be used in all Schools); - Guidelines for the management of staff files; - Training for Authorizing Officers in Internal Control Standards and their role in SAP;
3. Planning and risk management	<ul style="list-style-type: none"> - Continued workshops and guidance on risk management; - Definition of top 10 European Schools risks - Standing Instruction for the Annual Administrative and Financial School Plan - Definition of common administrative and financial objectives for the Schools
4. Operation and control activities	<ul style="list-style-type: none"> - Link between accounting software and online banking (Luxembourgish Schools and Varese in addition to Belgian Schools where already in place); - Issuance of guidelines on procurement (Aide-memoire); - Set-up of an procurement network; - Enlargement of the procurement cell in the Office of the Secretary-General to 3 FTE;
5. Information and Financial reporting	<ul style="list-style-type: none"> - Quarterly reporting about budget implementation; - 2nd revision of the Financial Regulation with major changes foreseen in the governance structure of the European Schools
6. Audit and compliance with	<ul style="list-style-type: none"> - Positive opinion of the CoA on the accounts 2015;

Internal control standards	<ul style="list-style-type: none"> - External audit of the accounts 2016 of 5 Schools (Brussels Schools + School of Munich); - Development of a template for the assessment of the Internal Control Standards;
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The 2nd revision of the Financial Regulation foresees until 2020 major changes in the governance structure of the European Schools. The intention is to improve sound financial management by increasing central responsibility in the functions of Authorising Officer and Accounting Officer.

Besides these very positive improvements achieved in 2016 we acknowledge that substantial work lies still in front of us.

4.2 Activities to promote Risk Management at the European Schools in 2016

After 2013, where first steps towards the implementation of a Risk Management System have been made, this project was vigorously promoted since 2015 after the fulfilment of the position of Internal Control Coordinator.

Given that Risk Management is an on-going process, as mentioned above, efforts were continued during 2016 and will continue in 2017. In particular:

-further risk management workshops were held, risk registers analysed and guidance given. The Schools' risk registers were summarized twice and the summary was sent to all Schools.

-all 14 Schools now have a risk register, but the quality still differs heavily, particularly with respect to the definition of risk owners and remediating action plans.

-at the end of 2016 the generic risk register, that consisted of 32 generic risks, was drastically reduced and summarized to a register of the top 10 risks of the European Schools. The Schools were asked to assess the significance of these risks for their School and to add school-specific ones. This is one of the key points where work will continue in 2017. In this sense, it is foreseen a workshop with the Directors and Bursars to be held to further improve the understanding of risk management.

5. The review of the Financial Regulation

5.1- The work done by the Working Group for the review as from 2015. The question of the Global Financial Governance of the European Schools as an item identified for specific additional in depth analysis.

After the discussions had in 2015 at the 3 meetings held by the Working Group for the review, it was considered that in order to properly analyse the full scope of the expected review, and in particular the question of the global financial governance of the European

Schools (namely the detailed comparison between the models: 1 single central Authorising Officer, as in the Commission, versus 15 local Authorising Officers, as in the European Schools, and of 1 Central Accounting Officer -Commission-, versus 15 local Accounting Officers -European Schools-), taking into account the complexity of the matter and the substantial potential implications for the European Schools System, it was deemed appropriate that the working group, chaired by the financial controller, could get an extension of the mandate up to April 2017. This extended mandate would also cover a merging of the texts of the Financial Regulation and its Implementing Rules, as agreed in principle by the members of the working group in line with former recommendations of the Court of Auditors in this sense. The Board of Governors at its meeting in April 2016 (document 2016-03-D-11-en-2) supported this approach and the following concrete calendar:

- the working group presents a first proposal to the Budgetary Committee (BC) at its meeting in November 2016. If the BC does not have remarks, the text is submitted for consultation to the Court of Auditors and to the European Patent Office, and to any other body considered appropriate by the Secretary-General or by the Presidency of the Working Group.

- once the Working Group receives the opinion of the abovementioned bodies, it considers the needed adjustments to the initial text, to prepare a final proposal.

- the said final proposal is submitted to the BC March 2017 for opinion, and subsequently to the Board of Governors April 2017 for final approval. In this sense, a concrete proposal is presented to this Budgetary Committee in a specific document: 2017-02-D-13.

5.2- Preliminary Conclusions of the Working Group and consultation to relevant bodies

In line with the abovementioned calendar, after the discussions held at the Budgetary Committee of November 2016 and subsequent meeting of the Working Group on the 16th November 2016, a preliminary report of the Working Group (document 2016-10-D-34-en-2) was submitted for consultation on the 2nd December 2016 to the Court of Auditors and to the European Patent Office, as recorded in the Preamble of the Financial Regulation. Consultation was also made with the same date to the Internal Audit Service of the European Commission (IAS) and to the legal services of the Office of the Secretary-General. Additionally, a consultancy engagement was commissioned to the company PWC on the "Assistance in the implementation of a proposed model of centralized financial governance". On the basis of this consultation process:

- the opinion of the European Patent Office was received on the 9th January 2017.

- the opinion of the IAS was received on the 9th February. Document Ares(2017)725985 "Note to the SG of ES - Review of the Financial Regulation of the European Schools (FR)".

- the opinion of the lawyers of the OSG was received on the 10th February 2017.

- the consultancy report issued by PWC on the 24th February 2017.

It is to be underlined that the opinion of the Court of Auditors on the intended review, contrary to expected, is still not available at the time of writing this report, being expected its issuance, according to the latest available information, only by the end of March-beginning of April 2017. Nevertheless, informal remarks received from the Court, mainly about some Articles on new Titles V “Presentation of the Accounts and Accounting” and Title VI “External Audit and Discharge” are already considered in the text presented at this Budgetary Committee for opinion.

5.3 New proposed text for the Financial Regulation applicable to the Budget of the European Schools

On the basis of the abovementioned preliminary conclusions of the Working Group and opinion of the consulted bodies, the following are the main lines of the agreed changes proposed in the text of the Financial Regulation, on the following 3 main blocks of the review: 1. Financial Governance; 2. Budgetary Principles; 3 Procurement. The new proposed text takes also on board a merging in a single text of the existing Rules for Implementing the Financial Regulation (document 2014-12-D-11).

5.3.1 Financial Governance:

Within the Financial Governance heading, the main purpose of the review is a reinforcement of the sound financial management for the whole European Schools system via a reinforced accountability at central level (newly created functions of central Authorising Officer and Central Accounting officer on Section I of Title III “Financial Actors”, Articles 27-37), without minoring the existing responsibilities at the local level of the Schools and of the OSG. More concretely:

-Centralisation of the function of Authorising Officer for the European Schools, gradually as from 1st January 2018, on the person of the Secretary-General who would appoint authorising officers by delegation on each School and on the OSG. The Authorising Officer of the European Schools shall prepare a global Annual Activity Report for the whole European Schools System (once the centralisation of the function is completed, by 2020 financial year). This substantially increased accountability of the Secretary-General should be accordingly supported via a reinforcement of the Internal Control function, both centrally and at the level of the Schools, so that the central Authorising Officer may have the sufficient assurance about the legality and regularity of the financial management at the Schools and at the OSG to sign a global declaration of assurance for the whole European Schools system. For this purpose of support to the central Authorising Officer it is also proposed the creation of the new position of Director of Finance and Administration who, among other functions, could assume the function of Authorising Officer by delegation for the OSG.

-Centralisation of the function of Accounting Officer for the European Schools, also gradually as from 1st January 2018, on a newly created position for that purpose, to be appointed directly by the Board of Governors to reinforce her/his independence, in line with

previous recommendations of the Court of Auditors. This central Accounting Officer should sign the consolidated accounts of the European Schools as from the financial year 2018 thereby certifying that she/he has reasonable assurance about the fact that the consolidated accounts give a true and fair view of the financial situation and performance of the system on the corresponding period (without prejudice to the appropriate reservations that could be made on the basis of the accounting process still not fully centralised during the transitory period 2018-2020). This function of central Accounting Officer would be supported by accounting correspondents at the level of the Schools and of the OSG, in line with the model currently applied in the European Commission. It should be mentioned that the accounting correspondents will not sign off the accounts but they will carry out their work from the functional point of view in accordance with the accounting standards and procedures issued by the Accounting Officer, while being hierarchically subordinated to the corresponding authorising officer by delegation (Article 35).

5.3.2 Budgetary Principles:

On this matter (recorded mainly under new Title I “General Principles”, Articles 1-19), the purpose is the clarification and rationalisation of the existing rules and their coordination with the equivalent rules in the Financial Regulation of the European Union (e.g. introduction of the rules related to the principles of equilibrium, transparency etc). Also a proposal is included to modify the timing for the provision of the contribution of the budget of the European Union to the budget of the European Schools with a view to simplification and facilitation of treasury management at the level of the Schools (reduction of the number of tranches in the payments of the Commission, new Article 52).

5.3.3 Procurement:

In this field (new Article 66) a complete alignment is proposed with the procurement rules of the European Union, without prejudice of definition of some relevant particularities (e.g. recognition of the Schools and of the OSG as the relevant contracting authorities). This change is intended to facilitate that applicable procurement rules are always in line with those of the Union, without additional period needed for their adoption at the European Schools level. It is also expected an additional support for the Schools in this field via the corresponding helpdesk of the Commission.

5.3.4 Merging of the Implementing Rules with the text of the Financial Regulation:

Finally, the scope of the review includes also, in line with the abovementioned mandate, a merging of the texts of the Financial Regulation, with its Implementing Rules (document 2014-12-D-11), as far as compatible the latest was with the new proposed text for the Financial Regulation on the basis of the substantial changes explained above.

Further details about the review process are included in the mentioned specific document presented to this Board of Governors: 2017-02-D-13.

6. The work done by the Financial Control Unit

In 2016, apart from the ordinary financial monitoring work on revenue and expenditure, the main tasks undertaken by the Financial control unit were the monitoring of the development of the new accounting software, according to the existing rules and procedures resulting from the Financial Regulation and its Implementing Rules; providing advices on financial and administrative procedures; and monitoring the correct implementation of the Guidelines for Segregation of Duties on Financial Circuits that were released by the Secretary-General on the 31st July 2015.

Concerning this last matter, in effect, corresponds to the financial controller the validation of the internal control procedures put in place by the Authorising Officers to state an appropriate segregation of duties of initiation and verification of transactions, according to Article 19.6 of the Financial Regulation. This validation is a prerequisite for the complete decentralization of ex ante control taking place, and the role of the central financial control unit evolving to ex post control activity.

At the same time, as mentioned, the Unit continued its daily work on controlling and approving the expenditures and the revenues of the Schools. On the basis of qualitative and quantitative risk criteria, (mainly, amount of the transaction, opinion of control bodies - IAS and ECA- and risks identified in practise by the exercise of the financial control activity), the work of the unit was mainly focused on salaries, and on transactions above 15.000 euros (threshold applicable for procurements requiring consultation of a plurality of suppliers). Specifically during the financial year 2016 quantitative thresholds, with different amounts depending on the Schools, were kept for the transactions to reach the central financial control unit. In this sense, a generic risk analysis for the purposes of ex-ante centralized financial control was performed on 21st October 2015, and two risk profiles were defined, on the basis of the following qualitative criteria:

- opinions issued by the European Court of Auditors (ECA) on the last audit cycle period.
- opinions issued by the Internal Audit Service of the European Commission (IAS) on the engagements corresponding to the last 5 years period.
- findings resulting from the financial control activity.
- situation of staff on key financial positions, as Administrators or Head Accountants (e.g. lack of one of these positions).

Specifically, according to the abovementioned criteria, the following two different risk profiles were defined as of October 2015:

- risk profile 1 (lower risk), for the schools of: Brussels III, Brussels IV, Luxembourg II, Munich, Alicante, Varese, Bergen, and for the BSGEE.
- risk profile 2 (higher risk), for the schools of: Brussels I, Brussels II, Luxembourg I, Mol, Frankfurt, Karlsruhe, and Culham.

On the basis on the two different risk profiles, the following generic different quantitative thresholds have been progressively set in SAP, as from 21st October 2015, for the transactions to reach the inbox of the central financial control unit:

- commitments (earmarked documents): 15.000 euro.

-payment proposals: 60.000 euro, for Schools of risk profile 1 (lower) and 15.000 euro for Schools of risk profile 2 (higher).

Particularities to the above-mentioned generic thresholds have been:

-for the Schools of Mol and Culham no thresholds are set, implying that all transactions come for review at the central financial control unit. The reason for this is, in the case of Mol the serious weaknesses identified by the Court in their review of the School for the accounts of the financial year 2014, and, in the case of Culham, the fact that due to the next closure of the School by middle 2017 it has been set aside of important projects, particularly from the full implementation of SAP for payments, which are not processed under this accounting software for this School.

-for the School of Karlsruhe the threshold of 15.000 euro for payments was only set as from 05.02.2016, when evidence was provided about the fact of the compliance with the rule of the two signatories for payments. Before that date, all payments were received for ex-ante centralized control at the Financial Control Unit.

-for the OSG, the threshold for revision of payments was reduced to 6.000 euro for the period 01.09.2016 to 17.10.2016 (15.000 euro as from 17.10.2016). This, on the one hand, due to the fact of the important number of refusals made on the financial year 2015 and, on the other hand, to introduce an element of unpredictability in the controls.

-for the School of Munich the threshold for payments was reduced from 60.000 to 15.000 euro as from 01.10.2016 due to the fact of the position of Accounting Officer not formally fulfilled at the School.

For transactions different from the above (for example, salary related postings in the accountancy), for the time being no technical possibility is available at SAP to set any threshold. Nevertheless, for the practical effects of control performance, the abovementioned thresholds defined for payments are considered by analogy.

This means, in practice, that below the mentioned thresholds, the transactions do not reach the inbox of financial control and the workflow is completed with the approval of the Authorising Officer. This is in line with former article 20 of the Financial Regulation, -transitorily applicable during the "transitory period" (before the completion of the decentralization to the Schools of the ex ante control) in accordance with Article 107 of the Financial Regulation- which set, the possibility for the central financial control unit to select (sampling) the transactions to be centrally checked, on the basis of a risks analysis.

Nevertheless, the abovementioned thresholds (both for commitments and for payments) will be randomly removed/reduced during the financial year 2017, to be in line with generally accepted standards for auditing/controlling, which recommend to introduce elements of unpredictability in the controls.

In any case, the criteria set on the mentioned risk analysis performed as of 21st October 2015 and subsequent revisions made during 2016, as explained above, are to be periodically reviewed in the light of the possible events affecting the risks profiles of the Schools and the OSG (for example, the preliminary findings issued by the Court of Auditors

related to the review of the accounts of 2016) and the optimization of the available control resources. In particular, a generic annuality review of the criteria should be done within 1st quarter of 2017, taking particularly into account the state of play of the implementation of the Segregation of Duties on Financial Circuits.

As per the total amount of the transactions checked by the Unit, related to expenditure - where the main focus on the activity of financial control is addressed-, taking into account the abovementioned parameters, is estimated to be in the region of 85% of the total expenditure budget of the European Schools (total expenditure of 294,8 million euro in 2016). It has to be taken into account that, as explained in last year's report, the automatized production of statistics related to the financial control activity -in particular, exact amount of transactions signed and exhaustive list of the transactions refused- although requested by the unit, is not available in the current configuration of SAP, as the creation of it would have required the use of substantial additional development resources by SAP, which were engaged to other priorities that took precedent.

Procurement Procedures

It should be pointed out that the Financial Control Unit spent a considerable amount of time in reviewing procurement procedures submitted by the Schools (for the largest part) especially in the field of low value purchases (between 15.000-60.000 euro) and by issuing relevant recommendations following each review and provided practical guidance on how to make use of Article 70 b of the Financial Regulation for joining an already established contract between a supplier and a public organization. Further information is provided under the section 8.8 "other running costs and capital expenditure", in this report.

The Financial Control Unit participated in the first meeting of the Procurement Network presenting and explaining to the Schools the main elements per each procurement procedure, in accordance with the financial rules and the new Memorandum (Ref.:2016-09-D-83-en-1).

During the Bursars meeting in June the Unit provided concrete guidance to the Schools on the necessary supporting documentation they have to attach in the accounting software (SAP) per type of transaction, especially for new procurement procedures initiated in SAP.

The Financial Control Unit issued also recommendations for the particular case of the removals and their treatment in SAP.

Recruitment procedures

The Financial Control Unit is involved in the control of the recruitment procedures that Schools launch, in many cases before the final signature of the contract. It has to be mentioned that, based on available data, not all the Schools submit those for control to the Unit.

Advisory and corrective measures have been suggested, in the process of controlling these procedures, in the following areas:

- Ø The post should be justified in order to reassure that budgetary appropriations are used within the agreed and approved framework (new posts approved by the Board of Governors or old posts within the same working conditions)
- Ø Correct publication of the post
- Ø The signed absence of conflict of interest of the members of the evaluation committee was a point of particular attention during the controls in order to ensure the transparent and unbiased treatment of the procedure.
- Ø The report of the evaluation committee was also of primary significance and more specifically the elements concerning the ranking of candidates, the justification of the possible allocation of extra salary step and the signed acceptance of the Authorising Officer.
- Ø Finally the main elements of the draft contracts submitted to the Unit were controlled especially the correctness of the proposed salary, the duration and proposed position.

Based on the above review and on the findings, the Unit advised the Schools for the future organization of recruitment procedures and in one case (School of Brussels I) it suggested to put the issue in the register of exceptions.

The Unit advised the Schools also in the fields of the salaries of the seconded staff members, including providing guidance on how to interpret certain emoluments and elements in the salary slips of the seconded staff members when application of Article 72 (granting of the severance grant) of the Regulations for Seconded Staff was made.

Concerning the transactions refused, the table 2 below shows an overview of the recorded refusals given throughout the financial year 2016 by entity (Schools and Office of the Secretary General). The information presented in this table include:

- Ø the types of the transactions refused;
- Ø the connected Budget Lines or General Ledger accounts;
- Ø the total amount of the transaction indicating as well the specific amount, where is the case, connected to the reason of the refusal;
- Ø a short description of the subject and finally
- Ø the reason of the refusal accompanied by an explanation and ,where available, the specific date of the refusal.

It has to be noted that this information is not derived from the system via a specific report since the automatic production of such a document is not available in the current configuration of SAP, and the creation of it would require the use of substantial additional development resources by SAP, which are currently engaged to other priorities that took precedent .

Nevertheless, it is produced based on records kept meticulously outside the system in the Financial Control Unit during the course of the year. It has to be mentioned that for two cases (indicated with *) the figures could be provided as a best estimation.

Refusals made by the financial control unit can be categorized into the following groups:

- a) incorrect implementation of Segregation of Duties (SODs) / workflows followed preceding the final approval of transactions in SAP ;
- b) incorrect salary bookings: including wrong calculations coming from Social Security Institutions or other programs connected to salary calculations (for ex. NewPersee);
- c) incompliance with procurement rules stated in Financial Regulation: specifically connected to principles stated on article 33 and 70 b of the Financial Regulation: that the budgetary commitment should precede the legal commitment and exceeding of the maximum ceiling permitted by the Financial Regulation when a contract is established by another public body, respectively;
- d) incompliance with the budgetary principle of annuality stated in article 6 of the Financial Regulation;
- e) lack of / incorrect supporting documentation of transactions;
- f) requested by the School due to internal decisions; and, finally,
- g) other irregularities: including wrong supplier, wrong supplier bank account, incorrect posting date etc.

In hundreds of other cases of the checked transactions, visa was finally given after indication to the Schools and the Office concerning the appropriate correction or completion of missing elements.

Table 2 Refused transactions 2016						
Entity	Type of transaction	Budget Line/Account	Amount (€)	Subject/Title	Comments/Reason for refusal	Type
<u>AL</u>	Earmarked document N° 3796	60120100 Buildings	84.500 €	Buildings	Transaction initiated by the accounting officer which is not in line with the rules for segregation of duties on financial circuits as stated in the Financial regulation and the relevant Memorandum -date of refusal: 18.11.2016	a
<u>AL</u>	Earmarked document N° 2311	60120100 Buildings	36.673,57 €	Buildings General Engagement	Transaction initiated by the accounting officer which is not in line with the rules for segregation of duties on financial circuits as stated in the Financial regulation and the relevant Memorandum date of refusal: 18.11.2016	a
<u>AL</u>	Earmarked document N° 2314	60210100 Pedagogical expenditure	5.718 €	Pedagogical expenditure General Engagement	Transaction initiated by the accounting officer which is not in line with the rules for segregation of duties on financial circuits as stated in the Financial regulation and the relevant Memorandum date of refusal: 18.11.2016	a

<u>AL</u>	posting of salaries		13.769,77 (Total amount of posting: 233.974,97 €)	CdC & AAS for September 2016	Incorrect booking on the account of remunerations for staff (400105000) instead of account of Social Security Institutions (40014000)	b
<u>Total</u> <u>AL</u>			140.661,34 €			
<u>BE</u>	Payment proposal: 10.10.2016/BE001		234.122,45 €	salaries of PAS and CDC in October.	a) payment made outside SAP and b) the posting in which this payment was based, had been previously refused.	b
<u>BE</u>	posting of salaries		5.267,22 € (Total amount of posting: 325.466,86 €)	Seconded staff salaries September 2016	Wrong Persee calculation of a staff member's salary	b
<u>BE</u>	posting of salaries		181.352,8 €	October PT staff	Wrong workflow accounting officer acting as initiator of the transaction	a
<u>BE</u>	posting of salaries		63.832,72 €	AAS	Wrong workflow accounting officer acting as initiator of the transaction	a
<u>BE</u>	posting of salaries		345.735,20 €	October seconded	Wrong workflow accounting officer acting as initiator of the transaction	a

<u>BE</u>	posting of salaries		1.680,78 €	October Derd	Wrong workflow accounting officer acting as initiator of the transaction	a
Total BE			831.991,17 €			
<u>BC</u>	Earmarked document 3013	60120200	52.877 €	Invoice SAP	Lack of appropriate supporting documentation, including lack of relevant Purchase Order connected to the services proposed (2015) and corresponding credits carried forward.	e
<u>BC</u>	Payment proposal 17.02.2016 BC101	60120202	109.282,40 €	Invoice 9016014899 of 21.08.2015	-signature date of the contract : 24/04/2015 activities referred to where rendered as of 02/2015 -Pre-commitment done after the signature of the contract : 27/04/2015 -No Purchase Order for this invoice -Difference of columns "working time" versus total time in timesheets accompanying the invoice.	c
<u>BC</u>	Earmarked document N°2149	60120200 ICT	265.000 €	MYSCHOOL SMS Maintenance 2016	Extension of the previous contract with the company without legal basis for it.	c

				BSGEE 2012/4		
<u>BC</u>	Payment Proposal		49.750 €		The contract with Price Waterhouse Coopers (PWC) for consulting services in the area of accounting exceed the amount of 134 000 €, which is the maximum amount permitted by the Financial Regulation (Article 70 b)) when a contract is established by another public body.	C
<u>BC</u>	Earmarked document N° 3497	60120300 BSGEE	51.610 €	Advisory services on accountancy by PWC	Overcome of the limit set on Art. 70 b) of the Financial Regulation for using as a reference a contract of the Commission without necessity of procurement procedure -date of refusal: 16.09.2016.	C
<u>BC</u>	Earmarked document N° 3687	60120300 BSGEE	50.000 €	Engagement PWC	Overcome of the limit stated on Article 70 b) of the Financial Regulation for the use, as a reference, of a contract concluded by another public institution with the same supplier (the European Commission in this case).	C

					-date of refusal: 17.11.2016.	
<u>BC</u>	Payment proposal 28.10.2016 BC104-	60120100 Buildings 60120200 ICT 60120202 ICT Hardware/S oftware 60110100 Expenditure related to seconded staff	165.128,78 €	SAP invoices, removal seconded staff, ICT hardware	-Lack of sufficient supporting information at the stage of reviewing the file of regarding transactions. -Incompliance with Art. 33 of the Financial Regulation (budgetary commitment should precede to legal commitment).	C
<u>Total</u> <u>BC</u>			743.648,18 €			

<u>Brx I</u>	Payment proposal UC193 22/.09.2016	44400000 Invoices to be received	23.599,84 €	Group Cleaning Services	Lack of supporting documentation.	e
<u>Brx I</u>	Earmarked document N° 3735	60110100 Expenditure related to seconded staff	157.681,87 €	indemnité de depaysement	Non respect of Segregation of Duties Same person acting as initiator and verificator of the transaction.	a
<u>Brx I</u>	Posting of salaries		232.594,77 €	2.4 % on 1/7/2015 Salary adjustment seconded staff	Non respect of SOD's in place Wrong person acting as verificator in the workflow.	a
<u>Brx I</u>	Salary posting	40010500 Staff - Salaries – net to be paid	169.120,87 € (Total amount of posting: 1.678.442,23)	Seconded Staff salaries December 2016	Incorrect debit and an unjustified credit, and in different G/L accounts.	b
<u>Brx I</u>	Earmarked document N° 3829	60120100 Buildings	101.000 €	Group Cleaning 11/16+12/201 6	Supporting documents (invoices October 2016 amounting to 64.908 euro) not in accordance with amount of the commitment 101.000 euro and with the text included in the system: "Group cleaning 11/16+12/2016" and "Fact	e

					Gardiens 12/2016".	
<u>Total</u> <u>Brx I</u>			683.997,35 €			
<u>Brx II</u>	Salary posting		1.382.937,53 €	Seconded staff salaries February 2016	Wrong posting date.	g
<u>Brx II</u>	Salary posting		614.453,34 €	Non Seconded staff salaries February 2016	Wrong posting date.	g
<u>Total</u> <u>Brx II</u>			1.997.390,87 €			
<u>Brx III</u>	Salary posting		61.504,65 €		Incorrect calculation of an item in the salary slip of the basic national salary of a seconded staff member, as a basis for the calculation of the severance grant to be paid.	b

<u>Brx III</u>	Posting of salaries		5.060,20 €	PAS salaries September 2016	Incompliance with Article 17 §2 of the PAS Regulations regarding overtime of a staff member (allocation of extra hours than the ones permitted by the regulation).	b
<u>Brx III</u>	Payment proposal IX093 12.10.16		170.321,34€ (Total amount of posting: 321.003,67 eur)		Wrong vendor included in a payment destined to social security institution.	g
<u>Total Brx III</u>			236.886,19 €			
<u>Brx IV</u>	Earmarked document N° 1430	60120100 Buildings	497.640 €	Administrative expenditure	Transaction referred to previous financial year: "Document date 01.09.2015. Posting date 01.09.2015".	g
<u>Total Brx IV</u>			497.640 €			

<u>Cu</u>	Salaries posting of Seconded Staff		216.475,90 €	Seconded Staff Salaries March 2016	Transaction both initiated and verified in SAP by the Verificator.	a
<u>Total</u> <u>Cu</u>			216.475,90 €			
<u>Ff</u>	Payment proposal FF177/10.10.2016		32.472,05 €	Insurance personnel	Expenditure corresponding to previous financial year, not in line with the principle of annuity stated under art. 6 of the Financial Regulation. -date of refusal: 12.10.2016	d
<u>Ff</u>	Payment invoice	60110305 Soc. sec. charges/oth er expend.- Admin. Staff	4.497,67 €	November payment of Christmas bonus to PAS Staff members	Incorrect calculation of Christmas bonuses to be paid to PAS staff members.	b

Total			36.969,72 €			
Ff						
<u>Ka</u>	Payment invoice		13.961 €	Reimbursement of school fees	Unjustified reimbursement of 25% of school fees. -date of refusal: 19.02.2016.	g
<u>Ka</u>	Salaries posting	6011200 Expenditure related to Locally Recruited Teachers 6011300 Expenditure related to Administrative and Ancillary staff 60110400 Remunerations related to	252.702,20 €	CDC Salaries June 2016	Transaction not verified by the relevant person as described by the current, at the moment of the creation of the posting , Segregation of Duties proposal of the School.	a

		Educational support				
<u>Ka</u>	Earmarked document 3233	60210110 (Pedagogical inventory items) 60210107 (Teaching/Experimentation on equipment)	20.758 €	Smartboard and didactic materials Procurement Procedure	Pre-commitment done after the procurement procedure has been completed and the supplier selected.	c
<u>Total Ka10</u>			287.421,20 €			
<u>Lux I</u>	Payment proposal LU057		120.000 €* (estimated figure)	Caisse maladie (December 2015, January, February and March 2016)	Incorrect approval workflow. Payment proposal missing the signature of the Authorising Officer.	a

<u>Lux I</u>	Salaries posting	6011200 Expenditure related to Locally Recruited Teachers 6011300 Expenditure related to Administrative and Ancillary staff 60110400 Remunerations related to Educational support	305.917,54 €	PAS Salaries February 2016	Transaction not verified by the relevant person as described by the current, at the moment of the creation of the posting , Segregation of Duties proposal of the School.	a
<u>Lux I</u>	Payment Proposal	60110101 (Basic salaries)	700 € (Total amount of posting: 191.371,63 €)	Basic salaries-Seconded Staff	On the request of the School, wrong double payment to one of the staff member (payment of 700euros duplicated). -date of refusal: 15.07.2016.	f

<u>Lux I</u>	Payment Proposal	40012000 (Tax deductions employees)	67.703,61 €	Tax deductions to employees	Incorrect payment referring to previous financial year (duplication of payment due to system error according to the School feedback).	g
<u>Lux I</u>	Earmarked document N°3857	60120100 Buildings	17.423 €	Téléphone, Fax, Frais de poste, livraison etc..	Refusal requested by the School due to wrong bank account chosen.	f
<u>Lux I</u>	Payment proposal 30.11.2016 LU523	40014000 Social Security institutions	188.599,41 €	Centre Commun Sécurité Sociale	Incorrect workflow (Authorising Officer acting as initiator of the proposal)- possibility of mistake produced due to technical reasons.	a
<u>Lux I</u>	Earmarked document N° 2051	60110100 Expenditure related to seconded staff	1.730.000 €		Incompliance with principle of Segregation of Duties (transaction initiated and verified by the same staff member).	a
<u>Total Lux I</u>			2.430.343,56 €			
<u>Lux II</u>	Salaries posting	60110100 Expenditure related to seconded	966.792,64 €	Seconded Staff Salaries May 2016	Global posting credit/debit without imputation to the relevant budgetary expenditure accounts related to salaries.	b

		staff 60110400 Remunerations relating to educational support				
<u>Lux II</u>	payment proposal- global amount: 240.147,68 euro. MA 838/29.09.2016. Insurances for staff	60110110 (Accident insurance-Sec. Staff)	101.895,32€ (Total amount of posting: 240.147,68 €)	Insurances for staff	Incompliance with principle of annuality Article 6 of the Financial Regulation. Payment amounting to 101.895 euro corresponding to 2015 financial year neither charged nor executed to the credits of that year, and furthermore proposed to be charged to credits of 2016. -date of refusal: 05.10.2016.	d
<u>Lux II</u>	Posting of salaries	salaries of locally recruited teachers 60110200	467.621,37 € (Total amount of posting: 559.441,20 €)	Salaries of locally recruited teachers	Use of transitory account (40099000) instead of the relevant budgetary account for the booking of salaries of locally recruited teachers for an amount of 467.621,37 euro.	b

<u>Lux II</u>	Payment Proposal 18.02.2016 MA113	40014000 Social Security institutions	160.000 €* (estimated figure)	Social security taxes	Incorrect workflow: transaction not signed by the Authorising Officer.	a
<u>Total Lux II</u>			1.696.309,33 €			
<u>Mol</u>	Invoice	60120416 (Experts' expenses Schools)	29.767,50 €	KPMG Advisory report	Refusal due to pending feedback from the company regarding clarification of the relevant services (advisory report).	g
<u>Total Mol</u>			29.767,50 €			

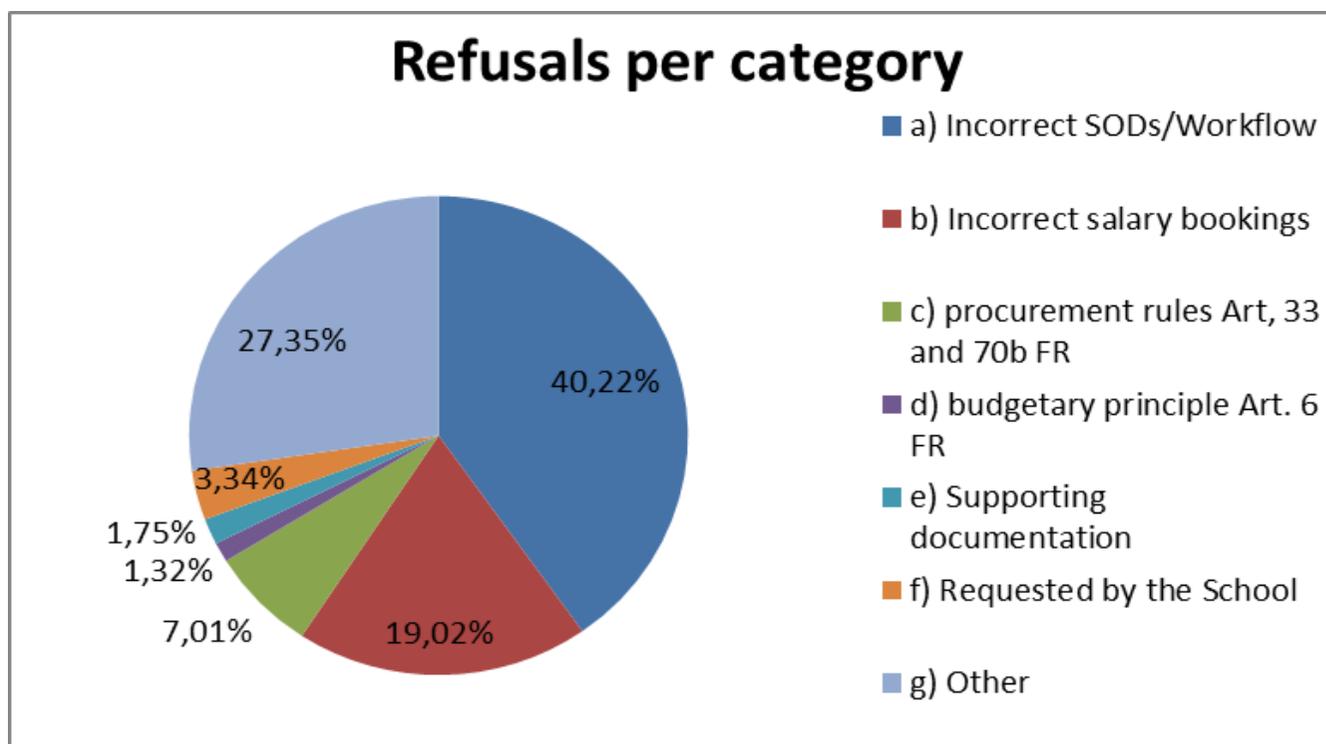
<u>Var</u>	Posting of salaries	6011300 Expenditure related to Administrative and Ancillary staff 60110400 Remunerations related to Educational support Salaries	3.000 € (Total amount of posting: 114.502,83 €)	PAS Salaries November	Extra payment to a staff member not justified by an existing contractual or regulatory framework.	b
<u>Var</u>	Earmarked document N° 3648	60110100 Expenditure related to seconded staff	124.091,26 €	16_601101-15 Departure allowance seconded staff -8/16	Refusal requested by the School due to lack of appropriations on budget line 601101.	f

<u>Var</u>	Earmarked document N° 3649	60110100 Expenditure related to seconded staff	73.080,59 €	16_601101-15 Departure allowance seconded staff - 8/16	Refusal requested by the School due to lack of appropriations on budget line 601101.	f
<u>Var</u>	Earmarked document N° 3650	60110100 Expenditure related to seconded staff	124.091,26 €	16_601101-15 Departure allowance seconded staff - 8/16	Refusal requested by the School due to lack of appropriations on budget line 601101.	f

<u>Total</u> <u>Var</u>			324.263,11 €			
<u>GRAN</u> <u>D</u> <u>TOTA</u> <u>L</u>			10.153.765,42 €			

The following chart gives a more visual picture by presenting the total volume of the refusals per type of category group as described above. The biggest part of the refusals given (40,22%) represent incorrectness of Segregation of Duties application on the financial transactions executed. The next highest percentages, stand for other irregularities 27,35%, incorrectness on salary bookings 19,02%, and incompliance with procurement rules 7,01%. The refusals requested by the School represent the 3,34%, and finally the ones connected to supporting documentation and the budgetary principle of annuality represent the 1,75% and 1,32% respectively.

Chart 1



It may be also mentioned that as from 2014, and continuing in 2015 and 2016, progress is being made on the implementation of a register of exceptions, in line with Internal Control Standard n° 14, where instances of overriding of controls or deviations from established policies and procedures decided by the Authorising Officer under exceptional circumstances are documented. This has been the case of the OSG and several Schools.

The main concern of the Unit during the checks is that the principle of sound financial management and the rules stemming from the Financial Regulation are respected and applied by all stakeholders in the budget implementation process. In this regard, it is considered that the work of the Unit contributed to the improvement of the quality of the financial information in the system and to the savings in the budget of the Schools.

The financial controller also participated during 2016 in several working groups and committees:

- Review of the Financial Regulation working group, as chairman.
- AAS working group
- Sickness Insurance Fund management committee
- Working Group for the analysis of the situation of the Bursars
- SAP Project Management
- Working Group of the Mobility of posts
- Annual ordinary meeting with the Bursars of the European Schools, as chairman.

The financial control unit consists of three posts, an assistant, a deputy financial controller and the financial controller.

6.1. Follow up of specific financial controls and investigations undertaken in previous financial years

6.1.1 European School of Brussels I

6.1.1.1 As reported in previous year, following the findings made at the level of the School and of the financial control unit, subsequent forensic investigations performed at this School by the company KPMG showed evidence of a systematic fraudulent scheme addressed against monetary funds of the European School of Brussels I-Uccle, involving material amounts, and taking place during the years 2006-2012, with the involvement of an ex member of the accounting staff. The global estimation of the irregular use of the funds of the School for the total mentioned period stands at 2,9 million euro.

Concerning the described facts, and the evidences about their criminal nature, all the relevant information was provided to the judicial authorities and judicial proceedings are still taking place at the Tribunal de Première Instance of Brussels. The latest communication received from the lawyers of the Office of the Secretary-General about the judicial measures being undertaken for the protection of the financial interests of the European Schools, dates from 4th October 2016.

All the above mentioned facts and subsequent judicial developments are being regularly and timely communicated to the OLAF (European Anti-Fraud Office), also during 2016, in

order for this body to assess whether additional investigation is to be carried out on its side, in addition to the ongoing procedures at the level of the Court of Justice.

The financial control unit will be regularly monitoring during 2017 the developments of the abovementioned proceedings.

In relation to the above facts, it may be underlined that important measures have been taken by the system in the last years to substantially mitigate the risk of fraud in the European Schools, in particular:

- issuance of guidelines for ethics and integrity.
- adoption of an accounting software (SAP) which allows a link with the electronic payment systems. This matter is further developed under point 10.2 of this report.
- reinforcement of the rules for segregation of duties on financial circuits and, specially, its implementation in the accounting software, for which it is expected that its full alignment with the requirements of the financial rules is achieved within the financial year 2017.
- introduction of a clause of competence in the Financial Regulation for the OLAF for the European Schools.

6.1.2 European School of Mol

As reported on previous years, on 9th November 2012, based on the available information at the financial control unit, a control on the spot was decided to be started in this school, related to extra budgetary accounts and payment procedures.

In particular, the control was focused on the treatment of the income (212.867, 41 euros) received by the European School of Mol on the year 2006 from the *Rijksdienst Voor Sociale Zekerheid*. For that purpose, analysis was made in the transactions related to the account 230-0300055-54 "Eurosport" since 06 January 2006 up to 21 November 2012, in order to check the matching of these transactions with the relevant financial rules related to bookkeeping, commitment of expenditures and payment procedures.

The definitive report was issued on 5th August (document Ref.: 2013-05-D-23-en-2) and recommendations have been issued, included in the annual report of the Financial Controller during the previous years.

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These recommendations were focusing mainly on the issue of the bank accounts of the School. Concerning the bank account "Eurosport/kultuur", that was the objective of the financial control carried out by the Unit (in 2013), it was closed on 12/11/2014. In relation with the number of extra budgetary bank accounts, the School has reduced the number of these accounts. The ES Mol currently has three extra budgetary accounts: one for secondary, one for primary and one for the canteen bank accounts used. In relation with the procession of the extra budgetary transactions in the accounting software tool (SaP), preparatory work has been done but further steps need to be taken, during the year, in

order to start to complement fully operational and up to running the process. The Financial Controller will closely monitor this process.

In addition to the above developments , it should be mentioned that at the meeting of the Administrative Board held on the 9th of February 2015, it was decided, to engage a forensic investigation on the occasion of a number of invoices received from services supposedly provided since the year 2010 whose payment was refused by financial control because of the lack of evidence about the reality and exigibility. It was suggested that the forensic investigation to be done should expand its scope to include also, at least, extra budgetary accounts linked with the canteen.

The report of the company KPMG who carried out the forensic investigation, was delivered in February 2016. The exact scope of the investigation were the outgoing payments above 5.000 EUR made by the School between 1 January 2009 and 31 December 2013. Special attention was given to the payments to large suppliers such as the cleaning company, the security company, electricity and gas supplier. Based upon the work performed, they did not identify outgoing payments above 5.000 EUR that were made into bank accounts different than the bank accounts included on the supporting documents, such as supplier invoices. Nevertheless the company pointed out that they were not able to verify that the invoiced amount was based upon agreed rates and/or services, especially for the invoices from the large suppliers being the cleaning and the security companies. They identified services on the invoices from three large suppliers (two cleaning companies and one security) that were not included in the contracts received and it was not clear how the increase in the hourly rates prior to December 2013, as far as one of the cleaning companies, had happened .The company pointed out that there was a lack of transparency between the different organizations/departments of the European School. The financial control unit noticed some discrepancies in relation with the issue of the cleaning company and the hourly rates and the information received on this by the School and subsequently asked the School to contact the company in order to take into account all the documentation provided. After several exchanges of communication with the School and revised versions of the report the final conclusion on this particular point of the report has been formulated as follows: “ The price increase as of September 2013 could be explained based upon explanation provided by the supplier during the investigation. There was no information/documentation available at the European School from the period concerned. We believe it is important for the school to make sure that all contractual agreements and changes/updates to such agreements are properly documented and filed. This allows the School to have a clear evolution of its contractual relationship with suppliers”.

Having been in contact with the School and after an updated version of the report that was circularised at the beginning of October the report was accepted and subsequently the payment of the pending invoice for the payment of the company who conducted the forensic investigation was processed by the financial control unit.

In relation with the outstanding invoices (tracing back from 2011,2012) of the previous cleaning company, it should be noted that after negotiations with the company the total amount of 60.000 euros (which corresponds to the amount indicated on the invoices, without any other charges or interest rated) was paid to the company by the School, beginning of December 2015. This development has been announced also in the

Administration Board in January 2016. A prior information was also given to the Admin. Board in September 2015. The Financial Controller was also monitoring the dossier.

7. Implementation of the budget

The following tables provide a summary of financial data regarding budget implementation for a comparative period of the last six years.

Table 3 shows the development of costs from 2011 to 2016. The figures show an increase of 7,86% over the five-year period and an increase of 3,75% in 2016 compared with the financial year 2015. It should be noted that the pupil population as an absolute figure increased by 3.324 (14,23%) from 2011 to 2016, and by 788 (3,04%) between 2015 and 2016. (Pupil numbers can be found in document 2016-10-D-2-en-1, "Facts and Figures on the Beginning of the 2016-2017 School Year in the European Schools"). The School displaying the highest percentage difference (18,91%) compared to previous year expenditure is Brussels IV justified by a 8,21% increase of its pupils enrolled between 2015 and 2016. Schools Brussels III and Luxembourg II follow with 8,08% and 7,16% respectively. The particular decrease of 10,09% of the expenditure compared to previous year is present at Culham School which is mainly due to the gradual phase out of the School (pupil decrease noted = 15,03%, primary section already closed on August 2016) . The difference between the initial budget approved per year and the actual implementation of the relevant appropriations is shown further in the report, in table 7.

Table 3: Development of costs from 2011 to 2016 - Expenditure (€)

	2011	2012	2013	2014	2015	2016	% 2011 - 2016	% 2015 - 2016
Al	13.063.127	13.239.486	13.291.431	11.857.159	12.567.378	11.848.348	-9,30	-5,72
Be	9.175.350	7.853.298	7.943.540	8.488.442	8.215.631	8.452.380	-7,88	2,88
Br I	34.212.200	32.427.533	31.513.924	33.613.280	33.896.335	36.284.993	6,06	7,05
Br II	33.523.508	32.808.110	32.979.059	32.840.553	31.423.740	32.397.210	-3,36	3,10
Br III	31.742.797	29.492.282	28.536.902	29.871.588	28.245.308	30.526.275	-3,83	8,08
Br IV	8.431.352	11.475.974	13.382.371	16.313.487	18.463.955	21.955.018	160,40	18,91
Cu	9.456.200	8.445.468	7.900.641	9.067.963	8.380.808	7.535.376	-20,31	-10,09
Ff	11.969.244	12.338.347	11.957.813	13.066.646	13.882.100	14.822.144	23,84	6,77
Ka	11.921.801	11.747.171	11.221.382	11.139.778	11.247.168	11.045.660	-7,35	-1,79
Lux I	40.142.660	34.098.279	27.781.816	28.112.758	28.485.543	29.824.614	-25,70	4,70
Lux II	8.183.844	14.222.763	22.889.186	23.441.946	23.493.832	25.175.580	207,63	7,16
Mol	12.345.548	11.372.143	11.155.974	11.088.318	10.859.201	11.143.436	-9,74	2,62
Mun	22.173.927	22.218.088	21.940.116	24.439.432	24.706.380	24.689.881	11,35	-0,07
Var	18.596.427	17.570.518	18.733.012	18.496.481	17.988.552	18.110.937	-2,61	0,68

OSG	8.325.167	8.254.664	9.801.298	11.721.315	10.810.798	10.932.629	31,32	1,13
TOTAL	273.263.152	267.564.124	271.028.465	283.559.146	284.089.263	294.744.481	7,86	3,75

The figures for 2011 – 2014, obtained from the previous accounting software Cobee, show actual expenditure, considered as commitments done on budget appropriations and actually used (excluding credits carried forward to the following financial year that were not finally used and, consequently, cancelled).

The figures for 2015, obtained from SAP, depict the commitments approved and actually used (not cancelled) and more precisely the Actuals + the credits Carried Forward to the next year $n+1$ actually used-credits brought forward from the previous year $n-1$.

The figures for 2016, obtained from SAP (still provisional and subject to possible adjustment), depict the commitments approved and more precisely the Actuals + the credits Carried Forward to the next year $n+1$ -credits brought forward from the previous year $n-1$.

Provisional data processed on 23/03/2017-Closing report SAP

Table 4 shows the development of the cost per pupil over the same five-year period. It should be mentioned that Brussels IV up to now has occupied years from 1 up to 6 of the secondary cycle, progressively since 2010, so its cost is not fully comparable with that of the other schools. Brussels I shows a 3,56% increase compared to 2015 mainly due to the additional use of Berkendael site, pending the opening of the Brussels V European School. It has to be noted that the expenditure for Brussels I and Berkendael site is not separate, therefore a separate depiction of cost per pupil is not feasible. The progressive phasing out of the School of Culham as a Type I School should be also noted, in accordance with the decision of the Board of Governors in 2007, justifying the -2,61% decrease compared to 2015. The primary cycle closed in August 2016, while the rest of the activity should be closed by August 2017. Further details are included in the document 2016-10-D-21-en-2 presented at the last Board of Governors meeting at December 2016.

For Luxembourg and Brussels, the table shows aggregated costs besides the cost of the individual schools. For 2016, the cost per pupil of the Brussels Schools was 10.081 euro, showing an increase of 4,05% over the last year, while the Schools in Luxembourg an increase of 0,79% since last year.

The average cost per pupil for year 2016 across the Schools, including the costs of the Office of the Secretary-General, is € **11.268**, showing an increase of 205€, in absolute figures compared to 2015. For the period 2011-2016 a -5,26% decrease is recorded. Taking into account the average cost per pupil across the Schools (without taking into account the OSG), an increase of 1,97% is noticed since last year.

Table 4 : Cost per pupil (€)

	2011	2012	2013	2014	2015	2016	% 2011 - 2016	% 2015 - 2016
Al	12.654	12.788	12.675	11.508	12.592	11.968	-5,42	-4,96
Be	15.318	13.714	14.210	15.140	15.019	15.848	3,46	5,52
Br I	11.061	10.458	10.318	10.678	10.219	10.583	-4,32	3,56
Br II	10.752	10.365	10.563	10.810	10.577	10.737	-0,14	1,51
Br III	10.917	10.135	9.893	10.365	9.627	10.154	-6,99	5,47
Br IV	9.449	9.437	8.042	7.988	7.887	8.555	-9,46	8,47
Brussels I, II, III & IV	10.779	10.220	9.922	10.138	9.689	10.081	-6,48	4,05
Cu	12.026	11.665	12.068	15.661	17.746	17.283	43,71	-2,61
Ff	10.861	10.689	9.885	10.005	9.687	10.178	-6,29	5,07
Ka	12.683	12.681	12.255	12.318	13.295	13.454	6,08	1,20
Lux I	11.438	10.361	10.144	9.871	9.470	9.496	-16,98	0,27
Lux II	8.636	11.000	11.386	10.912	10.313	10.451	21,02	1,34
Luxembourg I & II	10.842	10.541	10.670	10.319	9.833	9.911	-8,59	0,79
Mol	15.794	14.976	15.035	15.127	15.019	15.307	-3,08	1,92

Mun	11.485	11.030	10.433	11.104	11.005	10.837	-5,64	-1,53
Var	13.940	12.807	13.493	13.162	12.803	13.373	-4,07	4,45
All schools	11.532	11.018	10.842	10.950	10.637	10.847	-5,94	1,97
OSG	362	351	407	472	423	418	15,47	-1,18
All Schools +OSG(Total)	11.894	11.369	11.248	11.422	11.060	11.265	-5,29	1,85

Figures based on Table 3

Number of Pupils calculated on a basis of Weighted average: N° in October of year n-1 x 8/12 + N° in October of year n x 4/12

Table 5 shows a more detailed breakdown of the expenditure per type of cost.

The highest percentage of the total expenditure is attributed to Salaries for Seconded Staff, Locally Recruited Teachers and Educational Support -mainly including SEN support-, more precisely the **74,41 %** . The remuneration of Administrative and Ancillary Staff and expenditure connected to Buildings (Cleaning, Electricity, Heating, Maintenance etc) follow with 12,06 % and 8,08 % respectively. The final three categories of Pedagogical Expenditure and Educational Support (Products for classes, Expenses related to photocopiers, Library expenditure, Material and Training for Educational Support), Miscellaneous expenditure (including BSGEE for the Office of the Secretary General) and ICT represent 2,43%, 2,42 % and 0,60 % respectively.

Table 5 Total Cost per type of expenditure 2016								
	A Salaries (Seconded Staff, Locally Recruited Teachers and Educational Support)	B Remunerati on of Administrati ve and Ancillary Staff	C Pedagogica l Expenditure and Educational Support	D Buildings	E ICT	F Total: A+B+C+D+E	G Other (Miscellaneous+ BSGEE)	H Total expenditures
Alicante	9.106.200	1.443.522	305.961	777.832	16.143	11.649.658	198.690	11.848.348
Bergen	6.558.372	886.679	202.493	639.262	38.915	8.325.721	126.659	8.452.380
Brussel s l	28.332.731	3.550.234	1.098.098	2.935.730	15.651	35.932.444	332.289	36.264.733
Brussel	25.510.639	3.656.502	644.171	2.381.887	9.999	32.203.198	194.012	32.397.210

s II								
Brussels III	23.964.424	3.123.545	618.586	2.588.578	48.146	30.343.279	182.996	30.526.275
Brussels IV	16.627.836	2.249.355	869.676	1.903.652	47.239	21.697.758	257.260	21.955.018
Culham	6.122.297	789.951	100.554	404.245	1.269	7.418.316	117.060	7.535.376
Frankfurt	11.267.360	1.549.443	324.604	1.461.682	20.689	14.623.778	198.366	14.822.144
Karlsruhe	8.055.936	1.400.025	362.719	926.209	76.951	10.821.840	223.795	11.045.635
Luxembourg I	23.258.954	3.546.277	589.829	2.248.607	10.900	29.654.567	258.071	29.912.638
Luxembourg II	18.685.820	3.211.528	559.187	2.398.589	61.618	24.916.742	258.838	25.175.580
Mol	8.061.432	1.538.015	287.832	962.663	6.137	10.856.079	190.752	11.046.831
Munich	19.054.210	2.122.014	651.626	1.613.403	21.098	23.462.351	1.227.530	24.689.881
Varese	13.638.079	2.251.342	380.141	1.584.910	22.320	17.876.792	234.145	18.110.937

OSG	1.157.980	4.233.335	169.500	985.300	1.384.114	7.930.229	3.130.807	11.061.036
Total	219.402.270	35.551.767	7.164.977	23.812.549	1.781.189	287.712.752	7.131.270	294.844.022
% of the Total Expenditure	74,41 %	12,06 %	2,43 %	8,08 %	0,60 %	97,58 %	2,42 %	100 %
Table constructed on figures based on Table 3 Data processed on 23/02/2017 (version 2017-02-D-14-en-21 of the report)								

Key to table 5

A: Commitment items 60110100, 60110200 and 60110400: Expenditure related to seconded Staff, Expenditure related to Locally Recruited Teachers and Remunerations related to educational Support respectively.

B: Commitment item 60110300 : Expenditure related to Administrative and Ancillary Staff.

C: Commitment items 60210100 and 60220100: Respectively, expenditure related to Pedagogical Expenditure (including ICT material/software for pedagogical purposes) and Educational Support.

D: Commitment item 60120100 Expenditure related to Buildings.

E: Commitment item 60120200 Expenditure related to ICT (in particular, software for administration and training).

F: Total of Columns A,B,C,D and E.

G: Commitment items 60120400 Miscellaneous administrative expenditure and 60120300 BSGEE for the OSGES

H: Total Expenditures.

Chart 2

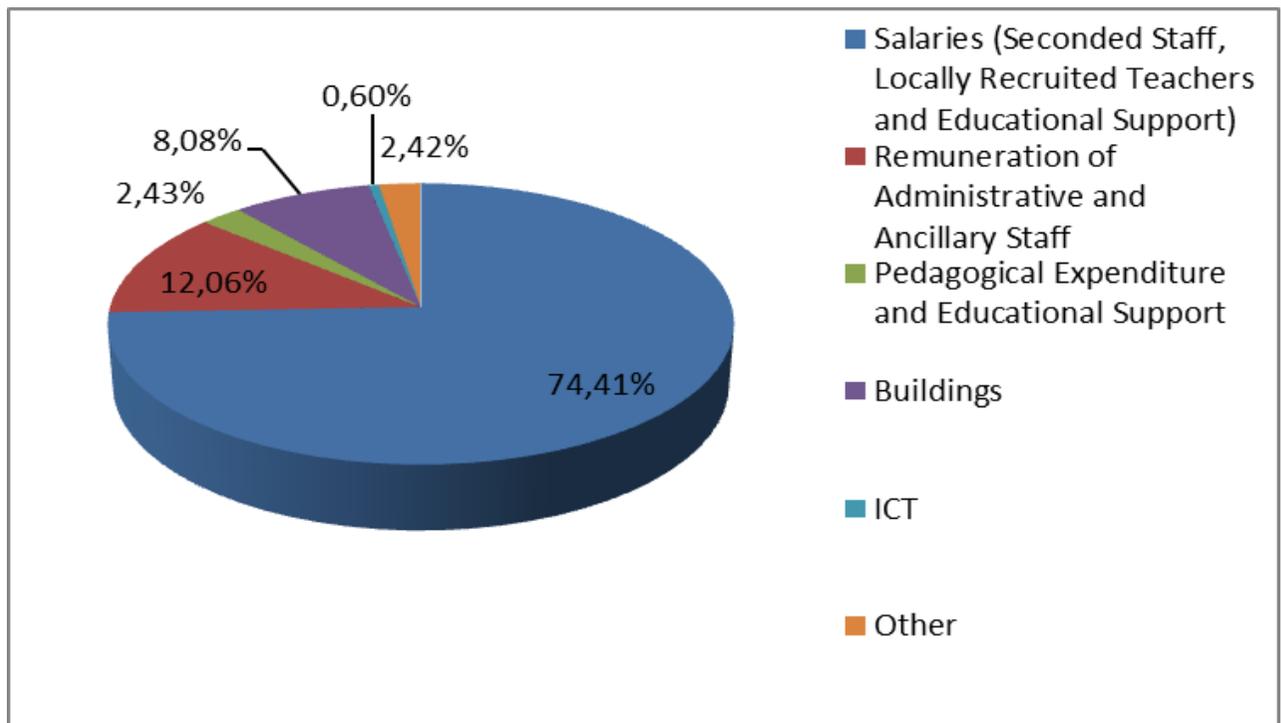


Table 6 shows the contributions to the budgets of the European Schools made by the various partners in the system over the period since 2011. The percentage for the contribution of the Member States shows a decrease in comparison with previous years and can be attributed to a large extent to the less number of seconded staff members in the 2016-2017 school year (1.404 in total) in comparison with the 2015-2016 school year (1.428 in total). The contribution of the European Commission shows a slight increase in percentage terms, although in absolute terms, the contribution increased by nine million euro, compared to 2015. It should be mentioned that the surplus of the previous financial year is not included in the total budget contributions. It should also be noted that the number of pupils belonging to Category I, increased by 780 pupils in 2016, accounting for almost 80% of the pupil population of the system as a whole. Category I pupils are mainly children of officials and contract staff (at least one year) of the EU institutions and of the staff of the European Schools, and of the European Patent Office in the case of Munich. The fees arising from Category II showed a decrease in both absolute figures and percentage terms, amounting for 11,2 million in comparison with 12,3 million in 2015, or 3,8% in 2016, versus 4,4% of the total revenues collected in 2015. The total population of Category II pupils decreased in 2016 by 8 pupils, in comparison with the year 2015, accounting for 4.00% of the total pupil population. For the first time, in 2016, 4,6 million and 0,2 million are recorded as contributions coming from the European Investment Bank (EIB) Group and the European Stability Mechanism (ESM), respectively. The revenues from Category III pupils showed an increase in absolute terms of 1,7 million in comparison with the previous year, 2015, while total population in this category increased by 16 pupils in 2016, accounting for 16,1% of the total population of pupils of the European Schools. The revenues from the other sources in 2016, remained the same as in 2015, amounting 5,3 million euro. The main source under this category is the temporary contribution/ the ‘solidarity levy’, according to Article 50 of the Regulations for Members of the Seconded Staff of the European Schools (under budget line 70320100).

Table 6: Budget contributions (excluding surplus carried forward and use of reserve fund)

		2011	2012	2013	2014	2015	2016*
Member States	€	56.197.583	55.557.843	54.463.604	54.479.484	55.008.107	53.339.888*
	%	20,4%	20,3%	20,0%	19,6%	19,6%	18,1%
Commission	€	163.975.427	163.882.693	167.081.001	167.205.308	168.938.943	177.792.782
	%	59,6%	59,7%	61,6%	60,1%	60,0%	60,4%
EPO	€	18.778.658	18.979.623	19.042.443	19.508.143	20.645.000	21.045.000
	%	6,8%	6,9%	7,0%	7,0%	7,3%	7,1%
EIB Group & ESM	€						4.812.529
	%						1,6%
Category II fees	€	14.258.680	12.953.535	11.168.395	12.987.354	12.350.398	11.196.942
	%	5,2%	4,7%	4,0%	4,7%	4,4%	3,8%

Category III fees	€	16.530.565	17.017.985	16.646.185	18.395.006	19.108.099	20.852.367
	%	6,0%	6,4%	6,1%	6,6%	6,8%	7,0%
Other***	€	5.548.971	5.471.257	2.672.967	5.570.611	5.278.720	5.297.970
	%	2,0%	2,0%	0,9%	2,0%	1,9%	1,8%
TOTAL*	€	275.289.884	274.270.240	271.074.595	278.145.906	281.329.267	294.337.478

The figures exclude the surplus carried forward (2.481.518 euro was the amount brought forward to 2016) and the use of the reserve fund.

* For 2016 the figures are based on those derived from SAP on 23 March 2017 (provisional consolidated closing) . Taken into account that the closure had not been finalized at the time of writing the report the figures are provisional and changes might occur after the closure is done.

**For 2016 the figures concerning contributions from Member States include also the extraordinary contribution from Germany amounting 716.909 euro and the one of Italy amounting 293.000 euro, respectively.

Table 7 shows a summary of receipts, expenditure and the budget surplus for 2016 . The figures for 2016 are still provisional (data based on provisional closing from SAP on the 23th of March 2017) and thus are subject to changes/confirmation, after the closure of the accounts. For 2016, the surplus is estimated to be in the region of 2,9 million € (including 0,2 million corresponding to credits brought forward from 2015 and finally not used in 2016).

Under the Financial Regulation (article 98), any budget surplus remaining after the Reserve Fund has been replenished must be entered as budget revenue for the following financial year.

For clarification purposes it should be noted that the Column E that concerns the expenditure of the financial year under question, 2016, of the Table 7 is based on the commitments approved and more precisely the Actuals + the credits Carried Forward to the next year n+1 -credits brought forward from the previous year n-1.

One point of concern should perhaps be the fact that there is nothing in the Financial Regulation that prevents the possibility of ending the year with a deficit. If the schools do not receive the revenue as estimated in the budget, they can nevertheless continue with the total amount of expenditure as originally foreseen. In practice, the Office of the Secretary-General monitors the situation to ensure that the system as a whole does not end the year in deficit, but it is a potential risk that might usefully be examined.

Table 7. 2016 : RECEIPTS, EXPENDITURE AND SURPLUS : €
(provisional figures at 23/03/2017)

	A	B	C	D	E	F	G	H	I	J	K	L	M
	Initial Budget Expenditure & receipts	Final Budget Expenditure & receipts	Actual Receipts	Difference C - B	Expenditure	Difference B - E	Surplus D + F or C - E	Exchange difference	Credits brought forward from 2015 and not used	Total surplus G + H + I	Trans- ferred to Reserve Fund *	Other results	Surplus carried forward as receipt to 2016 J - K + L
Al	12.473.594	12.085.828	12.071.428	-14.400	11.848.348	237.480	223.080	0	0	223.080	0	0	223.080
Be	8.665.381	8.673.104	8.712.035	38.931	8.452.380	220.724	259.655	0	4.302	263.957	0	0	263.957
Br I	34.609.274	36.746.723	36.325.316	-421.407	36.284.993	461.730	40.323	0	19.166	59.489	0	0	59.489
Br II	32.539.194	32.460.739	32.562.276	101.537	32.397.210	63.529	165.066	0	28.829	193.895	0	0	193.895
Br III	30.902.796	31.205.010	31.203.183	-1.827	30.526.275	678.735	676.908	0	10.704	687.612	0	0	687.612
Br IV	18.831.412	21.986.491	22.047.313	60.822	21.955.018	31.473	92.295	0	24.469	116.764	0	0	116.764
Cu	8.251.460	7.748.460	7.967.960	219.500	7.535.376	213.084	432.584	0	5.133	437.717	0	0	437.717
Ff	13.742.472	14.875.118	14.854.852	-20.266	14.822.144	52.974	32.708	0	5.765	38.473	0	0	38.473
Ka	11.464.064	11.517.064	11.589.014	71.950	11.045.660	471.404	543.354	0	4.353	547.707	0	0	547.707
Lux I	29.774.124	29.982.124	29.199.004	-783.120	29.824.614	157.510	-625.610	0	27.027	-598.583	0	0	-598.583
Lux II	24.671.793	25.200.793	24.822.819	-377.974	25.175.580	25.213	-352.761	0	42.115	-310.646	0	0	-310.646

Mol	11.267.142	11.219.142	11.658.319	439.177	11.143.436	75.706	514.883	0	447	515.330	0	0	515.330
Mun	25.084.045	24.818.264	24.992.679	174.415	24.689.881	128.383	302.798	0	4.401	307.199	0	0	307.199
Var	18.950.937	18.110.937	18.449.681	338.744	18.110.937	0	338.744	0	0	338.744	0	0	338.744
OSG	11.027.685	11.077.185	11.019.621	-57.564	10.932.629	144.556	86.992	0	24.904	111.896	0	0	111.896
Total	292.255.353	297.706.982	297.475.500	-231.482	294.744.481	2.962.501	2.731.019	0	201.615	2.932.634	0	0	2.932.634

One of the functions of the financial controller, specified by article 100 of the Financial Regulation, is to give advance approval to the use of the Reserve Funds to meet short-term cash-flow problems in the schools. There are two Funds: a centralized Fund for all schools, except Munich, and a separate Fund for Munich. In 2016, the Centralized Fund was used three times to meet short-term cash flow problems at Karlsruhe (2x) and at Frankfurt.

It should be noted that the School of Frankfurt still has to transfer back to the Reserve Fund the amount of 700.000 euro.

8. Expenditure

8.1 Seconded staff - salaries and allowances

The financial control unit monitors the monthly salaries and allowances of seconded staff through sample checks on the data in the salary system. Starting from May 2013, the Schools, are now asked to submit to the Financial Control Unit analytical data concerning the calculation of aggregated figures stated in the "Ordres de Paiement" and tables that include all the staff they employ.

Although an objective is to make sample checks on salary and allowances of newly appointed or transferred seconded staff, in practice this is difficult to achieve, since it normally requires an on-site check of each individual file. There is still a backlog as reported in previous years, since other priorities took precedence.

During the financial year 2016, from the financial control point of view, particular attention was given to the right posting of the salaries in the new accounting software. Several refusals of the posting of the salaries were given due to non-compliance with the segregation of duties. Sporadic ex post controls were made to verify the correctness of the allowances granted. Special attention was given on the calculation of the severance grant during the second half of the 2016 financial year especially for the U.K. teachers due to the variation of the exchange rate between euro and the British pound. It was asked that the correct data, according to Article 72, would be the one of 1st of July 2016. Further that if different data were used for the initial calculation (commitment) then the necessary adjustments/withholding should be made in order to secure that the amounts actually paid were correctly based on data of 01.07.2016 announced by the Accounts Unit.

It should be noted that since 2014 particular attention has been paid to the non-systematic transmission of national salary slips by the national authorities to the Directors of the Schools. In this respect, in his letter of 4 September 2014 (2014-09-LD-3) but also by oral communications during the Budgetary Committee and the Board of Governors, the Secretary-General has reminded the delegations what is laid down in Article 49 2 (a) of the Regulations for Members of the Seconded Staff : *"The competent national authorities shall pay the national emoluments to the member of staff and shall inform the Director of the amounts paid, specifying all the components taken into account for calculation purposes, including compulsory social security deductions and taxes."*

In November 2015 a follow-up letter on the action plan requested in relation to the observance of article 49 2 a) of the Regulations for Members of the Seconded Staff was

sent to the Heads of Delegations. In March and in November 2016 a presentation on the state of play of the transition of the national salary slips was made by the Head of the Accounts Unit in the respective meetings of the Budgetary Committee and very recently in view of the Budgetary Committee in March 2017, letters from the Accounts Unit were addressed to the delegations not progressing in transmitting the salary slips to comply with Article 49 par. 2 of the Staff Regulations

As far as the explanations on the elements that are included in the salary slips are concerned, the financial control unit conducted a review among the Schools and in the General Secretariat to see the state of play in relation with this issue. As a follow up of this review the Unit uploaded the relevant information received by the delegations (only a limited number of delegations have responded so far), in a platform dedicated for this purpose in order for the schools to consult them in cases of ambiguity in interpretation and for securing a uniform approach across the Schools of the same emoluments.

It should be mentioned that the Unit is frequently consulted by the Schools for giving an interpretation on the right elements that it should be taken into account especially for the national basic salary that is used for the calculation of the severance grant in accordance with Article 72 of the Staff Regulations.

It may be also mentioned that concerning the matter of possible negative amounts from differences between EU remuneration and national salaries (this is, in the -few- cases where the national salary is higher than the European salary), a Memorandum was issued in June 2015 in order to provide an harmonized accounting approach.

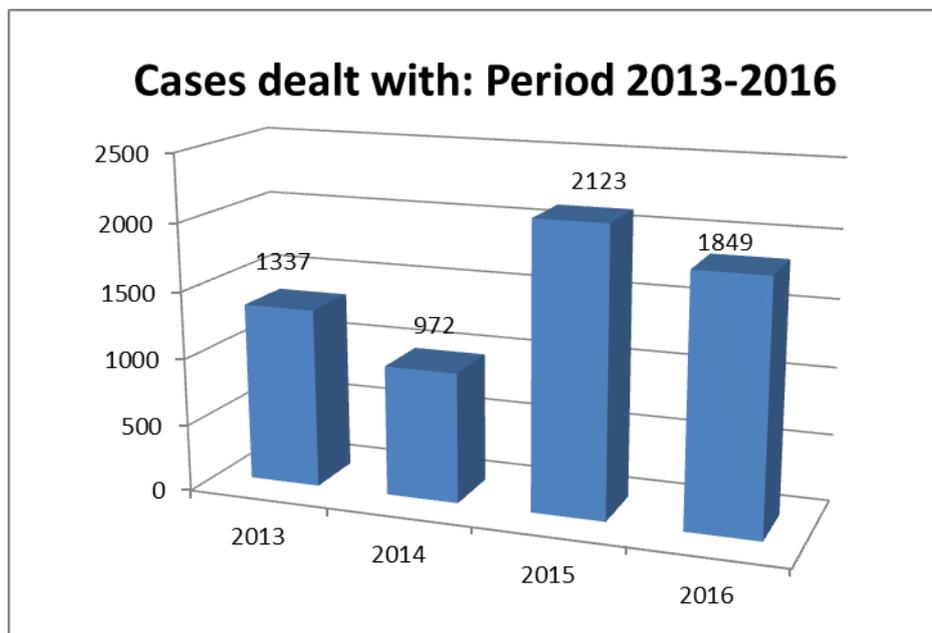
8.2 Differential adjustment

The differential adjustment can be an amount which, depending on the national taxes to be paid by each member of staff, is added to or subtracted from the European salary of a member of the seconded staff. This adjustment is calculated provisionally during the year, on the basis of the tax shown on the national pay slips. After the year has ended, as soon as the definitive tax certificates/statements are available, a definitive calculation is made as soon as possible. The schools are charged with ensuring that members of their staff provide their tax certificates/statements; the tax sub-unit of the Office of the Secretary-General makes the definitive calculation of the differential adjustment using that document.

The definitive differential adjustment calculation is based on a thorough fiscal analysis which is updated annually to take account of developments in national tax legislation. In addition, the tax sub-unit conducts a comparative study each year of the different countries' national tax legislation in order to guarantee equal treatment for each member of staff, coming as they do from different Member States.

In 2016, 1 656 new cases pertaining to the financial year 2015 were registered and 1 849 cases were settled. That result is very encouraging and promising, bearing in mind that in 2014, it was only possible for 972 definitive calculations to be made by the tax sub-unit (see chart 3 below).

Chart 3



Indeed, so as to shorten considerably the time which members of staff have to wait for their tax file to be dealt with, the tax sub-unit set up a **two-year work plan** (from 1 January 2015 to 31 December 2016), with the objective of returning to a **reasonable three-month waiting period**. To do so, the tax sub-unit focused, throughout this action plan's duration, solely on its main and exclusive task, meaning that lower priority or less urgent tasks had to be put on hold. Those tasks nevertheless remain essential and will still have to be performed after the action plan has ended. For the year 2016, the waiting period of 9-10 months in 2014 was brought down to **approximately three months (for cases prior to 2015)**.

During the year 2016, the tax sub-unit investigated an adaptation of the presentation of the final calculation of the differential adjustment (applicable to the tax programs as from 2015). This adaptation's objectives are:

- to respond to the requests for transparency regarding waiting periods;
- to provide members of the seconded staff with a more detailed comparative reading of the definitive calculation of the differential adjustment and the national tax certificate/statement;
- to explain, using an illustrative diagram, the basic principles of Article 49 (European supplement and differential adjustment);
- to set out the legal references, the means of contact and the appeal possibilities in the event of dispute.

The actual programming of the new 2015 calculations is scheduled for the first half of 2017.

In addition, in order to regularise the situation with respect to outstanding cases (cases without supporting documents) and to guarantee speedy receipt of missing documents, the schools received instructions to apply the following measures:

- As from April of the year N: application of **deductions** from the European salaries of members of staff who have not submitted the documents required for

their case dating from the years N-3 (memorandum 2007-M-11, drawn up on the basis of the decision of the Board of Governors of 31 January and 1 February 2006). These deductions are made until national tax has been reduced to zero.

- At the time of the member of staff's departure from the school: application of more intuitive and more harmonised actual **minimum deductions** from the severance grant or other allowances on account of the differential adjustment to be received (new procedure introduced in accordance with memorandum 2014-12-M-1/KK applicable as from 4 December 2014).

On the basis of the information received on 31 December 2016, out of a total of 2 938 outstanding cases (from the year 2000 up to the year 2015), the tax sub-unit counted 658 cases in total for which a deduction was made. In 197 cases national tax was reduced to zero, thus limiting the risk of financial loss for the European Schools.

Rigorous application of these measures by the schools concerned, in close cooperation with the tax sub-unit, enabled the number of outstanding cases to be reduced considerably. To date, no more cases without a deduction before 2000 remain pending. The measures guaranteeing the receipt of documents should prevent recurrence of the build-up of outstanding cases, as was seen in previous years.

Table 8 Summary of differential adjustment outstanding cases (staff in and out of the European Schools)

	Cases 2000-2010			Cases 2011-2015			Total
	in EE	out of EE	Total	in EE	out of EE	Total	
Al	3	16	19	152	95	247	266
OSGES	0	0	0	9	1	10	10
Bergen	0	3	3	50	18	68	71
Br I	5	37	42	268	258	526	568
Br II	16	22	38	239	177	416	454
Br III	2	26	28	225	102	327	355
Br IV	0	0	0	82	20	102	102
Cu	4	21	25	17	12	29	54
Ff	0	0	0	51	13	64	64
Ka	0	1	1	56	17	73	74
Lux I	8	70	78	169	85	254	332
Lux II	3	4	7	102	45	147	154
Mol	0	9	9	64	42	106	115
Mun	0	0	0	102	33	135	135
Var	0	1	1	101	82	183	184
Total	41	210	251	1687	1000	2.687	2.938

Compared with the last few years, it can be seen that the number of outstanding cases pertaining to the years 2000 to 2010 is continuing to fall (251 outstanding cases in 2016 as compared with 358 in 2014). The reduction in the number of outstanding cases in two years is almost 50%.

It is to be noted that the majority of schools provide their respective Administrative Boards with regular reports on the status of cases that are outstanding. Nevertheless, submission of this information is not yet standard practice. A particular effort still needs to be made by some schools (see Table 9 below).

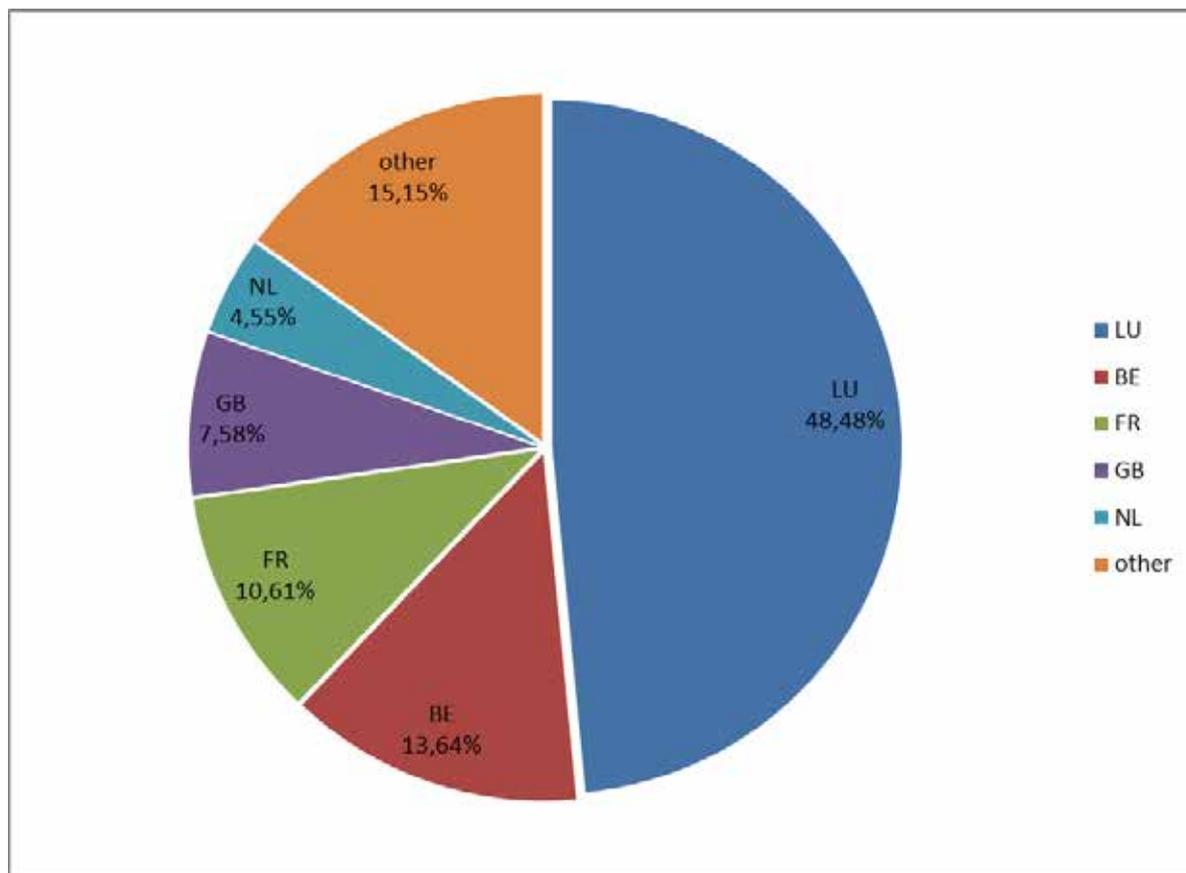
Table 9 Outstanding cases for the period 2000-2015

	Backlog of cases from 2000 to 2015																Total
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Al							2	2	2	6	7	13	34	52	68	80	266
OSGES														1	4	5	10
Bergen									1	1	1	1	2	4	24	37	71
Br I					1			2	6	13	20	46	64	99	129	188	568
Br II	1				1	1	1	2	3	5	24	57	68	73	91	127	454
Br III						1	1	1	5	8	12	12	14	12	110	179	355
Br IV												2	1	6	18	75	102
Cu	4	2			1	3	1	1	2	5	6	4	3	2	7	13	54
Ff												1	1	3	12	47	64
Ka	1											2	2	5	20	44	74
Lux I	3	6	5	5	5	9	10	9	7	7	12	18	17	20	69	130	332
Lux II									2	2	3	5	5	11	27	99	154
Mol	1				1				1	1	5	6	13	14	25	48	115
Mun												3	6	5	25	96	135
Var											1	3	11	27	55	87	184
Total	10	8	5	5	9	14	15	17	29	48	91	173	241	334	684	1255	2938

Finally, as illustrated in the chart below, for the period of the oldest outstanding cases (period from 2000 to 2006), it can be seen that missing documents involve mainly seconded teachers of Luxembourg nationality.

Outstanding cases for the period 2000-2006 (by nationality)

Chart 4



8.3 Allowances on arrival and departure

The Financial Control Unit carries out sample checks on a high proportion of the allowances payable on arrival and departure of seconded staff members and the reimbursement of removal expenses, in view of the substantial amounts involved. The checks also include verification of the amounts withheld in respect of outstanding differential adjustment.

Thanks to checks on the above mentioned allowances, some ambiguous cases in the field of installation allowances came into light and led to the preparation and release of a new Memorandum in 2012 (Ref.: 2012-07-M-5-en-1), in order to clarify the implementation of these rules. The ambiguity in the case of the installation allowance is mostly related to the question whether the member of staff had really relocated to a new place of residence and if they were in fact accompanied by other members of the family.

For the departure allowance, the schools make an initial payment before the Board of Governors decides on the annual adjustment of remuneration for the year in question. The final amount is paid when the new rates (of adjustment in remuneration) are known. Taking into account the above, special attention was given on the calculation of the severance

grant during the second half of the 2016 financial year especially for the U.K. teachers due to the variation of the exchange rate between euro and the British pound. It was asked that the correct data, according to Article 72, would be the one of 1st of July 2016. Further the Schools were given the instruction that if different data were used for the initial calculation (commitment) then the necessary adjustments/withholding should be made in order to secure that the amounts actually paid were correctly based on data of 01.07.2016 announced by the Accounts Unit.

The crucial thing that was pointed out in the communication with some of the Brussels located schools, where high number of UK teachers was present, was the fact that since the payment implied important consequences for the School budget, a relevant withholding should be made taking into account especially the fact that the proposed correcting coefficient was going down from 166,9 to 141,8. The issue was how to secure that appropriations that would have to be paid already could be recovered back if the final calculation including the new correcting coefficient showed that a considerable amount of money should be given back from the teachers.

In the context of the ex- ante verification of the departure allowances there were some corrections and suggestions to few Schools on the amounts proposed for the Spanish teachers, since after the introduction of the relevant Memorandum (Ref.: 2013-04-M-2/KK) and the decision of the Complaints Board in 2015, additional elements should be taken into account for the definition of the basic national salary for the purpose of calculating the departure allowance, thus reducing the money the School's budget should pay.

It is mentioned that since 1st September 2014 the provisions governing the granting of the reinstatement allowance have changed. Under the new provisions the "70km" condition foreseen in the former Article 58.7, was considered by the Complaints Board to be discriminatory and it is no longer applicable from 1.09.2014. The resettlement shall now take place within one year (instead of three years previously) of the date of termination of the service of the staff member concerned.

8.4 Locally recruited teaching staff (chargés de cours)

In April 2016 the new 'Service Regulations for Locally Recruited Teachers in the European Schools' have been adopted by the Board of Governors by written procedure. The new Service Regulations entered into force on 1 September 2016. They foresee a two-years contract which can be prolonged once for another two years. After four years a contract for an unlimited period of time is foreseen provided that the evaluation of the teacher is positive. Moreover, the new Service Regulations establish proper recruitment and appraisal procedures, a staff representation, access to professional development and entitle locally recruited teachers to the reimbursement of removal costs and the participation in a merit based step system. Finally, the mobility of locally recruited teachers among the schools will

be promoted. All these measures aim to recognize the Locally Recruited Teachers to be integral part of the European Schools' teaching staff.

8.5 Locally recruited administrative and service staff (AAS)

According to the revised Financial Regulations and the revised Regulations for Seconded Staff Members of the European Schools the function of 'Accounting Officer' is no longer exclusively to be executed by the Bursars of the Schools. Consequently the Service Regulations for Administrative and Ancillary Staff (AAS) of the European Schools were amended to allow that also members of the AAS can be mandated by the Administration Boards of the Schools with this specific function.

8.6 Appeals

Seconded staff (teachers or others) and part-time teachers (except AAS) have the right to take disputes to the Complaints Board in accordance with article 80 of the Regulations for Members of the Seconded Staff of the European Schools.

In 2016, 9 appeals have been lodged by teaching staff before the Complaints Board : 6 have been dismissed and 3 removed from the Registry.

Complete information is contained in the "Annual report for the year 2016 of the Chairman of the Complaints Board of the European Schools" also presented in this Budgetary Committee.

8.7 Sickness insurance fund

The financial controller is a member of the management committee of the Sickness Insurance Fund. Until 2007, the rate of contribution to the Fund was deliberately set below the level needed to cover expenditure in order to reduce a substantial surplus that had built up. In April 2007, the Board of Governors agreed with a proposal from the committee to increase the contribution rate with the intention of balancing income and expenditure and thus stabilising the reserves. The increase took effect from January 2008. As shown in Table 10, income and expenditure were almost equal in 2008. In 2009, there was a significant reduction in expenditure which resulted in a net surplus of €1.5 million (including an additional €0.2 million as a result of the adoption of new accounting standards). For 2010, the surplus amounted to €0.7 million. The figures for 2011 showed a surplus of 0.8 million.

The figures for 2012 showed a surplus of €1,3 million, mainly due to less expenditure by almost € 1 million, compared to the previous year. The figures for 2013 showed a surplus of € 1,1 million. The figures for 2014 showed a surplus of € 1,1 million in line with the development in the last years. The figures for 2015 showed, as in the previous years a surplus of € 1,2 million.

During 2015, it was under discussion at the management committee the possibility of reduction of the contributions, although the opinion of the majority of the members was to keep them at the existing level, for reasons of prudence. The Board of Governors agreed with this approach not to make changes on the level of contributions.

The figures for 2016 are based on provisional data, as of 23th of February 2017, nevertheless according to the available data received, a surplus of 0,8 million is foreseen. The net assets at year end, is expected at 12,1 million, including the movements in the fair value reserve (the cumulative unrealised changes in fair value of the fixed revenue investment portfolio at the balance sheet date).

Table 10. Sickness insurance fund (€million)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*
Contributions	1.6	1.6	3.6	3.7	3.7	4,0	3,7	3,7	3,6	3,4	3,3
Interest	0.2	0.3	0.2	0.2	0.2	0,3	0,3	0,2	0,4	0,3	0,1
Total income	1.8	1.9	3.8	3.9	3.9	4,4	4,0	3,9	4,0	3,7	3,4
Expenditure	2.9	3.2	3.7	2.6	3.2	3.6	2,7	2,8	2,9	2,5	2,6
Annual surplus / deficit	- 1.1	- 1.4	+ 0.1	+ 1.3	+ 0.7	+0,8	+1,3	+1,1	+1,1	+1,2	+0,8
Net assets at year end**	5.0	3.6	3.7	5.3	5.8	6.5	7.8	9.1	10.2	11,2	12,1**

* Based on provisional data as of 23th of February 2016. Final set of accounts (after audit) will be available beginning of May 2017.

** The net assets at year end, for all of the years, includes also the fair value reserve (either positive or negative) and not just the result of the year.

8.8 Other running costs and capital expenditure

For expenditure in Chapters 2 and 3 (non-staff running costs and capital expenditure), the financial control unit selects a sample of transactions for verification and prior approval.

Major changes in purchase procedures in the new Financial Regulation came into force in January 2008 and in 2011. More recently a new set of rules on tendering procedures, mainly on low value contracts, came into force as from 1st January 2015, in the framework of the last review of the Financial Regulation. The new rules are easing the procedures to be followed for low value contracts but on the other hand foresee increased publicity for this type of contracts, thus enhancing transparency. The Financial Control Unit having cooperated with the Accounts Unit, elaborated and updated the Aide Memoire on the purchase of goods and services. The new memorandum that is in place and used by the Schools, was released by the Secretary General on the 30th of September 2016 (Ref.: 2016-09-D-83-en-1).

The financial control unit devotes a considerable amount of time to checks on tender procedures and advice to the schools. As the schools have now become more familiar with the requirements, compliance with the procedures has improved, but there is still some way to go. During the last years special attention was given to the right implementation of the European Court of Auditors' observations concerning procurement procedures and the necessity of the Schools to follow a full tendering procedure for all purchases above 15.000 euro as from 01.01.2015. The recommendations issued by the Unit in this regard had to do with the necessity for the Schools to program and justify their needs by using the right supporting documentation in the accounting software introducing a pre commitment well in advance before the signature of any contract, in accordance with Article 33 of the Financial Regulation. Guidance was also given on how to conclude framework contracts and to make use of the possibilities not to issue invitations to tender under certain conditions and requirements fully described in Article 70 of the Financial Regulation. Attention was paid on the evaluation reports and on the clarity of the criteria for evaluating the offers laid down in the specifications of each particular tendering procedure.

The Financial Control Unit, in the course of the works for the revision of the Financial Regulation prepared the text for the alignment with the E. U. rules on procurement, while at the end of the year issued instructions for the Schools on how to treat with the security budget in the accounting software.

9. Receipts

9.1. School fees – administration

The three main elements in the correct calculation and collection of school fees are:

- the classification of pupils into one of the three categories fixed by the Board of Governors, which determine the level of fees payable;
- decisions on reductions in school fees, on grounds of financial hardship and family component;
- the follow-up of unpaid invoices.

9.1.1. Classification of pupils

The Court of Auditors has emphasised the need for an annual check to verify the status of pupils in Category I (parents employed by EU institutions or other qualifying employers, not subject to school fees). The Directors now countersign a summary record of these checks, and these are normally supplied to the financial control unit as confirmation. Cases where the pupils change category during the course of the year have continued to cause difficulty. There has been some confusion over the status of temporary officials who continue to receive unemployment and family allowances when their employment is terminated. Nevertheless, the rule is that as from the date of termination of the contract, temporary agents do not meet the condition of being directly employed by an EU institution. These parents therefore are considered Category III immediately from the date when their contract of employment terminates, irrespective of any benefits they get after the

termination of their services. With regard to staff of the Permanent Representations, the schools need to verify that only national officials, excluding staff recruited locally, are given Category I status.

9.1.2. Fee reductions

Reductions in school fees on grounds of financial hardship require the schools to verify the annual income of applicant parents. This can be a complicated and time-consuming process.

Tables 11 and 12 show the number of pupils receiving a reduction of fees and the amount of revenue foregone, respectively.

Table 11. Reductions in school fees (number of pupils) – 2011/2012 to 2015/2016

	11/12	12/13	13/14	14/15	15/16	5 year change %	15/16 Redn. / Cat III population %
Al	30	18	12	11	1	-96,67	0,28%
Be	50	45	36	36	36	-28	8,89%
B I	4	6	6	4	2	-50	2,63%
B II	8	9	8	8	2	-75	3,23%
B III	7	9	6	3	3	-57,14	4,76%
B IV	1	1	1	0	0	-100	0,00%
Cu	38	42	38	39	35	-7,89	10,23%
Ff	6	5	2	0	5	-16,67	3,31%
Ka	47	38	33	24	27	-42,55	5,74%
Lux I	6	4	6	9	10	66,67	1,92%
Lux II	0	2	0	0	0	N/A	0,00%
Mol	92	103	108	93	87	-5,43	15,05%
Mun	31	28	22	20	0	-100	0,00%
Var	44	24	36	30	28	-36,36	7,55%
Total	364	334	314	277	236	-35,16	5,48%

(Figures extracted on 20/02/2017 via Business Object application. Document Ref.: "2016-10-D-2-en-1" "Facts and Figures on the Beginning of the 2016-2017 School Year in the European Schools")

As it results from Table 11, the number of pupils being granted a reduction in school fees has gradually decreased over the years and this trend has been kept also in 2016. The reduction in terms of number of the pupils who finally received a reduction in school fees reached around -35,16% during the previous five year period (236 pupils in 2015/16, in relation to 364 pupils in 2011/2012 school year). The big reduction in the absolute number of cases is mainly the result of the reduction in the number of Category III pupils over the same period, around 9,8% decrease since 2011.

As in previous years, the school of Mol has the highest proportion of reductions equal to 15,05% (although less than last year: 16,58%) of pupils receiving reductions in fees. Culham, Bergen and Varese Schools follow with 10,23%, 8,89% and 7,55%, respectively.

In 2016, 5,48% of the total Category III pupils, received a reduction in school fees, almost 1 percentage unit less compared to 6,46% in 2015.

The decrease in the number of Category III pupils is reflected as well in the value of the total amount of these reductions as shown in Table 12, below. In 2015/2016 the total amount of revenue foregone has reduced by -25,62 % since 2011/2012, reaching the amount of **681.786** euros, 77.522 euros less than 2014/2015 for the whole system. The Munich School had no reduction in school fees during 2015/2016 year. The Schools that have done the lowest reduction in school fees are the one of Alicante, Brussels I and Brussels II with the highest percentage changes compared to 2014/2015 school year of -86,32%, -83,61% and -37,60% respectively. The School of Karlsruhe has performed more reductions (36,50%) than previous school year. In total reductions performed in the whole system (-10,21%) have been almost doubly reduced since last year (-5,97%).

For the Schools of Bergen, Culham, Karlsruhe, Mol and Varese, the Unit requested confirmation about the amounts depicted in Table 12 and regarding the fact that all supporting documentation was submitted by the families before receiving the reduction. The Unit will continue to closely monitor the development of the reductions in the system considering also to propose the inclusion of this topic in the future ex-post control plan for the 2018 financial year.

Table 12. Reductions in school fees (euro) – 2011/2012 to 2015/2016

	11/12 €	12/13 €	13/14 €	14/15€	15/16	5 year change%	14/15 to 15/16 change %
AI	53.014	33.869	19.617	18.787	2.570	-95,15	-86,32
Be	156.448	135.986	113.705	107.631	109.627	-29,93	1,85
B I	16.977	22.021	21.093	28.234	4.628	-72,74	-83,61
BII	24.821	25.845	25.351	25.858	16.136	-34,99	-37,60
B III	18.072	19.119	13.291	8.538	8.963	-50,40	4,98

B IV	2.787	3.877	3.483	0	0	-100,00	N/A
Cu	95.749	112.366	84.555	90.140	81.850	-14,52	-9,20
Ff	17.839	13.768	5.932	0	9.188	-48,49	N/A
Ka	92.394	85.647	78.903	61.662	84,172	-8,89	36,50
Lux I	18.537	12.104	14.832	24.111	22.809	23,05	-5,40
Lux II	0	5.815	0	0	0	N/A	N/A
Mol	225.973	227.207	270.474	258.321	258.548	14,42	0,09
Mun	88.693	82.993	64.559	62.845	0	-100,00	-100,00
Var	105.360	74.068	91.759	73.181	82.890	-21,33	13,27
Total	916.664	854.685	807.555	759.308	681.786	-25,62	-10,21

9.1.3 Unpaid invoices

The Financial Control Unit monitors the decision of the Board of Governors that, if the fees are not paid at the end of the school year, the pupils in question should not be admitted for the following year, unless the Administrative Board extends the time to pay. This policy is now understood and applied in all the schools. The outstanding fees at September 2016 have been decreased by 20%, compared to the previous year. In relation with the outstanding fees in Mol, the situation, based on the available data, shows an improvement having the outstanding school fees from previous school years at the date of the Adm. Board at the beginning of September at the level of 82.840 euro, compared with 119.454 at the beginning of 2015. On the other hand it should be noted that the written offs showed a slight increase reaching the amount of 101.290 euro for the 5 year period from April 2012 to February 2017, in comparison with the amount of 92.272 euro that concerned the five year period between April 2011-February 2016. Concerning the School of Brussels I according to the information received the open amount on 01.09.2016 was formulated at the level of 103.405 euro, out of which an amount of 86.061 is related, based on the last available data, with the financial year 2014. The financial control unit will further monitor the issue of outstanding fees and of the written offs in the Schools in order to follow up on the future developments and in order to contribute in reducing the relevant amounts still due at the beginning of each school year and to get the right justification for the written off amounts.

It should be mentioned that to write off amounts not received it is a decision that is taken by the Administrative Board, based on the justification provided by the Schools.

Concerning the written offs fees for the period April 2012-February 2017 reached the amount of 211.902 euro, out of which 85.797 have been take place during the last year from April 2016 up to February 2017.

The deadline for the advance payment of 25% of the fees for the following school year is 30th June. This date is generally respected; in practice, payment by instalments is sometimes accepted, but not beyond the start of the new school year.

Table 13 Uncollected school fees and amounts written off (euro)							
	Outstanding at Sep. 12	Outstanding at Sep. 13	Outstanding at Sep. 14	Outstanding at Sep. 15	Outstanding at Sep. 16	Written off Apr. 2012 – Febr. 17	Written off Apr. 2016 – Febr. 2017
Al	31.393	43.036	50.115	34.336	33.699	0	20.730
Be	12.905	40.431	6.738	23.396	23.686	3.546	2.626
B I	19.727	4.507	87.564	112.346	103.405	4.179	0
B II	8.341	8.341	8.341	8.804	7.934	4.624	4.624
B III	28.372	33.155	17.351	13.129	16.684	30.057	4.178
B IV	9.193	11.768	13.835	16.539	41.401	0	5.937
Cu	18.442	26.957	7.028	6.045	157	19.563	125
Ff	10.482	10.482	10.482	10.482	0	0	0
Ka	3.013	9.362	5.399	4.468	3.316	7.992	0
Lux I	47.609	46.193	44.914	45.022	36.542	16.079	0
Lux II¹	0	0	3.955	3.955	0	3.955	2.468
Mol	99.751	186.254	120.894	119.454	82.840	101.290	13.435
Mun	0	0	2.989	30.345	4.162	9.787	9.787
Var	2.317	6.951	0	25.430	8.173	10.830	21.887
Total	291.545	427.437	379.605	453.751	361.999	211.902	85.797

9.2. Other receipts

In the previous reports, attention was drawn to the cost of furniture and equipment at Brussels II, III and IV, which was charged to the budget although, in the view of the European Schools, it should have been provided free of charge by Belgium under the terms of the Agreement of 1962. The total amount requested by the Schools from 1995 onwards stood at over €1 million. In April 2006, the Board of Governors expressed the wish for an urgent resolution to this outstanding question. The Commission subsequently launched an infringement procedure in 2007 leading to an application to the European Court of Justice (ECJ) in 2009. In September 2010, the ECJ issued its judgement that it does not have the jurisdiction to rule on the matter. No information is available of further relevant action been adopted since this judgement.

It has been also reported for several years that, following a back-dated change in Belgian legislation on family allowances, a substantial payment was expected from Belgium to the Schools. As mentioned in these reports, the school of Mol served as a “test case”, and it was understood that the national authorities had accepted the form and content of the presentation of the data necessary to establish the amount payable, which were expected in early 2011, although not materialised. However, no written evidence has been found by the financial control unit about the concrete details of this matter, for which exist no information available of further relevant action been adopted during the last financial year.

The financial control unit foresees to help the BSGEE checks in the course of 2017 with the national relevant authorities the concrete state of play of this issue.

10. Accounting and administrative procedures

10.1 in accordance with the reiterated recommendation of the European Court of Auditors, one of the main modifications made in the revision operated in the text of the Financial Regulation approved by the Board of Governors on December 2014 was the introduction of accruals accounting for the European Schools, as this is now expressly stated in the Article 76 of the current text of the Financial Regulation.

On the other hand, explicit reference was also made after the said revision (Articles 86 and 87 of the current text of the Financial Regulation) to the basic principle that the accounts should present a true and fair view of the budget implementation and financial situation of the Schools. In this line, it is also stated in Article 87 the obligation for the accounting officers to sign off the accounts, thereby certifying that he/she has reasonable assurance that the accounts present a true and fair view of the financial situation of the School.

As per the accounting framework, reference was explicitly made to internationally accepted accounting standards for the public sector in Article 86.

In order to assist the Schools in the process of closing the 2015 accounts under the new accounting framework, a consulting contract was signed with the company Price Waterhouse & Coopers, using as a reference the consulting contract this company had with the European Commission. In this framework, guidelines and templates were provided to the Schools to favour an harmonised approach in the closing of the 2015 accounts in line with the IPSASs (International Public Sector Accounting Standards). The cooperation of PWC has been extended to the assistance in the activities connected with the closing of the financial year 2016.

10.2 As far payment procedures are concerned, as reported on previous year, a new Memorandum was released in October 2013, following the principles recommended the Court of Auditors and by the IAS. The principles and rules stated in the Memorandum (in particular, the rules related to the signature of the Authorising Officer on the electronic payment systems, and the rule related to the necessity of two signatories), are considered to be applicable until an effective link is in place between the accounting software and the electronic payments systems, what it is in progress in the framework of the implementation of the new software SAP. In this sense, the wording for article 49 of the Financial Regulation states that *“(...) Payments shall be effected as a general rule through a bank account by electronic means (...) In particular, until an effective link is put in place between the accounting software and the electronic banking payment systems, payment of expenditure shall receive the joint signature on bank transfer orders of two duly authorised officials”*.

This principle is further developed in the Guidelines for Segregation of Duties on Financial Circuits released on 31st July 2015 by the Secretary-General: *“(...) an automatic and effective link is considered the situation where the transaction approved by the AO is automatically and securely transferred to the electronic payment systems, without necessity of further manual intervention/possibility of alteration. Additionally, this implies that the accounting software SAP is the only channel used for the execution of payments.*

Under these premises, and taking also into account the informal feedback received from the Internal Audit Service, the transmission of data via a protected USB-stick (used as an interface between the SAP server, through OSG server, with the local banking software) is not considered as an automatic and effective link. In these cases, the member/s of staff authorized to transfer the payment related data via the mentioned USB-stick should be considered as “accounting clerk” for the purposes of the workflow for the execution of the payments on the electronic banking systems (page 2 of the Memorandum) (...).”

In addition to the above, it may be underlined that since the architecture of ISABEL and of the other electronic payments systems already connected with SAP do not allow them to be configured in a way such as to accept only payments coming exclusively from the accounting software SAP (this is, to avoid the possibility of a payment manually introduced in ISABEL/other electronic payment systems), the rule of the two signatories needed for any payment is still kept as compulsory for the whole European Schools system, (this is even for Belgian Schools –where the connection SAP-ISABEL is already in place-, for the Schools in Luxembourg –where the connection SAP-MULTILINE is already in place- and for the School of Varese, –where the connection SAP-Syncro is already in place-), for reasons of security in payments. Further analysis could be done about the fact whether the introduction of a SWIFT connection for payments (or an equivalent one), as in the European Commission, could be feasible in the European Schools and the potential additional benefits/costs in comparison with the current system.

Further information on financial administration can be found in the latest report of the Court of Auditors, which gives a general overview of the accounts of the European Schools for 2015, together with observations arising from the reviews carried out during 2015 at Luxembourg I, Frankfurt, and the OSG. About this report, which was presented by the Court at the Board of Governors of December 2016 (document 2016-11-D-28-en-1), it may be underlined that, without prejudice to significant weaknesses still pointed out by the Court on accounting procedures and internal control systems, the Court stated that its limited assurance review performed did not reveal material errors in the financial statements of the European Schools for 2015.

10.3 Concerning, the project related to the new accounting software (SAP), we could refer to the following main elements and state of play:

SAP ERP has been “live”/come into play as from beginning 2015. For that challenging start the need for extra support to the Schools was identified, and several actions (trainings, teleconferences, visits on the spot etc) were taken in this sense to assist the end users of the software.

Some of the principal topics that have been and continue to be treated with high priority are the following:

- ü *Banking:* As mentioned also above, currently there is an automatic link between the accounting software (SAP) and the electronic payment systems for the following Schools: all Belgian Schools and the OSG, (via ICS/ISABEL); for the two Schools in Luxembourg (via ISAGATE/MULTILINE); and for the School of Varese (via SYNCRO).

- ü *Segregation of Duties:* Review of all end users' profiles in the system for the sake of alignment with the new profiles proposed by the Schools under the concept of Segregation of Duties, in accordance with the Guidelines for Segregation of Duties on Financial Circuits issued by the Secretary-General. This has proven to be a heavy task for the OSG especially taken into account the available resources. A detailed work, by identifying and attributing transactions to relevant roles in SAP, has started beginning of the year in order to reassure that SODs in the system depict the exact situation of the approved proposals of financial circuits management at Schools.
- ü *Master Data:* They refer to all centrally stored data used by more than one application and several users / groups (eg. Vendor master data, customer master data, bank accounts). Since there was no workflow for approving the changes in any Master Data available in the system, it was decided, after performing a risk assessment per group of Master Data (Vendors, Customers, Banks, Materials, G/L Accounts, Contracts and Assets) to send to end users appropriate procedures (outside the system) of registering and changing these data, in order to ensure their safekeeping and control. Moreover, during the third quarter of 2015 a development from SAP Team of the Central Office was made in order to have a validation (already inside the system SAP) from the Authorising Officer for any change or deletion of bank data, also in line with recommendations of the IAS. This issue of Master Data has been also part of the analysis made by the external company Price Waterhouse & Coopers in the context of the implementation of the centralized financial governance of the European Schools and addressed with the identified risks along with the proposed solution, namely centralization of the registration of sensitive master data (vendors and employees) as from 2018.
- ü *Workflows:* An important topic under continuous monitoring is the one of correct workflows in the system. Moreover, the workflow currently in place in SAP for revenues is not fully in line with the financial rules, since according to the existing evidence all the relevant activity can be performed by the role of accounts receivable assistant (initiator).

For this reason the Financial Control Unit requested for a paper based second level approval at the level of the School, at least done by the Authorising Officer, over the billing list to be generated, before the billing block, that releases the document, is removed. This billing list, also signed by the Authorising Officer, should be then sent to Financial Control, for possible ex-post controls on the matter. This remission of documents, for the time being, is not followed by the majority of the Schools.

Another area, connected with workflows, that needs further development is the non-possibility to modify a document after it has been approved by the relevant agents. To this date it appears to be still possible to modify attached documents, even after a transaction has been approved, which is a weaknesses that should be addressed with priority.

- ü *Reporting:* Budgetary and financial reports as well as closing reports have been tested, corrected and finalized during 2016.
- ü *Training:* Training is considered an on-going issue in order to achieve the highest possible degree of skills for the SAP end users, especially during this challenging period of International Public Sector Accounting Standards (IPSASs)

implementation as well as the centralization of financial governance in European Schools system. In this context, the Central Office, in cooperation with the company Price Waterhouse & Coopers, prepared a tailor-made training for the SAP end users given initially in December 2015 on annual closure and then in January 2016 focused on all aspects of accrual based IPSASs Standards with specific exercises and examples. The assistance of PWC has been extended to the closing activities for the financial year 2016.

Table 14. Total cost SAP project years 2013-2016

Services	2013	2014	2015	2016
Education	23.218,50 €	416.376,29 €	-	-*
Consulting Offers	1.068.847,97 €	2.244.465,50 €	1.184.524€	253.778€
Licenses/Maintenance	240.221,58 €	80.643,99 €	44.680,66€	64.015,33€
Total Cost	1.332.288,05 €	2.741.485,78 €	1.229.204,6€	317.793,33€

Educational services *Trainings organised during 2016 were deployed and delivered by OSGES own resources. These training comprised training for Authorising Officers and Accounting Officers of the Schools.

Consulting services include: Consulting services more specifically for finalization of closure and financial statements and budgetary availability reports (81.254€). Hana Cloud services (172.524€).

Licenses/Maintenance For 2016 include maintenance for 2016 acquired licences

10. Conclusions and recommendations

The annual report, despite the above exhaustive analysis of several issues, focuses on a small number of targeted priorities that should be at the core of action of all stakeholders in the European Schools dealing with financial matters.

It should be pointed out that, without prejudice to the important steps forward undertaken on 2016, several financial and administrative initiatives are still in progress in order to respond to the recommendations of the Internal Audit Service and the Court of Auditors. In our opinion, the fulfilment of most of the recommendations of the above institutions will further improve and develop the system of financial management in the European schools.

The following action points, without prejudice of the final outcome of the proposed financial governance architecture and the transformation of the financial control unit, are set out below, with notes on the current position.

<p>1. In addition to confirming the regularity of specific operations, the financial control unit should continue in its function of providing advice and developing new procedures.</p>	<p>The Financial Regulation explicitly recognizes this advisory function. The financial control unit has given advice on various subjects during the period covered by the report.</p>
<p>2. Revision of the Financial Regulation applicable to the Budget of the European Schools and its Implementing Rules.</p>	<p>Ongoing. The proposal which foresees a centralised financial governance will be tabled for final decision in the meeting of the Board of Governors, in April 2017. An specific document is presented to this Budgetary Committee (2017-02-D-13)</p>
<p>3. The new procedure on defining the initial step in the salary scale based on relevant professional experience should be further monitored and assessed. High priority has to be given to the verification of salaries and allowances.</p>	<p>Concerning the definition of the initial step, the financial control unit intends to make ex-post checks on the spot on a sample basis focusing on this issue.</p> <p>As per verification of salaries and allowances, it has been one of the control priorities during 2016 financial year and will be also an item with the highest level of priority during 2017.</p> <p>The above referred matters are included in the ex post financial control plan that is submitted for opinion of the Budgetary Committee (document 2017-02-D-16-en-1) and approval of the Board of Governors.</p>
<p>4. Implementation of the new ICT accounting software SAP in the European Schools in relation with segregation of duties.</p>	<p>Ongoing. Special attention should be paid for the configuration of the necessary authorizations according to the segregation of duties approved by the Authorising Officers and validated by the Financial Controller.</p>
<p>5. The Schools must plan their needs for IT equipment and other types of services and goods and organise appropriate tender procedures for contracts with values above 15.000 euro.</p>	<p>The administration of the Schools should pay particular attention to the right planning of their needs in goods or services (e.g. furniture, construction works, IT equipment) and conduct appropriate tender procedures as required by the Financial Regulation.</p>
<p>6. Some Member States are not fulfilling the requirement of article 49.2.a of the staff regulations to notify national salaries directly to the schools.</p>	<p>Significant improvements have been made during 2016 to address this question, which it is also connected with a recommendation of the IAS. Nevertheless, for the explanation of the several items included in the salary slips further progress should be made on behalf of the national delegations.</p>
<p>7. The implementation of the budget</p>	<p>The administration of the Schools should pay</p>

must be based on Sound Financial Management.	particular attention to the proper utilization of appropriations based on the right prioritization, planning and justification of their needs.
8. Payment procedures.	In progress. Emphasis should given on the finalization of the procedure to establish an automatic link between SaP and the electronic payments systems for the remaining Schools. All payments should be processed having two signatories, one of them being the one of the Authorizing Officer.
9. Management of school fees	The Schools should apply strictly the rules for the exoneration procedures and should reduce the level of the outstanding school fees. High priority should be given to following up unpaid invoices, including the advance payment due before the start of the school year. Special attention must be given to the procedure to write off amounts still due, a process which should be duly justified, taken by the Administrative Boards.
10. The Schools should continue to carry out careful checks to verify the status of pupils in Category I (pupils not subject to school fees).	Continuing.
11. The management of extra-budgetary accounts should be reviewed.	To be monitored. Extra budgetary transactions should be recorded in the accountancy in line with Article 1 of the Rules for Implementing the Financial Regulation. The degree of compliance with this obligation varies significantly among the Schools.

24 March 2017

The Financial Controller

José Luis Villatoro

11. Opinion of the Budgetary Committee

The Budgetary Committee took note of the report. The report would be presented to the Board of Governors with the further information requested by the European Commission and France about the nature of the refusals and also about the figures corresponding to reductions in school fees.