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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

Reform of the administrative structure of the European Schools

1 Introduction

The mission of the European Schools ("ES") is to provide a multilingual and multicultural education at the nursery, primary and secondary level (including the European Baccalaureate diploma) to the children of the European Union ("the Union") institutions' staff members. As such, the ES contribute to the attractiveness of the European civil service.

The ES are an intergovernmental organisation set up by the EU Member States and the Union, which are the contracting parties to the Convention defining the Statute of the European Schools¹. There are 13 ES in six EU Member States² and they have a status of public bodies in the countries where they are located. The highest decision-making organ, the Board of Governors, brings together the Member States, the European Commission - on behalf of the Union – and representatives of parents, staff and other stakeholders³. Each member of the Board, including the Commission, has one seat and one vote. The Presidency of the ES rotates among the EU Member States every school year whereas the overall management of the system is ensured by the Secretary-General (SG) of the ES, representing the Board of Governors.

In line with Article 25 of the said Convention, the European Commission, on behalf of the Union, provides a financial contribution to the budget of the ES. This contribution covers the difference between the total amount of expenditure by the ES and the total of other revenue. This largest income (about 60% in 2017) of the ES budget is used to cater for the salaries of the locally recruited teachers and administrative staff, the top up of the seconded teachers' national salaries and the overheads⁴. Another main source of revenue comes from the Member States (around 18 % in 2017), through the secondment and payment of national emoluments to the ES teachers and other staff members. The remainder of the revenue consists of the contributions paid by other bodies and companies whose staff's children are enrolled in the schools (around 14%, called category II), as well as category III⁵ parents school fees and contribution (around 8%).

In the recent years, the European Schools system ("ESS") has been facing major challenges when it comes to its financial management. The Court of Auditors ("CoA") and the Internal

¹ Official Journal L 212, 17/08/1994 P. 0003 – 0014.

² Alicante, Brussels I (Uccle + Berkendael), Brussels II (Woluwé), Brussels III (Ixelles), Brussels IV (Laeken), Frankfurt am Main, Mol, Bergen, Karlsruhe, Munich, Varese, Luxembourg I & Luxembourg II), in six countries (Belgium, Netherlands, Germany, Italy, Spain and Luxembourg), with a total of approximately 27,000 pupils on roll in 2017.

³ Also the European Patent Office (for ES Munich), European Investment Bank/European Investment Fund (for ES Luxembourg since 2016), EUIPO (for ES Alicante since 2017) and ECB (for ES Frankfurt since 2017); with the right to vote only on matters relating to the ES covered by their agreements.

⁴ Building expenditure for the Office of the ES Secretary-General, cleaning, maintenance, IT and educational support in the Schools.

⁵ The remaining – category I – pupils are children of staff of the EU institutions/bodies, who are exempt from school fees.

Audit Service ("IAS") have both identified some shortcomings in their Annual reports related to the period of 2013 to 2015 reporting years. The CoA considered in its 2013 and 2014 reports that it could not guarantee the ES' consolidated accounts were free of material misstatement. However, in its 2015 and 2016 reports the CoA did not reveal material errors in the final consolidated financial statements.

The IAS highlighted some internal control weaknesses and underlined the risk of misuse of the ES' funds.

The shortcomings in the ES' financial management do not jeopardise the legality and regularity of the payments made by the Commission (Directorate-General for Human Resources and Security, thereafter DG HR) to the ES, since the payments are highly regulated. However, the Commission, as a major contributor to the ES' budget, has been keen to ensure that the required guarantees are given on the sound financial management and on the regularity and legality of the ES' operations.

Accordingly, based on the audit reports and the fraud detected in the accounts of one of the schools in 2012, DG HR issued a reputational reservation on the ES' financial management in its last four Annual Activity Reports (2013 through 2016). Moreover, the Commission voted against the last four discharges related to the 2012, 2013, 2014 and 2015 ES' budget execution (whereas all other members of the Board of Governors voted in favour).

In its report on the 2015 general EU budget discharge⁶, the European Parliament ("EP") pointed out some weaknesses in the financial management of the ES, mirroring the findings of the CoA and of the IAS.

Consequently, the EP called on the Commission to play its full role in all areas of the ES management and asked for a communication to the Parliament and the Council on how the administrative structure of the ES could best be reformed⁷.

The present communication therefore aims to set out the Commission's views on the ES' administrative and financial structure and the ongoing reforms undertaken in these domains.

2 Progress in reforming administrative structure of the European Schools system

It is important to recognise that important achievements have already been realised when it comes to reforming the administrative structure of the ESS.

The major accomplishment is the adoption of a revised Financial Regulation ("FR") of the ES⁸ by the Board of Governors in September 2017. The FR review was initiated by the

⁶ A8-0150/2017.

⁷ Recommendation 2015/PAR/0371.

Commission, which, end of 2014, obtained a mandate from the Board of Governors to start discussions thereon. The new FR introduces a new model of financial governance into the ESS. It consists mainly in a gradual centralisation of the Authorising Officer and the Accounting Officer functions. The Commission also welcomes the fact that the revised FR is further aligned with the Financial Regulation of the Union⁹, in particular, in terms of budgetary principles, internal control systems (including a better reporting and accounting) and procurement rules.

Moreover, as a way to mitigate the weaknesses identified by the auditors, the ES have taken a number of measures to promote sound financial management and to combat fraud, i.e. implementation of accrual based accounting, the reporting of control results and the redesign of the internal control framework (notably a risk assessment and risk register have been put in place and the internal control standards have been revised). An internal control coordination function has been operational since 2014, to advise and guide the schools and the ES Central Office on the effective follow-up of the audit recommendations as well as on the design and implementation of the internal control system. A qualified procurement cell in the ES' Central Office has been created. The segregation of duties principle has been reviewed and improved, and the rules on the mobility of staff with sensitive functions (e.g. seconded bursars) have been adopted, whereas those on the locally recruited bursars are under discussion.

The ES have made significant progress in tackling the structural internal control weakness in the payment system. All ES have now a proper segregation of powers in place when it comes to carrying out payments. As a result, the IAS determined that the fraud risk related to the weakness of the payment system has been sufficiently mitigated and has closed the related recommendation¹⁰. This is confirmed in the 2016 CoA report¹¹.

Furthermore, the ES FR enables OLAF to conduct administrative investigations in the ES, including inspections in the context of the protection of the financial interests of the Union against fraud and other irregularities. In addition, the ES are establishing an Anti-fraud Strategy and OLAF will provide fraud prevention training in the framework of Administrative Agreements.

Moreover, external independent audits on the annual accounts of the ES and the SG Office have been gradually established. Five schools have already been audited and all the remaining ones will be within three years.

⁸ The Board of Governors adopted the new Financial Regulation on 05.09.2017. Ref.: 2017-12-D-21-en-1 <https://www.eursc.eu/BasicTexts/2017-12-D-21-en-1.pdf> .

⁹ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union (OJ L 298, 26.10.2012, p. 1)

¹⁰ IAS Follow-up of Outstanding Recommendations from the IAS audit on "Treasuries and Revenues Management in the European Schools.

¹¹ Report on the annual accounts of the European Schools for the financial year 2016 <https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=42117>

Taking these different elements into account, the Commission considers that it no longer needs to maintain its reputational reservation in its 2017 Annual Activity Report.

Whereas the advisory role of the ES' Central Office towards the Schools is crucial, the Commission has also contributed to reinforce the resources devoted to the support and guidance for internal control and financial management. In particular, the Commission has proactively provided the ES with advice and training in relation to the responsibilities of the Authorising Officer, the programming and reporting as well as the design of the internal control system. A Service Level Agreement was concluded on October 2016 to offer the possibility to the ES to follow the training organised by the Commission on financial, budgetary and procurement matters.

The CoA 2015 and 2016 reports confirm progress as they did not reveal material errors in the financial statements for 2015". The CoA's more positive conclusions compared to the previous reports reflect the fact that many of the required measures undertaken during the recent years by the ES start producing results.

However, a full overhaul of an administrative structure and restructuring of the internal control is a long term process. This is reflected in the CoA 2016 report, which equally provided, alongside the reported progress, a strong qualification pertaining to persistent internal control weaknesses in recruitment, procurement and payment arrangements, which illustrates the need for a further reform of the ES' administrative structure.

3 The Commission's views on the reform of the European Schools' administrative structure

First of all, it is important to remind that in response to the EP's Resolution of 2011¹², the Commission initiated a discussion concerning a change in the governance model within the Board of Governors in 2012. As a result, the Board concluded there was no need to change the Convention, given that the Board was empowered to take any decision required for tackling the shortcoming of the ES system within the current model.

The Commission therefore acknowledges that the current governance system leaves sufficient room for manoeuvre to bring about necessary reforms in various domains of the ESS. The Commission will continue to play its role and to provide its guidance and support to the ES within the current administrative and governance structure.

On the other hand, the Member States must continue to respect their responsibilities vis-à-vis the ES, in the context of the current intergovernmental cooperation governance, where they are expected to play a key role in the overall education framework and to fulfil their financial commitments and obligations as hosting countries.

¹² 2011/2036(INI) of 27.09.2011

According to the Commission, the consolidation of the administrative structure of the ESS should be accomplished along the following lines:

3.1 Financial governance: centralisation of principal roles

As per the new Financial Regulation of the ES, the functions of the Authorising Officer and Accounting Officer will be gradually centralised, in line with the model applied in the European Commission.

More specifically, the Authorising Officer function will be centralised at the level of the Secretary-General of the ES, instead of the 14 authorising officers (currently the Deputy Secretary-General for the Central Office and 13 Directors for the schools). The centralisation will be finalised as from 1 January 2020. The Secretary-General as Authorising Officer will be able to appoint Authorising Officers by Delegation (the Directors of the ES and an actor to be defined at the level of the Central Office for its own expenditure).

During the transitional period from 1/1/2018 until 31/12/2019, the Secretary-General shall present an Annual Activity Report to the Board of Governors, in April 2019 and April 2020, on the overall management of the ESS, including the main conclusions on the budgetary and sound financial management and the internal control systems. Moreover, the Secretary-General shall report promptly to the Board of Governors whenever any material findings resulting from controls or audits in the ESS have been drawn to his or her attention.

The Secretary-General shall in addition report to the Board of Governors, for the first time by mid-July 2019, on the budgetary and financial management and on the main findings resulting from the ex-post controls and the internal control systems.

Gradual centralisation of the role of the Accounting Officer has started on 1 January 2018 with a view to completing this process fully in 2020. Local accounting correspondent functions, under the Accountant's responsibility, will be created in the 13 ES and the Central Office (for its own expenditure). The central Accounting Officer will sign the accounts and give his assurance that the accounts present a true and fair view of the financial situation for the first time for the 2018 accounts (in July 2019).

The reform will streamline the ES' accounting, give oversight to the Board of Governors and help mitigate the weaknesses included in the CoA findings and related to consolidation, reliability and accuracy issues, delays, inventory and fixed asset management.

The implementation of the revised FR will result in a new financial governance model of the ES. This is expected to reinforce the sound financial management and the clarity and accountability of the ESS, while respecting the autonomy of the schools, as provided in article 6 of the Convention, and ensuring the responsibility inherent to each financial actor and authorising officer by delegation/sub-delegation.

The new FR gives the legal framework to start the process of centralisation. Such a process entails a great number of changes to the current structure, which need to be carefully implemented by the ES. A number of issues will arise, ranging from staffing of the Central Office and of the ES to the degree of centralisation of the different services and the impact on the central and local administrations. All this will have to be carefully assessed and resolved before the ES can achieve the expected benefits of the centralisation exercise.

Considering the gradual centralisation of the Authorising Officer and Accounting Officer roles, an implementation plan was adopted by the Board of Governors in September 2017 alongside the revised FR. It includes a time frame for a number of steps necessary for improving the financial governance (e.g. preparation of more accurate procedures for procurement, budgeting and reporting, resolving shortcomings in the accounting software and installing central accounting validation mechanisms).

The achievement of this drive for centralisation will be a highly challenging task that requires sound execution of the implementation plan by the ES.

3.2 Improvements to financial and budgetary management and internal control

Next to the centralisation of the principal roles in the ES' administration, the restructuring of the internal control system requires the ES to dedicate further attention to the following areas:

3.2.1 Payment system

As mentioned under Point 2, both the IAS and the CoA have established that the fraud risk related to the weakness is sufficiently mitigated. However, the CoA requalified its recommendation in its report on the financial year 2016, as the integration of the accounting software with the electronic payment system still leads to other unresolved internal control weaknesses. Therefore, even though the fraud risk is sufficiently reduced, efforts to mitigate the other residual risks have to be pursued..

The Commission supported the centralisation of the execution of payments, as decided by the Board of Governors in September 2017, in the context of the 2017-2019 implementation plan for the new financial governance.

3.2.2 Segregation of duties and financial circuits

The Authorising and Accounting roles need to be separated. This will be reflected on the one hand in the Authorising Officer by delegation role fulfilled by the School Director, receiving his/her mandate directly from the Secretary-General. On the other hand, there will be an accounting correspondent in each school and in the Central Office, who will be responsible for the daily management of accounts and application of the rules established by the central Accounting Officer. Moreover, the four-eye principle will be implemented in all transactions.

The Regulations for the seconded staff were revised recently¹³ to better reflect the importance and risks linked to the role of the Bursars/Administrators in the current management context of the ES. The new regulation, which entered into force as from 1/1/2018, includes in particular mobility provisions applicable to the seconded Bursars, better definition of tasks and salary grids.

An accurate description of the future tasks to be entrusted to Bursars should be properly redefined by the Office of the Secretary-General of the ES in order to ensure clarity and consistence.

3.2.3 Internal control environment

The Commission considers that the internal control systems need to be further reinforced. It supports the action plans adopted for this purpose by the Board of Governors in the context of the new FR as well in the context of the mitigating measures to implement the audit recommendations. This plan aims, among others, to update the Internal Control Standards, develop risk assessment as well as a methodology for ex-post controls covering all type of transactions.

Such measures improve the reliability of the information provided by the schools and give a clear warning on existing or possible problems.

3.3 Reallocation of resources to implement the drive to centralisation

In the context of the revision of the FR adopted in September 2017, the required posts to drive the centralisation process have been created in the budget 2017 and 2018.

The Commission requested that, in the context of the 2019 Draft budget procedure, a new discussion take place on the staff redeployment issue. It is the Commission's view that the ES should develop multi-annual human resources plans that would facilitate the staff redeployment in line with the priorities and needs. A balanced solution should take into account on the one hand the need to reinforce the sound management and internal control systems in the Schools and on the other hand to create the required centralised structures to support the central functions.

3.4 A fair and reliable cost-sharing system

The number of seconded teachers, who traditionally have been the backbone of the ESS, is declining, which goes in parallel with the reduction of the Member States contributions through the payment of the remuneration of this category of staff. At the same time, the pupil population is growing fast.

¹³ The Board of Governors adopted a set of amendments to the Regulations for Members of the Seconded Staff of the European Schools on 08.06.2017. Ref. 2017-04-D-8-en-1.

The role of the Member States is particularly pivotal as far as the secondment of teachers is concerned, in particular for English, French and German. The decrease in number of seconded teachers giving lessons in these languages has double impact on the ES. On the one hand, it forces the schools to recruit teachers locally, with all its negative budgetary consequences on the EU balancing contribution to the ESS, as the locally recruited teachers' salaries are covered by the EU budget, whereas the basis of the ESS according to the Convention is the secondment of teachers by the Member States¹⁴. On the other hand, the decreasing number of seconded teachers may contribute to increasing the number of courses taught by non-native speakers if the recruitment of native speakers proves difficult.

Considering that a balanced cost-sharing system is crucial for the financial sustainability of the ES system, the Commission recommends launching discussions on the revision of the current system in order to elaborate a viable solution from the 2020/2021 school year onwards. Secondment or assignment of teachers by the Member States should remain the backbone of the ESS in a revised cost-sharing mechanism. It should also properly take into account real needs of the schools and possible consequences of Brexit while catering for a fair share of costs by the Member States.

Furthermore, the Commission considers that the cost-sharing model should be properly implemented by other EU institutions, agencies and bodies fully or partially financed outside the EU budget and whose staff's children are enrolled in the ES. In this context, the Commission concluded Contribution Agreements with the "EIB Group" and the ESM¹⁵, as well as with EUIPO (ex-OHIM)¹⁶ and other agencies and bodies (Single Resolution Board and various Joint Undertakings) in order for them to cater for the education costs of their staff's children. In addition, at the end of 2017, a participation agreement based on article 28 of the Convention was concluded between the ES and the European Central Bank. Moreover, discussions are ongoing with some other agencies with a view to securing their financial contribution to the ES' budgets.

4 Conclusion

The ES have embarked on a long-term structural reform of their administrative and financial structure. So far this has resulted in mitigating the internal control weakness in the ES' payment systems at the heart of the fraud case that led the Commission to issue a reputational reservation. It also led to a reinforcement of the current internal control structure and the revision of the FR that will allow the ES to reform their administrative structure to a greater extent.

¹⁴ Articles 3(2) and 25(1) of the Convention.

¹⁵ The European Investment Bank representing also the European Investment Fund, and the European Stability Mechanism, in December 2015.

¹⁶ European Union Intellectual Property Office, in June 2017.

Further steps, as described above, are necessary to improve internal control and administrative management. The reform of the administrative structure requires full determination from the ES as well proper implementation of the appropriate planning. The Commission will continue to provide them with the necessary support, where possible.

A fair and reliable cost-sharing system between the EU budget, the Member States and the institutions and bodies benefiting from the ESS is crucial for the future sustainability of the overall system.

The Commission considers that the main shortcomings and challenges faced by the ES can be tackled within the existing framework set out by the ES, with the full commitment of the Member States. To this end, the Commission will continue ensuring that its position is taken into account in the ES' supervisory system, i.e. the Joint Teaching Committee, Budgetary Committee and the Board of Governors.