



Schola Europaea / Office of the Secretary-General

Ref.: 2020-10-D-51-en-3

Orig.: EN



Report of the Court of Auditors for the financial year 2019

Presented to the Board of Governors of the European Schools
Meeting of 1-3 December 2020 – Brussels



EUROPEAN
COURT
OF AUDITORS

Report

on the annual accounts of the European Schools for the financial year 2019

together with the Schools' replies

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Executive summary

I In accordance with the Financial Regulation of the European Schools, we have reviewed the Schools' consolidated annual accounts for the 2019 financial year. We have also reviewed the accounts of the Central Office and the internal control systems (recruitments, procurement procedures and payments) of the Central Office and two of the Schools (Brussels I and II). Finally, we have reviewed the work of the Schools' external auditor, which audited the accounts and internal control systems of six Schools before consolidation took place.

II Except for the remaining uncertainty relating to a liability of the European School in Munich covering the salaries of seconded teachers (€ 7,5 million), our review did not reveal further material errors in the final consolidated financial statements for 2019. As some Member States did not confirm their part of the liability of the Munich School, the Central Accounting Officer has expressed a reservation to reflect this uncertainty in its accounts.

III Although the quality of the accounts has improved compared to previous years, the audit of six of the Schools by an external auditor mainly revealed errors in the calculation of employee benefits, the capitalisation of intangible assets, the recording of liabilities and the cut-off at year-end. The Schools have corrected these errors in the final accounts.

IV Our review of the internal control systems of the Central Office and of the two Schools selected revealed weaknesses in the ex-post controls, in the recruitment and procurement procedures as well as in the payment systems. As a result, we are unable to confirm that the Schools' financial management in 2019 was compliant with their Financial Regulation¹ and the Staff Regulations².

V The Board of Governors, the Central Office and the Schools should take action to implement a series of recommendations made in this report and those of previous years to improve their accounting and internal control systems. In particular, we

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

² Regulations for Members of the Seconded Staff of the European Schools (Ref: 2011-04-D-14-en-5), Service Regulations for the Locally Recruited Teachers in the European Schools (Ref: 2016-05-D-11-en-1), Service Regulations for the Administrative and Ancillary Staff (AAS) of the European Schools (Ref: 2007-D-153-en-7).

recommend that the Schools address the weaknesses detected in their accounting, their recruitment and procurement procedures and their payment systems. The Central Office should give particular attention to the persisting weaknesses in the procurement procedures and aim to ensure compliance with the applicable rules. Together with the Schools and the Central Office, the Central Accounting Officer in the future should remedy weaknesses related to the accounts, which could result in the use of 'emphasis of matter' paragraphs.

Introduction

Background

01 The primary legal basis for the European Schools is the Convention setting out their Statute³. The Schools' financial and operational management tasks are governed by their Financial Regulation⁴ and a set of Staff Regulations⁵. Together these make up the 'General Framework' of rules.

02 The current Financial Regulation entered into force on 1 January 2018. However, some provisions regarding the centralisation of the Accounting Officer function and the timetable for the Court's review of the accounts have only applied since 31 July 2019⁶. Full centralisation of the Authorising Officer function became effective on 1 January 2020.

03 Each School draws up its own annual accounts but the responsibility for preparing, presenting and keeping the accounts now lies with the Central Accounting Officer of the European Schools⁷. For 2019, for the second time, the Central Accounting Officer signed off the consolidated accounts of the Schools and of the Office of the Secretary-General (the 'Central Office'). The Secretary-General forwards the final consolidated annual accounts by 31 July at the latest to the Court of Auditors under Articles 71 to 73 of the Financial Regulation.

04 Appropriations of €321,1 million were available in the 2019 budget (€312,2 million in 2018).⁸ The European Commission's 2019 contribution was

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

⁴ Financial Regulation of 5 September 2017 applicable to the budget of the European Schools (Ref: 2017-12-D-21-en-1).

⁵ Regulations for Members of the Seconded Staff of the European Schools (Ref: 2011-04-D-14-en-5), Service Regulations for the Locally Recruited Teachers in the European Schools (Ref: 2016-05-D-11-en-1), Service Regulations for the Administrative and Ancillary Staff (AAS) of the European Schools (Ref: 2007-D-153-en-7).

⁶ Article 103(2) of the Financial Regulation.

⁷ Articles 35 and 68 of the Financial Regulation.

⁸ Final consolidated accounts of the European Schools for the financial year 2019, p. 6 and 7.

€183,8 million (€174,5 million in 2018).⁹ The other contributions were mostly contributions in kind by the Member States, such as the secondment of teachers.

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

Accounting and control environment

06 The 2018 Financial Regulation introduced the new function of Central Accounting Officer for the European Schools at the Central Office. We noted that this centralisation helped to harmonise the accounting procedures and facilitated the consolidation of the Schools' accounts.

07 For the fifth year in a row, the Schools prepared their accounts using the accrual accounting principles set out in the International Public Sector Accounting Standards (IPSAS). This accounting / financial system has been operational since 1 January 2015; it provides the technical means to address several weaknesses which we have consistently reported (e.g. weaknesses in the consolidation process, no automatic link between the accounting and payment systems and inefficient financial circuits).

08 In 2019, based on the audit plan for 2019-2021, the Commission's Internal Audit Service (IAS) carried out a consulting engagement on the allocation of human resources and the distribution of non-teaching tasks at the Schools. In the final report, sent to the Central Office in January 2020, the IAS provided the Schools with advice on the appropriate staffing structure for non-teaching tasks and on how to improve the human resource allocation and distribution of these tasks. In addition, the IAS performed a follow-up of 15 outstanding recommendations and concluded that there were considerable delays in the implementation of two critical and 11 very important or important recommendations.

⁹ Final consolidated accounts of the European Schools for the financial year 2019, p. 6 and 7.

Audit scope and approach

Scope and approach of our engagement

09 Pursuant to Article 73 of the Schools' Financial Regulation, the Court of Auditors has to issue an annual report on their consolidated annual accounts.

10 We reviewed the consolidated annual accounts based on the International Standard on Review Engagements 2400. This standard requires us to plan and perform reviews to obtain limited assurance as to whether the accounts as a whole are free of material misstatement. A review is limited primarily to analytical procedures applied to financial statements and to inquiries to Schools staff; it thus provides less assurance than an audit. As we did not audit the consolidated accounts, we do not express an audit opinion on them.

11 We also reviewed the financial statements of the seven Schools¹⁰ and of the Central Office not audited by the Schools' external auditor, and examined elements of the internal control systems of the Central Office and of two of the thirteen Schools (Brussels I (Uccle) and Brussels II (Woluwe))¹¹. This work included a review of staff recruitments, procurement procedures and payments. With the exception of the Central Office, we had to perform our work remotely due to the COVID-19 restrictions.

12 In addition to our own work, we drew on reports and other work by the IAS (see paragraph 08) and reviewed the work of the Schools' external auditor. The external auditor audited the accounts and related internal control systems of six Schools¹² before consolidation took place. It also performed a limited follow-up review of observations in its 2018 audit report on the Munich School.

¹⁰ The Schools in Alicante, Brussels I to IV, Karlsruhe and Munich.

¹¹ Budget appropriations in 2019: Central Office €12,67 million, Brussels I (Uccle) €40,48 million, Brussels II (Woluwe) €32,47 million. See Annual Report of the Financial Controller for the year 2019 (Ref: 2020-02-D-35-en-3).

¹² The external auditor audited the accounts of the two Luxembourg Schools as well as those of the Schools in Bergen, Frankfurt, Mol, and Varese.

13 *Annex I* summarises our follow-up to the recommendations we made in our review of the 2018 financial statements (covering the Bergen and Varese Schools and the Central Office).

Observations

Accounting

14 When preparing the 2019 accounts, the Schools applied accrual accounting principles as defined in the IPSAS. The final version of the accounts, which we received on 31 July 2020, included corrections proposed by the external auditor for the six Schools it had audited, as well as corrections of the errors we had identified in the provisional consolidated accounts.

15 Although the quality of the accounts has improved compared to previous years, the external auditor detected a number of weaknesses which were corrected in the final version of the consolidated accounts:

- the Varese School had not capitalised (in)tangible assets amounting to €499 136;
- the Frankfurt School had booked assets donated in previous years amounting to €136 151 as a donation in the current year;
- the Bergen School, the Luxembourg I School and the Mol School had incorrectly calculated their provisions for employee benefits (reinstallation and travel costs, removal and departure allowances). They had applied the wrong amount of total costs for the reinstallation and travel cost allowances, and the wrong number of beneficiaries for the removal and departure allowances. The Bergen and Mol Schools accounts were therefore overstated by €88 369 and €266 531 respectively, and the Luxembourg I School accounts were understated by €73 270;
- for the Mol School, the external auditor also identified outstanding vendor invoices that had already been settled (€61 813) and some invoices that related to 2019 but were not recorded until 2020 (€21 278);
- for the Luxembourg II School, due to a wrong calculation of tuition fees, deferred income was underestimated by €221 000; the external auditor also pointed to the need for a provision of €49 000 for an ongoing lawsuit.

16 We found in our own review that the principle of annuality was not respected in six cases, where costs that were partially or fully paid in advance were not split and deferred over a number of years.

17 We also noted that some of the posts contained in provisional financial statements of the Schools had not been correctly labelled and placed. This was corrected in the final versions of these financial statements.

18 Last year, we reported¹³ on the uncertainty of a liability amounting to €6,4 million in the Munich School's 2018 financial statements covering the salaries of seconded teachers, on which the external auditor had qualified its opinion. The external auditor followed up on this issue. It noted that significant progress had been made on developing formalised draft procedures to resolve the issue, but that difficulties remained in clearing outstanding matters, and recommended implementing a periodic confirmation procedure with the Member State concerned, supported by accounting evidence. The Central Accounting Officer expressed a reservation on this issue for the financial year 2019 (see paragraph 26).

Internal Control System

Ex-post controls

19 The Central Office's financial control unit did not perform the controls foreseen in the ex-post control plan 2019. The Central Office continued the training activities for accruals accounting and IPSAS and introduced a quarterly reporting for accounts receivable.

Recruitments

20 In four cases, the available documentation on recruitment which we examined did not substantiate the corresponding selection decisions. The Brussels I School filled one post on a predetermined fixed-term basis. No supporting documents were available for this recruitment. The Brussels II School recruited two teachers locally without advertising the post publicly. The School claimed this was an emergency, but provided no substantiated explanation for this. We also found a lack of adequate justification in one Central Office pre-selection procedure. Two members of the pre-selection committee pre-selected seven candidates, but did not invite three other candidates with the same grading for interview. The selection files gave no reason for the difference in treatment. The fourth example concerns the Central Office's selection

¹³ Report on the annual accounts of the European Schools for the financial year 2018, together with the Schools' replies, paragraph 16.

of a member of staff for a one-year-contract. Contrary to good practice, no documents were available to substantiate this selection.

21 The Brussels II School recruited two members of staff to administrative posts which they already occupied. In such cases, the recruitment policy and procedure applicable to administrative and ancillary staff of the Schools strongly recommend that one or more external members should be on the selection committee. However, no external members were part of that committee and the underlying documentation did not contain any justification for this.

Procurements

22 We examined a number of procurement procedures and purchase orders. We also looked at the registers of exceptions and followed up on previous cases. Based on this work, we noted the following weaknesses affecting procurement procedures and competition.

- In nine cases at the Brussels I School and in two cases at the Central Office, the final value of the procurement negotiated with only one tenderer exceeded the threshold of €15 000. In such cases, point 6.2 of Annex I to Regulation 2018/1046¹⁴ stipulates that the minimum number of candidates must be at least three. In another case, the Central Office did not comply with Article 66 of the Financial Regulation and procured supplementary work without launching a new tender.
- In two cases, the Central Office extended expired contracts without opening them to competition, even though it was not in one of the exceptional situations described in Article 172-2 and 3 of Regulation 2018/1046¹⁵. For one of these

¹⁴ Article 66 of the Financial Regulation of 5 September 2017 applicable to the Budget of the European Schools deals with public procurement and refers to Regulation (EU, Euratom) No 966/2012 and Delegated Regulation (EU) No 1268/2012 which “shall apply subject to paragraphs 2 to 6 of this Article”. However, Regulation (EU, Euratom) No 2018/1046 (with its Annex I) repealing Regulation (EU, Euratom) No 966/2012 has applied since 1 January 2019.

¹⁵ Regulation (EU, Euratom) No 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU)

contracts, there had been no procurement procedure ensuring competition since 2012. Furthermore, the extended contract had actually expired five months before the latest extension was made (see *Annex I*).

- o No call for tenders was launched for a €100 000 contract signed by the Brussels II School for an extra-budgetary activity. As mentioned in our report on the financial year 2016¹⁶, the procedure for managing extra-budgetary contracts was not clearly defined, potentially leading to risks for the Schools. As in recent years¹⁷, the Central Office had not arranged a tender for translation services (see *Annex I*).

23 In addition, we found the following weaknesses.

- o In three cases, at the Central Office, and frequently at the Brussels I School, there was no budgetary commitment before the signature of a contract or purchase order. We reported similar cases last year (see *Annex I*).
- o In one case, the Central Office did not provide the necessary proof that it had verified¹⁸ the content of the declaration of honour/ European single procurement document (ESPD)¹⁹. Furthermore, the Central Office and the Schools did not have access to the EU database relating to the exclusion register and early detection and exclusion system referred to in Article 135 of Regulation 2018/1046.
- o The lists of the recipients of funds exceeding €15 000 from the Central Office and from all Schools for 2018 had not been published by 30 June 2019 as required by Article 38 of Regulation 2018/1046, despite a reminder from the Central Office in June 2019. In a few cases, lists of recipients have been published since then.

No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p. 1).

¹⁶ Report on the annual accounts of the European Schools for the financial year 2016 together with the Schools' replies, paragraph 21 (see https://www.eca.europa.eu/Lists/ECADocuments/EUROPEAN_SCHOOLS_2016/EUROPEAN_SCHOOLS_2016_EN.pdf).

¹⁷ Report on the annual accounts of the European Schools for the financial year 2018, together with the Schools' replies, paragraph 22. We also pointed out this issue in our reports on the annual accounts of the European Schools for 2010 to 2015.

¹⁸ Article 136-1 of Regulation 2018/1046.

¹⁹ A self-declaration form used in public procurement procedures (see <https://ec.europa.eu/growth/single-market/public-procurement/digital/espden>).

Payments

24 We found errors resulting from weaknesses in the control environment. At the two Schools Brussels I and Brussels II, we found eight cases of expenditure charged to the wrong account or covered by a commitment made on another account and two cases of insufficient supporting documents to allow proper tracing.

25 We also found six late payments at the Central Office and the two Schools reviewed. The issue of late payments has also been referred to in the Annual Report of the Financial Controller for the year 2019²⁰, in the 2019 Annual Activity Report of the Central Office²¹ and by the Commission's IAS²².

Declarations of the Central Accounting Officer

26 For 2019, for the second time the Central Accounting Officer of the European Schools signed off the accounts for all Schools and the Central Office. He made a reservation for the final consolidated accounts of the Schools. This concerned the social security contributions for seconded teachers of approximately €400 000 as well as the national salaries of seconded teachers of the Munich School that, according to its statute, have to be reimbursed to the Member States. The total amount owed to Member States was €7,5 million as at 31 December 2019. As in the previous year, the Central Accounting Officer also brought to the attention of the administrative boards of the Schools and the Schools' Board of Governors in 'emphasis of matter' paragraphs issues relating to extra-budgetary activities and the outstanding validation of the accounting system. Furthermore, he noted that six Schools had not taken physical inventories.

27 While we recognise that the use of 'emphasis of matter' paragraphs by the Central Accounting Officer contributes to increased transparency, they indicate in general the existence of internal weaknesses, which would require remedial action.

²⁰ See <https://www.eursc.eu/en/Office/reports-statistics>.

²¹ See <https://www.eursc.eu/Documents/2020-02-D-22-en-2.pdf>.

²² IAS's Annual Internal Audit Report for 2019 and IAS report on SAP controls over accounting and budgetary execution for 2017.

Conclusions and recommendations

28 Based on our limited assurance review, we did not identify any material errors in the final consolidated financial statements for 2019, except for the remaining uncertainty relating to a liability of the European School in Munich covering the salaries of seconded teachers. As some Member States have still not confirmed their claim, the Central Accounting Officer of the European Schools expressed a reservation to reflect this uncertainty.

29 The external auditor had previously audited six Schools and given an unqualified audit opinion. Although the quality of the accounts has improved compared to previous years, the auditor found weaknesses in the application of accrual accounting in the accounts of the Schools in Bergen, Frankfurt, Luxembourg I and II, Mol and Varese. These particularly affected provisions for employee benefits, the capitalisation of assets, the recording of liabilities and provisions, and the cut-off at year-end. Our examination of these audit reports and the underlying working papers did not reveal material weaknesses (paragraphs [14-18](#)).

Recommendation 1 – Accounting

The Schools should address weaknesses in the preparation of individual accounts, and in particular,

- follow up on the outstanding Member States' confirmations for the Munich School;
- ensure that employee benefits and the capitalisation of assets are calculated correctly;
- ensure that invoices are registered and provisions are made properly;
- comply with the annuality principle and the rules for taking physical inventories when performing the cut-off at year-end.

Timeframe: Immediate

30 While we recognise that the use of 'emphasis of matter' paragraphs by the Central Accounting Officer contributes to increased transparency, they indicate in general the existence of internal weaknesses, which would require remedial action (paragraphs [26-27](#)).

Recommendation 2 – Accounting

The Central Accounting Officer, together with the Schools and the Central Office, in the future should rectify weaknesses related to the accounts, so that the need for using ‘emphasis of matter’ paragraphs can be limited.

Timeframe: Immediate

31 Overall, based on the results of our review, we are unable to confirm that the Schools’ and Central Office’s financial management in 2019 was compliant with the General Framework of rules (paragraphs [19-25](#)).

32 Regarding the recruitment of staff, we found that the documentation of recruitment decisions both in the Brussels I and Brussels II Schools as well as in the Central Office revealed significant weaknesses; selection decisions are not comprehensible without additional oral explanations. Moreover, persons already employed by a School were recruited without external members participating in the selection committee (paragraphs [20-21](#)).

Recommendation 3 – Recruitments

The Central Office and the Schools should:

- clarify the documentation of selection decisions to ensure transparency;
- ensure that selection committees dealing with applications from candidates already employed by the same School or the Central Office include at least one external member.

Timeframe: Immediate

33 Our review showed that the main weaknesses persisted in the area of procurements, concerning compliance with competition rules, and also for extra-budgetary contracts, budgetary commitments and the publication of recipients of funds. The Central Office’s management of procurement procedures deteriorated in 2019 (paragraphs [22-23](#)).

Recommendation 4 – Procurements

The Central Office and the Schools should:

- ensure that the procedures used for their calls for tenders respect the procurement rules, in particular as regards the thresholds and the situations allowing the extension of existing contracts;
- clarify the rules applicable to extra-budgetary contracts;
- always make a budgetary commitment before entering into any legal commitment;
- publish the information on the recipients of funds exceeding €15 000 during a given year before 1 July of the following year.

Timeframe: Immediate

34 Overall, expenditure is affected by weaknesses in the control of payments. The main weaknesses we found were charging to the wrong account, insufficient supporting documents to allow proper tracing, and late payments (paragraphs [24-25](#)).

Recommendation 5 – Payments

The Central Office and the Schools should:

- ensure that expenditure is charged to the correct accounts;
- ensure that supporting documents are comprehensive and readily available;
- respect payment deadlines.

Timeframe: Immediate

This Report was adopted by Chamber V, headed by Mr Tony Murphy, Member of the Court of Auditors, in Luxembourg on 14 October 2020.

For the Court of Auditors

A handwritten signature in black ink, appearing to read 'K-H Lehne', written in a cursive style.

Klaus-Heiner Lehne

President

Annex

Annex I – Follow-up to the recommendations in our annual report for the financial year 2018

Our recommendations (paragraphs 31 to 37 of the report on the accounts of the European Schools for the financial year 2018)	European Schools		Central Office	Comments
	Bergen	Varese		
	Implemented Yes/No/NA/in progress	Implemented Yes/No/NA/in progress	Implemented Yes/No/NA/in progress	
Recommendations on accounting issues				
The Schools should address the weaknesses in the preparation of individual accounts and in their consolidation by developing adequate procedures, guidelines and training measures to improve accruals-based accounting.	In progress			Progress has been made in improving the quality of accounts, but weaknesses persist (see also paragraphs 14-18).
Recommendations on the internal control system				
The Schools should address the weaknesses in the design and in the operation of the internal control system and allocate sufficient resources to develop an action plan to improve its effectiveness.	In progress			Some progress has been made, but there are still weaknesses (see also paragraph 19).
Recommendations on administrative matters				
The Bergen School should be allocated a sufficient level of resources to ensure that it can continue to carry out all its administrative tasks.	Implemented			In April 2019, a ½ post for an accountant was created at the Bergen School.
Recommendations on recruitment procedures				
We reiterate our recommendation from previous years that the Schools should document each step of the selection procedure. Moreover, the procedures on the	In progress			Some progress has been made in the documentation of recruitment decisions, but

<ul style="list-style-type: none">o provide the Schools with a common template for mission expenses claims and with clear guidelines on procedure;	In progress	
<ul style="list-style-type: none">o look into setting up an automatic calculation system to process mission expenses and mitigate the risk of errors due to manual calculations.	In progress	



Ref.: 2020-09-D-61-en-2

Orig.: EN

Updated replies of the European Schools to the recommendations of the Court of Auditors in the framework of its annual report for the financial year 2019

Accounting

The OSG and the Schools are committed to continuous improvement of the quality of the financial statements produced. In this regard, special attention will be paid during the regular meeting held in November with the accountants (Accounting Correspondents) of all the Schools to discussion of the remarks raised by the Court of Auditors and the Deloitte firm in the framework of the review/audit of the 2019 accounts, to help prevent similar issues from being reproduced in the future. Mention can be made of the fact that with the said objective of continuous improvement in mind, a 2.5-day training course on application of IPSAS (International Public Sector Accounting Standards) to the particular case of the European Schools was organised by the OSG in June 2019, for the Accounting Correspondents and other key accounting staff of all the Schools and of the OSG, with the support of experts on the matter from the PwC firm.

In line with the above, an accounting manual, detailing the accounting treatment for the main transactions performed by the European Schools, is under development with the support of the PwC firm, and will be finished within the current 2020 financial year, for application as from the financial year 2021. This document is designed to further help in the harmonisation and correctness of accounting practices in the European School System.

Concerning in particular capitalisation of assets, it can be mentioned that in the framework of the ongoing review of the Financial Regulation applicable to the Budget of the European Schools, a possible amendment of Article 82 is under discussion, in order to align it with Article 87 of the Financial Regulation applicable to the General Budget of the Union. This measure may provide further flexibility for the sake of alignment with the requirements of IPSAS, in

particular as regards capitalisation of groups of assets, and, more generically, it may provide the legal basis to support provision by the Central Accounting Officer of detailed instructions for harmonised treatment of the inventory. Particular attention will also be given to this topic during our next meeting with the Accounting Correspondents of the Schools, providing them with detailed IPSAS guidelines and application examples designed for the European Schools' environment.

As regards closing of financial year activities, it is also planned to review the template of the closing bundle used by the Schools to calculate and prepare the IPSAS adjustments for the year-end closing. In this connection, (i) additional guidelines will be provided for the critical topics (i.e. employee benefits, accruals and assets capitalisation) taking into account the remarks and findings received from the audit firm Deloitte and the European Court of Auditors and (ii) an analysis will be made as to how to automate, as much as possible, the data used in the calculation formulas, as well as possible ways to clarify and standardise the information requested from the Schools and used in the formulas. We are convinced that all these efforts should improve the accuracy and consistency of the provisions recognised in the accounts of the Schools.

As regards the matter concerning pending reimbursements of national emoluments of staff seconded to the European School, Munich, the issue has been the subject of specific follow-up as from the financial year 2019. Apart from analysis of the accounting information regarding outstanding balances, a procedure was drawn to the attention of the Budgetary Committee and Board of Governors (*'Harmonised Procedure for the Reimbursement of National Emoluments of Staff Seconded to the European School of Munich'*, document with the reference number 2019-10-D-29), at their meetings of November-December 2019 and March-April 2020. Unfortunately, the document has not to date received final approval from the Board and a new version will be presented at the meetings of the Budgetary Committee in November 2020 and Board of Governors in December 2020. Nevertheless, an important development after the preparation of the final version of the consolidated accounts for the financial year was the receipt, on 9 September 2020, of an official communication from the Italian administration concerning the expected reimbursements relating to the period 2013-2018. The figures communicated, relating to salaries to be reimbursed (€1 646 213 €) almost exactly match the figures worked out by the School's accounts department (€1 646 240). This fact therefore substantially reduces the uncertainty connected with the liability of the European School, Munich as a result of national emoluments of staff seconded to this School, reimbursement of which is pending.

The OSG and the Schools take note of the Court's recommendation and express their commitment to paying particular attention to the matters drawn to the attention of the main stakeholders in the Notes of the Central Accounting Officer accompanying the individual accounts of the Schools and the consolidated accounts, so that appropriate remedial action is taken for these circumstances to be properly addressed. In the case of the Central Accounting Officer, follow-up on these matters will be carried out in the framework of the competences defined for the function in the Financial Regulation and in the relevant Charter of Tasks and Responsibilities approved by the Board of Governors (Charter of tasks and responsibilities of the central accounting officer, of his/her assistants at the OSG and of the local accounting officer 'Correspondents', document 2018-10-D-67-en-3).

The issues involved refer, in particular, to extra-budgetary activities (Article 19 Financial Regulation), validation of accounting systems (Article 35.2 Financial Regulation) and physical checks of the inventory (Article 82.4 Financial Regulation).

Without prejudice to the additional efforts required concerning these matters, some concrete actions have already been taken to address the issues. These are:

- regarding extra-budgetary activities, as commented on in other points of these replies, the issuing on 23 July 2020 by the Secretary-General and Authorising Officer of the European Schools of a Memorandum on the management of extra-budgetary activities (document 2020-07-M-3-en-1), containing detailed and harmonised treatment for this matter, on the basis of Article 19 of the Financial Regulation.

- regarding validation of accounting systems (Article 35.2 of the Financial Regulation), a contract signed on 23 June 2020 between the OSG and the PwC firm is currently being executed and is expected to be completed within the current financial year 2020. The main subject of the contract is:

- evaluation of SAP IT General Controls
- evaluation of key SAP Basis access and security configurations.

- as regards the inspections that need to be performed to ascertain that entries in the inventory correspond to the physical facts (Article 82.4 Financial Regulation), mention can be made of the fact that the matter has been subject to specific follow-up by the Central Accounting Unit since 2019, this question being discussed at the meetings with the Accounting Correspondents of the Schools, and it will also be included on the agenda of the forthcoming meeting in November 2020. Additional measures foreseen that are expected to help in achieving the objective of having accurate figures in the accounts concerning the inventory are also detailed under the point relating to Accounting in these replies.

Internal control systems

Ex-post controls

The OSG regrets that due to limited resources in the unit, the plan on ex-post controls could not be carried out as foreseen. However, the unit performed ex-post checks and ex-ante controls on correct implementation of segregation of duties and application of the rules set out in memorandum 2018-09-M-02-en-1, Memorandum on the implementation of segregation of duties in the financial circuits. The unit also re-established ex-ante controls at the ES, Bergen, Munich and Mol for a certain period of time for the posting of salaries and FI-invoices above €15 000. The results of these controls and checks are documented in the Annual Report of the Financial Controller for the year 2019.

Recruitments procedures

The OSG and the Schools take note of the Court's recommendations and express their commitment to continue efforts to ensure that selection procedures are appropriately documented and comprehensible on the basis of their documentation.

The OSG will remind the Schools of the strong recommendation to involve one or more external members in selection committees for administrative and ancillary staff (as is foreseen in memorandum 2019-05-M-11-en-1, Recruitment policy and procedure applicable to the administrative and ancillary staff of the European Schools, chapter 4.a)). However, we would point out that for geographical reasons, this might be relatively easy for the Office of the Secretary-General and the Brussels and Luxembourg Schools, but far more difficult for the others.

According to the Service Regulation for Locally Recruited Teachers (2016-D-D-11-en-6), a Director may derogate from the requirements of the recruitment procedure (e.g. the publication on the website of the School, the European Schools and in national or international media for at least two weeks) in exceptional cases to ensure continuity of service. He/She has to document this derogation in an appropriate way and we will remind the Directors of this documentation requirement.

If a School or the OSG recruits an administrative or ancillary staff member, it may derogate from the recruitment and appointment procedure described in Article 5 of the Service Regulations for the Administrative and Ancillary Staff (AAS) of the European Schools (2007-

D-153-en-10) in cases where the post is filled on a temporary or a predetermined fixed-term basis. The OSG has started to define minimum requirements for these procedures and will share these with the Schools in the course of 2020.

Procurement procedures

The procurement team of the Central Office was created in 2016 and its mission is to introduce and apply the rules of the Financial Regulation in an institution where such procedures were absent. Since then, the Court has reported continued improvement in this area year after year. However, 2019 was particularly challenging as a result of specific staffing difficulties in the Central Office's procurement team. The situation has now been restored and corrective measures have been put in place in order to ensure that procedures are followed in accordance with the Financial Regulation.

The OSG and the Schools take note of the Court's recommendations and reaffirm their commitment to further improvement of compliance with procurement procedures.

Regarding extra-budgetary contracts, a memorandum was issued and sent to the Schools in July 2020. This Memorandum includes specific procedures regarding contract management and foresees that a substantial part of the extra-budgetary activity, such as compulsory school trips, be incorporated into the budget of the Schools by 2023, thus applying the Financial Regulation to the full extent.

The meetings of the procurement network resumed in June 2020 and allow very useful discussions with all the Schools. We will continue to use this channel and reiterate the importance of making budgetary commitments prior to the legal commitments and remind the Schools of their obligation to publish information on the recipients of funds exceeding €15 000 during any one year.

In addition, a common platform has been set up where procedures are explained and templates are provided to the Schools. Finally, the OSG continues to prioritise participation in EU Framework Contracts, thus optimising use of limited resources.

Payments procedures

As regards the insufficient supporting documents for proper tracing, we understand that the two cases identified by the Court are isolated cases concerning either difficult calculations or

corrective transactions. We will make clear and underline to the staff in the Schools the importance of comprehensive and traceable supporting documents in all transactions.

The European Schools take note that improvements are needed regarding the execution of payments within pre-agreed deadlines and the use of correct accounts. In this regard, the Central Accounting Unit put in place in November 2019, a 'Payment Policy to suppliers'. In this context, the payments terms of all existing suppliers in the SAP system have been individually reviewed and aligned with the above-mentioned policy. Mention can, however, be made of the fact that the situation arising from the outbreak of Covid-19 did not contribute positively to implementation of/follow-up on the policy referred to (e.g. difficulties in accessing invoices or other relevant documents, etc.). As a second step, this policy will be further completed by the Central Accounting Unit (before end of the year 2020, in the context of the regular meeting with the Accounting Correspondents) by providing guidance on the reporting available in our SAP accounting system and how this can help the Schools to improve payment processes and create cash management efficiencies.

In addition, as mentioned in the point relating to Accounting, an accounting manual, detailing the accounting treatment for the main transactions performed by the European Schools, is under development and will have been completed within the current 2020 financial year, for application as from the financial year 2021.



Giancarlo MARCHEGGIANO
Secretary-General

19 October 2020