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## Report of the Court of Auditors for 2009

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**Board of Governors**

Brussels, 12, 13 & 14 April 2011

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### **1. Issue**

Article 93.2 of the Financial Regulation states,

*The comments of the Court of Auditors and the replies that have been sent to it shall be drawn to the attention of the Board of Governors which at its meeting of the first quarter of the calendar year shall examine them and make its own comments and recommendations.*

The report of the Court of Auditors on the accounts of the European Schools for the financial year 2009 and the replies of the Secretary-General are attached at Annex A.

## 2. Background

For the financial year 2009, the Court of Auditors carried out on-site audits at the schools of Luxembourg I, Munich and at the Office of the Secretary-General. The observations arising from these audits, at various levels of detail, were recorded in:

- (a) the Annual Report of the Court of Auditors on the implementation of the EU budget (see below);
- (b) a specific report on the European Schools (not published in the Official Journal) submitted to the Board of Governors as the discharge authority (Annex A);
- (c) preliminary findings detailing the main results of the audits in the individual schools and the Office.

In the Annual Report referred to at point (a), the Court of Auditors made the following observations:

*“The Court found no material errors that might call into question the reliability of the accounts that it audited (Munich and Luxembourg I schools and the Central Office), which were drawn up under the provisions of the Financial Regulation of 24 October 2006 applicable to the budget of the European Schools, and the legality and regularity of the transactions underlying these accounts.*

*Based on the review performed, nothing has come to the Court’s attention that causes it to believe that the consolidated accounts are not presented fairly, in all material respects, in accordance with the relevant accounting standards, with the following exceptions arising from the unsatisfactory application of the accrual based accounting principle: (a) no provisions were made for legal cases pending against the Schools, (b) no accruals were made for salary adjustments in 2009, (c) provisions for future expenses not related to the current year were included in the balance sheet when they should only have been disclosed in the explanatory notes.”*

The Commission gave the following reply to this observation, in consultation with the Secretary-General,

*“The application of the accrual based accounting principle is being examined in a review, currently under way, of the Financial Regulation of the European Schools. Proposals arising from the review will be submitted to the Board of Governors later this year.”*

The specific report on the European Schools referred to at (b) above is attached at Annex A, together with the Secretary-General’s response.

The report makes the same points as noted above to confirm the reliability of the accounts audited by the Court and the legality and regularity of the underlying transactions, but with the same remarks on the unsatisfactory application of the accrual based accounting principle. In addition, the report sets out the follow up of the recommendations of last year’s report and makes observations and recommendations on a number of issues, in particular with regard to the accrual accounting principle, the inventory, extra-budget accounts, staff issues (recruitment procedures, evaluation and file management), procurement, payment procedures and the internal control standards. The response of the Secretary-General set out how the various recommendations would be followed up.

In a letter of 3 December 2010 to the Secretary-General, the Court of Auditors made some comments on the replies and confirmed that the audit was closed (see Annex B).

On the question of the accrual based accounting principle, the report of the working group on the review of the Financial Regulation was discussed by the Budgetary Committee at its meetings of October 2010 and March 2011 (see document 2011-02-D-26-en-2 on the agenda of the present meeting of the Board of Governors).

### **3. Opinion of the Budgetary Committee**

The Budgetary Committee examined the observations referred to above at its meeting of October 2010 (including the detailed preliminary findings referred to at point (c) – the Committee agreed that these need not be submitted to the Board of Governors).

The Committee recommended that the Board of Governors should take formal note of the report of the Court of Auditors referred to at point (b) above and should approve the Secretary-General's response.

### **4. Proposal**

The Board of Governors is invited to take formal note of the report of the Court of Auditors on the annual accounts of the European Schools for the financial year 2009 and approve the Secretary-General's response.

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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts of  
the European Schools for the financial year 2009  
together with the Schools' replies

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## INTRODUCTION

1. The Schools' consolidated annual accounts for the financial year ended 31 December 2009<sup>1</sup> were drawn up by the Office of the Secretary-General of the European Schools (hereinafter "the Central Office") and forwarded to the Court of Auditors in accordance with Articles 90 to 92 of the Financial Regulation of the Schools (FR).
2. The appropriations available in the 2009 budget amounted to 267 million euro<sup>2</sup> (258 million euro in 2008). Revenue received was 262 million euro whilst committed expenditure was 259 million euro.
3. These annual accounts are the responsibility of the European School's Management. The Court's responsibility is to issue an annual report on the consolidated annual accounts.
4. The Court conducted its review in accordance with the International Standard on Review Engagements. This Standard requires to plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of European's School personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. The Court has not performed an audit, and, accordingly, it does not express an audit opinion on the consolidated accounts.
5. In addition to its review of the consolidated accounts, the Court performs an audit of the Central Office annually and a cyclical audit of two out of the 14 European Schools every year. For 2009 the Schools selected were Munich and

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<sup>1</sup> See tables in **Annex 1 and 2** which summarise for information purposes the data contained in the Schools' consolidated accounts drawn up by the Central Office.

<sup>2</sup> *Source:* European Schools, clôtures des comptes 2009, Volume I.

Luxembourg I<sup>3</sup>. In this context, procedures for inventory, procurements, recruitments, payments and application of Internal Control Standards were also examined.

6. The Court transmits its comments to the Secretary-General and to the Heads of the Schools in accordance with Article 93 of the Financial Regulation of the Schools.

### ACCOUNTS

7. The Court found no material errors that might call into question the reliability of the accounts that it audited (Munich and Luxembourg I schools and the Central Office), which were drawn up under the provisions of the Financial Regulation of 24 October 2006 applicable to the budget of the European Schools, and the legality and regularity of the transactions underlying these accounts.

8. Based on its review of the consolidated accounts, nothing came to the Court's attention that causes it to believe that the accounts are not presented fairly, in all material respects, in accordance with the relevant accounting standards with the following exceptions arising from the unsatisfactory application of the accrual based accounting principle:

- the Schools did not make any provisions for pending legal cases against them, despite the fact that there are specific cases that may result in a significant cash outflow for the Schools (the Court identified minimum exposure of 1,5 million euro; for details see paragraphs 22 and 23);
- no accruals were calculated for the salary increases for the period 1 July 2009 to 31 December 2009 paid in February 2010 (1,85 %, i.e. 1,8 million euro) and no provision was made for the still pending salary increase (additional 1,85 %, i.e. 1,8 million euro) (for details see paragraph 24);

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<sup>3</sup> The total budget of Munich I is 21 million euro, Luxembourg I is 40 million euro, Central Office is 10 million euro (Source: European Schools, clôtures des comptes 2009, Volumes II and VI).

- the provisions for future expenses (*obligations non présentes*) are overstated (1,7 million euro; for details see paragraph 21).

### **PRESENTATION OF ACCOUNTS FOR CONSOLIDATION**

9. According to Article 87 of the Schools' Financial Regulation "each School, after discussion and approval by its Administrative Board, shall, not later than 1 April, transmit to the Office of the Secretary-General the information required for drawing up the revenue and expenditure account and the balance sheet". However, this deadline was not respected by the majority of Schools.

### **FOLLOW-UP OF COURT'S RECOMMENDATIONS RAISED IN THE ANNUAL REPORT 2008**

10. The table in **Annex 3** provides information on follow-up of the 14 Court's recommendations from the 2008 audit:

- three were fully implemented (2, 5, 9);
- two were partially implemented (3,6);
- five were not implemented (1, 4, 7, 8, 12);
- four are in process of being implemented (10, 11, 13, 14).

### **INVENTORY<sup>4</sup>**

11. In the course of the audit of the two Schools and the Central Office, the Court found problems related to the accounting and the reporting of the inventory, which were also raised in previous years:

- no physical checks of fixed assets;

<sup>4</sup> Provisions on inventories of movable and immovable property are specified in the Title IV, Section II of the Schools' Financial Regulation.



- tools not adapted to run inventory;
- no reconciliation between inventory and accounting systems.

12. According to the Memorandum "Administrative and Financial Procedures for the Inventory"<sup>5</sup> approved in 2006, at least every 3 years (i.e. for the first time due by 2009), a physical check of assets must be carried out to verify that the inventory is complete and accurate, and the assets recorded in the inventory are in fact present in the school. However, at the time of the audit, the financial controller had not yet received any report on the inventory from any of the Schools or the Central Office itself.

13. Munich's inventory system allows the School to determine the net book value of the assets. The net book value is calculated on the basis of the useful life of the assets. However, if for any reason, an asset is disposed of prior to the end of the initial estimate of its useful life, rectifications have to be made outside the inventory system. In this case reconciliations are performed by the accounting service but not on a systematic basis.

14. At Luxembourg I, the inventory system is limited to the recording of the assets, its location, inventory number and labelling. However, it is not an effective management tool in order (a) to determine the net book value of the assets and (b) to make the reconciliations with the accounting system.

15. Regarding the physical inventory, in both schools not all the assets are labelled or located in the assigned place. In Luxembourg I some assets recorded in the inventory have not been found (four cameras, value 952 euro and sports equipment, value 4 504 euro) while others included in the inventory are not recorded in the balance sheet (laptop, value 1 330 euro). Moreover, there is no

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<sup>5</sup> Document approved by the Secretary-General of the European Schools in 2006 (Ref: 2006-M-12/MR). Specific rules include: (a) nomination by the Director of the person responsible for carrying out the physical check, (b) result of the inventory recorded in writing and signed by the Director and (c) a copy of the inventory to be sent to the financial controller.

label in the service car (16 955 euro). In Munich the hardware (2 393 euro) was not located in the assigned place as mentioned on the label.

16. Assets made available free of charge by the relevant host governments for the two audited schools are not included in the inventory. In many cases, these assets are not labelled. The risk of misidentification is high in case of assets identical or similar to the assets owned by the Schools.

### **TREASURY**

17. Six (out of nine) bank accounts opened in the name of the Luxembourg I School with a total year end balance of 111 900 euro are not included in the Balance Sheet as at 31 December 2009. These accounts are used to finance extra-budgetary activities (for example: parents association and extracurricular activities). The Schools' Financial Regulation clearly states that all extra budget receipts and expenditure must be recorded in the accounts<sup>6</sup>.

18. Imprest accounts are managed by the assigned administrators in Munich and Luxembourg I. There is no decision on the maximum amount of the imprest which may be advanced. Moreover, no on the spot checks were performed by the responsible accounting officer during 2009. Although the imprest account is subject to specific management rules, petty cash accounts are not. In Luxembourg I five petty cash accounts with a total value of 2 250 euro are not recorded in the balance sheet. In addition, for one petty cash account there was no audit trail.

### **DOUBTFUL DEBTORS**

19. In the two audited schools the major part of doubtful debtors corresponds to differential allocations<sup>7</sup> to be settled (regularised). In the case of Munich the

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<sup>6</sup> Article 5 FR, Article 1 Implementing Rules (IR).

<sup>7</sup> Differential allocation is the difference between (a) the amount levied in taxes on the national salary and (b) the amount levied in taxes on the remuneration of the officials of the European Communities. Adjustment is made to ensure an equal salary for

amount showed in the balance sheet (52 800 euro) consisted of the differential allocation to be settled after the teachers left the Schools. An additional amount (16 700 euro) was not integrated in the final accounts. In Luxembourg I the amount corresponding to doubtful debtors is included in the balance sheet as a net liability<sup>8</sup> due to the fact that receivables and payables were offset against each other, which is not in line with the "no-netting principle". The part corresponding to the debtors (352 000 euro) is related to differential allowances to be regularised. Furthermore, in both schools there was no age analysis of debtors and no estimate of their recoverability.

### LIABILITIES

20. The following recorded liabilities do not represent real obligations: (a) in Munich an amount recorded as a debt to a Member State (173 000 euro) is not to be reimbursed and should be written off; (b) in Luxembourg I a receipt from the Luxembourg social security in order to reimburse previous expenses of the School (85 000 euro) was recorded as a liability instead of as income.

### CARRY-OVERS

21. The annual accounts record all the commitments entered into in the year 2009 that are carried over to 2010 as a liability. This is in accordance with the Schools' Financial Regulation<sup>9</sup> but contrary to the accrual based accounting principle as the carry-overs include amounts relating to the current year's accrued expenses (obligations présentes) which it is correct to show as a liability, as well as amounts relating to future expenses not related to the current year. These amounts, totalling, 1,7 million euro, should not be included in the balance sheet but should

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members of staff from different member states (Ref: Article 49 of the Regulations for Members of the Seconded Staff of the European Schools).

<sup>8</sup> The amount showed in the balance sheet was 465 000 euro (liability). However, this amount should be disclosed as (a) debtors for the amount of 352 000 euro (assets) and (b) creditors for the amount of 817 000 euro (liabilities).

<sup>9</sup> Article 104(7) IR.

rather be disclosed in the explanatory notes. Examples include items such as computer equipment which it is planned to buy in 2010.

### LEGAL CASES

22. Although there are legal cases pending against some Schools for (a) part-time teachers requesting additional salary payments and (b) parents that are contesting school fees, the disclosures that are made in the individual School Annual Accounts are too general. They do not describe the total amount claimed by third parties or give an estimate of the likely final payments. Furthermore no disclosure is made in the Annual Accounts even in cases where a reliable estimate exists.<sup>10</sup>

23. According to the Memorandum of the Secretary General "Information to be shown in the accounts for the financial year 2009"<sup>11</sup> detailed information on legal cases should be included in the Annual Activity Report. However, this rule was not followed consistently by the Schools. The following problems were identified:

- pending legal cases not disclosed;
- pending legal cases disclosed, without the amount claimed.

At Luxembourg I the legal cases are not disclosed in the Annual Activity Report. However, according to its legal service there are pending legal cases against the School that could lead to future payments (1 million euro).

### PAYROLL EXPENSES

24. The salary increase of 1,85 % (1,8 million euro) approved by the European Council for the period as of 1 July 2009 onwards, was paid in February 2010. As a result it was recorded as an expense in 2010, although it is an expense of the

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<sup>10</sup> Doc. 2009-D-76-en-2 relating to estimation by the Schools of 460 000 euro for outstanding legal cases of Belgium teachers.

<sup>11</sup> Ref: 2010-M-12/RC.

period of 2009. This is not in conformity with the accrual based accounting principle. Furthermore for the additional 1,85 % (1,8 million euro) that was not approved by the European Council and is subject to the decision of the European Court of Justice, no disclosure was made by the Schools related to the probability of payment of this contingent liability.

### **STAFF ISSUES**

25. In 2009, the Internal Audit Service of the Commission (IAS) issued an audit report on the Schools' Human Resources Management covering also Luxembourg I and the Central Office. Notwithstanding the improvement in the related areas such as recruitment procedures and personal files resulting from the adoption of follow-up measures by the Schools, the Court found the following problems.

26. There are no official detailed internal written procedures developed for staff recruitment at Munich and Luxembourg I Schools for part-time teachers and Administrative and Ancillary staff (AAS)<sup>12</sup>; nor at the Central Office for the AAS staff.

27. Regarding the recruitment of part-time teachers:

- At Munich the process of the recruitment of part-time teachers lacks transparency as there is no documentation of the steps followed.
- At Luxembourg I an improvement was noticed in the recruitment procedures after the audit of IAS. However, in the Court's sample there was one case out of six, where the procedure lacked transparency since no documentation was kept. In all cases, there is no formal approval by the Director of the School for the person that is finally proposed by the

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<sup>12</sup> Recruitment conditions and appointment procedures are dealt with in Chapter II, Article 5 of the Service Regulations for the Administrative and Ancillary Staff of the European Schools, approved by the Board of Governors in Lisbon on 17-18 April 2007. However, they do not provide detailed guidance covering all aspects of a recruitment procedure.

Selection Committee. The evaluation of CVs made by the members of the Selection Committee is not systematic and needs to be improved.

28. In the field of recruitment of AAS in both Schools and in the Central Office there are guidelines of the AAS Service regulation in place that are followed in general terms ensuring a level of transparency. However, in one case out of three examined in the Central Office the procedure was not followed fully.

29. In general, in the Schools there is no official evaluation system for part-time teachers and as a consequence the majority have their contract renewed year by year without having a formal evaluation.

30. In both Schools and in the Central Office there is a need to improve the evaluation process for the AAS. At Munich the evaluation is not formally documented at the end of the probationary period. At Luxembourg I after the audit by IAS the evaluation process is in the phase of implementation. At Central Office there is no systematic evaluation of the AAS.

31. The review of the content of the personal files in both Schools and in Central Office revealed that the documents required by the Service regulations for the AAS staff of the European Schools<sup>13</sup> and Regulations for Members of Seconded Staff of the European Schools<sup>14</sup> are missing in many cases.

32. The personal filing system of both Schools and the Central Office needs to be improved. In general there are two separate files containing personnel data; the personal file and the financial file. The lack of clear instructions on what should be included in each file results in duplications of documents, which may have an effect on the confidentiality and the completeness of the files. Specifically, in Munich the general filing system for personal files needs to be more systematic whereas in Luxembourg I due to the prior audit by IAS there has been an improvement. At the Central Office the filing system is under development.

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<sup>13</sup> Article 13.

## PROCUREMENT

33. In the schools' Annual Report 2008 the Court recommended the Schools to ensure the legality and regularity of the procurement procedures<sup>15</sup>. However, in 2009 the Court found problems in both Schools and the Central Office:

- (a) For the procurement of an expert consultant for the cleaning tender (value 9 400 euro) there should have been a negotiated procedure with at least five candidates. However, the School applied the exemption under Article 70(b) of the Financial Regulation of the European Schools<sup>16</sup> without justifying its application (Munich).
- (b) In the case of procurement of the copy machines (98 400 euro) it was not possible for the Court to identify the date of entry of offers as no envelopes were kept, there were no declarations on exclusion from participation, no declarations on absence of conflict of interest and there was no evaluation report (Munich).
- (c) In case of procurement of furniture (35 032 euro) there was no director's note at the beginning of the procurement, no envelopes were kept, in the incoming mail register the date and time of arrival of offers was missing, in the evaluation report the winner was not indicated explicitly, there was no award decision and there was no notification to the unsuccessful candidates (Luxembourg I).

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<sup>14</sup> Article 16.

<sup>15</sup> AR 2008, Article 30/12.

<sup>16</sup> The obligation to issue an invitation to tender shall not apply to contracts with a value below 137 000 euro and which are concluded with the same contractors and on the same terms as a contract concluded (in this specific case) by the European Patent Office.

- (d) Sanitary services (14 665 euro in 2009) have been provided by a company since 2007 with no contract and without a prior tender procedure (Luxembourg I).

34. At both Schools and at the Central Office, problems were encountered in small and medium procurements (range 600 to 6 000 euro), absence of: invitation to tender, specifications, model contract / model purchase order, declarations on exclusion from participation, declarations on absence of conflict of interest, formal evaluations, documentation of contacts with tenderers, note to the file drawn up in case of phone calls.

#### **PAYMENTS**

35. Under the Schools' Financial Regulation each operation shall be subject to the system of ex ante verification<sup>17</sup>.

36. The legal base requires that payment orders be accompanied by the original supporting documents. These documents must be certified or accompanied by a certificate confirming the correctness of the amounts to be paid<sup>18</sup>. However, in both Schools and the Central Office the "routing stamp" (stamp-checklist on the invoice) was not properly filled in (duly signed and dated) by those staff members initiating, performing ex-ante verification and authorising payments.

37. At Munich in one case a payment order<sup>19</sup> was only signed by the director one month after the payment was made (11 960 euro).

38. At Luxembourg in one case, referring to a payment of the departure allowance in foreign currency, the payment order for the difference caused by a change in

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<sup>17</sup> Article 8(3) IR.

<sup>18</sup> Article 42 FR.

<sup>19</sup> "Ordre de paiement/recouvrement".



the exchange rate was signed more than one month after the payment was made (value 2 089 euro).

39. A general problem was encountered at the Central Office in relation to the payment for translations where the order forms are signed by the staff members (e.g. secretaries) without any formal delegation. Cases were found where there was no proper documentation kept by the Central Office attesting the competency of the related translators and no framework contracts between them and the Central office.

### **INTERNAL CONTROL STANDARDS**

40. 18 Internal Control Standards (ICS) were adopted by the Board of Governors in October 2007. Both audited Schools and the Central Office are still only beginning to implement them and a significant effort is required in order to put into action appropriate rules for each standard.

41. The Court identified the following main areas where the Schools need to take actions in order to properly implement the requirements of the ICS:

- ICS 3 and ICS 4 related to the Evaluation of staff competence and performance;
- ICS 7 related to Risk Analysis;
- ICS 8 related to Adequate Management Information;
- ICS 9 Mailing and Filing system;
- ICS 10 Reporting Improprieties;
- ICS 11 Procedures;
- ICS 15 Continuity of Operations;
- ICS 17 – ICS 18 related to actions for implementing findings from Audit reports and reviewing the Internal control.

**SUMMARY OF THE COURT'S RECOMMENDATIONS 2009**

42. Based on the examination performed by the Court for the financial year 2009 it is recommended:

1. in view of the on-going review of the Schools' Financial Regulation, to consider fully applying the accrual based accounting principle in the balance sheets of the Schools in order to reflect all the transactions and events with financial impact which occurred during the exercise or which have potential financial impact (e.g. outstanding legal cases provision or provision for salary adjustments);
2. that the Schools respect the deadline of 1 April for transmission of information to the Central Office required for drawing up the revenue and expenditure account and the balance sheet;
3. to use appropriate tools to manage the inventory, to make physical checks and to reconcile inventory and accounting systems. The Central Office should carry out an effective coordination and guidance of the Schools in order to have at its disposal an updated and duly recorded cyclical (every three years) inventory;
4. to include all bank accounts in the balance sheet and all related extra budget receipts and expenditure in the accounts, including those used to finance extracurricular activities and managed by teachers and parents, following the requirement of the Schools' Financial Regulation;
5. to improve management of imprest accounts and petty cash;
6. to ensure a case by case follow-up of doubtful debtors and include information in the comments to the balance sheet;
7. to respect the "no-netting accounting principle" by presenting separately receivables and payables;

8. to develop written procedures for recruitment of part-time teachers and AAS;
9. to develop a common evaluation process for part time teachers and to improve the evaluation process of AAS by respecting the official periods of evaluation;
10. to implement a harmonised filing system for personal files;
11. to ensure proper application of the rules governing procurement procedures;
12. to implement an effective system of ex ante verification for payments;
13. to fully implement the 18 Internal Control Standards as soon as possible.

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 23 November 2010.

*For the Court of Auditors*

*Wda;*

Vitor Manuel da SILVA CALDEIRA

President



ANNEX 1

**Consolidated revenue and expenditure account for the financial years 2009 and 2008 - as presented in consolidated accounts of the Schools (with surplus of previous year presented separately)**

	(1 000 euro)	
	2009	2008
<b>Revenue</b>		
Subsidies received from the Commission	151 908	138 910
Other revenue	106 858 <sup>(1)</sup>	106 951 <sup>(2)</sup>
<b>Total revenue (a)</b>	<b>258 766</b>	<b>245 861</b>
<b>Expenditure</b>		
Settled at the close of the financial year	254 256	245 037
Committed and carried over to the following financial year	4 641	4 937
<b>Total expenditure (b)</b>	<b>258 897</b>	<b>249 974</b>
<b>Result for the financial year (a-b)</b>	<b>-131</b>	<b>-4 113</b>
<b>Exchange-rate differences</b>		
Appropriations carried over from the previous financial year and not used	-144	-515
Surplus previous year carried forward	248	333
	2 924	7 677
<b>Balance for the financial year</b>	<b>2 897</b>	<b>3 382</b>

<sup>(1)</sup> Includes 53 742 828 euro in salary payments to teachers seconded by the Member States.

<sup>(2)</sup> Includes 54 454 918 euro in salary payments to teachers seconded by the Member States.

Source: European Schools. These tables summarise the data supplied by the Schools in their own financial statements which are prepared on a modified cash basis.

**ANNEX 2**

**Consolidated balance sheets as at 31 December 2009 and 31 December 2008**

(1 000 euro)

ASSETS		2009	2008	LIABILITIES		2009	2008
<b>Budget</b>				<b>Budget</b>			
Net fixed assets	4 044	4 243	4 243	Own capital	4 044	4 243	4 243
Debtors	9 270	9 897	9 897	Reserves	2 580	2 312	2 312
Banks	19 302	19 414	19 414	Balance for the financial year	2 897	3 383	3 383
Cash	25	29	29	Appropriations carried over from year n to n+1	4 592	4 894	4 894
				Third-party accounts	10 926	10 712	10 712
				Entitlements to be recovered	7 602	8 039	8 039
	<b>Subtotal</b>	<b>32 641</b>	<b>33 583</b>	<b>Subtotal</b>	<b>32 641</b>	<b>33 583</b>	
<b>Off-budget<sup>(1)</sup></b>				<b>Off-budget<sup>(1)</sup></b>			
Stocks	256	275	275	Reserve from previous years	1 740	1 651	1 651
Third-party accounts	68	127	127	Results	537	211	211
Banks	2 218	1 708	1 708	Third-party accounts	268	252	252
Cash	3	4	4				
	<b>Subtotal</b>	<b>2 545</b>	<b>2 114</b>	<b>Subtotal</b>	<b>2 545</b>	<b>2 114</b>	
	<b>TOTAL</b>	<b>35 186</b>	<b>35 697</b>	<b>TOTAL</b>	<b>35 186</b>	<b>35 697</b>	

(<sup>1</sup>) Off-budget transactions concern extracurricular activities for the financial management of which the Schools are responsible (e.g. school trips, book supplies, etc.); they are handled exclusively at balance-sheet level (revenue and expenditure do not appear in the Schools' revenue and expenditure account).

Source: European Schools. These tables summarise the data supplied by the Schools in their own financial statements which are prepared on a modified cash basis.

ANNEX 3**Follow-up of Court's recommendations raised in the Annual Report 2008**

The following table provides information on follow-up of the Court's recommendations from the 2008 audit:

2008 Recommendations  (Schools' AR 2008, Article 30)	European School  Munich	European School  Luxembourg I	Central Office	Comments
	Implemented  YES/NO/NA /in progress	Implemented  YES/NO/NA/in progress	Implemented  YES/NO/NA/in progress	
<p><b>Recommendation No 1):</b> to revise the Financial Regulation in order to take into account the Court's proposals for improvements, as suggested in its Opinion No5/2006 of 18 October 2006. These proposals have not been completely taken into account, particularly in respect of the full implementation of the accrual accounting principles.</p> <p>(Note: In Article 104 of the Financial Regulation of the European Schools of 24 October 2006, it is stated that every three years, or whenever it proves necessary to do so, the Board of Governors of the European Schools will revise the Regulation.)</p>	N/A	N/A	NO	In relation to Recommendation 1, a working group was created at the end of 2009 in order to review the Financial Regulation for 2010.
<p><b>Recommendation No 2):</b> to avoid a presentation where the surplus of the previous year is included in "other Revenue"</p>	YES	YES	YES	Fully respected by all the schools.

<b>Recommendation No 3):</b> to the Schools to respect the deadline of 1 April for transmission of information to the Central Office required for drawing up the revenue and expenditure account and the balance sheet	YES	NO	YES	Not respected by the majority of the schools.
<b>Recommendation No 4):</b> to use tools adapted to run inventory, to make physical checks and to reconcile inventory and accounting systems	NO	NO	NO	Not respected.
<b>Recommendation No 5):</b> to record in the inventory items of which the individual value is under 600 euro but identified as assets by nature	YES	YES	YES	Respected by the two audited schools and the Office.
<b>Recommendation No 6):</b> to include bank accounts used to finance extracurricular activities and managed by teachers and parents into the balance sheet	YES	NO	N/A	Not respected in one of the audited schools.
<b>Recommendation No 7):</b> to improve cash management	NO	NO	N/A	No improvement in cash management procedure.
<b>Recommendation No 8):</b> to ensure an effective follow-up of doubtful debtors and include information on doubtful debtors in the comments to the balance sheet	NO	NO	N/A	Although some improvements were noted at the level of information in the financial statements (for example, MoI), not all the schools performed both an age analysis and actual risk of recoverability.

<p><b>Recommendation No 9):</b> to improve the presentation of carry-overs in the balance sheet by identifying the present obligations in the explanatory notes</p>	YES	YES	YES	Fully respected by all the schools and the Central Office.
<p><b>Recommendation No 10):</b> to develop internal written procedures for staff recruitments of part-time teachers and AAS</p>	In progress	In progress	In progress	Although there are some informal rules for the recruitment of part-time teachers, they need to be incorporated officially into the internal rules of the Schools and to be harmonised. For AAS the recruitment procedure also needs to be harmonised at a central level.
<p><b>Recommendation No 11):</b> to implement a harmonised filing system for personal files, to ensure the exhaustivity and updating</p>	NO	In progress	In progress	Different procedures apply in each School and a best practise approach should be followed to ensure the completeness and integrity of the filing system.
<p><b>Recommendation No 12):</b> to ensure the legality and regularity of the procurement procedures</p>	NO	NO	NO	Further progress is necessary to comply with the new rules and measures should be taken to ensure the legality and regularity of procurement procedures.



<p><b>Recommendation No 13):</b> to implement an effective system of ex ante verification for payments, as required by FR</p>	<p>In progress</p>	<p>In progress</p>	<p>In progress</p>	<p>Further progress is necessary to implement an effective system of ex-ante verification at the level of the schools.</p>
<p><b>Recommendation No 14):</b> to implement the 18 Internal Control Standards adopted by the Board of Governors in October 2007</p>	<p>In progress</p>	<p>In progress</p>	<p>In progress</p>	<p>In 2009 Schools have started to gain an understanding of what they need to implement, however due to resource restrictions and lack of central guidance, much remains to be done in order to address all 18 Internal Control Standards.</p>

**RESPONSE OF THE SECRETARY-GENERAL OF THE EUROPEAN SCHOOLS TO THE REPORT OF THE COURT OF AUDITORS FOR THE FINANCIAL YEAR 2009**

**Recommendation N° 1**

The question of accrual based accounting is under consideration in the review of the Financial Regulation. It is expected that the report of the working group on the review will be submitted to the Budgetary Committee in October 2010.

**Recommendation N° 2**

A reminder will be sent to the Schools with the aim of ensuring that the final version of the financial statements will be presented to and approved by the Administrative Boards in a written procedure in March and presented to the Office of the Secretary-General before the deadline. In addition, the Office will explore the possibility of extending the deadline for the Schools.

**Recommendation N° 3**

As stated in the responses to previous years' reports, the Schools currently lack an adequate computerised inventory system. Tasks such as the reconciliation of the inventory and accounting systems are therefore difficult and time-consuming. New tools to run the inventory are planned as part of a wider project to renew the administrative and financial software used in the Schools. However, this is not expected to be operational until 2011. In the meantime, the Central Office will work with the Schools to seek improvements regarding the specific points raised in the report.

**Recommendation N° 4**

The Central Office will remind the Schools of the rules on extra-budget accounts and will look into the reasons why they have not been applied in some cases.

**Recommendations N° 5, 6 & 7**

The Central Office will pursue the points raised in the report with the Schools. It should be noted, with regard to the pending legal cases, that it can be difficult to estimate the likely payments since the range of possible outcomes is so wide that any figures would be unreliable.

**Recommendations N° 8, 9 & 10**

The recommendations on staff issues are on the same lines as the recommendations made by the internal auditors in their reports of 2009. The Central Office and the audited Schools drew up action plans in response to those reports. As the Court of Auditors has noted, there have been some improvements resulting from the adoption of the follow-up measures, but it is recognised that further progress is necessary.

The Office is drawing up written procedures for the recruitment and evaluation of administrative and ancillary staff and these will be made available as a model for use in the Schools. A classification plan for the personal files of seconded staff of the Office is being implemented and could similarly be used as a basis for file management in the Schools. Proposals for an official evaluation system for locally recruited teachers are currently being examined by the Boards of Inspectors. There would be significant financial and operational implications. Progress on the other issues mentioned in the report will be made as permitted by available resources.

With regard to the observation that documents required by the staff regulations are missing "in many cases", it should be noted that the detailed findings of the Court of Auditors refer to the lack of a certificate on absence of legal convictions (this not being considered as necessary), the lack of a birth certificate (although there was a copy of the identity card), absence of certificates from national inspectors (through no fault of the schools) and the lack of evaluation documents (for which procedures are still being developed).

#### **Recommendation N° 11**

The new procurement rules introduced in 2008 introduced complex procedures which place considerable demands on staff resources and expertise. The Secretary-General issued further guidance notes and model documents in September 2009 which should help the schools to ensure the proper application of the rules.

With regard to the observation on the contract at Munich (paragraph 33(a)), it should be noted that the school relied on a letter from the European Patent Office as the justification for applying the exemption under article 70(b) of the Financial Regulation.

For low value contracts, the requirements of the Financial Regulation are in some respects disproportionately heavy. This is one of the issues examined by the working group on the review of the Financial Regulation.

#### **Recommendation N° 12**

There is an overlap between the "routing stamp" and the electronic signatures recorded in the computer system, which also show the various stages of initiation and verification. These arrangements will be reviewed to clarify and simplify the procedure and to provide a clear record of the different stages of the approval procedure. The staff concerned with financial procedures will be reminded of the need to avoid the various errors identified in the report.

With regard to orders for translations in the Office, formal delegations have now been made for the members of staff who sign the order forms. With regard to the procedure for the selection of translators and the allocation of translation work, the present arrangements deliver a good standard of work at an economic cost. The Office will take steps to establish framework contracts, for example by exploring the possibility of becoming associated as contracting authorities in contracts concluded by the Commission.

#### **Recommendation N° 13**

The Court's assessment of the main areas where action is needed to properly implement the Internal Control Standards is agreed. However, these Standards can only be implemented on a step by step basis as permitted by the resources available to the Office. Progress continues to be made in a number of areas. Where appropriate, the procedures developed for use in the Office will be used also to help the schools to implement the standards.

DR. LOUIS GALEA  
MEMBER OF THE COURT



2010-D-539-en-2  
ANNEX B

IPB010941EN01-10PP-PF-3910-CL-Central-Office-OR.doc

Ms Renée Christmann  
Secretary – General of the European Schools  
c/o European Commission  
30, Rue Joseph II, 30 – 2ème étage  
B-1049 BRUSSELS  
BELGIUM

UNITE SECRETARIAT GENERAL

Date 9.12.10  
N° enregistrement 224  
A traiter par [Signature]  
cc à : [Signature]

Subject: Audit of the European Schools for the financial year 2009

Reference: Preliminary findings of the audit visits from 17 to 21 May and 28 May 2010  
For all correspondence on this subject, please use the reference **PF-3910**

Dear Ms Christmann,

I would like to thank you for the comments and information that you sent in your reply of 11 October 2010 to our letter of 4 August 2010. Please find attached our principal comments on the replies.

**NOTE ANALYSING THE REPLIES**

With regard to preliminary findings No. 1-13, the Court's services consider that, in the absence of any genuinely new facts, all the findings may be maintained:

- (a) For preliminary finding No. 1 you have stated that the Central Office will send a reminder of the deadlines to the Schools and will in addition explore the possibility of extending the deadline for the transmission of the accounts from the Schools to the Office of the Secretary-General. We understand the problem of the majority of the schools to transmit the annual accounts on time. However, we would point out that

any extension of the deadline for the Schools should be included in the Financial Regulation (see Art 87 of FR) and may negatively affect other deadlines, including those related to the Court of Auditors.

- (b) For preliminary finding No. 2 we are pleased to note the future improvements you propose and hope it will improve the inventory management of the European Schools. The finding is maintained.
- (c) For preliminary finding No. 3 you have stated that the Schools will be reminded to show an analysis of doubtful debts and to make a link to the balance sheet in accordance with the Memorandum. We welcome these initiatives. However, during the Court's mission the situation was as described in the preliminary finding, consequently the finding is maintained.
- (d) For preliminary finding No. 4 you have stated that there are difficulties in quantifying the risk of claims against the Schools. The Central Office is encouraged to make the quantifications and/or estimations of these claims. Since no new facts have been put forward, the finding is maintained.
- (e) For preliminary finding No. 5 you have stated that the question of accrual based accounting principle to be applied for an accurate treatment of the carry overs (and other cases mentioned in the preliminary finding such as legal cases or salary adjustments) is under consideration in the review of the Financial Regulation. We welcome this initiative. However, during the Court's mission the situation was as described in the preliminary finding, consequently the finding is maintained.
- (f) For preliminary finding No. 6 you have referred to your reply to the preliminary finding No.5. The finding is maintained.

- (g) For preliminary finding No. 7 you have stated the reasons for the over-estimation of the account 602030 "Chauffage, Eclairage, Eau" for the period 2010. However, the Court believes that the School should have corrected the corresponding account, because the actual amount was known before the finalization of the accounts in 2010. The finding is maintained.
- (h) For preliminary finding No. 8 the Court welcomes the improvements that are being introduced in the Central Office. The finding is maintained.
- (i) For preliminary finding No. 9 you have mentioned the measures taken in order to improve the filing system. The finding is maintained.
- (j) For preliminary finding No. 10 you have stated that the Central Office is implementing the Court's recommendations related to the selection procedure for the recruitment of the AAS staff. The finding is maintained.
- (k) For preliminary finding No. 11 you have stated that for low value contracts the requirements of the FR are disproportionately heavy and that this issue is being examined by the Working Group on the review of the FR. However, according to the Schools' Financial Regulation in force, Articles 56, 57, 58, 63 FR and Articles 72, 76, 88, 89 IR should be followed even in case of low value procurements (EUR 600-6000). Therefore the finding is maintained.
- (l) For preliminary finding No. 12 you have stated that there is an overlap between the "routing stamp" and the electronic signatures recorded in the computer system. The Court welcomes the fact that these arrangements will be reviewed by Central Office in order to clarify and simplify the procedure and to provide a clear record of the different stages of the approval procedure. The finding is maintained.

- (m) For preliminary finding No. 13 you have stated that the staff in Central Office concerned with the financial procedures will be reminded of the need to avoid the errors listed in points I-III. Furthermore, you have stated that with regard to point IV (translations), formal delegations have now been made for the staff members who sign the order forms. In addition, you have stated that the Central Office will take steps to establish framework contracts with the translators. The Court welcomes these corrective actions taking place. The finding is maintained.

I am pleased to inform you that the above mentioned audit is now closed.

I would like to take this opportunity to thank the representatives of the General Secretariat of the European Schools who assisted our auditors.

Yours sincerely,



Dr. Louis Galea  
Member of the Court of Auditors