

European Schools

Office of the Secretary-General

Administration
Accounts

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Discharge to the Administrative Boards and to the Secretary-General of the European Schools for implementation of the 2014 budget

Board of Governors

Meeting in Copenhagen on 12-14 April 2016

1. Legal basis

Under Article 95 of the Financial Regulation, the Board of Governors “...gives discharge to the Authorizing Officers and to the Administrative Boards of the Schools, for their respective responsibilities, and, in so far as the budgetary section of the Office is concerned, to the Authorizing Officer and to the Secretary-General, for their respective responsibilities, in respect of the implementation of the budget, normally before 30 April of the year following the submission of the Court of Auditors’ report.”

2. Background

The 2014 budget set by the Board of Governors in April 2013, and modified by four amending Budgets amounted to 289 925 959 EURO.

On 31.12.2014, 284 044 005 EURO, or 98.0% of the aforementioned amount had been committed, of which €276 280 835 EURO in turn had been spent in the course of the financial year. The difference of 7 763 170 EURO of committed but unspent appropriations was carried over to the year 2015 (= approximately 2.7% of available commitments). Uncommitted appropriations amounting to 5 881 954 EURO were cancelled (approximately 2.0% of the budget).

Concerning revenues, payment demands totaling 287 308 559 EURO were established. In addition, there was the sum of 10 330 218 EURO, entitlements which had been established in the year 2013 and not collected at the end of the that year. Out of these amounts payment of which was demanded, totaling 297 638 777 EURO, the sum of 288 489 528 EURO was actually collected in the course of the year 2014. An amount of 9 149 249 EURO was entered in the accounts in the year 2015 as outstanding amounts to be collected. Out of this amount still to be collected, 6 518 156 EURO involved outstanding school fee accounts, contingent on payment of school fees in instalments and an additional 1 275 745 EURO relating to Category II contracts.

The outcome of collected revenue minus commitments produces a surplus of 4 445 523 EURO (288 489 528 EURO – 284 044 005 EURO), which includes the surplus from 2013 of 10 344 556 EURO. Without this surplus, the accounts of 2014 would have closed with a deficit of 5 899 033 EURO.

In addition to the surplus 484 374 EURO from the appropriations for the year 2013 which were carried over to 2014 but not used, and -626 EURO from other results and a gain of 45 505 EURO from the balanced exchange rate differences.

Out of the total surplus of 4 970 510 EURO, 4 186 EURO was paid into the Central Reserve Fund and 16 986 EURO into the Reserve Fund of the European School, Munich. Furthermore, from the surplus posted by the European School in Munich, as was already the case in the previous year, the sum of 10 286 EURO was carried forward as the budgetary contribution from the European Communities.

The remaining surplus amounting to 4 939 052 EURO was entered by the schools and Office as revenue in the 2015 budget.

3. Facts

The European Schools and the Office of the Secretary-General duly settled their 2014 budgets, drew up their respective closing of the accounts documents and submitted them for approval to their Administrative Boards or to the Secretary-General of the European Schools.

The Office of the Secretary-General of the European Schools scrutinized all the closing of the accounts documents, consolidated them, determined the surplus and drew up a consolidated balance sheet as at 31.12.2014.

The aforementioned documents and closing of the accounts documents of the European Schools and of the General Secretariat were transmitted within the time limit established in the Financial Regulation to the European Parliament, the Council of Ministers, the Commission of the European Union, the Court of Auditors, the Board of Governors and the members of the Budgetary Committee.

4. Conclusions of the Budgetary Committee

The Budgetary Committee was in favor of discharge, with the European Commission entering a reservation.

5. PROPOSAL

The Board of Governors is requested to :

- give discharge for the implementation of the 2014 budget to the Administrative Boards of the Schools and to the Secretary-General of the European Schools, in so far as the budgetary section of the General Secretariat is concerned, and
- instruct its Secretary-General to inform the European Parliament, the Council of Ministers, the European Court of Auditors and the European Patent Office.

Annex I

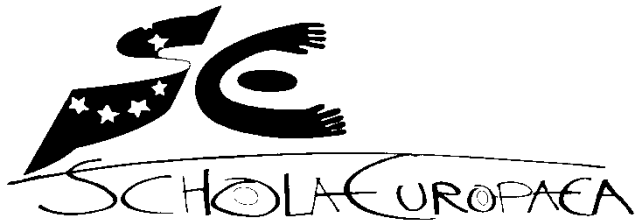
Consolidated closing of the accounts of the European Schools for the financial year 2014 (Doc. 2015-05-D-17)

(This document **is not appended**; the documents, as mentioned above, have already been submitted and are available for consultation on DOCEE).

At the April 2014 meeting in Prague, **the Financial Controller of the European Schools** presented his 2014 annual report, with the comments which he deemed necessary, to the Board of Governors.

Annex II

Report of the Court of Auditors on the annual closing of the accounts of the European Schools for the financial year 2014 (Doc. 2015-10-D-15). This document is also available on DOCEE.



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COVERING CONFIDENTIAL

Report of the Court of Auditors for 2014

Budgetary Committee

Brussels, 3 & 4 November 2015

1. Issue

Article 93.1 of the Financial Regulation states,

“The Court of Auditors transmits to the Secretary-General and to the Heads of the Schools, by 15 July, any comments which are, in its opinion, of such a nature that they should appear in the annual report. The comments must remain confidential.”

The replies of the Secretary-General and of the Heads of the Schools shall be forwarded to the Court of Auditors by 31 October at the latest”.

Paragraph 2 of article 93 of the Financial Regulation stipulates that,

“The comments of the Court of Auditors and the replies that have been sent to it shall be drawn to the attention of the Administrative Boards and to 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 (Preliminary observations) of the Court of Auditors on the accounts of the European Schools for the financial year 2014 and the replies of the Secretary-General are attached at Annex A.

The Budgetary 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 (final) and the replies.

The Court has asked that its observations should remain confidential at the present stage.

2. Background

For the financial year 2014, the Court of Auditors carried out on-site audits at the schools of Luxemburg II and Mol, and at the Office of the Secretary-General. The Court of Auditors conducted also a review on the follow-up of its recommendations made for the 2013 financial year for the Brussels III School, for the School of Varese and for the Central Office. The observations arising from these audits, at various levels of detail, will be recorded in:

- (a) a specific report (having at the moment the form of preliminary observations) on the European Schools, to be submitted to the Board of Governors as the discharge authority (Annex A);
- (b) preliminary findings detailing the main results of the audits in the individual schools and the Central Office (Annexes B, C and D).

With regard to the specific report to the Board of Governors referred to at (a) above, the Court of Auditors wrote to the Secretary-General on the 9th of July 2015 enclosing its Preliminary observations with a view to a Report on the annual accounts of the European Schools for the financial year 2014 (see Annex A).

According to the above-mentioned report (Preliminary observations), the Court conducted a review of the consolidated accounts, and an annual audit of the Central Office and the audit of two out of the fourteen European Schools (Luxemburg II and Mol). In this context, procedures for staff recruitment, staff files, procurements, payments, keeping and presenting the accounts and the application of the Internal Control Standards were examined. The Court stated as conclusion that *“given the continuing accounting and control weaknesses, is not able to conclude as to whether the consolidated annual accounts for 2014 are free of material misstatement”.*

More particularly, regarding the situation in the School of Brussels I, the Court states that *The Brussels I School accounts for 2013 included debit and credit accounts (734 515,38 euro) that could not be explained by any supporting documents or relevant information. The School decided to delete these two balances. The Court recommended in its Annual Report of 2013 that the School should undertake a thorough audit of all its accounts. Instead, the School commissioned a forensic audit which concluded that there was no financial impact (no payment appears to be connected with the above-mentioned bookings). The reasons for these postings could not be identified.*

The Court continues by referring that *In the same School, two transactions related to the carry over to 2014 of the result of the year 2013 were refused by the Financial Controller as the amounts were not correct. The School's Administrative Board decided to further investigate the issue via a forensic audit and transferred the 2013 result to the 2014 financial year by making the necessary adjustments in the 2014 financial year.*

It should be pointed out that the referred to forensic audit, to review the outstanding balances on different suspense accounts, was concluded on 11 September 2015, and the main result of this was the fact that these balances were not considered to be connected to the fraud that was detected in 2012. In particular, the main outstanding balance (amounting approximately 1 million euro) dates back from 2013 and *is due to commitments not being recorded in the salary related expense accounts. As a result, the amounts were left in suspense account G4001001 and were not regularized before the 2013 closure of accounts. (...) Not making these commitments prior to the 2013 closure of accounts resulted in a surplus for that year, on paper at least (...) which (...) was used for the European Schools amended budget in 2014.* The report also states that the necessary corrections, because of lack of appropriations on 2014 in the School to that effect, will therefore have an impact in the 2015 budget of the School.

In addition, the report of the Court (preliminary observations at this stage) 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 accruals accounting, payments procedures, recruitment and procurement procedures and on Internal Control Standards.

In the light of the above mentioned recommendations, it should be noted that the Court reiterates paragraph 5 of its Opinion no 4/2014 as regards the need for an independent external audit of the School's accounts.

The Court also recommends that the Central Office should check the completeness and accuracy of the data used to consolidate the School's accounts and fully document this process.

The Secretary-General's response to the Preliminary observations of the Court is also attached at Annex A.

With regard to the preliminary findings referred to at point (b) above, the detailed observations of the Court and related responses are attached for the Central Office (Annex B), Luxembourg II (Annex C), and Mol (Annex D).

As in previous years, it is proposed to submit the report (final) and replies at Annex A to the Board of Governors for examination at its meeting in April 2016 (but not the detailed reports at Annexes B, C and D).

Without prejudice of the above, for this year it is also expected that the Court of Auditors will present its annual report (final) to the Board of Governors at its meeting in December 2015.

All the reports have been received from the Court of Auditors in English only at this stage. It is expected that the Court will provide the text of the report (final) at (a) in the other official languages in time for consideration by the Board of Governors in December 2015/April 2016.

3. Proposal

With regard to the report (preliminary observations) of the Court of Auditors for the financial year 2014 and the replies of the Secretary-General as attached at Annex A, the Budgetary 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 (final) and the replies in accordance with article 93.2 of the Financial Regulation.



COUR DES
COMPTES
EUROPÉENNE

Luxembourg, le 09 JUIL. 2015
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Vítor Caldeira
Président

Monsieur le Secrétaire général,

Conformément aux dispositions de l'article 93 du règlement financier applicable au budget des Écoles européennes, j'ai l'honneur de vous communiquer ci-joint les observations de la Cour des comptes qui, au 15 juillet 2015, lui paraissent de nature à devoir figurer dans son rapport sur les comptes annuels des Écoles européennes relatifs à l'exercice 2014. Ces observations, qui au stade actuel doivent rester confidentielles, sont également portées à la connaissance des Directeurs des différentes Écoles.

Je vous serais obligé de bien vouloir me faire parvenir, pour le 31 octobre 2015 au plus tard, le texte définitif des réponses que ces observations sont susceptibles d'appeler de votre part et de celle des Écoles.

En effet, aux termes de l'article 94 du règlement financier précité, la Cour est tenue de transmettre son rapport annuel, assorti des réponses qui y auront été apportées, au Conseil supérieur, autorité responsable de la décharge, pour le 30 novembre au plus tard.

Le texte des observations de la Cour qui, pour le moment, est uniquement disponible en anglais, vous parviendra en français et en allemand, ainsi qu'en tchèque et en danois, dans les meilleurs délais. De votre côté, je vous saurais gré de bien vouloir me transmettre, également pour le 31 octobre 2015, le texte de vos réponses dans les langues précitées.

M. Baudilio TOMÉ MUGURUZA, Membre de la Cour, est à votre disposition pour tout renseignement complémentaire que vous souhaiteriez obtenir.

Veuillez agréer, Monsieur le Secrétaire général, l'expression de ma haute considération.

Vítor CALDEIRA

Monsieur Kari KIVINEN
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EUROPEAN
COURT
OF AUDITORS

**Preliminary observations with a view to a Report on the annual accounts
of the European Schools for the financial year 2014**

These preliminary observations were adopted by Chamber IV at its meeting of 29 June 2015.

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Annex 2 - Consolidated Balance Sheets as at 31 December 2014 and 31 December 2013

Annex 3 - Follow-up of Court's recommendations raised in the Annual Report 2013

INTRODUCTION

Background

1. The annual accounts are the responsibility of each School whereas the consolidated annual accounts for the financial year ended 31 December 2014¹ 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 2014 budget amounted to 289,9² million euro (288,5 million euro in 2013). Revenue received was 278,1 million euro whilst committed expenditure was 284,0 million euro. The contribution of the European Commission in 2014 was 164,2 million euro (167,8 million euro in 2013).
3. 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.

Changes in the Financial Regulation and in the control environment

4. In 2014, the Board of Governors approved³ the revised Financial Regulation (applicable from 1 January 2015) after the Central Office consulted the European Court of Auditors⁴ and the European Patent Office with a view to obtaining their opinions. The revised Financial Regulation introduced the following:
 - (a) an accrual based accounting system;
 - (b) clarifications on the accounting framework and on responsibilities for establishing the financial statements;

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

² *Source:* European Schools, Closure of accounts 2014.

³ Document Ref: 2014-12-D-3-en-3.

⁴ Opinion No 4/2014 (available on the website of the Court of Auditors www.eca.europa.eu).

- (c) revised procurement rules (taking into account, in particular, the latest changes made in the procurement rules applicable to the European Institutions);
- (d) revision of the Financial Controller's role and responsibilities. Ex-ante controls will be progressively decentralised from the Financial Controller to the Schools after validation by the Financial Controller of the Schools' relevant internal control systems . The Financial Control Unit will deal mainly with ex-post controls and will have a general advisory role;
- (e) revised rules on payment procedures. Reference to payments made by means other than electronic ones should be removed as a general rule and restricted to very exceptional and limited cases; and
- (f) the adoption of a jurisdiction clause for the European Anti-Fraud Office (OLAF) in relation to the European Schools.

5. The Board of Governors extended the mandate of the working group (which proposed the changes that led to the revised Financial Regulation) to further analyse additional issues (e.g. the role of the Accounting Officer, the role and responsibilities of the Secretary-General regarding financial management and the creation of a governing body for budgetary decisions, equivalent to the Administrative Boards of the Schools). The Board of Governors also created the post of Internal Control Coordinator which was filled as from 1 April 2015.

New accounting / financial system

6. The new accounting / financial system has been operational since 1 January 2015. This new system is expected to address several weaknesses reported by the Court in previous years: application of accruals accounting, consolidation of accounts, an automated link between the accounting system and the electronic payment system and an efficient workflow for ex-ante controls. According to the Financial Controller's Annual Report for 2014, further developments in the system are required to establish an effective link between

the financial posting of salaries and their final payment and between the accounting system and the electronic payment system⁵.

Engagements, scope and approach

7. The Court's responsibility is to issue an Annual Report on the consolidated annual accounts.

8. The Court conducted its review in accordance with the International Standard on Review Engagements. This Standard requires the review to be planned and performed to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries into European School personnel and the analytical procedures applied to financial data and thus provides less assurance than an audit. The Court has not performed an audit of the consolidated accounts, and, accordingly, it does not express an audit opinion on the consolidated accounts.

9. In addition to the review of the consolidated accounts, the Court performed the annual audit of the Central Office, and the audit of two out of the fourteen European Schools (Luxembourg II and Mol)⁶. In this context, staff recruitments, staff files, procurements, payments, accounts and the application of the Internal Control Standards were examined.

10. The results of the follow-up on the recommendations made in the 2013 financial year (Brussels III and Varese Schools and the Central Office) are analysed in **Annex 3**.

ACCOUNTING

11. The 2014 accounts of the Schools continue to be prepared on a modified cash basis and are not fully compliant with the accrual based accounting principle.

⁵ This link is automated for the Central Office and the Schools located in Belgium, whereas other Schools currently use a protected bank card as an interface between the accounting and payment systems.

⁶ The budget appropriations in 2014 were: Central Office – 12,0 million euro, Luxembourg II – 23,5 million euro, Mol – 11,4 million euro (*Source: European Schools, Closure of accounts 2014*).

Consolidation procedure

12. Three⁷ out of fourteen Schools approved their 2014 financial statements after the legal deadline of 1 April 2015.

13. In previous years, the consolidation process was affected by errors which were corrected during the review: omission or duplication of figures from one or several Schools, consolidation of incorrect figures, clerical mistakes in computation, etc. There is still no reliable software tool to perform the consolidation process. Various spreadsheets are used for this purpose, but these are not reviewed by any staff members other than those who entered the data. This situation generates a high risk of input/output error.

14. A detailed analytical review of the Schools' accounts was not carried out by the Central Office before consolidation, although this procedure could have identified unusual balances and prevented errors.

15. The accounts include the 2013 figures for comparison purposes. These figures are taken from the approved accounts, which have not been corrected as a result of the Court's audit for 2013 and therefore do not take into account the errors reported by the Court in its Annual Report of 2013.

16. The following issues were noted for three Schools:

- (a) The Brussels I School accounts for 2013 included debit and credit accounts (734 515,38 euro) that could not be explained by any supporting documents or relevant information⁸. The School decided to delete these two balances. The Court recommended in its Annual Report of 2013 that the School should undertake a thorough audit of all its accounts⁹. Instead, the School commissioned a forensic audit which concluded that there was no financial impact (no payment appears to be

⁷ Culham, Luxembourg I and Mol. Eight schools out of fourteen were in this situation in 2013.

⁸ Paragraph 16 of the Annual Report of 2013 (available on the website of the Court of Auditors www.eca.europa.eu).

⁹ Paragraph 41 (iv) of the Annual Report of 2013.

connected with the above-mentioned bookings). The reasons for these postings could not be identified;

- (b) In the same School, two transactions related to the carry over to 2014 of the result of the year 2013 were refused by the Financial Controller as the amounts were not correct. The School's Administrative Board decided to further investigate the issue via a forensic audit and transferred the 2013 result to the 2014 financial year by making the necessary adjustments in the 2014 financial year;
- (c) Moreover, the Balance Sheet for this School includes liabilities (with a total value of 1,03 million euro) containing inconsistencies which are currently being investigated internally;
- (d) The Authorising Officer and the Administrator – Bursar of the Luxembourg II School included a reservation in their Declaration of Assurance: differences between the accounting and the budget figures led to accounting entries being modified without an audit trail in the accounting system. In 2013, the same problem occurred but no reservation was raised by the Authorising Officer;
- (e) A forensic audit will take place in the Mol School in relation to several invoices (total value of about 69 000 euro) for services allegedly provided since 2010. The payment of these invoices was refused by the Financial Controller.

Fixed assets and stocks

17. In the Mol School, documentary evidence of the latest physical inventory of the assets was not provided. The completeness and accuracy of the asset registers could therefore not be verified.

18. In the Central Office and in the Mol School, the fixed assets table could not be reconciled against the supporting documents. Moreover, in the Luxembourg II School, the fixed assets table is incomplete.

19. The Central Office recorded the invoices for services and goods related to the SAP project (total value of 4,07 million euro) as expenses without analysing which of them should be capitalised.

20. The Mol School did not include in its accounts all the stocks of materials (e.g. books) managed under extra-budgetary activity.

Cash – Bank accounts

21. The Mol School's Balance Sheet does not include three off-budget¹⁰ bank accounts. The total balance of two accounts is 106 704,27 euro while the balance of the third account is not disclosed.

Claims – Income

22. The Luxembourg II and Mol Schools do not apply accrual accounting to the recording of school fees received in year N covering the school year N and N+1. The same applies to the Member States' contributions, as not all of them send their contributions in time.

Liabilities – Expenses

23. In the Central Office and the Luxembourg II and Mol Schools, five randomly selected debtors and creditors were each asked to confirm their balances directly to the Court of Auditors. In the Central Office, in two cases the information received did not reconcile against the accounting balances. No confirmation was received in three cases for the Luxembourg II School and in four cases for the Mol School. In the latter School, the audit detected that the amount of one balance was caused by an erroneous double payment to a creditor.

¹⁰ Off-budget accounts record transactions concerning 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).

24. The balance of suppliers at the Luxembourg II School did not reconcile against the corresponding figures in the Balance Sheet. Moreover, the School does not keep verified supplier bank identification forms for use in its payment operations.

25. As regards carried-over commitments, the Central Office and the Luxembourg II and Mol Schools do not make the distinction between present and non-present obligations¹¹.

26. The Administrative Board of the Luxembourg II School approved the carry-over of budget commitments to 2015, including 793 620,52 euro in staff remunerations, contrary to Article 7 of the Financial Regulation.

27. The Central Office generally records unpaid invoices in the "carried over commitments" account instead of in the "liabilities/supplier" account. This affects the comparability of the figures of "Suppliers" and "Carried over commitments" accounts across the Schools.

28. The Central Office and the Schools are involved in a number of legal disputes, mainly with staff members. There is no policy regarding the estimation and booking of provisions to meet the potential consequences of such disputes.

STAFF

Sensitive posts

29. The lack of rotation of staff in sensitive posts (the mandates of Administrator - Bursars and Heads of Accounting Departments have no time limitation) combined with the long mandate of the Authorising Officers (9 years) is a weakness in internal control.

Recruitments

30. The Mol School has never conducted a performance evaluation of the administrative and ancillary staff (AAS). Moreover, substantial parts of the recruitment procedures examined were not supported by documentary evidence. Several errors were detected concerning the supporting documentation for recruitment decisions.

¹¹ Present obligations are those for which the goods/services have been received.

31. The Staff Regulation for part-time teachers does not provide detailed guidance covering all aspects of the recruitment procedure. In addition, it does not provide a formal appraisal system for these teachers. Several errors were detected concerning the supporting documentation for recruitment decisions.

PROCUREMENT

32. In order to implement an erroneously designed “framework contract” for the purchase of the new accounting system¹², the Central Office launched three negotiated procedures which do not meet the provisions of Articles 61 - 99 of the Implementing Rules of the Financial Regulation.

33. In 2014, the Central Office signed an extension of the contract for the School Management System (SMS) for a maximum amount of 600 000 euro over two years. The latter was audited by the Court¹³ in 2012 and it reported the risks linked to the short duration of the contract (two years instead of the standard four years). The 2014 audit found that the urgent and technical reasons supporting the extension of the contract were not fully justified.

34. In the case of a contract for interpretation services (maximum amount of 700 000 euro over four years), errors were found in the design and implementation of the procedure: duplication of selection and award criteria, unclear award criteria, arithmetical errors in the award criteria and lack of proof that the winning tender complied with the selection criteria.

35. Several other weaknesses were found in procurement procedures organised by the Central Office: (a) belated advertisement of the award notice, (b) budgetary commitment made after the signature of the contract, (c) lack of a formal award decision, and (d) lack of evidence of controls by the Financial Controller.

¹² Paragraph 28 of the 2013 Annual Report.

¹³ Paragraph 28 of the 2012 Annual Report of (available on the website of the Court of Auditors www.eca.europa.eu).

36. In the Mol School a contract signed in 2006 was extended several times for a total amount of more than 75 000 euro without the launch of a new procurement procedure.

37. In the Luxembourg II School, errors were found in the design of two procurement procedures (the resulting contracts amounted to 168 000 euro and 126 000 euro). Moreover, a formal award decision was not drawn up by the Authorising Officer and the budgetary commitment was made after the signature of the contract.

INTERNAL CONTROL STANDARDS – ANNUAL ACTIVITY REPORTS

38. The Internal Control Standards (ICS) were adopted by the Board of Governors in October 2007¹⁴. The Central Office and the Luxembourg II and Mol Schools do not have a formal risk management procedure (ICS no 7). Moreover the Central Office and the Mol School do not carry out regular and systematic reviews of compliance with the ICS (ICS no 18).

39. No guidance and/or criteria are available to guide the Authorising Officers in drafting the Declaration of Assurance and raising reservations in their Annual Activity Report. This situation may lead to inconsistencies between Authorising Officers in their interpretation of the scope of the assurance provided and the impact of weaknesses detected in the internal control system.

PAYMENTS

General

40. The accounting system of the Schools was not linked to online web solutions for electronic bank transfers. Therefore, each payment order (once approved by the Authorising Officer) had to be entered individually into the online banking system by an initiating agent. The lack of a link between the accounting and payment systems, together with the absence of the Authorising Officer in the validation workflow (after the initial approval) meant that it

¹⁴ Ref.: 2007-D-29-en-2.

was possible for other actors in the procedure to circumvent the check performed by the Authorising Officer.

41. To address this risk, and in the light of the irregular payments in the Brussels I School¹⁵, a Memorandum was issued in October 2013¹⁶ which requires payments above 60 000 euro to be signed by the Accounting officer and the Authorising Officer (without modification rights) before the payment is sent to the bank. This was a temporary solution until the new accounting / financial system had been introduced to provide a direct link between the accounting system and the electronic payment system (see also paragraph 6).

42. The Authorising Officer at the Central Office approved two payments after their execution and was not involved in the execution of a third payment¹⁷.

Sample of payments

43. Several weaknesses were noted in a sample of payments selected at the Central Office and at the Luxembourg II and Mol Schools:

- (a) budgetary commitment made after the signature of the legal commitment;
- (b) payments for goods and services made either without a contract or with an invalid contract;
- (c) payments without complete and accurate supporting evidence;
- (d) insufficient checks before the validation of the payment (price per unit, quantities, suppliers' bank account number, etc.);
- (e) approval of a mission order by the staff member going on mission.

¹⁵ Paragraph 4 of the 2013 Annual Report.

¹⁶ Document Ref: 2013-10-M-1-en-1/KK.

¹⁷ As of June 2014, the Authorising Officer at the Central Office is able to authorise payments in the electronic payment system by using a personal electronic bank card.

44. In the Mol School, the examination of four off-budget transactions revealed that none of them were recorded in the accounts by means of a recovery order or payment order signed by the Authorising Officer¹⁸.

CONCLUSION

45. Given the continuing accounting and control weaknesses, the Court is not able to confirm that the consolidated accounts for 2014 are free of material misstatement.

RECOMMENDATIONS

46. The Board of Governors, together with the Central Office and the Schools, should take immediate action to address the following recommendations:

Accounting

- (i) The Central Office and the Schools should ensure effective application of accruals accounting and of all changes introduced by the revised Financial Regulation; and provide in-depth training for all those involved in the implementation of these changes.
- (ii) The Central Office and the Schools should ensure the accurate, efficient and effective operation of the new accounting / financial system.
- (iii) The Schools should comply with the legal deadlines for transmitting the revenue and expenditure account and the Balance Sheet.
- (iv) The Central Office should check the completeness and accuracy of the data used to consolidate the School's accounts and fully document this process.

¹⁸ Paragraph 5 of the Annual Report of 2013 noted the following, regarding the management of the off-budget accounts in the Mol School: *"In August 2013, the Financial Controller issued a report on the treatment of income amounting to 212 867 euro received by the Mol School from the Dutch state in 2006. This income was kept in an off-budget account instead of a normal budgetary account of the School. The report showed that the use of these financial resources has neither been transparent nor made in accordance with the Financial Regulation and its Implementing Rules....."*. No follow-up was performed by the Mol School on this specific issue in 2014.

- (v) The Court reiterates paragraph 5 of its Opinion no 4/2014 as regards the need for an independent external audit of the Schools' accounts.

Staff

- (vi) The Court reiterates its recommendation to the Board of Governors to implement a rotation system for sensitive posts.
- (vii) The Central Office and the Schools should document recruitment procedures better so as to ensure transparency and equal treatment. Moreover, the legal requirement for performance evaluation of staff should be complied with by all Schools.
- (viii) The Central Office should implement a Staff Regulation for the part-time teachers which would provide a solid legal framework for managing them.

Procurement procedures

- (ix) The Central Office should provide more guidance to the Schools on planning and designing procurement procedures. The Central Office and the Schools should follow the Financial Regulation and its Implementing Rules strictly, simplify selection and award criteria and improve the documentation of the procedures so that transparency and equal treatment are ensured.

Control Standards

- (x) The Central Office should be actively involved in the implementation of the Internal Control Standards and provide guidance to the Schools.

Payments

- (xi) The Central Office should ensure that segregation of duties is respected in the payment procedure and that an effective link is implemented between the new accounting system and the payment system.
- (xii) Similar weaknesses have been repeatedly reported by the Court in recent years. Their frequency and persistency puts at risk the basic principles of sound financial management. The Central Office should implement procedures and controls that ensure

compliance with the Financial Regulation and the Implementing Rules and, from a wider perspective, that respond to Opinion no 4/2014 of the Court as regards the financial control architecture¹⁹.

¹⁹ Summary of main points:

- (i) *The Court welcomes the proposal to introduce accrual based accounting and to abolish cash payments as a general rule;*
- (ii) *The role of the Heads of Accounting Departments should be strengthened (appointment by the Board of Governors, performance of controls on the financial statements of the individual schools, accountability for the consolidated accounts);*
- (iii) *The decentralisation of the ex-ante controls should be implemented after a trial period applied in some of the schools;*
- (iv) *The annual accounts of each school should be audited by an independent external auditor (other than the Court).*

Annex 1

Consolidated revenue and expenditure account for the financial years 2014 and 2013 - as presented in the consolidated accounts of the Schools (with previous year's surplus presented separately)

	<i>(1 000 euro)</i>	
	2014	2013
Revenue		
Subsidies received from the Commission	164 263	167 801
Other revenue	113 882	103 255
Total revenue (a)	278 145	271 056
Expenditure		
Settled at the close of the financial year	276 281	264 129
Committed and carried over to the following financial year	7 763	7 336
Total expenditure (b)	284 044	271 465
Result for the financial year (a-b)	-5 899	-409
Appropriations carried over from the previous financial year and not used	484	437
Other results	42	-53
Surplus previous year carried forward	10 344	10 429
Balance for the financial year	4 971	10 404

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 2014 and 31 December 2013***(1 000 euro)*

Assets	2014	2013	Liabilities	2014	2013
Budget			Budget		
Net fixed assets ¹	4 463	4 111	Own capital	4 463	4 111
Debtors	12 836	13 893	Reserves	2 885	2 832
Banks	27 015	30 878	Balance for the financial year	4 971	10 404
Cash	8	30	Appropriations carried over from year n to n+1	7 700	7 293
			Third-party accounts	15 154	13 942
			Entitlements to be recovered	9 149	10 330
Subtotal	44 322	48 912	Subtotal	44 322	48 912
Off-budget²			Off-budget²		
Stocks	268	290	Reserve from previous years	2 975	2 816
Third-party accounts	248	145	Results	691	501
Banks	3 888	3 705	Third-party accounts	749	844
Cash	11	21			
Subtotal	4 415	4 161	Subtotal	4 415	4 161
TOTAL	48 737	53 073	TOTAL	48 737	53 073

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 The value of assets made available free of charge by Member States, such as buildings, is not included.
- ² 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).

Annex 3**Follow-up of Court's recommendations raised in the Annual Report 2013**

The following table provides information on follow-up of the Court's recommendations made in the Annual Report 2013:

Court's recommendations (paragraphs 41 and 42 of the Report on the accounts of the European Schools for the financial year 2013)	European Schools		Central Office	Comments
	Brussels III	Varese		
	Implemented Yes/No/NA/in progress	Implemented Yes/No/NA/in progress	Implemented Yes/No/NA/in progress	
Recommendations on accounting issues				
1. The Central Office should ensure an effective change in the financial and administrative management in order to instil the necessary accountability culture; it should also organise in-depth training for all those involved in financial aspects.	n/a	n/a	In progress	Several structural changes (revision of FR, introduction of accruals accounting, operation of new financial and accounting system, and creation of Internal Control Coordinator) took place in 2014. See paragraphs 4, 5 and 6
2. The Central Office should ensure the timely, accurate, efficient and effective implementation of the new accounting/financial system.	n/a	n/a	In progress	The new accounting / financial system has been operational since 1 st January 2015. Further developments are underway. See also paragraph 6.
3. The Schools and the Central Office should respect the legal deadlines for the transmission of the revenue and expenditure account and the Balance Sheet.	n/a	n/a	In progress	Three out of fourteen Schools approved their 2014 financial statements after the legal deadline of 1 April 2015. See also paragraph 12.
4. The Central Office should check the completeness and accuracy of the data used for the consolidation of the accounts of the European Schools and fully document this process.	n/a	n/a	No	Such a check is not applied by the Central Office before consolidation. See also paragraphs 5, 13 and 14.
5. An in-depth analytical review of all the accounts of all Schools should be carried out.	n/a	n/a	No	Such a review was not made by the Central Office before

				consolidation. See also paragraph 14.
6. Furthermore, the Brussels I School should commission a thorough audit of its 2013 accounts.	No	n/a	n/a	The School commissioned a forensic audit covering the 2013 payments, the revenue and the disputed accounts. See also paragraph 16a.
Recommendations on staff issues				
7. The Court reiterates its recommendation to the Board of Governors to implement a rotation system in the management of sensitive functions (Heads of Accounting Departments and Administrator - Bursars).	In progress			A compulsory system of rotation was discussed at the Board of Governors meeting of April 2014 but no final agreement has been reached and a new proposal is under development. See also paragraph 29.
8. The Central Office should better document and simplify the different phases of the recruitment procedures so that transparency and equal treatment are ensured.	n/a	n/a	In progress	The 2014 audit found similar weaknesses to those found in previous years. See also paragraphs 30 -31.
Recommendations on procurement issues				
9. The Central Office should provide more guidance to the Schools on planning and designing procurement procedures. The Schools should strictly follow the Financial Regulation and its Implementing Rules, simplify selection and award criteria and improve the documentation of the procedures so that transparency and equal treatment are ensured.	Yes	Yes	No	The 2014 audit found similar weaknesses to those found in previous years. See also paragraphs 32 - 37 and 43.
Recommendations on internal control standards				
10. The Central Office should be more involved in the implementation of the Internal Control Standards and provide guidance to the Schools.	In progress	Yes	No	The 2014 audit found similar weaknesses to those found in previous years. See also paragraphs 38 and 39.

Recommendation on payments control system				
11. The Schools should fully implement the Memorandum on Payment Procedures until the new accounting/financial system is put in place and improve the effectiveness of the ex-ante controls.	In progress	In progress	In progress	The new accounting / financial system is expected to provide an automated link between the accounting system and the electronic payment system and efficient workflow for ex-ante controls. According to the Annual Report of the Financial Controller for 2014, further developments are still required. See also paragraphs 6 and 40 - 42.
Court's opinion n° 4/2014: The Court welcomes the proposal to introduce accrual based accounting and to abolish cash payments as a general rule; on the proposed revision of the Financial Regulation and of its Rules of Implementation.				
12. The role of the Heads of Accounting Departments should be strengthened (appointment by the Board of Governors, performance of controls on the financial statements of the individual Schools, accountability for the consolidated accounts).	In progress			The Board of Governors extended the mandate of the working group (which proposed the changes that led to the revised Financial Regulation) in order to further analyse additional issues.
13. The decentralisation of the ex-ante controls should be implemented after a trial period applied in some of the Schools.	In progress			See also paragraphs 4 and 5.
14. The annual accounts of each School should be audited by an independent external auditor (other than the Court).	In progress			

2015-10-D-28-EN-1



European Schools

Office of the Secretary-General

REPLIES OF THE OFFICE OF THE SECRETARY-GENERAL OF THE EUROPEAN SCHOOLS TO THE RECOMMENDATIONS OF THE COURT OF AUDITORS IN THE FRAMEWORK OF ITS ANNUAL REPORT FOR THE FINANCIAL YEAR 2014 (document of the Court “Preliminary observations with a view to a Report on the annual accounts of the European Schools for the financial year 2014”).

Accounting

- i. The European Schools are in the process of putting in place accruals based accounting standards for the year-end closure of 2015, taking as a reference the International Public Sector Accounting Standards (IPSASs). PricewaterhouseCoopers, who has previously helped the European Commission with the implementation of accruals based accounting, has been contracted to help with the implementation (facilitate workshops to define necessary areas, generate templates to gather data and to prepare guidelines and to provide training). In the course of the project, a decision will be made whether full compliance with IPSAS is achievable or whether transitory rules will be applied for 2015.
- ii. At the beginning of 2015, the European Schools have introduced the new accounting software SAP. The implementation process has not happened without problems and some difficulties persist, but once fully usable, SAP will, in a far better way, insure accurate, efficient and effective operation of the financial system.
- iii. The Schools have been reminded of the legal obligation for transmitting the revenue and expenditure accounts and the Balance Sheet by 1 April. For 2015, it is expected that SAP will facilitate year-end works.
- iv. Currently the Financial Regulation does not foresee a check of the completeness and accuracy of the data transmitted by the Schools. Nevertheless, the proposal is a discussion point of the Working Group ‘Review of the Financial Regulation’. So far, the group decided that the Accounting Officer of the Central Office should be appointed by the Board of Governors to increase his/her independence. He has furthermore the competence to decide upon the accounting standards and rules applicable. With respect to the check of completeness and accuracy, consultations with the lawyers showed a possible contradiction to the autonomy of the Schools granted in the Reform of the System of the European Schools of 2009 (Ref. 2009-D-353-en-4).
- v. In 2016, the European Schools have a budget of €75,000 for external auditing. The aim is to use this budget for initial external audits in four Schools. Without prejudice of the above, it would be welcomed any increase that the Court of Auditors could consider appropriate to decide for the ratio of its audits (number of Schools audited per year).

Staff

- vi. The Office of the Secretary-General is aware of the need of job rotation in sensitive financial areas. As far as members of the Administrative and Ancillary Staff (AAS) are concerned (head accountants, for example), it has to be taken into account that the individual School is the employer of the staff member and that the contract has to respect national labor law. For this reason, the Office of the Secretary-General cannot enforce job rotation between different Schools. Nevertheless, the Office can create a framework that stipulates voluntary job rotation among the Schools and the Office of the Secretary-General. To promote internal job rotation of AAS, the Board of Governors has decided in December 2013 to revise Article 7 of the Regulation for Members of Administrative and Ancillary Staff and to allow AAS members a change of School without any financial disadvantage (Ref. 2013-10-D-18-en-2).

With respect to the function of 'Accounting Officer', the Office of the Secretary-General has tabled a proposal, which foresees the possibility to nominate a member of the AAS for a limited period. This will promote job rotation in a financially sensitive area. The Board of Governors will discuss this proposal in their meeting in December 2015.

With respect to the Seconded Staff Members (in particular Bursars), it should be noted that the Office of the Secretary-General provided the Board of Governors in April 2014 with a proposal which stipulates a timely limitation of the duration of the secondment of the Bursars. This proposal foresaw a maximum duration of nine years; a prolongation was foreseen only in cases where the Bursar changes the School (Ref. 2014-01-D-60-en-3). The Board of Governors, arguing that the Schools might have difficulties to find qualified staff, rejected this proposal. The Office of the Secretary-General will provide the Board with a revised proposal.

- vii. The Office of the Secretary-General has drafted a guideline "Recruitment Policy and Procedure applicable to the Administrative and Ancillary Staff of the European Schools" (Ref. 2015-08-D-8-en-1), which was discussed at the Director's Meeting in September. After further consultation of the Schools, the new guidelines will be published in October 2015.

With respect to evaluation of seconded teachers, a further harmonization is envisaged by providing the evaluators (Directors and national Inspectors) with further guidance. The evaluation policy of the Office of the Secretary-General regarding AAS will be reviewed in the light of the 2015 evaluation round. The reviewed policy will be shared with the Schools in 2016.

The contracts for Locally Recruited Teachers were harmonized in Germany in 2013 (Ref. 2013-06-M-3). Moreover, the contracts offered by the Belgian schools were revised and harmonized in spring 2015 (Ref. 2015-05-M-2).

- viii. The Directors discussed the legal situation of part-time teachers in their meeting in September. Agreement was reached upon updating the Memorandum "*Harmonization of the treatment of Locally Recruited Teachers from the beginning of 2013/2014 school year*" (Ref. 2013-06-M-4), especially with regard to the payment over the summer holidays. The new Memorandum will be published in November 2015.

Besides this short-term action, the Office of the Secretary-General is aiming to achieve an adoption of the 'Staff Regulations for Locally Recruited Teachers of the European Schools' by April 2016. These Staff Regulations intend to provide a complete and coherent legal framework for the locally recruited teachers.

Procurement Procedures

- ix. The Office of the Secretary-General created a purchase department and the Head took on her duties at the end of August. Her role is to give guidance and to support the Office of the Secretary-General and the Schools on how to follow strictly the rules on procurement.

In addition to the above, the Central Office will circulate, still within the fourth quarter of 2015, a revised version of the Memorandum (Ref.: 2013-02-M-2-en-1) on the procedures for the purchase of goods and services, in accordance with the rules stated in the Financial Regulation after the last revision approved by the Board of Governors on December 2014. This Memorandum contains practical guidance for the Schools about the implementation of the basic requirements for procurement procedures stated on the financial rules.

Control Standards

- x. The Office of the Secretary-General has drafted new, clear Internal Control Standards including guidance on how to assess compliance with the standards. They are currently in discussion at Management level, will then be presented to the respective decision making bodies and will come into practice in January 2016.

Payments

- xi. The Secretary-General released the guideline on Segregation of Duties in Financial Circuits in July 2015. Currently the Financial Control Unit analyzes the proposals of the Schools of how to implement segregation of duties. Before it comes fully in place and before the Financial Control Unit moves from *ex-ante* to *ex-post* control some processes and the roles in SAP have to be revised. The aim is to be ready in January 2016.
- xii. As mentioned above the internal control architecture will be strengthened by the following projects:
- a. Implementation of accruals based accounting (see point i.).

- b. The role of the Accounting Officer of the Office of the Secretary-General is one discussion point in the review of the Financial Regulation (see point iv.).
- c. Once the technical (SAP) and organizational (proposal of the Schools) requirements for segregation of duties on financial circuits are met, the Financial Control Unit will, based on a risk assessment, perform ex-post controls at the Schools and the Office of the Secretary-General.
- d. See point v.



¶

Kari KIVINEN
Secretary-general



EUROPEAN
COURT
OF AUDITORS

Baudilio Tomé Muguruza

Member

Luxembourg, 26 MARS 2015

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Mr Kari KIVINEN
Secretary General
Office of the Secretary-General of the European Schools
C/O European Commission
Rue Joseph II, 30
B – 1049 Bruxelles

Subject: Audit of the European Schools for the financial year 2014

Ref.: For all correspondence on this subject, please use the reference: **PF 7040**

Dear Mr Kivinen,

Please find attached a document summarising the main findings resulting from work carried out so far with respect to the above-mentioned subject.

I would be grateful if you would keep the audit findings confidential as they are of a preparatory nature at this stage of the proceedings, and other checks may still prove necessary.

Since these findings will, in principle, form a basis of the observations, which the European Court of Auditors intends to present in its Report on the audit of the European Schools, I would be grateful if you would inform me, within two weeks, of your reactions to the factual information and the related remarks.

Yours sincerely,

Baudilio Tomé Muguruza

Annex

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PRELIMINARY FINDING n° 1

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	Office of the Secretary - General of the European Schools C/O European Commission Rue Joseph II, 30, B-1049 Bruxelles
MISSION DATES:	02/03/2015 - 05/03/2015
MANAGER:	Mr. Kari Kivinen (Secretary General)
SYSTEM:	Recruitment procedures – Personal files
Description: Weaknesses in the recruitment procedures.	
<p>Standard:</p> <p><u>Article 7 of the Service Regulations for the Administrative and Ancillary Staff (AAS) of the European Schools (ref: 2007-D-153-en-6) (RAAS):</u> “ 2. Without prejudice to the paragraphs 3 to 8 they shall be placed at the lowest step on the salary scale for his/her grade as indicated in Annex 2. 3. The management may, in exceptional cases and at the recommendation of the interview board, grant him/her up to two steps above the lowest step in the salary grade in order to take account of his/her education and relevant experience. Moreover, the management may decide in exceptional cases linked to certain occupational categories, which have been identified in advance unanimously by the Administrative Board, to grant up to four steps above the lowest step in the salary grade, in case no qualified candidate could be recruited due to the competitive situation on the local labour market. Any such decision must be communicated to the next meeting of the Administrative Board”.</p> <p><u>Article 13 of the RAAS (ref: 2007-D-153-en-6):</u> “1. A personal file shall be compiled for each member of the AAS. It shall be kept by the management of the school and shall contain: a) all documents concerning administrative status c) the job description”.</p> <p><u>Article 5.4.d of the RAAS (ref: 2007-D-153-en-6):</u> “After the closing date for the submission of applications, the management, assisted by a person of its choice competent to judge the candidates and by the AAS representative or by a member of the AAS Committee nominated by the latter, shall evaluate the applications submitted and shortlist the best qualified candidates. A representative of the AAS may attend as an observer at the meeting of the interview board.”</p> <p><u>European Court of Auditors Annual Report 2009 (par 42):</u> “ Based on the examination performed by the Court for the financial year 2009 it is recommended: - to develop written procedures for recruitment of part-time teachers and AAS; - 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”.</p>	
<p>Facts and Analysis:</p> <p>A) The recruitment and the staff file of one seconded staff member and of four AAS ((1. “MBV”), (2. “FL”), (3. “EHM”), (4. “BA”) & (5. “RN”)) have been audited.</p> <p>In addition, three personal files ((6. “CC”), (7. “KE”) & (8. “VA”)) have been reviewed.</p>	

The following issues were noted:

1. In cases 3 and 5, the recruited candidates were awarded a higher (than the lowest step of their grade) salary step based on their prior professional experience. The Schools have not developed guidelines regarding the award of steps on recruitment and therefore the decision is at the discretion of the selection committee. The lack of such guidelines cannot ensure a consistent and coherent approach when granting the steps.
 2. In case no 4, the job description was not found in the personal file.
 3. In case no 6, the contract (dated 2006) of this staff member does not mention the applicable staff regulation. The lack of this element might expose the Schools to a risk of legal uncertainty.
 4. In cases 3, 4 and 5, neither an AAS representative nor a member of the AAS Committee has participated to any stage of the recruitment procedure.
- B) The current staff regulation for part time teachers¹ does not provide detailed guidance covering all aspects of a recruitment procedure. Moreover it does not provide an official appraisal system for the teachers and, as a result, their contracts are renewed without an appraisal.

Recommendations:

The Schools should :

1. develop guidelines regarding the award of salary steps on recruitment to AAS staff,
2. improve the quality of the personal files of staff members,
3. ensure the presence of an AAS representative or of a member of the AAS Committee during AAS recruitment procedures,
4. for part time teachers, put in place a staff regulation which provides a solid legal framework for the management of this staff category.

Auditee's reply:

1. **The finding that the Schools have not developed written guidelines regarding the award of steps on recruitment is correct. Article 7.3 of the 'Service Regulations for Administrative and Ancillary Staff (AAS) of the European Schools' does - different from Article 27 of the 'Regulations for Members of the Seconded Staff of the European Schools' - leave room for discretion to the management of the Schools. Nevertheless, the Office of the Secretary-General will address this issue in a revision of the 'Recruitment Policy for Administrative and Ancillary Staff' which will be shared with the Schools.**
2. **The finding (N° 2) that in one file the job description was missing is correct. The fact that in very old contracts the applicable staff regulations are not mentioned (finding N° 3) is not considered to create any legal risk. Anyhow, at least since 2010 in all new contracts a reference to the staff regulations is included.**

¹ (Ref.: 2011-04-D-13-en-2) Conditions of employment for part-time [locally recruited] teachers recruited after 31 August 2011- Approved by the Board of Governors at its meeting of 12, 13 and 14 April 2011.

3. The Office of the Secretary-General ensures the presence of the staff representative in the selection procedures whenever a staff representative is in place. In the cases concerned no staff representation was in place due to a lack of candidates. 'Replacing' the AAS representative of the Office of the Secretary-General by the representative of staff of another school is not considered to be an option. Anyhow, in the meantime a new staff representative has been elected by the members of the AAS of the Office of the Secretary-General.

4. Also the Auditee strongly underlines the need for coherent Staff Regulations for Locally Recruited Teachers and had tabled a proposal to the Board of Governors in April 2013. Unfortunately the proposal did not find the necessary unanimous support by all members of the Board. A revised proposal, also reflecting the latest judgement of the European Court of Justice, will be tabled in December 2015 to the BoG if in the meantime the Office of the Secretary-General will manage to overcome the reservations of mainly one Member State.

PRELIMINARY FINDING n° 2

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	Office of the Secretary - General of the European Schools C/O European Commission Rue Joseph II, 30, B-1049 Bruxelles
MISSION DATES:	02/03/2015 - 05/03/2015
MANAGER:	Mr. Kari Kivinen (Secretary General)
SYSTEM:	Payments
Description: Weaknesses in the payments and incompliances with the Financial Regulation ¹ .	
<p>Standard:</p> <p><u>Financial Regulation</u>. Article 18: “The budget shall be implemented in accordance with the principle that the authorising officers and accounting officers are different individuals..... The duties of authorising officer, financial controller accounting officer and internal auditor shall be mutually incompatible”. Article 33.1: “All measures which may give rise to expenditure chargeable to the budget must be preceded by a proposal for the commitment of expenditure from the relevant authorising officer...”. Article 37: “Validation of expenditure is the act whereby the authorising officer shall: verify the existence of the creditor's claim, determine or verify the existence and the amount of the sum due, and verify the conditions under which payment falls due. Article 2: “Budget appropriations shall be used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness”.</p> <p><u>Rules for implementing the financial regulation (IR)</u>². Article 71 describes the different procurement procedures to be launched based on the estimated value of the contract. Only for payments of amounts lower than EUR 600 in respect of items of expenditure may consist simply in payment against invoices, without prior acceptance of a tender.</p>	
<p>Facts and Analysis:</p> <p>Twenty (20) payments were selected on a judgemental basis for audit. In addition, on the basis of a review of the accounts of several suppliers, a sample was selected in order to determine whether a valid contract was applicable and/or whether a procurement procedure had been duly performed.</p> <p><i>1. <u>Payment system:</u></i></p> <p>Since June 2014 the Authorising Officer (AO) can intervene in the electronic payment system (ISABEL) by using his/her personal electronic bank card.</p> <p>Before June 2014, a temporary procedure was followed (only for transactions with a value higher than 60.000,00 euro) in which: a) the Accounting Officer input payment data in ISABEL, b) the AO signed the ISABEL printout and c) the Accounting Officer executed the payment.</p>	

¹ 2011-07-D-18-en-1

² 2011-07-D-18-en-1

However, in payments 4 and 8, the signature on the ISABEL print-out was made after the execution of the payment. In payment no 5 (dated 04/2015), the AO was not involved in the execution of the payment.

The audited payments confirmed that the electronic cards are used by the financial actors concerned since June 2014.

2. Budget implementation:

For payments 4 and 13 (salary payments), the budget commitment was signed on 07/01/14, i.e. after the services were provided by staff in the first days of the year.

3. Internal controls:

For payments 14 (SMS) and 11 (LYRECO), no checks were performed on the accuracy of basic elements of the invoices.

For payment no 15 which concerns removal expenses, three offers were provided. However according to the Financial Regulation and to the volume of the invoiced goods, a fourth offer should have been asked for.

4. Missions – Travel expenses:

i) Payment no 2 concerns several invoices for interpretation services:

- a) In five cases, the order form was received by the supplier after the production of the invoice.
- b) In five cases, there is no evidence of the interpreters' end of working time. There is thus no assurance as to whether a full or half day fee should be paid.
- c) The contract only vaguely defines eligible mission expenses. Basic elements (eg. daily allowance, travel expenses) of the invoice cannot be checked against the contract.

ii) In payment no 16, the mission order was approved by the member of staff going on mission.

iii) In payment no 20, the mission order was neither dated nor signed by the Authorising Officer.

4. Contract management:

i) The Central Office is ordering goods and services from suppliers with whom there are no contracts:

- a) "Stepstone N.V. S.A"- advertisement of vacancy notices for the recruitment procedures. Value of payments in 2014: 3.996,00 euro.
- b) "Brasserie Vanderlinden SA" - provision of drinks and cleaning material. Value of payments in 2014: 7.872,28 euro. This finding was also included in the 2013 Statement of Preliminary Findings (SPF) no 6127-4.
- c) Transaction no 6 concerns translation services. These services (Budget 2014: 270.000 euro) are ordered without any framework or individual contract. This issue has been pointed out in the 2010, 2011, 2012 and 2013 SPFs and Annual Reports.

ii) The Central Office is ordering goods and services from suppliers where no valid contract exists:

- a) "Stienon E.G.E" – audio visual equipment. Value of payments in 2014: 15.537,90 euro. The contract expired in April 2010 but the Central Office is still ordering from this supplier. Over 13.000 euro were paid to this supplier in 2013 (See also 2013 SPF no 6127-4).

b) Payment no 3 concerns IT services (16.089,23 euro). The contract, signed in 2006, was erroneously prolonged several times and its scope was broadened (See also 2013 SPF no 6127-4).

c) "ARCO" – IT services. Value of payments in 2014 in 5.103,00 euro. A contract expired in September 2013 and no procurement procedure was launched yet. This point was included in the register of exceptions.

iii) The Central Office is using services provided by suppliers for which there are valid contracts but which do not result from a procurement procedure:

a) In 2014, the supplier "Sumika" was paid 35.381,77 euro for IT services, on the basis of a contract which does not result from a procurement procedure. This point was included in the register of exceptions.

b) Payment no 9 concerns legal services (annual fees of 220.800 euro). These services are covered by a convention which has not been concluded as the result of a negotiated procedure as foreseen in Article 70 IR.

Recommendations:

Similar observations have been repeatedly reported by the Court in recent years.

The frequency and persistency of these weaknesses puts at risk the basic principles of sound financial management for categories of expenditure that represent a significant part of the Schools' budget.

The Central Office is recommended to put in place procedures and controls that ensure compliance with the FR and the IR and, from a wider perspective, that respond to paragraph 3 of the Opinion no 4/2014 of the Court as regards the current financial control architecture.

Particularly, the Central Office should ensure that segregation of duties is respected in the payment procedure and that an effective link is implemented between the new accounting system and the payment system.

Auditee's reply:

The Central office takes note of the Court's observations and recommendations and is actively working towards solutions to remedy the weaknesses observed.

In the area of payments, most of the observations of the Court refer to the period previous to June 2014, when the new procedure for payments was introduced. The new electronic payment method has since then contributed to a better application of the payment procedure in place, including the intervention of all financial actors.

Concerning the segregation of duties, the Financial Regulation was recently modified in view of establishing more clearly the Accounting Officer function, not being necessarily the Administrator of the School. The Central Office will shortly issue clear guidelines about how to effectively set up a clear control framework in the schools and Central Office, as stipulated in the Financial Regulation, Internal Control Standards and Code of Professional Standards. These guidelines include the specific models which can be applied in order to be compliant and which will then be implemented in the new accounting software SAP. The objective is to have a fully compliant system of internal controls by the end of 2015.

Regarding public procurement, the Central office takes note the Court's observations and underlines the

need to introduce relevant procedures in order to avoid such procedural errors. The area of public procurement has long suffered from insufficient resources within the Central Office and in the schools. This was recognized by the Board of Governors, which agreed to create a Procurement cell in the central office with three posts (two additional) starting in 2016. The one mission of this new cell will be to introduce clear procedures and guidelines for the schools in order to tackle issues such as those raised by the Court.

PRELIMINARY FINDING n° 3

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	Office of the Secretary - General of the European Schools C/O European Commission Rue Joseph II, 30, B-1049 Bruxelles
MISSION DATES:	02/03/2015 - 05/03/2015
MANAGER:	Mr. Kari Kivinen (Secretary General)
SYSTEM:	Procurements

Description: Non-compliance with the provisions of the FR and IR.

Standard:

Articles 33, 52-70 of the FR and Articles 61-99 of the IR.

Facts and Analysis:

Six procurement procedures concluded in 2014 and organised by the BSGEE have been selected for a detailed examination:

	Ref. number	Object	Contractor	Type	Contract value
1	BSGEE/2014/05	Interpretation	Concorde	Restricted	500.000 euro to 700.000euro (4 years)
2	BSGEE/2014/14	SAP - Project realization	SAP	Negotiated	1.409.248,30 euro
3	BSGEE/2014/19	OCM - Final preparation	SAP	Negotiated	118.714 euro
4	BSGEE/2014/20	School management system	My School	Negotiated	450.000 euro to 600.000 euro (2 years)
5	BSGEE/2014/27	Internet services	Belnet	Negotiated	140.000 euro to 150.000 euro (3 years)
6	BSGEE/2014/38	SAP - Consulting services 2015 for SAP ERP Go Live Support	SAP	Negotiated	690.622,70 euro

The following issues were noted:

1) Preparatory documentation:

In contracts nos 1 and 4, there is no evidence of a formal initial request setting out the reasons for launching a new procedure and the estimation of the value of the contract.

2) Type of procurement procedure:

a) In 2014, the Schools, in order to implement an erroneously designed “framework contract” (see 2013 SPF no 6127 – 6) for the purchase of a new accounting system, launched three new negotiated procedures (contracts nos 2, 3 and 6). These procedures do not fully meet the provisions of Articles 61 - 99 IR as they are the result of the above mentioned “framework contract”.

b) Contract no 4 is the prolongation of the contract for the SMS (School Management System). The latter has been audited in 2012 by the Court (SPF no 5685 –1). The audit noted that *“the short duration exposes the School to the risk of high maintenance costs in the third year (i.e. after the end of the contract) or the risk of having to set up a new system again in a very short period of time. A global contract including maintenance and extended to the standard period of four years would have complied with the basic economy principle of sound financial management (Article 2 of the FR)”*.

For this contract, the Central Office launched in July 2014 a negotiated procedure based in Article 70.b IR. The urgency and technical reasons for launching this negotiated procedure are not fully justified and the risks raised by the Court have materialised. The procedure followed did not fully meet Articles 61-99 IR (i.e. request of up-date documentation of the contractor, request of a new financial offer). The contract was included in February 2015 in the register of exceptions.

3) Selection and Award criteria:

In contract no 1, the following are noted:

- a) there was an arithmetical error in the weighting of the quality award criterion.
- b) the technical capacity was used both as a selection and an award criterion.
- c) several award criteria were not clear and therefore the assessment of the offers was difficult to make.

The above errors did not impact the final ranking of the offers.

Moreover, according to the minutes of the Opening Committee, the tenderer did not provide proof of his economic and financial capacity as required in the tender documents. Nevertheless, the missing information was not requested by the AO (Article 87(3) IR), the tenderer was evaluated and finally awarded the contract.

4) Evaluation of the offers:

In contracts nos 4 and 5 there is no evidence of the negotiation and evaluation of the financial offers.

5) Contract clauses:

In contract no 4, essential information (i.e. clear identification of the object of the contract, contract value, price of the different services and price revision) is missing.

6) Other incompliances:

- a) In contract no 1, the award notice was published in the Official Journal belatedly.
- b) In contracts nos 1, 3, 4, 5 and 6, there is no evidence that the budgetary commitments were made before the signature of the contracts (Article 33(1) FR).
- c) In contracts nos 1, 2, 3, 4, 5 and 6, a formal award decision was not drawn up by the AO (as provided in Article 64 FR).
- d) Contract no 1 was signed by the AO one day after its entry in force.

In five out of the six contracts (nos 1, 2, 3, 4 and 6), there is no formal evidence that the contract has been subject to any controls by the financial controller.

Recommendations:

Similar observations have been repeatedly reported by the Court in recent years.

The frequency and persistency of these weaknesses puts at risk the basic principles of sound financial management for categories of expenditure that represents a significant part of the Schools' budget.

The Central Office is recommended to put in place procedures and controls that ensure compliance with the FR and the IR.

Auditee's reply:

Regarding public procurement, the Central office takes note the Court's observations and underlines the need to introduce relevant procedures in order to avoid such procedural errors. The area of public procurement has long suffered from insufficient resources within the Central Office and in the schools. This was recognized by the Board of Governors, which agreed to create a Procurement cell in the central office with three posts (two additional) starting in 2016. The one mission of this new cell will be to introduce clear procedures and guidelines for the schools in order to tackle issues such as those raised by the Court.

In addition to the above, as mentioned under the replies to the previous preliminary finding n2, the BSGEE is currently working on the development of guidelines about the segregation of duties, as resulting from the relevant articles of the Financial Regulation, Internal Control Standards and Code of Professional Standards. The objective is to have, by the end of 2015, a fully compliant system of internal controls, which sets also clear responsibilities for the different intervenient financial actors.

Moreover, concerning mainly last paragraph of present finding n3, it is provided to the Court (documentation attached) information -non exhaustive, but as example of a number of checks made on the contracting process-. Without prejudice of this, and in line with what it is mentioned above, the BSGEE recognises the convenience of reinforcing compliance with the rule stated on article 33 of the Financial Regulation (budgetary commitment formally approved should precede legal commitment). This issue was, thus, included in the agenda of last team meeting, held on 4th June, and implies also that all the relevant documentation (tendering documents, draft contract etc) should be submitted to financial control before the signature of the relevant contract. In addition, a checklist is intended to be elaborated by financial control in order to particularise for the field of procurement the generic checklists already existing in the financial rules.



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Baudilio Tomé Muguruza
Member

Mr Kari KIVINEN
Secretary General
Office of the Secretary-General of the European Schools
C/O European Commission
Rue Joseph II, 30
B – 1049 Bruxelles

Luxembourg, - 8 JUIN 2015

AEIOG2185FNO1-15PP-PF-7268-EFU_CO-OR.doc

Subject: Audit of the European Schools for the financial year 2014

Ref.: For all correspondence on this subject, please use the reference: **PF 7268**

Dear Mr Kivinen,

Please find attached a document summarising the main findings resulting from work carried out so far with respect to the above-mentioned subject.

I would be grateful if you would keep the audit findings confidential as they are of a preparatory nature at this stage of the proceedings, and other checks may still prove necessary.

Since these findings will, in principle, form a basis of the observations, which the European Court of Auditors intends to present in its Report on the audit of the European Schools, I would be grateful if you would inform me, within two weeks, of your reactions to the factual information and the related remarks.

Yours sincerely,

Baudilio Tomé Muguruza

Annex

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PRELIMINARY FINDING n° 1

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	Office of the Secretary - General of the European Schools C/O European Commission Rue Joseph II, 30, B-1049 Bruxelles
MISSION DATES:	27/05/2015 - 28/05/2015
MANAGER:	Mr. Kari Kivinen (Secretary General)
SYSTEM:	Reliability of the accounts
Description: General issues.	
Standard: <u>Financial Regulation</u> ¹ : Article 19.1: The Head of each School shall implement the budget as authorising officer, in accordance with this Financial Regulation and within the limits of the appropriations allotted. He shall report to the Administrative Board in the form of an annual activity report, to be attached as an annex to the consolidated revenue and expenditure account drawn up in accordance with the provisions of Article 86. <u>ICS No. 7 – Risk Analysis and Management (Ref.: 2007-D-29-en-2)</u> Each Director shall analyse risks in relation to the main activities of the School, and shall take appropriate action to address them. <u>ICS No. 18 – Review of Internal Control (Ref.: 2007-D-29-en-2)</u> Each Director shall conduct a regular review of the School’s internal control arrangements.	
Facts and Analysis: There is no guidance and/or criteria for Authorising Officers (AO) of the Schools to make the Declaration of Assurance and to set reservations (where applicable). This situation may lead to an inconsistent interpretation between AOs of the scope of the assurance provided as well as of the impact of weaknesses in the internal control system. The Central Office does not have a formalised risk management procedure and does not carry out a regular and systematic review of compliance with the internal control standards (ICS).	
Recommendations: The AOs should prepare their Declaration of Assurance based on a common methodology. This methodology should include quantitative and qualitative criteria and should take into account, inter alia, the results of ex-ante or/and ex-post controls, the materiality of exceptions recorded and the assessment of the implementation of the internal control standards.	

¹ 2011-07-D-17-en-1

The Central Office should implement the above ICS.

Auditee's reply:

The Central office takes note of the Court's observations and recommendations.

It may be mentioned that, on the 18th March 2015, proposed standardised models for the declaration of assurance of the authorising officer (art. 19.1 FR) and for the declaration of the accounting officer concerning the accounts (art. 87.2 FR) were provided to the Schools by the BSGEE. Moreover, a standard model for the annual activity report (art. 19.1 of the Financial Regulation) is planned to be prepared by the BSGEE, to be proposed for use at all the Schools.

It could be also pointed out that a revision of the current Internal Control Standards of the year 2007 is envisaged to be undertaken during the present financial year 2015, to put them in line, as appropriate, with the current equivalent standards of the European Commission.

Finally, it may be underlined that, following the relevant decision of the Board of Governors, the position of Internal Control Coordinator for the European Schools has been fulfilled as from April 2015, what will be a very important added value for the system of the European Schools in order to further progress in the line stated by the Court.

PRELIMINARY FINDING n° 2

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	Office of the Secretary - General of the European Schools C/O European Commission Rue Joseph II, 30, B-1049 Bruxelles
MISSION DATES:	27/05/2015 - 28/05/2015
MANAGER:	Mr. Kari Kivinen (Secretary General)
SYSTEM:	Reliability of the accounts
Description: Fixed assets – Inventory.	
Standard: <u>Financial Regulation:</u> Article 71: “Permanent inventories showing the quantity and value of all movable and immovable property belonging to the School shall be kept. The School shall carry out its own inspection to ascertain that entries in the inventory correspond to the physical facts, enabling there to be centralized control every three years,” and Article 74: “All acquisitions of movable or immovable property as defined in Art. 71 shall, before payment, be entered in the permanent inventories.” <u>Court’s 2013 Annual Report:</u> Par 17: The 2013 accounts of the schools <u>continue</u> to be prepared on a modified cash basis and are not fully compliant with the accrual based accounting principle. <u>Generally accepted accounting principle:</u> The accrual based accounting principle means that transactions and events shall be entered in the accounts when they occur and not when amounts are actually paid or recovered. They shall be booked to the financial years to which they relate.	
Facts and Analysis: 1. The total acquisition value of the fixed assets, the depreciation at the beginning of the year and the net amount at year-end which are set out in the closure report could not be reconciled with the fixed assets inventory. 2. All invoices for services and goods related to the new financial / accounting system (SAP - total value 4.07 mio euro) were recorded as expenses. 3. The latest two physical inventories of the assets were made in 2010 and in 2013. Both were made on a sample basis.	
Recommendations: The figures in the fixed assets inventory should reconcile with the accounts. The Central Office should analyse the nature of the expenses related to the SAP project and capitalize those that constitute an intangible asset. The Central Office should undertake a thorough and exhaustive inventory of all its assets in order to ensure completeness and accuracy of its accruals based 2015 accounts.	

Auditee's reply:

The Central office takes note of the Court's observations and recommendations.

It may be mentioned that an exhaustive physical inventory was performed at the BSGEE at the year 2014 (relevant documentation provided to the Court as attachment).

PRELIMINARY FINDING n° 3

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	Office of the Secretary - General of the European Schools C/O European Commission Rue Joseph II, 30, B-1049 Bruxelles
MISSION DATES:	27/05/2015 - 28/05/2015
MANAGER:	Mr. Kari Kivinen (Secretary General)
SYSTEM:	Reliability of the accounts
Description: Expenses – Liabilities.	
Standard: <u>Memorandum 2010-M-12/RC: “Information to be shown in the Accounts (Clôture) for the Financial Year 2009”</u> : Carry-overs. <u>Court’s 2013 Annual Report</u> : Par 17: The 2013 accounts of the schools <u>continue</u> to be prepared on a modified cash basis and are not fully compliant with the accrual based accounting principle. <u>Generally accepted accounting principle</u> : The accrual based accounting principle means that transactions and events shall be entered in the accounts when they occur and not when amounts are actually paid or recovered. They shall be booked to the financial years to which they relate. <u>Financial Regulation</u> : Article 6.3: “The allotted appropriations shall be used solely to cover expenditure properly entered into and paid in the financial year for which they were granted.....”.	
Facts and Analysis: 1. For carried-over commitments (which represent 1.845.828, 24 euro) the Central Office does not make the distinction between present and non-present obligations (present obligations are those for which the good/services were received). Moreover, the Central Office generally records erroneously unpaid invoices in the “carried over commitments” account and not in the “liabilities/suppliers” accounts. This practice affects the comparability of the figures of “Suppliers” and “Carried over commitments” accounts across the Schools. 2. The Central Office asked 5 randomly selected debtors/creditors to confirm their balances directly to the Court of Auditors. For two of them (Social contributions service providers) the accounting balances could not be reconciled. At the time of closing the audit, these discrepancies amounted to several thousand euro. 3. The review of a random sample of invoices shows that accruals accounting is not applied. Moreover, accrued expense for untaken leave of staff (about 400 days at 31.12.2014) is not recorded as a liability. 4. The Central Office is involved in a number of legal disputes. There is no policy regarding the estimation and booking of provisions to meet the potential consequences of such disputes. The Central Office may thus risk not be able to comply with the financial implications of an adverse	

judgement.

5. The account "Clients" includes credit amounts of 11.277,87 euro which should have been presented in a "Liabilities" account.

For two payment orders (no 00157 for training services – 1.278.10 euro and no 00154 for legal services - 3.338,66 euro) the annuality principle was not respected as part of these payments were set against 2014 budgetary appropriations although the related services were provided in 2013.

Recommendations:

The Central Office should ensure that accrual based accounting is fully applied and that the budget is implemented respecting the annuality principle.

The Central Office should carry out an in-depth review of all suppliers/clients accounts in order to verify the accuracy of all balances presented.

The Central Office should analyse the potential financial consequences of legal disputes and book the necessary provisions.

Auditee's reply:

The Central office takes note of the Court's observations and recommendations.

It may be mentioned that in accordance with the recommendations of the Court, in the last revision of the Financial Regulation applicable to the Budget of the European Schools, approved by the Board of Governors at December 2014 and (as a general rule, and save specific articles), in force as from 1st January 2015, it was concluded the introduction of accruals accounting, as this is now expressly stated on the new wording of the Article 76 of the Financial Regulation.

In addition to the above it may be underlined that the new accounting software SAP, currently used in a number of European Union Institutions, and which is in place in the system of the European Schools as from 1st January 2015, will help to substantially address the issues pointed out by the Court.

PRELIMINARY FINDING n° 4

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	Office of the Secretary - General of the European Schools C/O European Commission Rue Joseph II, 30, B-1049 Bruxelles
MISSION DATES:	27/05/2015 - 28/05/2015
MANAGER:	Mr. Kari Kivinen (Secretary General)
SYSTEM:	Reliability of the accounts
Description: Consolidated accounts.	
Standard: <u>Financial Regulation:</u> Article 87: “Each School, after 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.....”. Article 89: “The Office of the Secretary-General shall draw up, within the time limit provided for in Article 86, a balance sheet of assets and liabilities of all the Schools as at 31 December of the preceding financial year. A statement showing the movements and balances of the accounts, drawn up on the same date, shall be attached thereto. These documents shall be submitted to the financial controller”. Article 90: “The Secretary-General shall forward the consolidated revenue and expenditure account with all the supporting documents, the financial analysis and the balance sheet to the Board of Governors, the Commission of the European Union, the European Patent Office and the Court of Auditors of the European Union by 1 June at the latest”.	
Facts and Analysis: <ol style="list-style-type: none"> 1) As stated in the Court’s report on the 2013 Accounts (paragraph 14), there is no reliable software tool to perform the consolidation process. Various excel files are used for this purpose, which are not reviewed by a staff member other than the one who keyed in the data. Moreover they do not contain an adequate level of protection for formulas and links/rows with passwords or cell locks. This situation generates a high risk of input/output error. 2) A detailed analytical review of the accounts of the schools was not carried out by the Central Office before consolidation. This procedure which can identify unusual balances was recommended in the 2013 SPF (SPF 6436 of 16 June 2014, Preliminary Finding n°4). 3) The 2014 accounts include the 2013 figures for comparability purposes. The 2013 figures are those resulting from the approved accounts without taking into account the findings reported in SPF 6436. 4) Three Schools (Culham, LUX I and MOL) have not sent the accounts within the legal deadline of 1st April 2015. 5) The following are noted for three Schools that are included in the 2014 consolidated accounts: Brussels I: <ol style="list-style-type: none"> a) The 2013 accounts included a debit and a credit account (734 515,38 euro) that could not be 	

explained by any supporting document or any relevant information. The School decided to delete these two balances. The Court recommended that the School should undertake a thorough audit of all its accounts. Instead, the School commissioned a forensic audit which concluded that there was no financial impact (no payment appears to be connected with the above-mentioned bookings). The reasons for these postings could not be identified.

- b) Two transactions (“Proposition de constatation de créance” n°53 amounting 1.024.460,24 euro, related to the “comptabilisation des excédents 2013”, and Ordre de paiement/recouvrement multiligne n° 5258, for a debit/credit amount of 999.278,66 euro related to “Ventilation opening 2014 du compte G4001001”), were refused by the Financial Controller. The latter amount was not charged to the appropriate budgetary account for staff expenditure and therefore the budget result carried from 2013 to 2014 was overstated by this amount. The School’s Administrative Board further investigated the issue via a forensic audit and transferred the 2013 result to the 2014 financial year by making the necessary adjustments in the 2014 financial year.
- c) The balance sheet of this School sets out credit accounts (total value of 1,03 mio euro) which present some inconsistencies that cannot be explained and which are currently being investigated internally.

Luxembourg II:

- d) The Authorising Officer included a reservation in his 2014 declaration of assurance: some accounting entries were modified without an audit trail in the accounting information system and thus created some differences between the accounting and the budget figures. In 2013, the same facts occurred but no reservation was raised by the AO. The Bursar made the same reservation in his 2014 declaration of assurance.

Mol:

- e) A forensic audit will take place. This decision results from issues raised in relation to several invoices (total value of about 69 000 euro) for services allegedly provided since 2010. The payment of these invoices was refused by the Financial Controller.

Recommendations:

The Central Office should perform controls of the completeness and accuracy of the data used in the consolidation of the accounts of the European Schools, ensuring an adequate audit trail.

The Court’s Opinion No 4/2014 on the reinforcement of the quality of the consolidation procedure is reiterated: “The Court considers that an independent external auditor, other than the Court, should verify that the annual financial statements of each individual school properly present its income, expenditure and financial position prior to the consolidation of the accounts in order to increase the assurance required at that level. The quality of the consolidation process itself should be part of the remit of the accounting officer at the Central Office (hereinafter “the accounting officer”), as set out in paragraphs 10 and 13”.

Auditee's reply:

The Central office takes note of the Court’s observations and recommendations.

Without prejudice of the responsibility of the Schools for the corresponding financial statements, concerning the consolidation process, it may be underlined that the new accounting software SAP, currently used in a number of European Union Institutions, and which, as mentioned above under

PF n3, is also in place in the system of the European Schools as from 1st January 2015, includes an specific module for the consolidation of the accounts. It also provides appropriate audit trail of any insertion/deletion/modification introduced. These features, it is understood, will help to substantially address the issues pointed out by the Court.

As per the future role of the Accounting Officer of the BSGEE, taking into account the above-mentioned Opinion No 4/2014 of the Court, this is one of the points for detailed analysis under the agenda of the working group for the review of the Financial Regulation, which received an extension of its mandate by the Board of Governors at December 2014.

Finally, it is important to point out that in line with the recommendations of the Court to use the services of independent external auditors, in the budget of the BSGEE for the financial year 2016 a specific dotation of credits has been approved on April 2015 by the Board of Governors for this purpose, amounting to 75.000 euro. This will allow that, additionally to the audit work performed by the Court, the financial statements of several Schools can be audited in the coming financial year. Without prejudice of the above, it would be welcomed any increase that the Court of Auditors could consider appropriate to decide for the ratio of its audits (number of Schools audited per year).



EUROPEAN
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Baudilio Tomé Muguruza
Member

Mr Emmanuel DE TOURNEMIRE
Director of the European School
Luxembourg II
6 rue Gaston Thorn
L - 8268 BERTRANGE

11 February 2015

Subject: Audit of the European School of Luxembourg II for the financial year 2014

Ref.: For all correspondence on this subject, please use the reference: **PF 6953**

Dear Mr De Tournemire,

Please find attached a document summarising the main findings resulting from work carried out so far with respect to the above-mentioned subject.

I would be grateful if you would keep the audit findings confidential as they are of a preparatory nature at this stage of the proceedings, and other checks may still prove necessary.

Since these findings will, in principle, form a basis of the observations, which the European Court of Auditors intends to present in its Report on the audit of the European Schools, I would be grateful if you would inform me, within two weeks, of your reactions to the factual information and the related remarks.

Yours sincerely,


Baudilio Tomé Muguruza

PRELIMINARY FINDING n° 1

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School Luxembourg II 6, rue Gaston Thorn L - 8268 Bertrange, Luxembourg
MISSION DATES:	15/12/2014 - 16/12/2014
MANAGER:	Mr. Emmanuel de TOURNEMIRE, Director
SYSTEM:	Recruitment procedures – Personal files
Description: Incompliances with Staff Regulations.	
Standard: <u>Annex III – Article 16 of the Regulations for Members of the Seconded Staff of the European Schools (doc 2011-04-D-14-en-4) (RMSS) and Article 13 of the Service Regulations for the Administrative and Ancillary Staff (AAS) of the European Schools (document 2007-D-153-en-6) (RAAS)</u> stipulate that a personal file shall be compiled for each member and shall be confidential. <u>Article 27 of the RMSS:</u> “2. The step at which a member of staff is placed on the scale relating to his post shall be that corresponding to the number of years of relevant professional experience to his credit, as follows –...(table)... - The number of years of relevant professional experience shall be determined by the Secretary-General in accordance with the arrangements laid down in Annex V to these Regulations”. <u>Article 26 of the RMSS:</u> “Prior to secondment, a candidate nominated by the competent public authority shall be required to produce a medical certificate of fitness, issued no more than three months previously by the national health service to which he belongs. The medical certificate of fitness shall be included in the administrative file referred to in Article 16 of these Regulations”. <u>Article 10 of the RMSS:</u> “1.... In addition, they shall have a thorough knowledge of a second Community language....”. <u>Article 5.3 of the RAAS:</u> “The selection process will be based on the principle of equal treatment of candidates”.	
Facts and Analysis: The recruitments and the staff files of three seconded staff members ((1. “BR”–38), (2. “RA”-215) and (3. “WM”-281)), of one temporary staff member (4. “DCM”-57), and of five part time/AAS staff members ((5. “LP”-149), (6. “RE”-224), (7. “EB”-72), (8. “DK”-68) and (9. “VA”-271)) have been audited. In addition, three personal files ((10. “DRM”–71), (11. “FM”–89) and (12. “HB”–117)) and one 2014 monthly payslip of two staff members ((13.“MG”-171) and (14.“LP”-149)) were reviewed. The following issues were noted:	

1. In cases nos 1, 2, 5, 6, 7, 8, 9, 11 and 12, not all documents in the personal file were numbered in serial order and stamped as confidential.

Les pièces contenues dans les dossiers administratifs des personnels détachés sont numérotées et répertoriées. Ceci est difficilement réalisable pour la partie financière de ces dossiers (du fait du nombre important de documents à y classer), de même que pour les dossiers des personnels recrutés localement.

Toutefois, nous pourrions à l'avenir veiller à numéroter les pièces des dossiers des nouveaux arrivants à notre Ecole, tout en précisant qu'une renumérotation rétroactive n'est pas envisageable compte tenu du nombre de dossier qu'il faudrait ainsi retrier.

En ce qui concerne la mention « CONFIDENTIEL », nous l'avons volontairement indiquée sur l'étiquette placée sur la tranche à l'extérieur du classeur, ainsi que sur la page de garde de nos dossiers personnels, pour indiquer que l'ensemble du dossier (et donc des pièces qui y sont contenues) est confidentiel. Comme pour le point précédent, nous pourrions envisager d'apposer le tampon « confidentiel » sur les nouveaux documents entrants, mais à nouveau pas de manière rétroactive, pour les mêmes raisons que celles évoquées précédemment.

2. In case no 6, the recruited candidate was awarded the second salary step based on his prior professional experience. However the School has not developed guidelines regarding the award of steps at recruitment. The decision is up to the discretion of the selection committee.

La remarque est pertinente et l'Ecole va mettre en place une procédure pour aider les comités de sélection à attribuer un ou deux échelons supplémentaires dans le cadre du recrutement des personnels PAS.

3. In cases nos 1, 2 and 3, there is no evidence of controls on the calculation of the duration of the candidates' past professional experience.

La décision d'octroi d'échelon n'est pas de la responsabilité de l'Ecole mais des autorités détachantes qui envoient leurs personnels. L'Ecole fait confiance aux Etats membres pour la vérification du profil des candidats qu'ils envoient. Cette vérification est du ressort des inspecteurs nationaux (pour les Etats membres).

4. In case no 1, evidence of knowledge of a second language and of the medical certificate was not found in the file.

De même que pour les 2 points précédents, le choix des candidats détachés et la vérification du profil ne sont pas du ressort de l'Ecole. Le certificat médical de la personne en question était bien contenu dans le dossier personnel, mais dans la partie « financière ». Une copie est jointe à ce rapport.

5. In case no 9, the recruited candidate submitted to the School diplomas which were different from those required by the vacancy notice. Moreover, in the same case, no evidence on the past professional experience, as required by the vacancy notice, was made available.

La remarque est pertinente et l'Ecole s'engage à rédiger ses annonces à l'avenir afin de permettre à un plus large public de postuler, et ainsi éviter ce type de situation.

Recommendations:

The School should :

1. improve the management of personal files,
2. develop guidelines regarding the award of salary steps at recruitment,
3. improve the controls concerning the verification of past experience,
4. obtain from candidates all legally required documents,
5. shortlist only candidates who have provided enough evidence that they meet the compulsory requirements of the vacancy notice. It should be noted that the recruitment in case no 9 concerned a part time teacher where the relevant regulation also provides for a selection without a recruitment procedure. However, since the School launched a recruitment procedure (even if this was not legally required), it should have respected the general principle of equal treatment of the candidates.

PRELIMINARY FINDING n° 2

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School Luxembourg II 6, rue Gaston Thorn L - 8268 Bertrange, Luxembourg
MISSION DATES:	21/01/2015 - 22/01/2015
MANAGER:	Mr. Emmanuel de TOURNEMIRE, Director
SYSTEM:	Payments
<p>Description:</p> <ul style="list-style-type: none"> - Budgetary commitment signed after the legal commitment - Ordering made from expired contracts - Year n+1 appropriations used for Year n expenses - Weakness in the validation of the payments 	
<p>Standard:</p> <p><u>Financial Regulation of 24 October 2006 applicable to the budget of the European Schools (version 2011-07-D-18-en-1):</u></p> <p>Article 33.1: "All measures which may give rise to expenditure chargeable to the budget must be preceded by a proposal for the commitment of expenditure from the relevant authorising officer....".</p> <p>Articles 52-70 concerning the procurement procedures.</p> <p>Article 6.3: "The allotted appropriations shall be used solely to cover expenditure properly entered into and paid in the financial year for which they were granted.....".</p> <p>Article 2: "1. Budget appropriations shall be used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness".</p> <p>Article 37: "Validation of expenditure is the act whereby the authorising officer shall: verify the existence of the creditor's claim, determine or verify the existence and the amount of the sum due, and verify the conditions under which payment falls due.</p>	
<p>Facts and Analysis:</p> <p>A representative sample (selected on a judgemental basis) of 20 payments was selected for audit.</p> <ol style="list-style-type: none"> 1. For six payments, the legal commitment was undertaken before the budgetary commitment was validated. 2. For payment nos 3, 9 and 10 (salary payments), the budget commitment was signed on 07/01/14, i.e. after the services were provided in the first days of the year by staff. <p><i>C'est le bureau central qui met le budget à disposition des écoles dans le système. Nous avons reçu un message du bureau le 04 janvier 2014 en fin de journée pour nous avertir</i></p>	

que le budget avait été injecté dans le système et qu'il fallait vérifier que les montants étaient corrects. Notre école était fermée à cette date et le service comptabilité en congé. Nous avons effectué les propositions d'engagement provisionnel sur le budget à notre retour de congé. Les écoles n'ont pas la possibilité de faire les engagements avant car le budget n'est pas disponible dans le système. C'est plutôt un point d'audit pour le bureau central et pas pour les écoles.

3. For payment no 5 (insurance services), the budget commitment was signed on 15/01/14, i.e. after the insurance services were provided in the first days of the year 2014.

La facture est arrivée dans le courrier de l'école le 06 janvier 2014. Le comptable a encodé et soumis la proposition d'engagement spécifique le 09 janvier 2014, mais l'ordonnateur l'a signée le 15 janvier. L'engagement n'aurait pas pu être effectué pour le 01 janvier car le budget n'était pas disponible dans le système.

Nous nous permettons de rappeler que nous sommes en sous-effectif et que nous demandons la création d'un poste de comptable depuis plusieurs années, lequel nous est systématiquement refusé. De plus, le poste de l'administrateur était vacant et l'école faisait de son mieux avec les moyens à sa disposition pour absorber ce poste manquant également. La personne en charge des assurances a quitté l'école après une absence très longue pour cause de maladie et la personne recrutée pour son remplacement venait de prendre ses fonctions en décembre 2013. Il était très difficile dans ces circonstances exceptionnelles de s'occuper de la formation de cette nouvelle personne étant donné qu'il n'y a pu avoir ni passation d'information ni formation.

4. For payment no 15 (medical services), the budget commitments were signed in July 2014 while the services were provided in the period January – June 2014.

Nous avons effectué la proposition d'engagement lors de la réception de la facture du médecin. Cette facture nous parvient au terme des visites médicales. Nous n'avons aucune information de la part des infirmeries sur le planning et le rythme des visites médicales.

5. For payment no 19 (IT equipment), the budget commitments were signed (12/12/13 and 22/05/14 respectively) after the purchase orders (29/11/13 and 14/05/14 respectively).

Nous pensons qu'il y a confusion sur les documents qui composent ce dossier. La proposition d'engagement spécifique a été signée le 12/12/2013 et le contrat d'achat signé en date du 18/12/13. Le règlement a été respecté. Le contrat d'achat signé par l'ordonnateur est l'unique document officiel externe qui engage l'école vis-à-vis du fournisseur. Ce dernier est envoyé au fournisseur par la personne responsable de la finalisation des commandes. Dans notre école, il y a une personne qui est en charge d'envoyer tous les contrats d'achat à nos fournisseurs.

Ce fournisseur IT nous fait parvenir son offre de prix sur un document qui peut porter à confusion, car il contient la mention « order form ». L'école l'utilise en fait comme devis mais comme toujours dans notre école c'est bien le contrat d'achat signé en date du 18/12/13 qui est le seul document envoyé au fournisseur et c'est donc le seul qui engage l'école.

C'est la même explication pour le deuxième cas, car l'engagement spécifique a été signé le 22/05/14 et le contrat d'achat signé en date du 02/06/14. Le règlement a là aussi été respecté.

6. Payment no 19 concerns a payment for IT hardware material. The relevant contract was signed in 2009 with several options for extension. In 2014 the contract was valid only for the following: services/supplies "leasing and rental of servers and associated equipment" and "maintenance upgrades and associated services". The purchase orders supporting Payment no 19 concerned hardware which was not covered by this contract.

La référence du contrat cadre indiquée sur la proposition de commande est pour la commande en question une indication erronée qui a échappé à notre informaticien et qui dès lors a été retranscrite par maladresse au niveau de la proposition d'engagement.

De ce fait, la recommandation est tout-à-fait correcte et dans le cas présent nous confirmons qu'il ne s'agit nullement d'un rattachement à un contrat cadre existant. Il ne s'agit pas non plus d'une procédure négociée avec 5 candidats, mais bien d'une procédure négociée avec un seul candidat pour laquelle l'école se réfère aux articles 70 d) et e) du MODEX du Règlement Financier. Pour rappel, en 2011 notre service informatique a acquis auprès de la firme SYSTEMAT une majeure partie de nos systèmes informatiques pédagogiques. Le contrat original préconisait le doublement des infrastructures mais, faute de budget, cela avait dû être abandonné. Cependant les besoins supplémentaires auxquels notre département ICT a dû faire face du fait de l'augmentation importante de sa population scolaire nous ont obligé à compléter notre système. Nous avons donc fait l'acquisition d'un second châssis qui se devait d'être strictement compatible avec l'existant afin de garantir une redondance parfaite. Pour cette raison, nous devons donc solliciter la même firme pour avoir le même matériel et les mêmes garanties. Par contre, l'appel d'offres pour le stockage des données étant indépendant, nous l'avons mis en concurrence des fournisseurs.

7. a) Payment no 2 (54.070,67 €) concerned cleaning services provided in the period October – November 2013. However, a fraction of this payment (3.210,97 €) was made using appropriations of the 2014 budget.

Les montants qui sont enregistrés en crédits reportés sont des estimations faites sur base des éléments connus vers mi-décembre. Ce montant ne saurait pas être juste puisque c'est une provision. Les 3.210,97 € correspondent à des prestations supplémentaires qui ont été demandées par le service technique à la société de nettoyage mais dont les informations n'ont pas été communiquées au service comptabilité. Malgré les nombreux rappels faits aux équipes, nous ne pouvons pas provisionner un montant que nous ignorons au moment de la clôture. Nous l'avons découvert lors de la réception de la facture en 2014. C'est toutefois un cas assez rare.

- b) Payment no 7 (35.547,67 €) concerned heating and maintenance services provided in 2013. However, a fraction of this payment (487,40 €) was made using appropriations of the 2014 budget.

Les montants qui sont enregistrés en crédits reportés sont des estimations faites sur base des éléments connus vers mi-décembre. Ce montant ne peut donc pas être juste.

Le montant de provision a été estimé sur base des dernières factures reçues et tenant compte du facteur « températures basses » du mois de décembre.

8. For payment no 5, the supplier's invoice was received on 06/01/2014. Although the relevant contract provides that the invoices have to be paid on receipt of the invoice, the School made the payment in the beginning of March 2014. This delay can lead to the risk of paying late interest or to the discontinuance by the supplier of his contractual obligations.

C'est le bureau central qui a négocié le contrat avec cette compagnie d'assurances pour les écoles. La mention concernant le paiement immédiat de la facture ne devrait pas être reprise sur le contrat, car au vu des différentes étapes d'approbation d'une facture dans le système des écoles, un paiement immédiat est impossible à respecter, même demain avec SAP.

Nous n'avons jamais reçu de rappel de la part du fournisseur, ni d'intérêt de retard. Le fournisseur nous a toujours assuré que la couverture était complète et pas interrompue à cause du paiement avec un délai. Les écoles travaillent avec cette compagnie d'assurances depuis de nombreuses années et cette dernière nous apporte toute sa confiance.

Nous nous permettons à nouveau de rappeler que nous sommes en sous-effectif et que nous demandons la création d'un poste de comptable depuis plusieurs années, lequel nous est toujours refusé. Le poste de l'administrateur était vacant et l'école faisait de son mieux avec les moyens à sa disposition pour absorber ce poste manquant également.

De plus, nous tenons à rappeler que la personne en charge des assurances a quitté l'école après une absence très longue pour cause de maladie et la personne recrutée à mi-temps pour son remplacement venait de prendre ses fonctions en décembre 2013.

9. a) For payment no 2, the indexation of the invoiced prices was verified with a coherence test by the technical services before validating this payment. However, there was no verification of the accuracy of the indexation applied by the supplier in its invoices. The auditors found that the supplier did not index the invoice prices (2013 to 2014).

Il est exact que pour cette révision des prix, seul un test de cohérence a été réalisé. A l'avenir nous vérifierons de manière exacte le montant révisé.

10.

- b) For payment no 7, there is no complete evidence to support the accuracy of the invoice paid. The controls carried out for the validation of the payment did not identify an error in the indexation of the invoiced prices. This error was communicated later by the supplier in order to correct the invoice.

Ce contrat (Entretien des installations de chauffage) est un contrat quadripartite (Administration des bâtiments Publics, Ecole Européenne, Commission Européenne et Cofely). La Commission Européenne est mandatée par l'Ecole Européenne pour la gestion de ce contrat. C'est donc la Commission Européenne qui vérifie que les facteurs utilisés dans la formule de calcul de révision des prix sont corrects. En cas d'erreur, l'Ecole Européenne en est avisée par la Commission Européenne.

Recommendations:

1. The Authorising officer should sign a legal commitment only after having signed the corresponding budgetary commitment.

2. The School should ensure that procurement procedures are launched in time, before the expiration of existing contracts.
3. The School should respect the principle of annuality for the implementation of the budget.
4. The School should make payments in time so that the principle of sound financial management is not at risk.
5. The authorising officer empowered to validate expenditure shall personally check the supporting documents or shall, made on his/her own responsibility, ascertain that this has been done.

PRELIMINARY FINDING n° 3

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School Luxembourg II 6, rue Gaston Thorn L - 8268 Bertrange, Luxembourg
MISSION DATES:	15/12/2014 - 16/12/2014
MANAGER:	Mr. Emmanuel de TOURNEMIRE, Director
SYSTEM:	Legality and regularity of procurement procedures

Description:

Non-compliance with the provisions of the Financial Regulation of 24 October 2006 applicable to the budget of the European Schools (version 2011-07-D-18-en-1)(FR) and Rules for Implementing the Financial Regulation (version 2011-07-D-18-en-1)(IR).

Standard:

Articles 33, 52-70 of the FR and Articles 61-99 of the IR.

Facts and Analysis:

Three procurement procedures concluded in 2014 and organised by the School have been selected for a detailed examination:

	Reference number	Object	Contractor	Type	Contract value
1	EELux2-2013-012	Entretien chauffage etc. PRI-SEC-ADM	Lagrange	Negotiated	31.573,99 € * 4 years
2	EELux2-2013-010	Entretien chauffage etc. MAT-SPO	Köhl Facility SA	Negotiated	41.922 € * 4 years
3	EELux2-2014-002	Entretien ascenseurs	Schindler	Open	7.092 € * 4 years

The following issues were noted:

1) Type of procurement procedure:

Cases no 1 and no 2 were launched on the basis of Article 70.b of the FR which requires among others that the contract value is below the thresholds of Article 69. In both cases, the value is above the thresholds provided in Article 69 for application of the procedures under Directive 2004/18/EC.

Moreover in case no 2, the procedure (based on Article 70.b of the FR) led to the signature of a single contract for 167.688 €. For the implementation of this contract, three different maintenance contracts were signed for an amount respectively of 44.800 € (11.200 € x 4 years),

66.800 € (16.700 € x 4 years) and 56.088 € (14.022 € x 4 years) i.e. a total amount of 167.688 €. Neither was the initial contract a framework contract (which would require the conclusion of implementing contracts/purchase orders) nor was the procedure split in lots that would also have required different contracts for each lot.

Ces contrats ont été signés dans le contexte particulier de l'ouverture de l'école. A ce moment-là, nous ne disposions pas des informations techniques nous permettant de réaliser un appel d'offres en bonne et due forme pour l'entretien de nos installations techniques. L'entretien des installations devant impérativement être fait, nous avons été obligés de poursuivre l'entretien avec ces entreprises. Nous avons donc profité des prix négociés par l'Etat Luxembourgeois lors de l'appel d'offres pour la construction de l'école.

Concernant le cas n°2, nous avons réalisé 4 contrats car ce prestataire avait remis 4 offres pour les 4 bâtiments où il était intervenu. Ces 4 contrats n'en font qu'un seul, c'est pourquoi le numéro de contrat est identique sur chaque document.

2) Appointment of the Opening and Evaluation Committee:

In case no 3, there was no formal appointment of the members of the committees.

En raison de la vacance du poste d'administrateur du 01/09/2013 au 14/09/2014, c'est le technicien supérieur qui a pris l'initiative de convoquer les membres du comité d'ouverture et d'évaluation des offres, le Directeur n'étant pas habilité à intervenir dans les appels d'offres. Un nouvel administrateur a pris ses fonctions au 15/09/2014, il est désormais en mesure d'intervenir dans ces dossiers.

3) Award decision:

In cases nos 1 and, 2 no formal award decision was drawn up by the Authorising Officer, as provided in Article 64 FR.

Ces cas ont été très particuliers car, comme expliqué ci-avant, il n'y a pas eu d'appel d'offres de notre part. L'attribution a été réalisée d'office. Nous avons donc omis d'effectuer une attribution formelle du marché. Si jamais ce cas se présentait à nouveau, nous ne manquerions pas d'effectuer cette attribution formelle du marché.

4) Weaknesses in the budgetary commitments:

In cases nos 1 and 2, the budgetary commitment was made after the contract signature and thus breached Article 33(1) FR.

Ces contrats prenant effet au premier janvier, il n'était pas possible, selon notre système comptable imposé par le bureau central, d'effectuer un engagement avant cette date.

Recommendations:

1) Type of procurement procedure:

Before launching a procedure, a strict analysis of the type of contract and of the requirements to be fulfilled must be carried out.

2) Appointment of the Opening and Evaluation Committees:

The Authorising Officer should formally appoint all members of the Opening and Evaluation Committees.

3) Award decision:

On the basis of the recommendation made by the Evaluation Committee, the Authorising officer should formally issue an award decision.

4) Weaknesses in the budgetary commitments:

The Authorising officer should make budgetary commitments before taking any measure which may give rise to expenditure.

Auditee's reply:



EUROPEAN
COURT
OF AUDITORS

Baudilio Tomé Muguruza

Member

Mr Emmanuel DE TOURNEMIRE
Director of the European School
Luxembourg II
6 rue Gaston Thorn
L - 8268 BERTRANGE

Luxembourg, 29 MAI 2015

Subject: Audit of the European School of Luxembourg II for the financial year 2014

Ref.: For all correspondence on this subject, please use the reference: **PF 7249**

Dear Mr De Tournemire,

Please find attached a document summarising the main findings resulting from work carried out so far with respect to the above-mentioned subject.

I would be grateful if you would keep the audit findings confidential as they are of a preparatory nature at this stage of the proceedings, and other checks may still prove necessary.

Since these findings will, in principle, form a basis of the observations, which the European Court of Auditors intends to present in its Report on the audit of the European Schools, I would be grateful if you would inform me, within two weeks, of your reactions to the factual information and the related remarks.

Yours sincerely,

p.o.

Baudilio Tomé Muguruza

PRELIMINARY FINDING n° 1

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School Luxembourg II 6, rue Gaston Thorn L - 8268 Bertrange, Luxembourg
MISSION DATES:	05/05/05 – 06/05/2015
MANAGER:	Mr. Emmanuel de TOURNEMIRE, Director
SYSTEM:	Reliability of accounts
Description: General.	
Standard: <u>Financial Regulation</u> ¹ : Article 19: 1. The Head of each School shall implement the budget as authorising officer, in accordance with this Financial Regulation and within the limits of the appropriations allotted. He shall report to the Administrative Board in the form of an annual activity report, to be attached as an annex to the consolidated revenue and expenditure account drawn up in accordance with the provisions of Article 86. Article 24: The accounting officers shall be responsible for preparing the financial statements provided for in Articles 75, 76, 77 and 78 of this Regulation. In each School, the accounting officer may be assisted in his duties by one or more assistant accounting officers, appointed by the Administrative Boards or by the Secretary-General in so far as the Office of the Secretary-General is concerned. <u>ICS No. 7 – Risk Analysis and Management (Ref.: 2007-D-29-en-2)</u> : Each Director shall analyse risks in relation to the main activities of the School, and shall take appropriate action to address them.	
Facts and Analysis: 1) In his declaration of assurance, the Authorising Officer raised the following reservation: some accounting entries were modified without an audit trail in the accounting information system and thus created some differences between the accounting and the budget figures (“...certaines écritures comptables ont été corrompues dans notre système informatique (GAM’S), mettant en avant des différences entre la comptabilité générale et la comptabilité budgétaire”). In 2013 the same facts occurred but no reservation was raised by the AO. The Bursar made the same reservation in his 2014 declaration of assurance. 2) The School does not have a formalised risk management procedure.	
Recommendations: 1) The School should carry out an in-depth review of all the accounts in order to detect possible areas for further examination. 2) The School should implement the above ICS.	
Auditee's reply: 1. Concernant les réserves émises par le directeur dans le rapport annuel d’activités 2014, il	

¹ 2011-07-D-17-en-1

convient de noter qu'une mention avait également été incluse dans l'introduction du rapport annuel d'activité 2013 : « Le présent rapport annuel d'activités n'est disponible qu'à compter du 9 mai 2014. Il aurait dû être présenté aux membres du conseil d'administration pour approbation avant le 1^{er} avril 2014. Nous regrettons ce retard et aimerions donner quelques éléments d'explication :

- Abandon du logiciel de facturation à compter du 01/09/2013 sur décision du Bureau du Secrétaire Général des Ecoles Européennes. Le nouveau logiciel mis à disposition au 01/09/2013 ne permet pas d'effectuer de lettrage. Les factures proposées par ce logiciel ne répondent pas aux standards utilisés précédemment par l'école et couverts par le logiciel précédent. Les factures d'acompte ayant été établies dans l'ancien logiciel, l'école s'est trouvée obligée de procéder à une facturation manuelle de l'ensemble de nos frais (2500 factures manuelles éditées). Ces opérations manuelles associées à l'absence de lettrage ont rendu impossible une réconciliation satisfaisante (entre factures et paiement) comme un suivi professionnel des impayés. Cela a eu trois conséquences majeures :
 - Surcroît considérable du travail manuel à accomplir,
 - Retard dans le traitement des opérations,
 - Augmentation considérable des risques d'erreurs.
- Incidents de doubles écritures comptables générées par le nouveau logiciel mis en place en septembre 2013 : le phénomène a été relevé par Monsieur Villatoro dans son rapport annuel présenté au comité budgétaire, il nous a fallu un temps très important pour retrouver toutes les erreurs qui ont eu lieu et pour régulariser les doubles écritures introduites dans la comptabilité.
- Diverses opérations comptables ont été enregistrées dans le système comptable mais n'apparaissent pas correctement dans les rapports de préparation des opérations de clôture : il a fallu consacrer un temps très important à la recherche de ces problèmes afin d'obtenir une balance équilibrée des comptes généraux. Tant que les comptes généraux ne sont pas équilibrés, il n'est pas possible de débiter le travail de clôture proprement dit.
- Le poste d'administrateur-économiste de notre école est vacant depuis le 1^{er} septembre 2013 et n'est toujours pas pourvu à ce jour, la procédure de sélection est en cours. »

Pour les utilisateurs finaux, les opérations visées et signées sont enregistrées automatiquement en comptabilité et il n'est pas possible de vérifier ni le bon enregistrement de chaque transaction ni le fait que ce bon enregistrement reste tel quel dans le système.

La source de ce problème tient à la politique de sécurité du système d'information du BSGEE car les écoles n'ont pas le pouvoir de manipuler les données comptables.

Faire des vérifications approfondies ne nous paraît pas être une bonne solution. En effet, même si à un instant « t » la situation est correcte, rien ne dit qu'à un instant « t+1 » elle le soit toujours. L'école ne peut pas être mise en cause pour ces problèmes qu'elle a elle-même identifiée et signalée au bureau central. Avec le nouveau système SAP, c'est un problème qui ne devrait plus se reproduire.

2. L'École n'a pas mené à ce jour d'analyse complète des risques mais plusieurs éléments d'analyse de risques ont été effectués à ce jour :
 - a. Système de contrôle interne présenté en annexe IV du Rapport Annuel d'Activités 2014 (voir pages XIII à XVI de l'annexe 1).
 - b. Critères de contrôle interne présentés en annexe 4 du Plan Scolaire Annuel 2015/2016 (voir pages 16 et 17 de l'annexe 2).

PRELIMINARY FINDING n° 2

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School Luxembourg II 6, rue Gaston Thorn L - 8268 Bertrange, Luxembourg
MISSION DATES:	05/05/05 – 06/05/2015
MANAGER:	Mr. Emmanuel de TOURNEMIRE, Director
SYSTEM:	Reliability of accounts
Description: Fixed assets – Inventory.	
Standard: <u>Financial Regulation</u> : Article 71: “Permanent inventories showing the quantity and value of all movable and immovable property belonging to the School shall be kept. Only movable property exceeding a specific value laid down in the implementing rules provided for in Article 104 shall be entered in those inventories. The School shall carry out its own inspection to ascertain that entries in the inventory correspond to the physical facts, enabling there to be centralized control every three years, a copy being forwarded to the Office of the Secretary-General.” <u>Administrative and Financial Procedures for the Inventory (Memorandum 2006-M-12/MR)</u> : C.9 At least, every three years, a physical check of assets must be carried out to verify that the inventory corresponds with the real situation (...) The result of the check should be recorded in writing, signed by the person(s) who carried it out and counter – signed by the bursar and Director of the school. This written record must be filed and be kept available for subsequent internal and external audit. A copy should be sent to the financial controller.	
Facts and Analysis: 1. The latest physical inventory was made in 2012 before the relocation of the School to Bertrange. Documentary evidence of the results of this inventory was not provided. The Excel list created at that time is updated on a regular basis with the value of all purchases (including low value items) and constitutes the technical inventory of the schools. In his declaration of assurance, the Bursar stated that, as he joined the European Schools in September 2014, he was not in a position to certify the assets and the inventory of the School. 2. Evidence of the latest physical inventory for the extra-budgetary stocks and supplies was not provided. 3. Annex “E” of the Annual Accounts (Fr: Clôture des comptes) does not show the balances of “total acquisition value” and “cumulated depreciation” of the assets on 01/01/2014. Only the net book value at 01/01/2014 is included.	

Recommendations:

1. The School should perform a physical check of its assets as pointed out in the “Administrative and Financial Procedures for the inventory” (Memorandum 2006-M-12/MR). The results of this inventory should subsequently be crosschecked with the accounting records and corrections be made if necessary.
2. Physical inventory of all assets, stock and supplies should be kept in written records, duly signed and verified.
3. The fixed asset table in the accounts should give a complete view of the value of the fixed assets.

Auditee's reply:

1 - L'inventaire de 2012 a été fait très précisément. En effet, nous avons collé sur chaque bien des étiquettes avec des numéros d'inventaire. Ensuite, à l'aide d'un système informatique, nous avons scanné tous les biens de manière précise et méticuleuse.

A cette occasion nous en avons profité pour acter :

- toutes les mises au rebus avant que l'école ne soit déménagée
- les mouvements de biens entre l'ancienne et la nouvelle école
- l'inscription à l'inventaire des biens offerts par le gouvernement luxembourgeois

Effectivement, l'école n'est pas en mesure de communiquer des relevés de comptages papiers, signés et contresignés. Et nous n'avons pas envoyés ces documents au bureau. Pour autant, tout a été fait très sérieusement.

En fonction des ressources humaines que nous aurons à dispositions, nous espérons refaire un inventaire en 2016.

2 – Les enseignants nous communiquent de manière informelle ces éléments. Nous prenons bonne note de cette remarque et la mettrons en application

3 – Nous n'avons pas autorisation pour changer les documents demandés et créés par le BSGEE. Par contre, nous avons mis en place un tableau interne à l'école détaillant les données mentionnées (voir annexe 3).

PRELIMINARY FINDING n° 3

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School Luxembourg II 6, rue Gaston Thorn L - 8268 Bertrange, Luxembourg
MISSION DATES:	05/05/05 – 06/05/2015
MANAGER:	Mr. Emmanuel de TOURNEMIRE, Director
SYSTEM:	Reliability of accounts
Description: Expenses – Liabilities.	
Standard: <u>Financial Regulation</u> : Article 7: The following rules shall govern the utilisation of appropriations: 1. Appropriations relating to remunerations and allowances of staff may not be carried over to the next financial year. <u>Memorandum 2010-M-12/RC</u> : “Information to be shown in the Accounts (Clôture) for the Financial Year 2009”: Doubtful debtors, Carry-overs. <u>Generally accepted accounting principle</u> : The accrual based accounting principle means that transactions and events shall be entered in the accounts when they occur and not when amounts are actually paid or recovered. They shall be booked to the financial years to which they relate. <u>Court’s 2013 Annual Report</u> : Par 17: The 2013 accounts of the schools <u>continue</u> to be prepared on a modified cash basis and are not fully compliant with the accrual based accounting principle.	
Facts and Analysis: 1. Contrary to Article 7 FR, budget commitments carried over to 2015 include 793.620,52 euro which are staff remunerations. The decision to be carried over to 2015 was approved by the Administrative Board of the School. 2. Carry-overs to 2015 amount to 1.296.379,07 euro. The School does not make the distinction between present and non-present obligations (present obligations are those for which the good/services were received). 3. The school is engaged in a legal dispute with the families of some pupils. The first court decision was not in favour of the School and the second court decision is still pending. For this case (the amount disputed is 89.316,35 euro), the School has not assessed whether a provision should be booked in the 2014 accounts. 4. Liabilities include debit amounts of 10.666,20 euro which should have been presented in the assets. 5. The School has asked 5 randomly selected debtors/creditors to confirm their balances directly to the Court of Auditors. No confirmation was received from three of them.	

6. Four accounts (G4009001, G4001051, G4001201, G400140021) for a total value of 1.115.133.03 euro are presented as if they were kept in a foreign currency (LUF) although they are kept in euro.
7. Four accounts (G40091003, G40091013, G40091028, G40091029) for a total value of 215.667,99 euro are not reevaluated at year end with the applicable exchange rate although they are kept in foreign currencies.
8. The balance of suppliers ("balance fournisseurs" for a total amount of 359.527,77 euro) did not reconcile with the corresponding figures in the Balance Sheet.
9. Invoices are paid to the bank account mentioned on the supplier's invoices. However, bank identification forms of the suppliers, verified by a bank, are not kept by the School.

Recommendations:

1. The School should respect the FR and the Memorandum for the carry-over of budgetary commitments.
2. The School should ensure that accrual based accounting is fully applied.
3. The School should carry out an in-depth review of all the accounts of suppliers/clients in order to verify the accuracy of all the balances presented.
4. An official list of suppliers with bank approved identification forms should be kept and used for the execution of payments.

Auditee's reply:

1. L'école met tout en œuvre pour respecter le règlement financier et cet accord de crédits reportés a été une mesure tout à fait exceptionnelle relative à une absence maladie et à l'impossibilité de reprendre le travail de cette personne absente. Cela est dû au sous-effectif du service comptabilité et à l'énorme retard dans le travail de chaque membre de l'équipe suite aux perturbations occasionnées par le projet SAP.
2. Cette information avait été demandée par le contrôleur financier Mr Davis en 2009 et il avait précisé que c'était uniquement une demande pour 2009 et qu'il ne savait pas si cette demande allait être généralisée pour les années après 2009. Nous n'avons pas reçu d'instruction pour les clôtures de 2010 à 2013 et avons poursuivi la pratique. Pour 2014, nous n'avons pas été en mesure de préciser cette information manuelle du fait du sous-effectif des équipes comptables et la mise en production du système SAP qui a connu des gros problèmes depuis janvier 2015 et qui a monopolisé toute l'équipe plus qu'à temps plein (nombreuses heures supplémentaires prestées).
3. Ce montant existait déjà avant 2012. Il n'y a pas de comptes de provision dans le plan comptable diffusé par le bureau central. Nous n'avons reçu aucune instruction de la part du bureau central. D'autre part, il ne faut pas oublier que nous sommes dans le cadre d'une comptabilité de caisse et pas une comptabilité d'exercice.
4. Nous avons reçu des instructions pour ne pas modifier les modèles mis à disposition par le BSGEE.
5. Nous avons insisté auprès des fournisseurs pour obtenir les réponses mais n'avons pas le pouvoir d'agir plus. Certains fournisseurs sont des ASBL pour les voyages scolaires ou des détachés qui ont quitté l'école.
6. Le libellé « texte » de ces comptes n'a pas été changé depuis l'introduction de l'euro. Etant

donné que le bilan sort du système automatiquement, nous n'avons pas voulu opérer de manipulations sur le document de clôture.

7. Jusqu'au 31/12/2014, nous étions en comptabilité de caisse et effectuions la réévaluation à chaque étape : PE, OPR et lors du paiement mais pas en fin d'exercice comptable.
8. Cette différence résulte d'une manipulation informatique au niveau du bureau central. L'école n'a pas les autorisations pour modifier les enregistrements comptables. Cette différence a été expliquée en détail lors de l'audit. L'école avait bien enregistré les opérations en comptabilité pour refléter la réalité des balances fournisseurs mais le système au niveau informatique a fait disparaître une partie de l'opération, ce qui l'a déséquilibrée informatiquement. L'utilisateur final n'a pas les autorisations pour changer des montants dans le système de manière manuelle. Le BSGEE a été prévenu et le livre des exceptions de l'école a été complété.
9. L'école met en place les paiements en prenant les indications bancaires qui sont mentionnées sur les factures de ces derniers. Cela nous semblait moins risqué et mieux actualisé car il n'est pas rare qu'un fournisseur change de banque ou de compte.

PRELIMINARY FINDING n° 4

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School Luxembourg II 6, rue Gaston Thorn L - 8268 Bertrange, Luxembourg
MISSION DATES:	05/05/05 – 06/05/2015
MANAGER:	Mr. Emmanuel de TOURNEMIRE, Director
SYSTEM:	Reliability of accounts
Description: Incomes – Claims.	
Standard: <u>Generally accepted accounting principle:</u> The accrual based accounting principle means that transactions and events shall be entered in the accounts when they occur and not when amounts are actually paid or recovered. They shall be booked to the financial years to which they relate. <u>Court's 2013 Annual Report:</u> Par 17: The 2013 accounts of the schools <u>continue</u> to be prepared on a modified cash basis and are not fully compliant with the accrual based accounting principle.	
Facts and Analysis: 1. The School does not apply accruals accounting for the school fees which may be received in year X and cover the school year X to X+1. Revenue accounts contain revenues for fees (i.e.: annual insurance fees, agenda fees, minerval fees, etc.) that cover both 2014 and 2015. 2. The account for claims includes two small amounts (total value of 543,11 euro) that are old claims and are not recoverable.	
Recommendations: 1. The School should ensure that accruals based accounting is fully applied. 2. Claims which are not recoverable should be written off. The School should carry out an in-depth review of all the accounts of suppliers/clients in order to verify the accuracy of all the balances presented.	
Auditee's reply: 1. L'école est régie par le règlement financier et ses modalités d'application qui sont imposés par le conseil supérieur. Elle ne peut pas décider d'appliquer la comptabilité d'exercice. Ce point est à adresser au niveau du bureau central et non pas au niveau de l'école. 2. Nous devons les présenter au Conseil d'Administration pour les enregistrer en pertes mais faute d'effectifs suffisants, nous ne le ferons qu'au prochain CA d'octobre. Pour information, ce retard est exceptionnel car d'habitude les informations sont passées beaucoup plus vite au niveau des CA (voir annexe 4 : communication effectuée au Conseil d'Administration du 17 octobre 2013).	



EUROPEAN
COURT
OF AUDITORS

Baudilio Tomé Muguruza
Member

Mr Brian GOGGINS
Director of the European School
of Mol
Europawijk 100
B - 2400 MOL

Luxembourg, 21 MAI 2015

AEI061400EN01-15PP-PF-7222-EEU_Mol-OR.doc

Subject: Audit of the European School of Mol for the financial year 2014

Ref.: For all correspondence on this subject, please use the reference: **PF 7222**

Dear Mr Goggins,

Please find attached a document summarising the main findings resulting from work carried out so far with respect to the above-mentioned subject.

I would be grateful if you would keep the audit findings confidential as they are of a preparatory nature at this stage of the proceedings, and other checks may still prove necessary.

Since these findings will, in principle, form a basis of the observations, which the European Court of Auditors intends to present in its Report on the audit of the European Schools, I would be grateful if you would inform me, within two weeks, of your reactions to the factual information and the related remarks.

Yours sincerely,

Baudilio Tomé Muguruza

PRELIMINARY FINDING n° 1

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School MOL Europawijk 100 B - 2400 MOL
MISSION DATES:	20/04/2015 - 24/04/2015
MANAGER:	Brian Goggins, Director
SYSTEM:	Recruitment procedures – Personal files
Description: Incompliances with Staff Regulations.	
Standard: <u>Article 13 of the Service Regulations for the Administrative and Ancillary Staff (AAS) of the European Schools (document 2007-D-153-en-6) (RAAS)</u> “3. The competence, efficiency and conduct of each member of the AAS shall be the subject of a performance evaluation report drawn up every two years by the line manager and countersigned, when appropriate, by management on the basis of the model in Annex 5. A copy, signed by the management, shall be given to the member of the AAS and a second copy will be kept in his/her personal file.”. <u>Annex III – Article 16 of the Regulations for Members of the Seconded Staff of the European Schools (doc 2011-04-D-14-en-4) (RMSS) and Article 13 (RAAS)</u> stipulate that a personal file shall be compiled for each member and shall be confidential. <u>Article 5 of the RAAS:</u> “Recruitment conditions and appointment procedure”. <u>Article 27 of the RMSS:</u> “2. The step at which a member of staff is placed on the scale relating to his post shall be that corresponding to the number of years of relevant professional experience to his credit, as follows -... (table) ... - The number of years of relevant professional experience shall be determined by the Secretary-General in accordance with the arrangements laid down in Annex V to these Regulations”. <u>Article 26 of the RMSS:</u> “Prior to secondment, a candidate nominated by the competent public authority shall be required to produce a medical certificate of fitness, issued no more than three months previously by the national health service to which he belongs....”. <u>Article 10 of the RMSS:</u> “1.... In addition, they shall have a thorough knowledge of a second Community language....”. <u>Conditions of employment for part-time [locally recruited] teachers recruited after 31 August 2011 (Ref.: 2011-04-D-13-en-2):</u> “...The national Inspector will be consulted about the choice of teacher. Consultation of the Inspector may take place by means of the written procedure on the basis of checking of the part-time teacher’s qualifications...”.	

Facts and Analysis:

The following recruitments and the staff files have been audited :

- a) three seconded staff members ((1. "BAP"), (2. "BC") and (3. "VV")),
- b) three part time teachers ((4. "HD"), (5. "LAO") and (6. "BC")),
- c) two AAS staff members ((7. "MY") and (8. "JJ").

In addition, three personal files ((9. "BR"- SEC), (10. "MY" - AAS) and (11. "BC" - CDC)) were reviewed.

The following issues were noted:

1. In case no 10, neither a job description nor a performance evaluation was found on the file. The auditors were informed that no evaluation had ever been performed for AAS staff.
2. In cases nos 7 and 8, part of the evidence for the evaluation of the applicants during the recruitment procedure was missing. Moreover there was no evidence of the appointment of the selection committee.
3. In all cases the documents in the personal file were not stamped as confidential.
4. In case no 1, there is no evidence of controls on the calculation of the duration of the candidates' past professional experience.
5. In case no 1, evidence of knowledge of a second language and of the existence of the medical certificate was not found in the file. In case no 9, evidence of knowledge of second language was not found in the file.
6. In cases nos 4, 5 and 6, evidence of consultation with the national inspector was not found in the file.

Recommendations:

The School should :

1. carry out the biannual evaluation of the AAS staff,
2. document all the phases of the AAS recruitments procedure as required by article 5 of RAAS,
3. improve the management of personal files,
4. improve the controls concerning the verification of past experience for seconded teachers and
5. consult the national inspector before recruiting part time teachers.

Auditee's reply:

PRELIMINARY FINDING n° 2

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School MOL Europawijk 100 B - 2400 MOL
MISSION DATES:	20/04/2015 - 24/04/2015
MANAGER:	Brian Goggins, Director
SYSTEM:	Procurement Procedures

Description:

Non-compliance with the provisions of the Financial Regulation of 24 October 2006 applicable to the budget of the European Schools (version 2011-07-D-18-en-1) (FR) and Rules for Implementing the Financial Regulation (version 2011-07-D-18-en-1) (IR).

Standard:

Articles 52-70 of the FR and Articles 61-99 of the IR.

Facts and Analysis:

The audit examined the only procurement procedure concluded in 2014 and organised by the School:

	Reference number	Object	Contractor	Type	Contract value
1	MOL/2014/OP/0001	Canteen	Compass	Restricted	1.400.000 euro (4 years)

The audit also reviewed the 2014 payments made for expenses other than staff. The following issues were noted:

1. Payments above 600 euro without contract:

Thirty eight (38) payments (each above 600 euro) for a total amount of 77.568,81 euro were made without a contract.

2. Payments based on expired contracts:

Twenty four (24) payments) for a total amount of 19.618,84 euro were based on four expired contracts signed in 1997, 2000, 2008 and 2013. These contracts have not been extended.

3. Lack of tender procedure:

The contract for the legionella prevention services which was signed in 2006 was extended for three more years in 2011. In 2014 the contract was extended for a further period of three years. As the annual estimated contract amount is more than 25.000 euro, a tender procedure should have been organised in accordance with article 71 IR.

4. Other:

In contract no 1, the formal award decision was not signed by the Authorising Officer, as provided for in Article 64 FR. Moreover a clerical mistake was detected in the contract: although the award procedure resulted in a value of 1.400.000 euro, the contract was signed for a value of 1.500.000 euro.

Recommendations:

The School should establish procedures in order to plan, launch, implement and document procurement procedures in full compliance with the FR and its IR and ensure their application.

Auditee's reply:

PRELIMINARY FINDING n° 3

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School MOL Europawijk 100 B - 2400 MOL
MISSION DATES:	20/04/2015 - 24/04/2015
MANAGER:	Brian Goggins, Director
SYSTEM:	Internal Control Standards
Description: Incompliance with Internal Control Standards (ICS).	
Standard: <u>ICS No. 7 – Risk Analysis and Management (Ref.: 2007-D-29-en-2)</u> : Each Director shall analyse risks in relation to the main activities of the School, and shall take appropriate action to address them. <u>ICS No. 18 – Review of Internal Control (Ref.: 2007-D-29-en-2)</u> : Each Director shall conduct a regular review of the School's internal control arrangements.	
Facts and Analysis: The School does not have a formalised risk management procedure. In addition, the School does not carry out a regular and systematic review of compliance with the ICS.	
Recommendations: The School should implement the ICS.	
Auditee's reply:	

PRELIMINARY FINDING n° 4

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School MOL Europawijk 100 B - 2400 MOL
MISSION DATES:	20/04/2015 - 24/04/2015
MANAGER:	Brian Goggins, Director
SYSTEM:	Payments
Description:	
<ul style="list-style-type: none"> - Lack of controls in the validation of the payments, - incompliances in extra-budgetary accounts managements, - ineligible family and children allowances. 	
Standard:	
<p><u>Financial Regulation</u>: Article 37: “Validation of expenditure is the act whereby the authorising officer shall: verify the existence of the creditor's claim, determine or verify the existence and the amount of the sum due, and verify the conditions under which payment falls due”.</p> <p><u>Implementing rules</u>: Article 1 IR: “All extra-budget receipts and expenditure must be recorded in the accounts by means of a recovery order or payment order signed by the authorising officer, and by the financial controller, where applicable under paragraph 3 of Article 20 of the Financial Regulation.”</p> <p><u>Article 55.1 of the RMSS</u>: Subject to the conditions laid down in the general implementing provisions for Officials of the Communities, a member of staff shall receive an education allowance equal to the actual education costs incurred by him up to a maximum amount, laid down in Annex IX, for each dependent child, within the meaning of Article 54(2) of these Regulations, who is at least five years old and in regular full-time attendance at a primary or secondary school which charges fees or at an establishment of higher education. The requirement of attendance at a school which charges fees shall not apply to the reimbursement of the cost of school transport.</p>	
Facts and Analysis:	
<p>A sample of 20 payments was selected for audit.</p> <ol style="list-style-type: none"> 1. Five payment orders (nos 292, 408, 919, 2489 and 2631) for a total amount of 9.240 euro for the payment of a psychologist’s services were made without a contract. Moreover, evidence of checks on the basic elements of the 5 invoices (number of meetings and price per meeting) was not provided. 2. Payment order no 155 (mission expenses) does not show evidence of the corresponding hotel invoice, of the cost of train tickets and of the exchange rate applied. 3. Payment order no 960 (social contributions) was paid to the bank account of the Social Security Company (RSZ) mentioned in the notification letter of the RSZ. Evidence of a bank identification form verified by a bank was not provided. In addition, the bank accounts were missing for some suppliers in the list of the suppliers (“signalétique fournisseurs”dated 10/10/2013). 	

4. Four extra budgetary transactions ("copy cards", "gym t-shirts", "no 492031" and "no 492041") were reviewed.
 - i) These transactions were not recorded in the accounts by means of a recovery order or payment order signed by the authorising officer.
 - ii) The supporting evidence was not complete for revenue of the account "copy cards". In addition, for revenue of 10.000 euro included in the account, the audit noted that this revenue is a transfer from another School bank account and that this transfer was made without formal authorisation and justification.
5. A seconded teacher (ID no 9310 / 5270) was receiving in February 2014 educational and children allowance as his child is a university student. These allowances were paid although the university certificate does not state regular attendance (status "passziv" from 01/02/2014) of the student for the second semester of 2014. These allowances (878,23 euro) represent 8% of the paid monthly salary.

Recommendations:

1. The authorising officer empowered to validate expenditure shall personally check the supporting documents or shall ascertain that this has been done when he delegates this responsibility.
2. The management of the extra budgetary accounts should apply the FR and its IR.
3. The School should increase the controls made on the eligibility of family allowances paid to the staff.

Auditee's reply:

PRELIMINARY FINDING n° 5

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School MOL Europawijk 100 B - 2400 MOL
MISSION DATES:	20/04/2015 - 24/04/2015
MANAGER:	Brian Goggins, Director
SYSTEM:	Reliability of the accounts
Description: Fixed assets – Inventory.	
Standard: <u>Financial Regulation</u> : Article 71: “Permanent inventories showing the quantity and value of all movable and immovable property belonging to the School shall be kept. The School shall carry out its own inspection to ascertain that entries in the inventory correspond to the physical facts, enabling there to be centralized control every three years,” and Article 74: “All acquisitions of movable or immovable property as defined in Art. 71 shall, before payment, be entered in the permanent inventories.” <u>Implementing Rules</u> : Article 104: “General accounts: 1. The general accounts shall enable the state of the assets and liabilities of the School and of the Office to be determined”.	
Facts and Analysis: <ol style="list-style-type: none"> 1. Evidence of the latest physical inventory of the assets was not provided. The completeness and accuracy of the assets could thus not be verified. 2. A breakdown of the assets value could not be provided. Consequently the accuracy of the yearly depreciation could not be checked. The only information about the inventory comes from an excel spread sheet which does not reconcile with the figures in the accounts. 3. The additions of the year amounted to 75.600 euro. Checks were carried out for a significant proportion (63.900 euro, i.e. 84,5%) and errors of recording and computation amounting to 14.400 euro were found. 4. The stocks of materials (e.g. books) managed under the extra budgetary activity are not included in the accounts. 	
Recommendations: The School should : <ol style="list-style-type: none"> 1. proceed to a physical check of all its assets, 2. enhance the accounting controls on the bookkeeping of assets and 3. include all the extra budgetary figures in the account. 	
Auditee's reply:	

PRELIMINARY FINDING n° 6

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School MOL Europawijk 100 B - 2400 MOL
MISSION DATES:	20/04/2015 - 24/04/2015
MANAGER:	Brian Goggins, Director
SYSTEM:	Reliability of the accounts
Description: Expenses – Liabilities.	
Standard: <u>Generally accepted accounting principle</u> : The accrual based accounting principle means that transactions and events shall be entered in the accounts when they occur and not when amounts are actually paid or recovered. They shall be booked to the financial years to which they relate. <u>Court's 2013 Annual Report</u> : Par 17: The 2013 accounts of the schools continue to be prepared on a modified cash basis and are not fully compliant with the accrual based accounting principle. <u>Memorandum 2010-M-12/RC</u> : "Information to be shown in the Accounts (Clôture) for the Financial Year 2009": Carry-overs.	
Facts and Analysis: 1. The review of a random sample of invoices paid in the beginning of the year shows that accruals accounting is not applied: four invoices for a total value of 47.639,88 euro were recorded as a 2014 expense although the services were provided in 2013. 2. The carry-overs to 2015 amount to 319.306,43 euro. The School does not make the distinction between present and non-present obligations (present obligations are those for which the good/services were received). 3. According to the 2014 report of the Financial Controller, there will be a forensic investigation in the School of Mol. This decision results from issues raised in relation with several invoices (total value of about 69 thousand euro) for services allegedly provided since 2010. The payment of these invoices was refused by the Financial Controller. These contingent liabilities are not presented in the closure report. 4. The School has asked 5 randomly selected debtors/creditors to confirm their balances directly to the Court of Auditors. This confirmation was not received for four of them. One balance is due to an erroneous double payment of a creditor and shall be corrected.	
Recommendations: The School should ensure that accruals based accounting is fully applied. The School should carry out an in-depth review of all the accounts in order to detect possible areas for further examination.	
Auditee's reply:	

PRELIMINARY FINDING n° 7

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School MOL Europawijk 100 B - 2400 MOL
MISSION DATES:	20/04/2015 - 24/04/2015
MANAGER:	Brian Goggins, Director
SYSTEM:	Reliability of the accounts
Description: Cash and Banks.	
Standard: <u>Financial Regulation</u> : Article 102: Establishment of the accounting plan. The accounting plan shall be drawn up in two separate parts: budgetary accounts and extra-budgetary accounts, general accounts. <u>Implementing rules</u> : Article 1 IR: All extra-budget receipts and expenditure must be recorded in the accounts by means of a recovery order or payment order signed by the authorising officer, and by the financial controller, where applicable under paragraph 3 of Article 20 of the Financial Regulation. Extra-budgetary accounts shall be created at the request of the authorising officer, after approval by the Administrative Board. These transactions are subject to the provisions of Title XVI. <u>Implementing rules</u> : Budgetary and extra-budgetary accounts: 5. The extra-budgetary accounts shall record revenue and expenditure in accordance with the provisions of Article 1. <u>Implementing rules</u> : Article 104 IR. General accounts: 1. The general accounts shall enable the state of the assets and liabilities of the School and of the Office to be determined.	
Facts and Analysis: 1. Two extra budgetary bank accounts are presented in the annexes of the Closure Report. One discloses a balance of 38.851,92 euro while the second one does not disclose its balance. These two accounts are not included in the Balance Sheet. 2. Petty cash related with the first extra budgetary account bank was found. In 20/04/2015, this cash account amounted to 139,36 euro but there is no assurance whether its year-end balance was included in the 2014 accounts. 3. The extra budgetary bank account (balance of 67.852,35 euro as at 31/12/2014) of the canteen is not included in the 2014 Balance Sheet. 4. The School has asked two banks to confirm its bank accounts directly to the Court of Auditors. This confirmation was not received from one bank.	
Recommendations: All the bank accounts under the name of the Schools should be registered in the balance sheet.	
Auditee's reply:	

PRELIMINARY FINDING n° 8

AUDIT:	European Schools 2014 – task 14AEIEEU
AUDITEE:	European School MOL Europawijk 100 B - 2400 MOL
MISSION DATES:	20/04/2015 - 24/04/2015
MANAGER:	Brian Goggins, Director
SYSTEM:	Reliability of the accounts
Description: Incomes – Claims.	
Standard: <u>Generally accepted accounting principle:</u> The accrual based accounting principle means that transactions and events shall be entered in the accounts when they occur and not when amounts are actually paid or recovered. They shall be booked to the financial years to which they relate. <u>Court's 2013 Annual Report:</u> Par 17: The 2013 accounts of the schools continue to be prepared on a modified cash basis and are not fully compliant with the accrual based accounting principle. <u>Memorandum 2010-M-12/RC: "Information to be shown in the Accounts (Clôture) for the Financial Year 2009":</u> Doubtful debtors	
Facts and Analysis: 1. The School does not apply accruals accounting for the school fees which may be received in year X and cover the school year X to X+1. Revenue accounts contain revenues for fees (i.e.: annual insurance fees, agenda fees, minerval fees, etc.) that cover both 2014 and 2015. The same point can be raised for the Member States' contributions as not all of them send their contributions in time. 2. A provision for doubtful debtors is not included in the balance sheet. Moreover the presentation of the receivables does not distinguish between amounts that are certain to be received and amounts that have become doubtful. 3. Three school fee invoices were checked. In two, some necessary adjustments of the initial calculations were made manually. Although no error was found, the practice of manual adjustments is error prone and presents a potential risk to the accuracy of the invoiced amounts.	
Recommendations: The School should ensure that accruals based accounting is fully applied and avoid error prone practices in the invoicing procedure.	
Auditee's reply:	

Dear all,

Thank you for this draft report of the European School of Mol and for the opportunity to make some responses.

We have met to discuss the report and we do have some comments to make.

In relation to the Recruitment procedures: Preliminary finding 1,

In the recommendations, **point 4**, we would like to point out that the verification of past experience is controlled in the OSGES. The new colleague completes the form and sends it to the OSGES and also to the accountancy of the school. In the school we assign the colleague to the step that following a perfunctory examination of the form appears to be most likely. We then wait for the final controlled result to return from the OSGES and following this we adapt and recoup or pay the necessary difference. This can take some time and in the case that you mention we had not received the reply from the OSGES. I can confirm that we have now received this confirmation and any necessary corrections will be made.

Point 5, in almost all cases the National Inspector is contacted for his/her opinion on the matter. The files in some cases do not hold the evidence of this communication and in some cases the National Inspector does not respond for various reasons. We will ensure that all communications in this area are attached to the file.

In the facts and analysis you mention that in the cases examined there is no evidence of knowledge of a second language. This is not something which has previously been asked for as in the case of seconded colleagues this evaluation is carried out and evaluated by the delegations. It is not something that has previously been sent to the school by the various delegations.

Under the system, Procurement procedures: finding 3,

We would ask for clarification as to the exact meaning of point **number 1**. Does this point apply to only one Vendor with 38 payments or 38 different payments to more than 1 vendor? Also when you say contract do you mean that over €600 there should be three quotes or something different?

Under the System Payments, preliminary finding 4

Point 3: The missing bank accounts you describe derive from the fact that the list supplied comes from the old system in COBEE where the accounts were not necessarily added as it had no follow through function the ISABEL payment.

Under system Reliability of accounts, Preliminary finding 6,

Point 1, Accrual accounting was not part of the system in 2014 and has only been applied within the European Schools since January 2015,

Point 4, while every effort was made on the part of the school to contact and ask debtors/creditor to respond to the Auditors, in some cases they have not. This cannot be something for which the school is responsible.

Under system, Reliability of accounts, Preliminary finding 7,

Point 4, while the responses had not arrived to the Auditors from the banks in a timely fashion both banks have now responded and the Auditors are in possession of the required documentation.

Under system Reliability of Accounts, Preliminary finding 8,

Point 1, Again accrual accounting did not become mandatory until January 2015

Point 3, Unfortunately the Link between SMS and SAP has no worked until this current week.

As a result it was not possible to produce new invoices or update invoices after the original run of invoices. This resulted in the very long and arduous task of having to prepare the updated invoices by hand. This is not a practice that we would want but it was necessitated by technical problem and it will not be how we carry out our work into the future. We think that it is also important that you found no errors in this manual procedure and would like to compliment the colleague who has work so hard and methodically and has completed the task without 1 single error.

Over all we would like to thank the Audit team who were present in the school for the professional and friendly manner in which they completed their tasks. We will endeavour to address all the recommendations within the report in as timely a manner as is possible.