



Schola Europaea / Office of the Secretary-General

Ref.: **2022-10-D-34-en-3**

Orig.: EN



Report of the Court of Auditors for the financial year 2021

**Presented to the Board of Governors of the European Schools
Meeting of 6, 7 and 8 December 2022 – Brussels (Hybrid)**

2021

Report on the annual accounts of the European Schools for the financial year 2021



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EN

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Luxembourg: Publications Office of the European Union, 2022

PDF ISBN 978-92-847-8626-8 doi:10.2865/979095 QJ-07-22-669-EN-N

Contents

	Paragraph
Executive summary	I-V
Introduction	01-07
Background	01-05
Accounting and control environment	06-07
Review scope and approach	08-12
Scope and approach of our engagement	08-12
Observations	13-39
Accounting	13-18
Internal control system	19-39
Internal control structure	19
Recruitment	20-22
Procurement	23-26
Payments	27-37
Declarations of the Authorising Officer	38
Declarations of the Central Accounting Officer	39
Conclusions and recommendations	40-44
Annex	
Annex I – Follow-up to the recommendations in our annual report for the financial year 2020	
Replies of the European Schools	

Executive summary

I In accordance with the Financial Regulation of the European Schools and the International Standard on Review Engagements 2400¹, we reviewed the Schools' consolidated annual accounts for the 2021 financial year. We also examined the accounts and the internal control systems (recruitment, procurement and payments) of the Central Office and two of the Schools (Brussels III and Karlsruhe). We also reviewed the work of the Schools' external auditor, which examined the accounts and internal control systems of six Schools before consolidation took place. We performed the review to obtain limited assurance as to whether the financial statements as a whole are free from material misstatement. As we did not audit the Schools' consolidated accounts, we do not express an audit opinion on them.

II Our review did not reveal material errors in the final consolidated annual accounts for 2021. The Central Accounting Officer did not issue a reservation for the consolidated Financial Statements, but did add an emphasis of matter concerning the validation of accounting systems.

III Although the quality of the Schools' individual and consolidated accounts has further improved compared to previous years, the external auditor, in its audits of six Schools, continued to find errors for four of them. These mainly related to the calculation of employee benefits, the booking of fixed assets and the booking of provisions. The Schools corrected these errors in the final accounts.

IV Our review once again noted weaknesses in the internal control systems of the Central Office and of the two Schools selected, particularly as regards their recruitment, procurement, and payment procedures. We are therefore still unable to confirm that the Schools' financial management in 2021 was fully compliant with their Financial Regulation and the Staff Regulations.

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

¹ ISRE 2400.

Introduction

Background

01 The primary legal basis for the European Schools (the ‘Schools’) is the Convention defining their Statute². The Schools’ financial and operational management tasks are governed by their own Financial Regulation³ and a set of Staff Regulations⁴. Together these make up the ‘General Framework’ of rules.

02 Currently, the European School system consists of 13 Schools and the Office of the Secretary-General (the ‘Central Office’). The Board of Governors, which comprises the Ministers of Education of the EU Member States, deals with strategic, pedagogical and general policy questions concerning the European School system as a whole. The Central Office performs day-to-day executive management duties and provides the Schools with advice on pedagogical, administrative, financial, legal and human resources issues.

03 The Central Accounting Officer is responsible for preparing, presenting and keeping the consolidated accounts⁵. For 2021, for the fourth time, the Central Accounting Officer signed off the consolidated accounts of the Schools and of the Central Office. The Secretary-General is required to forward the final consolidated annual accounts to us by 15 September (of year n+1) at the latest, in accordance with Article 73 of the Schools’ Financial Regulation.

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

³ Financial Regulation of 5 September 2017 applicable to the budget of the European Schools, which entered into force on 1 January 2018 in its revised version applicable as of 1 January 2021 (Ref: [2017-12-D-21-en-3](#)).

⁴ Profile, duties, rules for appointment and service regulations of the Secretary-General and the Deputy Secretary-General (Ref: [2010-D-362-en-11](#)), Regulations for Members of the Seconded Staff of the European Schools (Ref: [2011-04-D-14-en-16](#)), Service Regulations for the Locally Recruited Teachers in the European Schools (Ref: [2016-05-D-11-en-9](#)), Service Regulations for the Administrative and Ancillary Staff (AAS) of the European Schools (Ref: [2007-D-153-en-13](#)).

⁵ Articles 35 and 68 of the Schools’ Financial Regulation.

04 Appropriations of €358.4 million were available in the 2021 budget (€338.7 million in 2020). The funding came from the European Commission (€199.6 million, 55.7 %), Member States (€51.7 million, 14.4 %) and school fees (€23.9 million, 6.7 %), complemented by miscellaneous income (€83.2 million, 23.2 %). Staff costs totalled €308.0 million (85.9 %), other administrative expenditure €41.5 million (11.6 %) and pedagogical expenditure €9 million (2.5 %).

05 By 30 November of each year, pursuant to Article 86 of the Schools' 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 Schools use the International Public Sector Accounting Standards (IPSAS) accrual accounting principles. The centralisation of the Central Accounting Officer function at the Central Office, which took effect on 1 January 2020, helped to harmonise the accounting procedures and consolidate the Schools' accounts⁶. The 2020 revision of the Schools' Financial Regulation has changed the tasks, responsibilities and liability of the Central Accounting Officer and the local Accounting Correspondents, who prepare individual Schools' provisional accounts. The revised Regulation also requires stronger protection against conflict of interest.

07 The Commission's Internal Audit Service (IAS) followed up on audit recommendations addressed to the Schools. In total, 10 recommendations stemming from previous IAS audits remained open on 31 December 2021, including five that were significantly delayed (i.e. still open more than six months after the original target date). All five delayed recommendations related to the Schools' societal security governance and their internal repository of documents, including the underlying document management policy⁷.

⁶ Report on the annual accounts of the European Schools for the financial year 2019, paragraph 6.

⁷ Follow-up of the implementation of recommendations of the Court of Auditors and Internal Audit Service (Ref: 2021-10-D-28-en-2).

Review scope and approach

Scope and approach of our engagement

08 Articles 73 and 86 of the Schools' Financial Regulation provide that we issue an annual report on their consolidated annual accounts.

09 We reviewed the Schools' consolidated annual accounts based on International Standard on Review Engagements (ISRE) 2400 for the financial year ended 31 December 2021. 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. 'Limited assurance' refers to a level of assurance that is meaningful but lower than the assurance provided by an audit. Our review procedures are limited primarily to making inquiries to the School staff and management and applying analytical procedures to financial statements. We have complied with the ethical requirements set out in the above ISRE standard. As we did not audit the consolidated accounts, we do not express an audit opinion on them.

10 We also reviewed the annual accounts of the seven Schools⁸ and the Central Office, which had not been audited by the Schools' external auditor, and examined elements of the internal control systems of the Central Office and two of the thirteen Schools (Brussels III and Karlsruhe), which were selected on a rotational basis. Our work included a review of staff recruitment, procurement and payments selected on a judgmental basis. We once again performed our work remotely.

11 In addition to our own work, we reviewed the work of the Schools' external auditor. The external auditor audited the accounts and related internal control systems of six Schools⁹ before consolidation of the individual 2021 accounts took place. It also followed-up on the reservation it had issued last year concerning the uncertain liability amount for the emoluments of staff seconded to the Munich School.

⁸ The Alicante, Brussels I to IV, Karlsruhe and Munich.

⁹ The external auditor audited the accounts of the Bergen, Frankfurt, Luxembourg I and II, Mol and Varese Schools.

12 *Annex I* summarises our follow-up of the recommendations we made in our review of the 2020 financial statements (covering the Luxembourg II and Mol Schools and the Central Office). We refer to the results of the IAS's follow-up of its recommendations in paragraph **07** above.

Observations

Accounting

13 When preparing the 2021 accounts, the Schools applied accrual accounting principles as defined in the IPSAS. The final version of the accounts, which we received on 15 September 2022, included corrections proposed by the external auditor for four of the six Schools it had audited, as well as corrections of the errors we had identified in the provisional consolidated accounts.

14 We noted that the Central Office aligned the Schools' accounting manual (including a section on capitalisation of assets) with IPSAS requirements. Progress was also made with respect to the physical inventories of the Schools and the Central Office. By the end of 2021, all Schools and the Central Office were compliant with the legal requirement to conduct a physical verification process for all fixed assets at least every three years. However, the Central Office only issued guidelines on this process in December 2021.

15 The quality of the individual and consolidated accounts has further improved compared to previous years¹⁰. For two of the six Schools (Bergen and Frankfurt) it had audited, the external auditor proposed no adjustments or reclassifications. For the other four Schools, the external auditor detected a number of booking issues with an impact on the profit and loss account, which were corrected in the final version of the individual and consolidated accounts:

- o the calculation of employee benefits and related provisions continues to be an area for improvement¹¹: the Luxembourg I School had understated employee benefits (allowances for seconded staff) by €36 667.35; the Luxembourg II School had understated the provisions for social security contributions by €24 000 and for removal expenses and reinstatement allowances by €724 000, and the Mol School had understated the provisions for social security contributions by €95 000;

¹⁰ Report on the annual accounts of the European Schools for the financial year 2019, paragraph 15, and Report on the annual accounts of the European Schools for the financial year 2020, paragraph 14.

¹¹ Report on the annual accounts of the European Schools for the financial year 2020, paragraph 14.

- o the Varese School had understated fixed assets by €65 899.11 and overstated expenditure by the same amount; and
- o the Luxembourg II School had overstated provisions for a legal case by €7 500 and overstated trade debts by €5 000. The Mol School had understated accrued charges by €18 000.

16 The external auditor's work also pointed to one issue at the Luxembourg II School (with an impact on the balance sheet) relating to the reclassification of cash at bank worth €39 000 as payables.

17 Concerning the liabilities of the Munich School linked to the national emoluments of seconded staff, the external auditor concluded that their reliability had further improved due to rigorous follow-up by the Munich School and the Central Office. At the end of 2021, the total liability amounted to €3 136 654, compared to €8 565 041 at the end of 2020, which represents a decrease of 63.4 %. In December 2021, the Board of Governors adopted a harmonised procedure, to be implemented as of 1 September 2022, for reimbursing the national emoluments of seconded staff to the Member States concerned. The external auditor recommended that the Munich School accompany the implementation of this procedure with periodic confirmation by the respective Member State, appropriately supported by accounting evidence.

18 Our review of the Schools' provisional consolidated financial statements revealed some cases (in two Schools) where depreciation rates differed from the standard set in the Schools' accounting manual¹², as we already noted in our 2020 report¹³. In particular, certain tangible assets capitalised in previous financial periods and the current one were not depreciated according to the accounting rules. Moreover, for one School, the scrapping of assets was not always based on physical inspections covering all relevant items. We also found a limited number of low-value cases where suspense accounts were not cleared, and where intra-school reconciliation did not include all relevant payables at year end. The Schools corrected most of these immaterial issues in the final consolidated financial statements.

¹² Accounting manual European Schools (Ref: 2020-12-D-43-en-1).

¹³ [Report on the annual accounts of the European Schools for the financial year 2020](#), paragraph 14.

Internal control system

Internal control structure

19 In 2021, the Central Office's Internal Control Capability (ICC), which started operating in 2020, became fully operational. It performed most of the ex-post checks planned for 2021 in the area of human resources, procurement and the internal control system. More specifically, it carried out ex-post checks on recruitment procedures and salaries, the correct application of procurement rules, the appropriate booking of pre-commitments and the validity of contracts, and the correct implementation of segregation of duties (SoD) tables in SAP. It did not identify any material findings requiring specific and immediate reporting to the Board of Governors in 2021.

Recruitment

20 We examined in total 24 recruitment procedures – three each for seconded teachers, locally recruited teachers and administrative and ancillary staff (AAS) for the Brussels III and Karlsruhe Schools and, in the case of the Central Office, two for seconded and four for administrative staff.

21 We found 16 cases where the Schools' Staff Regulations¹⁴ or the AAS recruitment policy¹⁵ had not been fully complied with.

- For the Karlsruhe School, we found one case where no selection criteria had been defined for the vacant post. In another case, such criteria were not decided in advance, as required by the AAS recruitment policy.
- At the Central Office, we noted one case where a successful candidate had received a higher grade than indicated in the vacancy notice based on a derogation for which the condition was not fulfilled. At the Karlsruhe School, the contracts of three recruited staff members did not mention their salary grade. Two cases did not comply with the probationary period requirements. In another case, the contract did not specify the staff member's responsibilities and duties. Furthermore, the successful candidate had only signed the contract seven days after taking up employment. In one case each at the Karlsruhe and Brussels III

¹⁴ See footnote 4.

¹⁵ Recruitment policy and procedure applicable to the administrative and ancillary staff of the European Schools (Ref: 2019-05-M-11-en-1).

Schools, the national inspectors were not consulted regarding the validation and relevance of diplomas/certificates.

22 We also noted four instances of missing supporting documents. At the Karlsruhe School, we found one case where the evaluation sheet for the selection of an administrative staff member was missing. In three other cases, the medical certificates of locally recruited teachers were missing. According to the Central Office's ICC, responsibility for gathering and keeping key recruitment documents for locally recruited teachers and administrative staff lies with the Schools, whereas for seconded staff this responsibility is shared between the Central Office and the Schools. However, this distribution of responsibilities is not clearly set out in the respective Staff Regulations or internal rules.

Procurement

23 We examined 14 procurement procedures from the Central Office and the two Schools selected. We also looked at their registers of exceptions and their lists of purchase orders and followed up on previous cases. Based on this work, we noted several weaknesses concerning competition and procurement procedures.

24 As regards competition:

- The Central Office had no contract for IT services covering the period between the end of April 2021 and the end of September 2021. However, it paid invoices worth a total of €26 136 for such services. Furthermore, the Central Office did not carry out a tender procedure for the new contract (worth €78 435 for the period October 2021 to October 2022).
- For another procurement procedure at the Brussels III School, three of the four contacted tenderers did not participate. We found that overly specific technical selection criteria may have limited participation by tenderers.
- For three procurement procedures at the Karlsruhe School, the selection criteria of minimum yearly turnover, used to assess candidates' economic and financial capacity, exceeded the limit of two times the estimated annual contract value stipulated in point 19(1)(a) of Annex I to the EU Financial Regulation. The procurement documentation does not contain a justification of this exception to the rule, as required by this Regulation.

25 As regards procurement procedures:

- following a complaint by an unsuccessful tenderer, in December 2021 a judgement of the Brussels Court of First Instance rejected the result of a Central Office procurement procedure because the successful tenderer had submitted its application and then its offer before receiving the invitation;
- for two cases listed in the Karlsruhe School's 2021 register of exceptions, the amount spent was double the initial estimates and, in a third case, it was around 46 % higher. These differences between actual and estimated amounts, totalling around €41 000, point to insufficient needs analysis;
- similar to last year, we found that not all language versions of the templates used by the Brussels III and Karlsruhe Schools for the declaration on honour had been updated in accordance with Articles 136 and 137 of the EU Financial Regulation; and
- pieces of information required by point 30.2 of Annex I to the EU Financial Regulation were missing from two Central Office procurement evaluation reports: the contract's subject matter in one case and its value in another. The omissions of subject matter or value may affect the regularity of the procedure.

26 In addition, we found that the Schools did not check, via the Central Office's access to the Commission's 'early-detection and exclusion system', whether tenderers had been blacklisted.

Payments

27 We examined a sample of 60 payments – 20 each for the Central Office and the two Schools. We found six cases of overdue payments to commercial vendors (two for the Central Office, one for the Brussels III School and three for the Karlsruhe School).

28 As already noted last year¹⁶, there is no standard aging report in SAP to provide the Central Office and the Schools with information on the accounts payable balances due to vendors based on the age of the invoice. Since November 2019, the Schools have been able to extract reports on all open vendor items, indicating the due dates

¹⁶ Report of the annual accounts of the European Schools for the financial year 2020, paragraph 28.

and the number of days overdue. However, these reports do not provide the balances due to vendors, sorted by date interval or by aging period.

29 In the absence of a standard aging report for checking that payments comply with the payment terms set in the procedures¹⁷, we analysed the time taken to make payments to commercial vendors. For the Central Office, we identified 88 invoices reported as paid after the due date in its accounting system (52 of the 88 invoices related to one service provider). Around 34 % of all of these invoices were overdue by more than 30 days. In the case of the two Schools, the data in their accounting systems was not reliable due to incorrect settings concerning payment terms for contracts, vendor master data and invoices in SAP. The Central Office mainly attributed its overdue payments to the following:

- operational validation of invoices taking a long time;
- delayed processing of invoices due to internal assignment problems within the accounting department (long sick leave with limited resources);
- supplier invoices missing due to technical issues on the supplier side;
- invoices not booked due to a SAP technical issue blocking the posting; and
- delayed payment of invoices due to open disputes with the supplier.

30 We also reviewed the underlying data on amounts payable to vendors as of 31 December 2021. We identified 107 invoices from commercial vendors with due dates in 2021 in SAP, which were included in the balance of outstanding amounts payable at year-end. Many of these had been received close to or during the Christmas holiday period, or in January 2022. However, 26 of the 107 invoices were dated earlier in December or previous months and were not blocked in the system (for example due to rejections in operational workflows or inconsistencies with purchase orders) or could not be paid due to missing supporting documents. Clearance of these amounts payable could therefore have been done in 2021 (four cases for the Central Office, 14 for the Brussels III School and eight for the Karlsruhe School; the total amount involved was €116 547.70).

31 We noted insufficient or inappropriate supporting documents for three of the payments we reviewed in our sample. In one case, there was no contract with the service provider. To remedy this situation, the Central Office signed a framework

¹⁷ Section 2 on payment terms applied within the Guidelines on Accounts Payable.

contract for the provision of the services in question in 2022. In the other two cases, the contractual provisions on prices were not sufficiently detailed. In the first case (Brussels III School), the contract only included a general description of the price components, but no clearly defined unit prices on which the related invoices were based. In the second case (Central Office), the contract signed with the service provider only specified monthly payments based on an estimate of the monthly working time. As a result, the invoices for this contract did not provide any information on the specific tasks performed or the hours worked.

32 In our sample, we reviewed two payments (Brussels III School and Karlsruhe School) concerning severance grants paid to UK seconded staff whose contracts were terminated in 2021. We noted that the components used to calculate the payment included a weighting rate linked to the country of origin (UK). We found that following a memorandum from the Central Office, the Schools had calculated the payments using a weighting rate (1.409) based on the Central Office's own calculations. However, the application of this rate was contrary to the Commission's advice to use the lower rate (1.285) that was provided by the Commission for 2021. The Commission recommended using the country coefficient applicable to transfers and pensions because it reflected the difference in purchasing power for the UK as a whole. Following Brexit, this country coefficient is the only one that Eurostat will continue to update in the future. Moreover, we consider that there is no legal basis for the Secretary-General to set its own weighting rates for seconded staff, since Article 47 of the School's Seconded Staff Regulations provides that remuneration of such staff (including all components) must be weighted at a rate as laid down and adjusted for EU officials. The setting of this rate lies exclusively within the competence of the Commission.

33 We found that the calculation of EU taxes did not include all the components required by legislation. In particular, the special allowance for certain managerial positions¹⁸ was not taken into account for the calculation of the taxable amounts; nor was the severance grant, which is paid to seconded staff whose service is terminated. Under Article 49(2)(c) of the Seconded Staff Regulations, the tax treatment of seconded staff members' remuneration should be in line with the Regulation applicable to EU officials on the application of EU tax¹⁹. Under Articles 3(1) and 6(1)(b) of the latter Regulation, the special allowance and the severance grant, as components

¹⁸ Seconded Staff Regulations, Article 49.3.

¹⁹ Regulation (EEC, EURATOM, ECSC) No 260/68 of the Council of 29 February 1968 laying down the conditions and procedure for applying the tax for the benefit of the European Communities.

of such remuneration, should be subject to EU tax. Because of this, payments related to the differential allowance were calculated incorrectly in all cases where the special managerial allowance or the severance grant were paid. The differential allowance is intended to compensate for differences in national tax paid by seconded staff in their country of origin.

34 Furthermore, we noted one case where the special managerial allowance was paid to a seconded staff member who did not occupy one of the managerial positions listed in the Regulations (“Directors” or “the Central Accounting Officer”). Its payment to another staff member was based on a Board of Governors decision which, as per its heading, was meant to relate to salary adjustments only.

35 In addition, an incorrect setting in the IT systems used for managing salaries affected the calculation of taxable amounts for top managerial positions. Once the Central Office identified the issue, it performed an internal analysis that led to the recovery of amounts concerning the differential allowance received by one staff member. We noted that the recalculations of the taxable amounts covered by this internal analysis did not take account of the special managerial allowances or severance grants. The related amounts were therefore not considered for the recovery.

36 Similar to last year²⁰, we examined the SoD documentation concerning the Central Office and the two Schools. SoD tables show actors in their roles in the financial circuit. We noted that, in 2021, the Central Office had updated its guidance on SoD tables during 2021. It had also provided the Schools with new guidelines for clearing open vendor items. Furthermore, the Central Office’s ICC had carried out ex-post checks to verify consistency between access rights in SAP and the authorised SoD tables for all Schools and the Central Office (paragraph 19). It found that the SoD tables had been implemented correctly in SAP in most respects. The inconsistencies identified by the ICC, which represented less than 4.3 % of the total population checked (in 2020 it was less than 1 %)²¹, mainly concerned: authorisations in SAP not requested/approved in the SoD tables; SoD requests not fully/properly implemented in SAP; and missing/wrong end dates in SAP for staff authorisations. According to the Central Office, all cases detected were resolved.

²⁰ Report on the annual accounts of the European Schools for the financial year 2020, paragraph 26.

²¹ Report on the annual accounts of the European Schools for the financial year 2020, paragraph 27.

37 We found some weaknesses relating to the control environment, including inconsistencies between the SoD tables and the access rights assigned to users in SAP. In particular, we noted that not all mandatory roles defined in the SoD tables were always fulfilled in the Karlsruhe School, which the School attributed to lack of staff. Moreover, in one operational workflow, two approvals took place because of the involvement of a user with no corresponding assignment in the SoD tables. In addition, we found one case where the SAP user rights and SoD tables had not been aligned in a timely manner (Brussels III). Finally, the SoD tables did not identify all staff involved in validating operational workflows, as a limited number of technical staff with broad access rights may also intervene if necessary.

Declarations of the Authorising Officer

38 The Schools' 2021 annual activity report included two declarations of assurance signed by the former and current Secretaries-General. In his interim declaration of assurance for the period from 1 January to 31 August 2021, the former Secretary-General made a reservation regarding the calculation of salaries for top management positions. In his declaration of assurance for the period from 1 September to 31 December 2021, the current Secretary-General reported that an analysis of all potentially affected salaries had revealed this to be an isolated case, which had since been rectified (see paragraph 35).

Declarations of the Central Accounting Officer

39 For 2021, the Central Accounting Officer of the Schools signed off the accounts for all Schools and the Central Office.

Conclusions and recommendations

40 Based on our review, nothing has come to our attention to make us believe that the financial statements for the year ended 31 December 2021 were not prepared, in all material respects, in accordance with the applicable financial reporting framework. However, we are still unable to confirm that the Schools' financial management in 2021 was fully compliant with their Financial Regulation and the Staff Regulations.

41 In the area of accounting, our review did not reveal material errors in the final consolidated annual accounts for 2021. The external auditor, in the provisional individual accounts, found some weaknesses in the calculation of employee benefits, the booking and depreciation of fixed assets, and the calculation of provisions for other liabilities, which the Schools had corrected in the final accounts (paragraphs [13-18](#)).

Recommendation 1 – Accounting

The Central Office and the Schools should ensure that:

- their calculations of employee benefits are transparent and specific, and that the related provisions are in the correct amount; and
- fixed assets are booked in line with their accounting policy.

Target implementation date: before the end of 2022

42 In the area of recruitment, we found weaknesses in the use of selection criteria, gaps in compliance with the Schools' recruitment rules and missing supporting documentation (paragraphs [20-22](#)).

Recommendation 2 – Recruitment

The Central Office should ensure that:

- the distribution of responsibilities for gathering and keeping key recruitment documents for staff selection is clearly set out in the Regulations or internal rules; and
- the conditions for derogations from the grading set out in vacancy notices are fulfilled.

Target implementation date: before the end of 2022

The Schools, with the support of the Central Office, should ensure that:

- selection criteria are clearly defined and their use documented;
- national inspectors are consulted on whether the candidates selected have the required qualifications;
- staff contracts contain the necessary information, including the staff member's salary grade; and
- supporting documents required by the Staff Regulations are readily available.

Target implementation date: before the end of 2022

43 In the area of procurement, our review showed that some weaknesses remained:

- competition-related weaknesses concerned failure to carry out a procurement procedure, overly specific technical selection criteria and excessively high required turnover without any published justification (paragraph 24); and
- other weaknesses concerned failure to check that tenders adhered to announced procurement procedures, amounts spent exceeding initial estimates, and templates not being updated in line with the EU Financial Regulation (paragraph 25).

Recommendation 3 – Procurement

The Central Office should:

- launch appropriate tender procedures on time;
- when evaluating the bids, check that they strictly adhere to the procedures described in the calls for tender; and
- encourage and support the Schools' use of the 'early-detection and exclusion system'.

Target implementation date: before the end of 2022

The Schools should:

- not use selection criteria which are too specific and thus limit competition to one candidate, or are not legal due to failure to justify the required turnover exceeding the legal maximum threshold in the procurement documents;
- perform better needs analyses to avoid large estimate overruns; and
- update the templates they use in all their working languages, in line with the regulations in force at the time of the procurement procedure.

Target implementation date: before the end of 2022

44 In the area of payments, our review showed that weaknesses continued to exist in relation to payment deadlines, clearance of amounts payable, and contracts. It revealed also issues with weighting coefficients, calculation of taxable amounts, managerial allowances and inconsistencies in the segregation of duties (paragraphs [27-37](#)).

Recommendation 4 – Payments

The Central Office and the Schools should:

- correct the deadline settings in SAP in line with agreed payment terms and adequately keep track of amounts due;
- ensure that accounts payable remain current and only include items that it was not possible to clear and pay;

- ensure that payments are based on valid contracts which provide sufficient detail on price calculation;
- ensure that weighting rates are applied in line with the Commission's approach to calculating payments related to termination of service;
- ensure that EU tax rules on the calculation of taxable amounts are fully complied with to determine the differential adjustments for seconded staff;
- ensure that managerial allowances are only paid to eligible seconded staff as stipulated in the relevant Regulations, and recover any amounts wrongly paid;
- analyse the impact of incorrect calculations of taxable amounts and recover any amounts wrongly paid; and
- ensure that duties are segregated consistently in line with promptly updated and approved SAP tables and comprehensive segregation of duties authorisation tables, which should include all staff with SAP access.

Target implementation date: before the end of 2022

This Report was adopted by Chamber V, headed by Mr Jan Gregor, Member of the Court of Auditors, in Luxembourg at its meeting of 26 October 2022.

For the Court of Auditors



Tony MURPHY
President

Annex

Annex I – Follow-up to the recommendations in our annual report for the financial year 2020

Our recommendations (paragraphs 38 to 42 of the report on the accounts of the European Schools for the financial year 2020)	European Schools		Central Office	Comments
	Luxembourg II	Mol		
	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	
Recommendations on accounting issues				
The Central Office and the Schools should ensure that:				
the outstanding Member State confirmations for the Munich School continue to be closely monitored and followed up, based on clear arrangements concluded with the Member States;	In progress			Most long outstanding amounts have been confirmed and reimbursed. The external auditor assesses the remaining risk is medium level.
the number of staff and the average costs used to calculate employee benefits are as close as possible to reality;	In progress			Improvements with new SAP module and new accounting rules, but calculation of employee benefits remains an area for improvement.
fixed assets are activated and depreciated instead of being expensed immediately;	In progress			Depreciation remains an issue.
accounting staff charge expenditure to the correct accounts;	Implemented			
necessary accruals and year-end adjustments are made	Implemented			

Our recommendations (paragraphs 38 to 42 of the report on the accounts of the European Schools for the financial year 2020)	European Schools		Central Office	Comments
	Luxembourg II	Mol		
	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	
Recommendations on recruitment procedures				
The Central Office and the Schools should ensure that:				
selected candidates meet the minimum requirements set out in the vacancy notice, regardless of the contract duration;	In progress			New case detected this year, see paragraph 21 .
selection procedures comply with the deadlines set in the applicable regulations.	Implemented			No such cases found this year.
Recommendations on procurement procedures				
The Central Office and the Schools should:				The School procurement network met twice in 2021 where the Central Office provided instructions and guidance and evoked our recommendations.
based on a complete list of contracts, each draw up and implement an action plan to remedy all cases with no or inappropriate procurement procedures, taking proper account of future needs that might lead to thresholds being exceeded;	In progress			Lists of contracts in force, of potential future procurement procedures, and (when necessary) action plans have been drawn up.
in parallel, update all 2021 registers of exceptions appropriately, including an estimate of the	In progress			Due to delays in the implementation, the impact is not visible in

Our recommendations (paragraphs 38 to 42 of the report on the accounts of the European Schools for the financial year 2020)	European Schools		Central Office	Comments
	Luxembourg II	Mol		
	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	
financial impact of the cases reported.				the 2021 register of exceptions.
The Schools should:				
use all award criteria and the method announced in their calls for tenders		In progress		There was a Court case with the Central Office, see paragraph 24.
use complete and up-to-date templates in their working languages, corresponding to the regulations in force at the time of the procurement procedure;		In progress		New cases detected in the Brussels III and Karlsruhe Schools, see paragraph 25.
no longer conclude contracts that can be extended indefinitely;		Implemented		No such case found this year.
observe the standstill period of ten days between the award and the signature of a contract;		Implemented		No such case found this year.
ensure they publish the correct information corresponding to the signed contract in question.		Implemented		No such case found this year.
Recommendations on payment procedures				
The Central Office and the Schools should:				
ensure that duties are always segregated consistently in line with promptly updated and approved SAP and SoD authorisation tables;		In progress		We found issues with the segregation of duties, payment deadlines, and

Our recommendations (paragraphs 38 to 42 of the report on the accounts of the European Schools for the financial year 2020)	European Schools		Central Office	Comments
	Luxembourg II	Mol		
	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	Implemented Yes/No/NA/ in progress	
ensure they meet payment deadlines by avoiding delays in receiving invoices (e.g. through electronic invoicing) and in approval procedures, and by better keeping track of amounts due;	In progress			supporting documents.
ensure that complete supporting documentation for payments is available;	In progress			
improve their management of the extra-budgetary accounts in accordance with the new memorandum, and make it more transparent.	N/A			Due to very limited use of these accounts during the COVID-19 pandemic.
Recommendations on business continuity				
The Central Office and the Schools should ensure that:				
Business continuity requirements derived from internal control standards are followed;	In progress			The Central Office carried out an assessment. An action plan is under development.
they have tested business continuity and disaster recovery plans in place, based on assessments of risks and business impacts, in order to be able to respond effectively to disruptions.	In progress			The ICT disaster recovery plan needs further development.



Ref.: 2022-10-D-21-en-1

Orig.: EN

REPLIES OF THE EUROPEAN SCHOOLS TO THE OBSERVATIONS AND RECOMMENDATIONS OF THE COURT OF AUDITORS IN THE FRAMEWORK OF THE ANNUAL REPORT FOR THE FINANCIAL YEAR 2021

The European Schools (ES) take note of the Court of Auditors' observations and recommendations and are committed to further improvements in the areas highlighted, at the level of the Schools and the OSG, with the aim of complying with the Financial Regulation and Staff Regulations.

Accounting

With reference to the Court's recommendations in Accounting, the OSG and the Schools are committed to continuous improvement in the quality of the financial statements produced. In this regard, special attention will be paid during the regular meeting to be held in November 2022 with the accountants (Accounting Correspondents) of the Europeans Schools to the findings and remarks made by the Court of Auditors and Deloitte in the framework of their review/audit of the 2021 accounts, to prevent similar issues from recurring in the future.

Referring particularly to the first recommendation on the calculation of employee benefits, we would like to emphasize that efforts will continue to be made to achieve further improvement in the area of employee benefits (EB). In this context we would like to mention that a new SAP module, called HCM (Human Capital Management) has been implemented and went live in April 2022, allowing the management of seconded staff salaries in SAP for all Schools and the OSG. The implementation of this new module (i) makes further harmonisation of accounting practices between Schools possible, and (ii) means that there is a centralised detailed database managed in SAP, which will enable tailor-made reports for data extraction to be developed.

Regarding fixed assets accounting, a global review exercise of the accounting of fixed assets is planned for before the closure of the 2022 accounts.,. This review will include the following:

- review of the depreciation rates set up in SAP for each GL account and their alignment with our accounting policies as described in our Manual of Accounting;
- further analyses of the capitalization threshold used for groups of assets;
- organization of a specific workshop on fixed assets accounting with the Accounting Correspondents of the Schools and the accountants responsible for the accounting of fixed assets;
- In addition to following up on the requirements set out in the guidelines issued in December 2021 concerning the physical inventory checking process, specifically for ICT equipment, we are considering setting up an annual inventory reporting channel in each School/OSG between the member of the staff responsible for ICT and the Accounting Correspondent. This would allow us to identify in time the items that should be scrapped before each closing.

We are convinced that the combination of these improvements will lead to a more consistent and rigorous application of fixed asset accounting rules within the ES.

Internal control systems

Recruitment procedures

We take note of the Court's recommendations and will continue working on improving the recruitment procedures.

With respect to the consultation of national inspectors the ES will investigate legal solutions that would ensure a smooth recruitment process.

Procurement procedures

With respect to the Court observations on procurement, we would like to mention that:

- Concerning the IT services contract raised under point 24 a1, the ES and the OSG have expressed from the outset their interest in participating in the framework contract that was initiated by the European Commission (DG BUDG) for IT services (Dimos V), and which was foreseen for October 2020. Due to difficulties linked firstly to the pandemic and secondly to legal reasons, the framework contract was not signed when initially foreseen. After some delays, the Commission now expects to sign the contract for Dimos VI in the coming months. More generally, with regard to framework contracts launched by the EC, the ES participate in as many of these as possible in order to make the most efficient use of scarce resources. In our view, launching our own procedures, such as this one, would not have been the most efficient solution.
- As regards point 24 a2, in the procurement procedure in the school of Brussels III, the characteristics described in the specifications are the result of decisions taken in consultation with an expert in air quality, the teachers' representative, and the school's safety/security officer. Given the particularly difficult situation related to the pandemic and the urgency to take a decision for the safety of pupils and staff, a different procedure may have been more appropriate.
- On point 24 a3, for the school of Karlsruhe, and regarding the selection criteria of minimum yearly turnover related to the economic and financial capacity of the candidates that exceeded the limit of two times the estimated annual contract value, we believe that requiring more than double turnover was sound financial management. Justification should have been added.
- As regards the procedure BSGEE 2020-021 under point 25 a1, the OSG had a doubt about the validity of this offer and consulted its legal advisor. The decision of accepting to continue the procedure with the documents provided prior to the sending of the invitation was supported

by the legal advisor. However, this advice was not followed by the Court of First Instance, which decided that the offer received by one tenderer was not acceptable.

- The OSG acknowledges that as mentioned in point 25 and 4 pieces of information required by point 30.2 of Annex I to the EU Financial Regulation were missing for two OSG procurement evaluation reports, but nonetheless stresses that in the end this situation had no bearing on the outcome of the procedures in question.

The Schools and the OSG will continue to strive towards the correct implementation of the Financial Regulation in the procurement area and to systematically seek compliance by consulting our lawyers in case of any doubt.

Actions have already been taken with respect to the Court's recommendations mentioned in point 3 (for the Central Office) and 3 (for the Schools).

With respect to the use of the 'early-detection and exclusion system (EDES)', the OSG Procurement unit has contacted all of the Schools and all of them have designated a contact person. Logins have been created, so all schools now have access to EDES.

With respect to the recommendations addressed to the Schools we commit and will remind all Schools:

1. that justifications of decisions to exceed thresholds for the required turnover will be documented in the procurement procedures, and
2. that specific procedures should be used in cases of urgency or monopoly situations and that attention is paid to the definition of specifications and the chosen procurement procedure.

Moreover, actions have also already been taken with respect to the procurement templates in the Schools' working languages and these have been updated.

Finally, it is important to mention that the ES have shown a significant improvement in the compliance with internal rules and regulations in the area of procurement in the year 2021, and that the findings/incompliances raised are much more limited in number.

Payments procedures

We would like to express the following clarifications with regard to the Court's observations on payments:

- Concerning the compliance with payment terms under point 29, for the OSG, out of the 88 invoices listed by the Court, 52 representing an amount of 357.000 € are related to one service supplier that acknowledged having a technical malfunctioning in its invoicing system which resulted in late submission of invoices. Therefore, the number of invoices which were paid after the deadline due to internal OSG issues is significantly lower, namely 36 late payments out of a total number of 1.640 payments to commercial vendors in 2021 (2,2%).
- Regarding point 30 raising the clearing of amounts payable that could have been done in 2021 (of which 4 cases were related to the Central Office), we would note that after having analysed each document only 3 invoices should be considered as cleared late, and another invoice was received too close to the cut-off date set for the finalization of the payment proposals by the accounting correspondent.
- Concerning the amount of the contract concluded by the OSG for legal services in point 31, it is based on a global estimation of hours needed to support the amounts that are invoiced on a monthly basis. This type of retainer contract is not unusual practice among law firms. The contract does not foresee that invoices should contain a description of tasks and work hours provided (the use of the legal service is considered as a fixed price contract). Therefore, no additional supporting information is required.
- With reference to the severance grants paid to UK seconded staff in point 32: The European Schools do not share the Court's conclusion that in the given case, the setting of such rate lies exclusively within the competence of the Commission.

According to Article 125 of the Withdrawal Agreement secondments of UK staff members ended automatically on 31 August 2021 while Brexit came into effect on 31 December 2020.

With the end of secondment, these staff members were entitled to a 'severance grant' which is calculated according to Article 72 of the Staff Regulations. This calculation takes into consideration a correction coefficient for salaries, which was established by Eurostat. This correction coefficient for salaries (which was different to the coefficient for pensions) was no longer established by Eurostat as of 2021 due to Brexit. However, the constantly lower correction coefficient for pensions continued to be established as in previous years.

The proposal of the Commission was not followed by the Secretary-General as this would have violated the method of calculation of the severance grant as stipulated in Article 72 of the Regulations for Members of Seconded Staff and would have discriminated against the staff concerned due to the lower pension coefficient.

Therefore, the Secretary-General consulted internally and after receiving legal advice established based on these consultations a Memorandum (2021-04-M-3) for the development of a correction coefficient for salaries of UK nationals over the past three years in order to establish for the year 2021, a correction coefficient related to salaries.

This decision of the Secretary-General was based on Article 2 of the Regulations for Members of the Seconded Staff in conjunction with Article 29.6 of the Financial Regulation.

Article 47 of the Staff Regulations, referred to by the Court, would not have constituted a legal basis, as the 'severance grant' is not part of the 'remuneration' as defined in Article 45 of the Staff Regulations. Moreover, and as explained – no correction coefficient for salaries was established by Eurostat due to Brexit.

- With regard to the components to be considered for the calculation of the taxable amounts for the calculation of the differential adjustments in point 33, we would stress the following: The ES as a public international organisation constitute an autonomous legal system towards the local legal system as well as towards the one of the European Union. As a result, the legal basis to refer to are the Regulations for Members of the Seconded Staff of the European Schools (hereafter the 'Staff Regulations').

Pursuant to these Staff Regulations, we believe that the differential adjustments were correctly calculated based on our interpretation of Articles 49 and 72 of the Staff Regulations.

With respect to the 'severance grant' it should be noted that this is not part of 'remuneration' of staff as defined in Article 45 of the Staff Regulations (Chapter I).

The severance grant is established purposefully in a different chapter (Chapter IV) of the Staff Regulations to that of 'remuneration' (Chapter I). Therefore, it follows from a systematic interpretation of the Staff Regulations that the severance grant is not part of the taxable 'remuneration' of seconded staff. Since Article 49.2.c is included in the section reserved for basic salary, it can only be applied to the basic salary.

Concerning the possible taxation of the special allowance, the Staff Regulations define it as being outside the basic salary, which is besides the payment of overtime, the only taxable part of the remuneration. However, since the article makes reference to the EU Regulations, a clarification of the provisions could be foreseen.

The special allowance is described directly after the basic salary components (Articles 49.2.a) and 49.2.b)) and their tax mechanism (Article 49.2.c). If the Board of Governors as legislator had intended to submit this allowance to the differential adjustment mechanism, it would have placed Article 49.3. within the terms of Article 49.2.c) (and the differential adjustment thereafter) or placed Article 49.2.c) within the terms of Article 49.4.

A consultation of the Board of Governors and a potential amendment of the Staff Regulations could be proposed in order to avoid any potential ambiguity.

- Finally, regarding point 34 on the payment of managerial allowance we would emphasize that this payment has been a consistent administrative practice for more than 45 years, which is reflected in the Board of Governor's document of 2018. According to our legal experts the long-term practice in itself constitutes a valid legal basis for the payment of the allowance to the Deputy Secretary-General. This understanding is also reflected in the document of 2018 which was brought to the attention of the Board of Inspectors, Budgetary Committee and Board of Governors. For the sake of consistency, the relevant alignment of the Staff Regulations can be proposed to the Board of Governors for final decision.
- Point 35 on the taxable amounts related to one managerial allowance is linked to point 33, so we would refer to our reply above which is also applicable here.

We have taken note of the Court's recommendations in the area of payments. It is important to note that several measures have already been taken to improve the payment procedures.

For example, and addressing recommendations 1 and 2, within the framework of harmonizing payment terms, a project has been conducted to align the payment terms in the SAP master data with the payment terms agreed in the vendor contracts. On the other hand, in order to improve the accounts payable monitoring and assist the Schools in the timely review of open balances, a revised reporting framework was introduced in June 2021 ("Guidelines on Accounts Payables"). These new Guidelines provide detailed guidance to accounting correspondents on how to review the list of open invoices and to produce the list of these items in a report (the "Vendor Open Items Report").

Furthermore, as of Q4 2021, accounting correspondents are required to confirm, at least once every three months, that they have conducted a clearing of open vendor items. Due to the potential benefits of the existing tools in SAP (in particular, the possibility to extract reports on all open vendor items) in combination with the new Guidelines and related new reporting requirements, currently there are no plans to implement a separate vendor ageing report in SAP.

Regarding the recommendations linked to the validity of contracts (3), the ES agree to ensure that payments are based on valid contracts but do not see the need to change the respective existing contract (see explanation above on point 31).

Concerning the recommendation related to the weighting rate (4), and considering the reply provided to observation n°32, we do not share the Court's conclusion on the applicability of the Commission's approach as it would imply the violation of our Staff Regulations.

Considering the reply provided to observation n°33, we believe that taxable amounts comply with our Regulations (recommendation n° 5). However, and to avoid any potential ambiguity with respect to the special allowance, a clarification based on a possible decision of the Board of Governors could be envisaged.

In line with our reply to observation n°34, the ES are convinced that the amounts were not wrongly paid and there are no amounts to be recovered (recommendations n°6). As mentioned above it will be proposed that the Regulations might be amended to reflect the entitlement to the allowance.

As stated in our reply to point n°33 taxable amounts have been calculated correctly, so no recovery is needed (recommendation n°7).

Finally, the OSG constantly improves internal control measures to ensure that duties are segregated consistently in line with promptly updated and approved SOD tables and comprehensive segregation of duties (recommendation 8) authorization tables. In this regard, as of Q2 2022, the OSG had already enlarged the scope of the quarterly ex-post controls performed on the correct implementation of SOD tables in the SAP system and in August 2022, updated the SOD guidance and SOD table template to address the Court's remarks and include all staff with SAP access.

A handwritten signature in black ink, appearing to be 'A. Beckmann', with a long horizontal line extending to the right.

Andreas BECKMANN
Secretary-General



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