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Report of the Court of Auditors for 2007

Administrative and Financial Committee

Brussels, 11 & 12 December 2008

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 2007 and the replies of the Secretary-General are attached at Annex A.

The Administrative and Financial Committee is invited to make its comments and recommendations, so that these can be taken into account by the Board of Governors when it examines the report and the replies.

2. Background

For the financial year 2007, the Court of Auditors carried out on-site audits at the schools of Frankfurt and Luxembourg II and at the Office of the Secretary-General.

The response of the Secretary-General was prepared in consultation with the Court of Auditors and it is understood that it is acceptable to the Court.

Normally, the Court of Auditors issues separate and more detailed reports in respect of the individual schools audited. These reports, together with the schools' replies are normally also transmitted to the Administrative and Financial Committee for information. No such reports were yet received for 2007.

It is proposed to submit the report and replies at Annex A to the Board of Governors for examination at its financial meeting in April 2009.

3. Proposal

With regard to the report of the Court of Auditors for the financial year 2007 and the replies of the Secretary-General as attached at Annex A, the Administrative and Financial Committee is invited to make its comments and recommendations, so that these can be taken into account by the Board of Governors when it examines the report and the replies.

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
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EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts of
the European Schools
for the financial year 2007

together with the School's replies

1. This report is addressed to the Secretary-General and the heads of the European Schools, in accordance with Article 93 of the Financial Regulation of the Schools.
2. The Schools' consolidated annual accounts for the financial year ended 31 December 2007¹ were drawn up by the Office of the Secretary-General of the European Schools (hereinafter "the Office").
3. The appropriations available in the 2007 budget amounted to 242 million euro (231 million euro in 2006). Revenue received was 244 million euro whilst committed expenditure was 236 million euro.
4. The Secretary-General of the European Schools forwarded the Schools' consolidated annual accounts to the Court, which is required to issue a report on these accounts in accordance with Articles 90 to 94 of the Financial Regulation of the Schools and Article 248 of the Treaty establishing the European Community.
5. Within the framework of its cyclical audit of the Schools, the Court examined the accounts for the financial year 2007 of the Luxembourg II and Frankfurt schools and of the Central Office.
6. The Court conducted the audit in accordance with its policies and standards, which are based on international auditing standards that have been adapted to the Community context.
7. In the course of its audit the Court found no material errors that might call into question the reliability of the accounts that it examined, 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

¹ See ***Tables 1 and 2***, which summarise for information purposes the data contained in the Schools' consolidated accounts drawn up by the Office.

regularity of the transactions underlying these accounts. The observations which follow do not call this conclusion into question.

8. At both schools and at the central office, problems were encountered in relation to fixed assets. At Frankfurt, the inventory list does not contain all of the assets on site and it was noted that many assets did not have identification details appended. Article 71 of the schools' Financial Regulation lays down that the permanent inventories must show the 'quantity and value' of movable and immovable property; however, Luxembourg II did not include values in its inventory. The physical check undertaken at the central office revealed missing computer equipment, old items still on the list whilst their replacements had not been inscribed and also a number of items with no identification details.

9. The Court's examination of a sample of recruitments revealed weaknesses as in previous years. At Frankfurt and Luxembourg II there was insufficient documentation outlining the reasons behind staff selection. In the case of locally recruited teachers, the national inspectors are supposed to be consulted before an appointment is made but for 3 of the 8 cases examined, there was no evidence that the required approval of the inspector had been received.

10. The Financial Regulation of 24th October 2006 applicable to the budget of the European schools came into force on 1st January 2007. The provisions of Title IV on procurement did not have to be introduced until 1st January 2008 and therefore the procurement procedures of the previous regulation were applicable in 2007. The Court's audit found that the provisions of Article 53 of the implementing rules, setting out the way offers following a call for tender must be received, are not being adhered to.

11. It was observed during the audit that a small number of old items and balances are remaining in the accounting system and therefore are being carried from one balance sheet to another rather than investigated and cleared on a timely basis. Furthermore, a more thorough pre-publication checking of

the accounts produced by the individual schools, would detect the small errors found in the various tables (e.g. fixed assets tables).

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 19 November 2008.

For the Court of Auditors

Vitor
Vitor Manuel da Silva Caldeira
Rechnungshof
Court of Auditors
Cour des comptes
President




Table 1 - European Schools - Consolidated revenue and expenditure account for the financial years 2007 and 2006

	(1 000 euro)	
	2007	2006
Revenue		
Subsidies received from the Commission	127 096	127 124
Other revenue ⁽³⁾	116 467 ⁽¹⁾	108 865 ⁽²⁾
Total revenue (a)	243 563	235 989
Expenditure		
Settled at the close of the financial year	231 665	219 509
Committed and carried over to the following financial year	4 223	4 499
Total expenditure (b)	235 888	224 008
Result for the financial year (a-b)	7 675	11 981
Exchange-rate differences	-75	32
Appropriations carried over from the previous financial year and not used	385	454
Other results	0	0
Balance for the financial year	7 985	12 467
<p><i>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.</i></p> <p>⁽¹⁾ Includes 52 480 536 euro in salary payments to teachers seconded by the Member States.</p> <p>⁽²⁾ Includes 50 998 425 euro in salary payments to teachers seconded by the Member States.</p> <p>⁽³⁾ Other revenue also includes the balance for the previous financial year, i.e. the balance of 12,47 mio euro for 2006 is included in "Other revenue" of 2007. The comparable figure included in "Other revenue" of 2006 was 7,96 mio euro.</p>		

Table 2 - European Schools - Consolidated balance sheets as at 31 December 2007 and 31 December 2006

		(1 000 euro)			
ASSETS		2007	2006	LIABILITIES	
Budget				Budget	2007
Net fixed assets		4 692	4 999	Own capital	4 692
Debtors		9 705	9 911	Reserves	2 207
Banks		23 265	30 134	Balance for the financial year	7 985
Cash		29	23	Appropriations carried over from year n to n+1	4 222
				Third-party accounts	11 036
				Entitlements to be recovered	7 549
	Subtotal	37 691	45 067	Subtotal	37 691
					45 067
Off-budget⁽¹⁾				Off-budget⁽¹⁾	
Stocks		205	230	Reserve from previous years	1 493
Third-party accounts		113	111	Results	242
Banks		1 678	1 362	Third-party accounts	267
Cash		6	2		
	Subtotal	2 002	1 705	Subtotal	2 002
					1 705
	TOTAL	39 693	46 772	TOTAL	39 693
					46 772

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.

⁽¹⁾ 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).

RESPONSE OF THE SECRETARY-GENERAL OF THE EUROPEAN SCHOOLS TO THE REPORT OF THE COURT OF AUDITORS FOR THE FINANCIAL YEAR 2007

Point 8

The two schools and the central office will carry out a physical check to up-date the inventory listings. All the schools have been reminded of the procedures that must be followed for the inventory. New accounting software is being developed for use in all the European Schools and this should resolve some of the problems; however, there has been a delay in the project. With regard to the inclusion of values in the inventory at Luxembourg II, although values are not recorded in the inventory itself, they are recorded in the accounting system and are therefore included in the balance sheet. This procedure will be changed so that the values will also be included in the inventory.

Point 9

An audit of human resource management, including recruitment procedures, will be carried out before the end of the year, in accordance with a service level agreement with the Board of Governors, by the internal audit service of the Commission. It is hoped that this audit will result in improvements in the areas mentioned in the Court's report.

Point 10

The procurement rules were substantially modified with effect from January 2008. Several training courses have been organised for staff of the schools with the aim of ensuring that the procedures are implemented correctly.

Point 11

The schools will be reminded to clear old items and balances wherever possible. In future, the central office will carry out a more thorough pre-publication check of the accounts with the aim of detecting the small errors commented on by the Court.