MINISTERS' DEPUTIES CM Documents **CM(2021)100** 31 May 2021[1]

1414th meeting, 13 October 2021

11 Programme, Budget and Administration

11.1 Consolidated Financial Statements of the Council of Europe for the year ended 31 December 2020

PART I: Consolidated Financial Statements

PART II: External Auditor's Report

[1] This document has been classified restricted until examination by the Committee of Ministers.

PART I - CONSOLIDATED FINANCIAL STATEMENTS

of the Council of Europe

for the year ended 31 December 2020

Consolidated financial statements for the year ended 31 December 2020

The Council of Europe is an intergovernmental organisation, founded on 5 May 1949, with its headquarters in Strasbourg (France). Its aims are:

- to protect human rights, pluralist democracy and the rule of law;

- to promote awareness and encourage the development of Europe's cultural identity and diversity;

- to find common solutions to the challenges facing European society: discrimination against minorities, xenophobia, intolerance, bioethics and cloning, terrorism, trafficking in human beings, organised crime and corruption, cybercrime, violence against children, etc.;

- to consolidate democratic stability in Europe by backing political, legislative and constitutional reform.

The Council of Europe is financed by member States' contributions, based on population and wealth, and its activities can cover all major issues facing European society other than defence.

The Secretary General is responsible to the Committee of Ministers for the sound administrative and financial management of the Council. He has to ensure the efficient administration of the Council of Europe and the economic use of the resources entrusted to him. To this end he puts in place a governance system, including notably: risk management, internal control, internal audit, performance indicators and evaluation of results.

The Secretary General keeps accounts in euros in accordance with the Financial Regulations of the Council of Europe and in the manner prescribed in Articles 61 to 64 thereof. The financial statements are to be made available to the External Auditor before 31 March of the year following the financial year to which the accounts refer.

The Council of Europe's consolidated financial statements include a Statement of Financial Position, a Statement of Financial Performance, a Cash Flow Statement, a Statement of Changes in Net Liabilities/Equity, a Statement of Comparison of Budget and Actual Amounts and Supporting Notes. In accordance with the budgetary source of financing, the financial statements include all transactions on the Ordinary Budget, the Extraordinary Budget, the Budget of the European Youth Foundation, the Subsidiary Budgets, the Partial Agreements and the Special Accounts, as well as transactions on the Pension Reserve Fund (PRF).

The financial statements of the European Centre for Global Interdependence and Solidarity (“North-South Centre”) are consolidated in these financial statements, but they are also the subject of a separate document (CM(2021)101) and are submitted to the representatives of the member States of the Centre for approval in accordance with a decision taken by the Committee of Ministers in April 1991 (456th meeting, item 20).

Similarly, the financial statements of the Partial Agreement on the European Support Fund for the co-production and distribution of creative cinematographic and audio-visual works “Eurimages” are consolidated in these financial statements, but, pursuant to Resolution (88) 15, item 4.4, they also appear in a separate document (CM(2021)102) and are submitted to the representatives of the member States of the Fund for approval.

The Secretary General herewith submits to the Committee of Ministers for examination the consolidated financial statements of the Council of Europe for the year ended 31 December 2020. Pursuant to the decision of the Committee of Ministers, once they have been approved, the financial statements will be forwarded to the Parliamentary Assembly for information.

The Committee of Ministers is asked to approve these financial statements, after examining them in the light of the opinion of the External Auditor, and to discharge the Secretary General from responsibility for her financial management in respect of the financial year 2020 by adopting the draft resolution appearing on page 6 of this document.

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DRAFT RESOLUTION

Draft resolution CM/Res(2021)…
concerning the consolidated financial statements of the Council of Europe
for the year ended 31 December 2020

(Adopted by the Committee of Ministers on … 2021
at the ... meeting of the Ministers' Deputies)

The Committee of Ministers, under the terms of Article 16 of the Statute of the Council of Europe,

Having regard to Article 68 of the Financial Regulations;

Having regard to the consolidated financial statements of the Council of Europe for the year ended 31 December 2020, submitted by the Secretary General (CM(2021)100);

Having regard to the opinion of the External Auditor;

Having regard to the report of the External Auditor;

Decides:

1. The consolidated financial statements of the Council of Europe for the year ended 31 December 2020 are approved.

2. Discharge is hereby given to the Secretary General in respect of her financial management for the year 2020.

Part I

Consolidated Financial Statements
of the Council of Europe
for the year ended 31 December 2020

MANAGEMENT REPORT

The Financial Statements of the Council of Europe have been prepared under our responsibility in accordance with International Public Sector Accounting Standards (IPSAS), as required by Article 62 of the Financial Regulations of the Council of Europe.

The Secretary General has responsibility for the sound administrative and financial management of the Council of Europe and for maintaining an adequate system of internal control to provide reasonable assurance with regard to the reliability of financial reporting and the preparation of the financial statements.

For 2020, all obligatory contributions from Member States have been fully collected. The remaining unpaid contributions relate exclusively to contributions due from certain non-member States to the partial agreements. As at 31 December 2020, a total of €8 884K remains unpaid in interest on late payments. Most of this interest on late payments is due from the Russian Federation (€8 837K). Since interest on late payments forms part of the financial obligations of the Member States, no provision for doubtful debts is recorded in respect of this interest on late payments.

The Statement of Financial Position as at 31 December 2020 shows a deficit in total net liabilities of €3 752 964K compared to €3 136 768K as at 31 December 2019. This is mostly due to the obligation for future employee benefits, which amounts to €4 646 310K at 31 December 2020. This includes the actuarial loss for the pensions obligation which amounts to €553 100K. This loss is mainly attributable to the significant decrease in the discount rate, which dropped from 0.90% in 2019 to 0.29% in 2020 (Note 10).

Total assets show a significant net increase, in particular due to the increase in available cash, the evolution of the volume of financial investments of the Pension Reserve Fund and the extrabudgetary resources to be received at the end of the financial year for contracts signed with donors.

The consolidated Statement of Financial Performance for the year 2020 shows a deficit of €52 396K compared to a surplus of €73 146K for 2019, which is mainly due to an increase in pension and post-employment benefits expenses which increase by €110 199K from 2019 to 2020. This variation is explained by the changes in actuarial assumptions (Note 14).

The increase in the level of cash in the consolidated accounts is largely explained by the impact of the health crisis on the implementation of activities planned in the annual budgets as well as in activities financed by extrabudgetary resources. However, the Organisation has been able to adapt its working methods to ensure the continuity of its activities, notably by developing meetings with remote participation (Notes 2 and 14).

Detailed analyses of the evolution of expenditure by pillar and assessment of the implementation of the programme of activities can be found in the Budgetary Management Accounts (CM(2021)100-add) and in the Progress Review Report for 2020 (CM/Inf(2021)7).

We are of the opinion that these financial statements fairly present the financial situation of the Council of Europe as at 31 December 2020 and its financial performance and cash flows for the year then ended.

Strasbourg, 31 May 2021

Signed	Signed	Signed
Marija Pejčinović Burić Secretary General	Francis Dangel Director General of Administration	Mesut Ozyavuz Treasurer

STATEMENT OF INTERNAL CONTROL 2020

1. SCOPE OF RESPONSIBILITY

As Secretary General, I have responsibility for the effective and efficient administration of the Organisation and the economic use of the resources entrusted to me. To this end, I put in place a governance system including notably: risk management, internal control, internal audit, performance indicators and evaluation of results.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is aimed at helping me to provide reasonable assurance to the Committee of Ministers that:

- the Organisation's objectives in terms of operations, reporting and compliance will be met;
- financial data and information published internally or externally is accurate, reliable and timely;
- actions and operations conducted by Council of Europe staff comply with financial, staff and other regulations, rules, policies and procedures;
- resources are acquired economically and used effectively;
- resources are protected and assets safeguarded.

The system of internal control has been in place in the Council of Europe for the year ended 31 December 2020 and up to the date of approval of the accounts and accords with proper practice.

3. THE INTERNAL CONTROL ENVIRONMENT

The key elements of the internal control framework include:

- The Council of Europe has comprehensive financial regulations, together with instructions and rules, which are reviewed at regular intervals. These arrangements promote compliance with norms and best practices in order to ensure that public funds are properly safeguarded and used economically, efficiently and effectively and in accordance with the authority which governs their use;

- The Council of Europe policy on internal control relating to financial management forms part of the corporate governance and management arrangements of the Organisation. The internal control is based on the COSO[2] framework with a list of 42 key control points which are included in the online Internal Control Self-Assessment Questionnaire (ICSAQ). This policy is supplemented by the Council of Europe financial management framework;

- The principles which must be respected by all staff are stated explicitly in the Charter of Professional Ethics. This is supplemented by the Purchasing Code of Ethics, which addresses the issues of conflicts of interest and the receipt of gifts, Rule No. 1296 on the acceptance of fees, gifts, decorations or honours, invitations and other advantages from third parties, and by Rule No. 1282 on the declarations of interests in the context of procurement and grant award. In order to mitigate the level of risk specifically regarding potential fraud and corruption, all members of the Secretariat are required to comply with Rule No. 1327 on awareness and prevention of fraud and corruption;

- For each biennium, I send the head of each Major Administrative Entity (MAE) a Letter of Delegation, specifying the details of the operation of delegated financial authority and responsibility and underlining their responsibility for internal control within their sector;

[2] COSO stands for "Committee of Sponsoring Organizations" whose mission is "to provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations." Source: COSO website

- Financial management and reporting - the Council of Europe's financial managers (the Secretary General, the Commitments Officers (CO) and the Cost Centre Managers (CCM)) have access to regular financial management reports, which monitor actual income and expenditure against approved budgets. Quarterly organisation-wide variance reports are produced so that corrective action can be taken. All budgets are based on their programmatic objective and their expected results. Programmatic performance is monitored formally by means of an interim report and an end-of-year Progress Review Report;

- Financial information is obtained from, and reliance is therefore placed upon, the Council of Europe's Financial Information Management System (FIMS) and its affiliated IT applications. This system has adequate processes in respect of authorisation levels and access controls, and there is sufficient segregation of duties within the Major Administrative Entities, the Directorate of Programme and Budget (DPB) and the Treasury, Payments and Accounting Department (TPA) to complement these controls. The system produces information enabling the preparation of accounts in accordance with IPSAS (International Public Sector Accounting Standards).

4. REVIEW OF EFFECTIVENESS

I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by:

- the Commitments Officers (CO) and their Cost Centre Managers (CCM) within the Organisation, who are responsible for the development and maintenance of the internal control framework within their respective administrative entities. Commitments Officers are requested to submit to me a Letter of Representation at the end of the year confirming the proper implementation of internal controls and asked to carry out a self-assessment of internal controls in support of the signature of this letter;

- the work of the Directorate of Internal Oversight throughout the year, and the Director of Internal Oversight's follow-up reports and annual report. The Directorate of Internal Oversight plays a central role in providing the required assurance on internal controls by conducting audits in accordance with its Annual Work Programme, which is drawn up in consultation with senior managers and approved by myself. Effectiveness is enhanced by ensuring that recommendations are systematically subject to follow-up procedures and are tracked by a dedicated IT tool;

- the External Auditor, who provides reports on both the compliance of the accounts with the financial regulations and on the performance of selected areas of the Organisation.

I also take into account the advice and recommendations provided by the Oversight Advisory Committee when determining the evolution of the Internal Control System.

Based on the information from these sources, I consider that the internal controls are in general adequate. Weaknesses identified in internal and external audit reports are addressed, as the implementation rates for the recommendations show.

5. PROGRESS IN 2020 AND AREAS FOR DEVELOPMENT IN 2021

In 2020, the risk management policy continued to be implemented according to guidelines, co-ordinated by the Directorate General of Administration and the Office of the Directorate General of Programmes. The Organisational Risk Register was updated and adopted by the Senior Management Group. The preparation process was characterised by a greater involvement of Risk Management Focal Points. A general increase in quality of operational risk registers was also observed. The use of a risk management IT tool for the Council of Europe is currently being tested. As regards risk management in the co-operation sector, activities are underway to improve the risk management module in the PMM tool, giving users more functions and rendering the use more attractive.

In 2020, Internal Audit conducted a review of the Council of Europe's overall internal control framework with a view to taking stock of the situation in relation to the COSO framework at an organisational level rather than just a financial one. The review concluded that the Council of Europe has all the components of a solid internal control framework – all principles were present in the Three Lines; some were fully functioning whereas there was room for improvement or correction action for others. The review found that in many cases, work was already underway to bring about improvements or correct any deficiencies. Points of focus were identified to contribute to reinforcing the Council of Europe's internal control framework in the future.

In 2020, Internal Audit finalised an audit on crisis management and business continuity. The audit recommendations aim at improving the Organisation's resilience and at strengthening its crisis management, risk management and business continuity arrangements. In 2021, as a follow-up to this audit, a senior managers' workshop on crisis management and business continuity was organised at my initiative and I entrusted the Deputy Secretary General with the follow-up of the proposals made during the workshop.

In 2020, the Committee of Ministers took note of the revised evaluation guidelines (following the adoption in 2019 of a new evaluation policy), which aim to explain concepts, principles, processes, procedures and tools to be used in evaluations with a view to having a common organisational approach and to improving the quality of evaluations. They apply to evaluations conducted or managed by the Directorate of Internal Oversight as well as evaluations managed by other entities. A quality framework for decentralised evaluations was put in place at the start of 2021.

The investigation function was strengthened in 2020 in a more sustainable manner with the recruitment of an investigation assistant.

The Ethics Officer submitted his 2nd interim annual report in December 2020. A code of conduct and a new "Speak-Up" policy are being finalised, and internal regulations are being reviewed with a view to introducing related changes.

Strasbourg, 31 May 2021

Signed

Marija Pejčinović Burić
Secretary General

OPINION OF THE EXTERNAL AUDITOR

Cour des comptes
FRANCE

The First President

Paris, 3 1 MAI 2021

To Ms Marija Pejčinović Burić
Secretary General
Council of Europe

AUDIT OPINION

Opinion

We have audited the Financial Statements of the Council of Europe, for the 12 months period ended 31 December 2020. These Financial Statements include a consolidated Statement of Financial Position as at 31 December 2020, a consolidated Statement of Financial Performance, a consolidated Statement of Cash Flow, a consolidated Statement of Changes in Net Liabilities/Equity, a Statement of Comparison of Budget and Actual Amounts and notes including a summary of the accounting policies and other information.

Based on our audit, the financial statements give a fair view of the consolidated financial position of the Council of Europe as at 31 December 2020, as well as the consolidated financial performance, the consolidated cash flow and the consolidated changes in net liabilities for the 12 months period ended 31 December 2020 in conformity with the International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISA) and in accordance with the additional terms of reference defined in Articles 71 and 72 of the Financial Regulations of the Organization. These Standards require us to comply with the ethical rules and to plan and perform our audit in order to obtain a reasonable assurance that the financial statements are free from material misstatements. As required by the Charter of ethics of the *Cour des comptes*, we guarantee the independence, the fairness, the neutrality, the integrity and the professional discretion of the auditors. Furthermore, we also fulfilled our other ethical obligations in compliance with the Code of Ethics of the International Organization of Supreme Audit Institutions (INTOSAI). The responsibilities of the auditor are more extensively described in the section "Auditor's Responsibilities for the Audit of the Financial Statements".

.../

We believe that the audit evidence collected is sufficient and appropriate to constitute a reasonable basis for our opinion.

Management's Responsibilities for the Financial Statements

By virtue of articles 61 and 62 of the Financial Regulations, the Secretary General of the Organization is responsible for preparing and presenting the financial statements. These statements are in conformity with the International Public Sector Accounting Standards. This responsibility includes the design, implementation and monitoring of internal control procedures to ensure the preparation and the fair presentation of financial statements, free of significant misstatements, resulting either from frauds or errors. This responsibility also includes the determination of fair accounting estimates adapted to the circumstances.

Auditor's Responsibilities for the Audit of the Financial Statements

The goal of the audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

An audit therefore consists in implementing audit procedures in order to collect audit evidence regarding the amounts and the information presented in the financial statements. The External Auditor takes into account the internal control in effect in the entity, relative to the establishment and preparation of financial statements, so as to define appropriate audit procedures in the circumstances, and not with the aim of expressing an opinion on the effectiveness of this control. The choice of the audit procedures is based on the External Auditor's professional judgment, as is the case for the risk evaluation of the financial statements, for the assessment of the appropriateness of the accounting policies and of the accounting estimates, and for the overall presentation of the financial statements.

Pierre MOSCOVICI

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2020 €K	31 December 2019 €K
ASSETS			
Current assets			
Cash at bank	2	50 378	*80 651*
Short-term money deposits	2	272 935	*167 522*
Inventories	3	41 606	*36 134*
Short-term debtors	4	88 102	*85 621*
Total current assets		**453 021**	***369 928***
Non-current assets			
"Eurimages" Reimbursable advances	5	159 219	*163 108*
"Eurimages" Provision for reimbursable advances	5	(159 219)	*(163 108)*
Financial investments	5	474 677	*430 213*
Long-term debtors	4	49 058	*61 095*
Property, plant and equipment	6	250 633	*257 837*
Intangible assets	7	3 598	*3 271*
Total non-current assets		**777 966**	***752 416***
TOTAL ASSETS		**1 230 987**	***1 122 344***
LIABILITIES			
Current liabilities			
Creditors	8	(57 829)	*(61 237)*
Deferred income	9	(160 754)	*(135 820)*
Employee benefits	10	(59 044)	*(57 034)*
Obligations under finance leases	17	(470)	*(401)*
Short-term loans	11	(4 564)	*(4 397)*
Total current liabilities		**(282 661)**	***(258 889)***
Non-current liabilities			
Deferred income	9	(102 679)	*(101 169)*
Employee benefits	10	(4 587 265)	*(3 883 012)*
Obligations under finance leases	17	(646)	*(779)*
Long-term loans	11	(10 700)	*(15 263)*
Total non-current liabilities		**(4 701 290)**	***(4 000 223)***
TOTAL LIABILITIES		**(4 983 951)**	***(4 259 112)***
NET LIABILITIES/EQUITY			
Working capital fund reserve	23	3 476	*3 476*
Pension Reserve Fund	23	437 503	*357 904*
Fixed assets reserve	23	260 828	*256 708*
Inventories reserve	23	36 134	*30 083*
Employee benefits reserve	23	(4 499 848)	*(3 903 784)*
Other reserves	23	61 339	*45 699*
(Deficit)/Surplus for the period	23	(52 396)	*73 146*
TOTAL NET LIABILITIES		**(3 752 964)**	***(3 136 768)***

The notes on pages 19 to 64 form part of these financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2020 €K	2019 €K
OPERATING REVENUE			
Obligatory contributions	12	297 096	*288 133*
Contributions to special accounts	12	34 671	*57 513*
Pension contributions	12	48 463	*45 859*
Accession contributions	12	301	*417*
EDQM receipts	12	70 229	*66 090*
Reimbursement of "Eurimages" advances on receipts	12	1 475	*1 441*
Net movement in inventories	12	5 472	*6 051*
Reversal of provision in respect of ongoing litigation	12	8 008	-
Sundry receipts	12	3 823	*3 547*
Total operating revenue		**469 538**	***469 051***
OPERATING EXPENSES			
Purchase of goods and services	14	(50 148)	*(54 340)*
Fees and travel expenses	14	(31 006)	*(50 430)*
Staff expenses	14	(422 688)	*(310 390)*
Judges' emoluments	14	(11 815)	*(11 375)*
"Eurimages" advances on receipts and grants	14	(15 958)	*(21 642)*
Fixed assets depreciation and amortisation	14	(15 141)	*(14 616)*
Other expenses	14	(26)	*(397)*
Total operating expenses		**(546 782)**	***(463 190)***
Surplus/(Deficit) from operating activities		**(77 244)**	***5 861***
NON-OPERATING REVENUE/(EXPENSES)			
Financial revenue	15	25 849	*68 459*
Financial expenses	15	(1 001)	*(1 174)*
Total non-operating revenue/(expenses)		**24 848**	***67 285***
(DEFICIT)/SURPLUS FOR THE PERIOD		**(52 396)**	***73 146***

The notes on pages 19 to 64 form part of these financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

CASH FLOW STATEMENT

	Note	2020 €K	2019 *(restated)* €K
CASH FLOW FROM OPERATING ACTIVITIES			
Obligatory contributions		294 594	*331 472*
Voluntary contributions		72 169	*74 938*
Pension contributions		48 403	*50 863*
Accession contributions		564	*154*
EDQM receipts		70 840	*65 790*
"Eurimages" reimbursement of advances on receipts		1 475	*1 441*
Sundry receipts		421	*1 570*
Receipts		**488 466**	***526 228***
Staff expenses		(272 506)	*(269 862)*
Judges' emoluments		(11 815)	*(11 375)*
Suppliers and other payments		(80 348)	*(102 894)*
"Eurimages" advances on receipts and grants		(16 112)	*(21 756)*
Surpluses reimbursed to member States		(134)	*(619)*
Payments		**(380 915)**	***(406 506)***
Net cash flow from operating activities		**107 551**	***119 722***
CASH FLOW FROM INVESTING ACTIVITIES			
Financial investments		(19 168)	*(23 421)*
Purchase of fixed assets		(7 915)	*(18 674)*
Disposal of fixed assets		18	*58*
Net cash flow from investing activities		**(27 065)**	***(42 037)***
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of borrowings		(4 396)	*(4 239)*
Repayment of finance lease obligations		(418)	*(418)*
Net interest income		(532)	*(49)*
Net cash flow from financing activities		**(5 346)**	**(4 706)**
Net increase/(decrease) in cash and cash equivalents		**75 140**	***72 979***
Cash and cash equivalents at beginning of period	2	248 173	*175 194*
Cash and cash equivalents at end of period	2	**323 313**	***248 173***

See Note 18 for the reconciliation between the net surplus from operating activities and the net cash flows from operating activities.

The notes on pages 19 to 64 form part of these financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF CHANGES IN NET LIABILITIES

		Working capital fund reserve	Surplus/ (Deficit) of the period	Pension Reserve Fund	Fixed assets reserve	Inventories reserve	Employee benefits reserve	Other reserves	Total
		€K	€K	€K	€K	€K	€K	€K	€K
31 December 2018	*restated*	**3 476**	**(95 975)**	**362 217**	**257 380**	**20 670**	**(3 088 149)**	**31 814**	**(2 508 567)**
Allocation to the Pension Reserve Fund		-	4 313	(4 313)	-	-	-	-	-
Allocation to fixed assets reserve		-	672	-	(672)	-	-	-	-
Allocation to inventories reserve	*restated*	-	(9 413)	-	-	9 413	-	-	-
Surpluses to be reimbursed to member States		-	(4 035)	-	-	-	-	-	(4 035)
Allocation to other reserves		-	(14 059)	-	-	-	-	13 885	(174)
Allocation to employee benefits reserve		-	118 497	-	-	-	(118 497)	-	-
Actuarial (losses)/gains related to employee benefits		-	-	-	-	-	(697 138)	-	(697 138)
Surplus 2019		-	73 146	-	-	-	-	-	73 146
31 December 2019		**3 476**	**73 146**	**357 904**	**256 708**	**30 083**	**(3 903 784)**	**45 699**	**(3 136 768)**
Allocation to the Pension Reserve Fund		-	(79 599)	79 599	-	-	-	-	-
Allocation to fixed assets reserve		-	(4 120)	-	4 120	-	-	-	-
Allocation to inventories reserve		-	(6 051)	-	-	6 051	-	-	-
Surpluses to be reimbursed to member States		-	(3 998)	-	-	-	-	-	(3 998)
Allocation to other reserves		-	(15 640)	-	-	-	-	15 640	-
Allocation to employee benefits reserve		-	36 262	-	-	-	(36 262)	-	-
Actuarial (losses)/gains related to employee benefits		-	-	-	-	-	(559 802)	-	(559 802)
Impact of property, plan and equipment revaluation		-	-	-	-	-	-	-	-
Deficit 2020		-	(52 396)	-	-	-	-	-	(52 396)
31 December 2020		**3 476**	**(52 396)**	**437 503**	**260 828**	**36 134**	**(4 499 848)**	**61 339**	**(3 752 964)**

Explanations about the nature of the components of Net Liabilities/Equity are provided in Note 23.

The notes on pages 19 to 64 form part of these financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Human Rights €K	Rule of Law €K	Democracy €K	Governing bodies / support / other €K	Variances on receipts [1] €K	Total €K
Final resources						
Ordinary Budget	114 159	14 152	39 970	86 564	-	254 845
Other Budgets	1 512	128 142	64 045	33 822 [2]	-	227 521
A - Total Final Budget	**115 671**	**142 294**	**104 015**	**120 386**	**-**	**482 366**
Actual expenditure						
Ordinary Budget	(113 144)	(12 813)	(38 302)	(85 175)	(268)	(249 702)
Other Budgets	(1 483)	(61 428)	(24 992)	(33 822) [2]	1 208	(120 517)
B - Actual expenditure on a comparable basis	**(114 627)**	**(74 241)**	**(63 294)**	**(118 997)**	**940**	**(370 219)**
Surplus / (Deficit) 2020						
Ordinary Budget	1 015	1 339	1 668	1 389	(268)	5 143
Other Budgets	29	66 714	39 053	-	1 208	107 004
C = A+B 2020 Budgetary execution result	**1 044**	**68 053**	**40 721**	**1 389**	**940**	**112 147**

[1] These variances in relation to the final budget occur in two situations:
- some Ordinary Budget revenue is purely estimated, and the amounts actually received may differ slightly from the estimated amounts (e.g. charges for use of car parking, recharging of various services, etc.)
- some receipts are not taken into account in the budget estimate (type: receipts from publications, reversal of the provision for legal proceedings, etc.).

[2] These amounts, corresponding to obligatory contributions to the Pension Reserve Fund and the Extraordinary Budget, are strictly equal in revenue and expenditure.

Explanations on the above table are given in Note 21.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

EXPLANATORY NOTES

NOTE 1 - STATEMENT OF ACOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the period.

The Statement of Financial Position as at 31 December 2020 shows negative total net liabilities of €3 752 964K, compared with €3 136 768K as at 31 December 2019. This situation arises from the Employee Future Benefits Obligation, amounting to €4 646 309K as at 31 December 2020 (comprising a long-term liability of €4 587 265K and a short-term liability of €59 044K), and €3 940 046K as at 31 December 2019 (comprising a long-term liability of €3 883 012K and a short-term liability of €57 034K). The financing of this obligation is provided for in Article 40 of the Pension Scheme Rules, which stipulates that the member States of the Organisation jointly guarantee the payment of the benefits and should a country, being a member or ex-member of the Organisation, fail to comply with its obligations under this article, the other countries shall meet the cost thereof in proportion to their contribution to the budget of the Organisation, as fixed annually, from and after the said country's default.

As required under the Council of Europe's Financial Regulations, these financial statements have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB), which are based on the International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. When IPSAS do not include any specific standard, IFRS and IAS are applied.

The scope of the consolidation remained the same as in 2019. This scope includes the General Budget (Ordinary Budget, Subsidiary and Services Budgets), the Partial Agreements, the special accounts and the Pension Reserve Fund.

The amounts presented in the financial statements are expressed in thousands of euros (€K). Minor differences due to rounding may be noted in the tables and explanatory notes.

REVENUE RECOGNITION

a) Obligatory contributions

Obligatory contributions finance the annual ordinary activities of the Council of Europe. Income is recognised on an accrual basis as collection orders are issued. Obligatory contributions are recognised and reported in the accounts for the period to which they relate and not when cash is received.

b) Pension contributions

Pension contributions include the obligatory contributions to the Pension Reserve Fund called up from member States and staff and employer’s contributions to the same fund. They are recognised on an accrual basis.

c) Accession contributions

Contributions paid during the year by new members that join the Organisation during the reporting period are in addition to the contributions included in the budget as originally approved. In the Statement of Financial Performance, they are not presented under “Obligatory contributions” but are shown separately.

d) Contributions to special accounts

Income related to extrabudgetary resources including contributions from the European Union to the joint programmes (JP) and the voluntary contributions (VC) is recognised as “Contributions to special accounts” when the corresponding expense is incurred. The balance of unspent extrabudgetary resources, for which expenditure will be incurred in future periods, is deferred accordingly.

e) Financial income

Under Article 51 of the Financial Regulations, surplus cash balances are placed on deposit.
The interest earned on these bank deposits and on the Council of Europe's current bank accounts and the income from the investment of the Pension Reserve Fund are recognised on an accrual basis.

f) Repayment of advances on receipts for film co-production “Eurimages”

Calls for funds are issued when advances on receipts become reimbursable due to the level of receipts generated by a film. In the light of the Fund's historical reimbursement rates, the recoverability of such calls for funds is nonetheless uncertain. In accordance with the principle of prudence these calls for funds give rise to the recognition of income only when the reimbursement of advances on receipts is effectively received.

g) European Directorate for the Quality of Medicines (EDQM) receipts and other sundry receipts

EDQM receipts principally concern the sale of reference substances, certification procedures and the sale of publications. Other income mainly includes insurance reimbursements, parking charges for staff, services invoiced to permanent delegations (parking charges, interpretation costs), seminar enrolment fees and recharging of board and lodging expenses by the European Youth Centres. The EDQM's receipts and other sundry receipts are recognised on an accrual basis when invoices are issued, irrespective of when receipts are collected.

DEBTORS

Receivables are stated at their nominal value.

Obligatory contributions must be paid within a statutory period of six months. No doubtful debt provision is recognised in respect of obligatory contributions due by member and non-member States who do not meet this deadline. The Committee of Ministers has decided that, except in exceptional circumstances which have prevented a State from fulfilling its obligations, Article 9 of the Statute (suspension of the right of representation on the Committee of Ministers and the Parliamentary Assembly due to a failure to fulfil its financial obligations) shall be applied to any State that has not fulfilled all or a substantial part of its financial obligations for a period of two years. At the end of this two-year period and considering the decisions taken by the Committee of Ministers, the relevance of a provision for doubtful debts would be reviewed.

For all other receivables, a doubtful debt provision is calculated based on the extent to which outstanding debt is considered likely to be recoverable. At the EDQM, provisions are established for the full amount of receivables that have been outstanding for more than 12 months, 80% of the amount of those outstanding for between 9 and 12 months, and 50% of the amount of those outstanding for between 6 and 9 months. Any receivable that is definitively irrecoverable (liquidation proceedings) is written off.

EXPENSE RECOGNITION

Accrual accounting is applied to expenses. Invoices paid after the end of the reporting period relating to the previous financial year are recognised as expenditure for that year.

CREDITORS

Payables are stated at their nominal value. Invoices received from suppliers for goods delivered or services provided and not yet settled are recognised as outstanding liabilities under “Suppliers” at the end of the reporting period.

Provisions

Provisions for risks and liabilities are estimated by management and recognised when the Council of Europe identifies a present obligation as a result of a past event and it is probable that the Council will have to settle that obligation.

LEASES

The Council of Europe concludes lease contracts that may be classified as either operating leases or finance leases.

Where appropriate on account of the substance of the transaction and where the lease term covers the major part of the asset's economic life, these contracts are classified as finance leases. The leased asset is recorded as property, plant and equipment and depreciated according to the rules laid down for assets in the same category. A finance lease obligation corresponding to the current value of future payments is recognised and the minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability.
All other leases can be classified in the operating lease category. Rentals payable under these lease contracts are recognised as an expense in the Statement of Financial Performance on an accrual basis.

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are accounted for at the exchange rate prevailing on the date of the transaction. Realised gains and losses resulting from the settlement of such transactions are recognised in the Statement of Financial Performance.

Foreign currency exchange risk

All obligatory contributions are payable in euros, and most voluntary contributions are paid in the same currency. The exposure to foreign currency exchange risk arising from fluctuations in currency exchange rates is limited to the insignificant number of voluntary contributions paid in currencies other than the euro.

Expenditure is almost exclusively denominated in euros. Exchange rate risk is principally restricted to expenditure denominated in local currency in connection with the European Youth Centre in Budapest and the external offices in countries outside the Eurozone.

The Council of Europe carries out a number of joint programmes with the European Union in countries outside the Eurozone. Exchange rate risks on these programmes are borne by the European Union.

FINANCIAL ASSETS

In accordance with IPSAS 28, 29 and 30 financial assets are classified in two categories:

a) Loans and receivables: time deposits with a maturity of less than 12 months recognised as current assets in the Statement of Financial Position. These deposits concern the Organisation's operational cash balances and funds kept on short-term deposit by the Pension Reserve Fund so as to finance the payment of pension benefits in the short term. These financial assets are not quoted on an active market and have a fixed maturity.

b) Financial assets at fair value through surplus or deficit: after their initial recording, these assets are measured at fair value. Gains or losses linked to changes in the assets' value are recognised in the Statement of Financial Performance. These financial assets concern the investments of the Pension Reserve Fund and the financial assets of the “Eurimages” Fund.

<u>Pension Reserve Fund</u>

The financial assets of the Pension Reserve Fund correspond to investments made in accordance with the investment guidelines approved by the Committee of Ministers on the recommendation of the Pension Reserve Fund's Management Board.

These assets include equities and bonds recognised as non-current assets and adjusted to fair value through the Statement of Financial Performance. At the end of each reporting period the value is calculated by reference to market prices listed on the day of valuation, and the difference between the fair market value and the book cost is recorded as unrealised gains or losses.

The book cost of each investment is calculated on the basis of the purchase price, excluding accrued interest from the date of the last interest payment in the case of bonds and fixed-interest securities. Transaction costs are also excluded.

If securities of the same issue are bought at different prices, an average purchase price is calculated for each unit of the security.

Actual gains and losses on investments are calculated by comparison between the sale price and the book cost, excluding accrued interest from the date of the last interest payment in the case of bonds and fixed-interest securities and except for transaction costs.

<u>“Eurimages” Fund</u>

The financial assets of the “Eurimages” Fund are composed of advances on receipts paid to film producers, which are reimbursable in proportion to the net receipts of the films concerned. After their initial recording as non-current financial assets, they are measured at fair value. Gains or losses linked to changes in value are recognised in the Statement of Financial Performance.
In view of the uncertainty of the recovery of these advances, a doubtful debt provision is recorded for their full amount. Financial assets that are more than ten years old are written off.

Calls for funds are issued when the receipts for a film attain a level justifying the reimbursement of the advances.

PROPERTY, PLANT AND EQUIPMENT

Land, buildings and building installations are recognised at fair value, based on valuations carried out by independent experts, less depreciation on buildings and installations. All buildings are subject to regular valuation, so as to ensure their continuous recognition at fair value in the financial statements. All other property, plant and equipment acquired are capitalised and recognised at historical cost less depreciation.

Under the Council of Europe property, plant and equipment accounting policy, only items with a unit cost or, if bought in quantity, a combined value of more than €1.5K are capitalised.

Depreciation is calculated on the straight-line method over the estimated useful life of the assets as follows:

Buildings	50 years
Hardware	3 years
Software	3 years
Furniture and fittings	10 years
Building installations	10 years
Other property, plant and equipment	3 to 10 years

Adjustment of values

The carrying values of property, plant and equipment are reviewed if there are indications that their value in the financial statements does not correspond to fair value.

The Council of Europe holds a collection of works of art mostly acquired by means of donations from member States. In view of the difficulty to estimate their value based on market prices, the restrictions for their sale, their irreplaceable nature and their indefinite useful life, these assets are considered as heritage assets and in accordance with the exception provided by IPSAS 17 their value is not disclosed in the financial statements.

EMPLOYEE BENEFITS

The Council of Europe operates three defined benefit pension schemes for its permanent staff members, which also provide health cover for retired staff members and their dependants.

Independent, qualified actuaries perform regular valuations of the Council's pensions and health cover obligations, and the related annual expense is recognised annually.

The expected costs of these benefits are accrued over the period of employment. They are measured using the Projected Unit Credit Method: the cost of providing benefits is charged to the Statement of Financial Performance by accruing costs over the service life of employees. The benefit obligation is calculated at the actuarial value of the acquired benefits, as of the reporting date.

The discount rate is determined by reference to the rate of French Treasury bonds at the closing date.

BORROWINGS

A short-term liability is recognised for those capital repayments that fall due less than 12 months from the end of the reporting period, and a long-term liability for those capital payments that fall due more than 12 months beyond the end of the period.
Borrowing costs are recognised as financial expenses on an accrual’s basis.

INVENTORIES

Inventories are valued at the lower of cost or net realisable value, apart from EDQM inventories.

EDQM inventories are composed of the reference substances of the EDQM, which are divided into three categories (finished products, work in progress and raw materials). Finished products (reference standards) and work in progress are valued using the standard cost method. The cost of these products consists of the cost of the raw materials plus other costs linked to the manufacture of finished products (cost of bottling and labelling, production staff's working time, depreciation of property, plant and equipment, maintenance costs, cost of establishment of the reference substances by the EDQM laboratory, cost of receipt of substances, etc.).

Where the reference standards are prepared from purchased raw materials, the value of the raw materials is calculated on the basis of their purchase cost. Where the reference standards are prepared from raw materials received free of charge, the latter are valued on the basis of “fair value”, determined as the average cost of substances purchased during the previous reporting periods, broken down into various categories according to the type (chemical or biological) of the substance.

Inventories of raw materials received free of charge by the EDQM are valued when they are, or are likely to be, consumed in the manufacture of finished products.

The raw materials inventory is analysed to identify references potentially unsuitable for production purposes. This analysis is based on:

- the date of release of the last production batches for residual raw materials inventories available for refilling purposes,
- the date of receipt for raw materials to be used in manufacturing replacement batches,
- the use made of raw materials received as a basis for assessing the likelihood of these raw materials being consumed in the manufacture of finished products.

No provision for depreciation is calculated when the difference between these dates and the reporting date does not exceed 24 months. A provision of 50% is calculated if the difference is between 25 and 60 months, and 100% beyond this.

Finished products in the inventory are written down in full if sales have been suspended or if they have been withdrawn from sale at the reporting date.

Conversely, no provision for depreciation is calculated in respect of consumables on account of their high turnover, work in progress, raw materials for use in production and finished products intended for sale.

General publications other than those of the EDQM are valued at cost. A generic provision for depreciation of 80% is recorded for all publications intended for sale produced more than 12 months before the reporting date, given the uncertainty surrounding their sale.

In view of the nature of the publications produced, the EDQM conducts a specific study by publication in order to determine the amount of the depreciation to be recorded. A generic provision for depreciation of 80% is accordingly recorded for all individual publications intended for sale produced more than 12 months before the reporting date, given the uncertainty surrounding their sale. The provision is 100% for publications produced more than 24 months before the reporting date. In the case of periodicals, a provision of 80% is recorded for the second year after release of the new issue and 100% from the third year.

In respect of publications intended for distribution free of charge, a provision for depreciation is calculated at a rate of 80% for publications which were brought out more than 12 months previously and for which the distribution is very slow-moving.

COMPARISON WITH BUDGET AMOUNTS

The Statement of Comparison of Budget and Actual amounts is prepared in accordance with IPSAS 24. The Committee of Ministers approves the annual budget of expenditure and receipts of the Organisation composed of the General Budget (Ordinary Budget, Subsidiary Budgets, Extraordinary Budget, European Youth Foundation Budget and the Pension Reserve Fund) and the Partial Agreements. Where authorised by the Resolution of approval, these budgets are adjusted during the financial year on the basis of actual income received. Special accounts, mainly financed by extra-budgetary resources, are not included. The budgetary basis and the accounting basis are different. The Statement of Comparison of Budget and Actual amounts compares the final budget with the actual amounts on a comparable budget basis. Note 21 reconciles the budgetary result for the year with the result of the Statement of Financial Performance and with the cash flow variation presented in the Cash Flow Statement. Explanations are given for the main reconciliation items and further information shows the breakdown of the budgetary result between its different components.

NOTE 2 - CASH AND CASH EQUIVALENTS

Cash intended to cover needs for instant access to funds is held in current bank accounts, offering daily liquidity, and the cash surplus arising from the timing difference between the receipt of contributions and their actual use is placed on short-term deposits or in savings accounts guaranteeing the funds' availability without penalty and according to contractual conditions. These accounts are denominated in euros. The Council of Europe also has current accounts denominated in local currency in countries where it has opened external offices, which serve to pay local suppliers. The Organisation has minimum amounts of foreign currency in such cases or holds its funds in euros wherever possible.

The current accounts did not yield any interest in 2020 and 2019, as the average rate of remuneration remained at 0%. The average yield of the funds placed on time deposit and in savings accounts was 0.18% in 2020 and 0.34% in 2019. The rate of interest earned depends on the trend in market rates and is determined according to the amount concerned and the duration for which it is invested. These rates are fixed and do not expose the Organisation to any interest rate risk.

Cash investments are made after consulting at least eight European banks with a minimum level of own funds in excess of 10 billion euros and minimum average long-term and short-term ratings of A and F1 respectively. The aim of this competitive bidding procedure is to secure improved yields and diversify cash investments while reducing counterparty risk.

Certain current account balances and deposits are designated for specific purposes and are held in separate bank accounts to be used solely for payments relating to the activities concerned. This applies to “Eurimages”, the EDQM, the European Youth Foundation and the North-South Centre.

The cash and cash equivalents of the Pension Reserve Fund, to be used for paying pension benefits and constituting a reserve fund, are also held separately. Under Resolution Res (2006)1 the management of these funds has been entrusted to a Management Board under the Committee of Ministers' supervision (see Note 5).

The increase in the level of cash in the consolidated accounts is largely explained by the impact of the sanitary crisis on the implementation of the activities planned in the annual budgets as well as in the activities financed by extra-budgetary resources. The unspent balance at the end of 2020 increases significantly by €30 138K to €112 147K, with higher variations in the EDQM, “Eurimages” and the Ordinary Budget (see Note 21.3). In addition, the unspent balance under the special accounts carried forward as deferred income stands at €37 852K, also up significantly compared to 2019 (Note 9).

Details of funds held in current bank accounts and on short-term deposit are as follows:

	31 December 2020 €K	**31 December 2019** €K
HSBC	-	*39 353*
Société Générale	19 928	*20 475*
Fortis	4 019	*4 019*
Barclays	4 900	*16 000*
Crédit Agricole	20 500	-
External offices	1 031	*804*
Current accounts	**50 378**	***80 651***
BNP Paribas	26 010	*5 001*
BPCE (Banque populaire)	86 825	*56 257*
Crédit Agricole	21 346	*17 345*
Fortis	33 499	*25 496*
HSBC	14 500	*19 500*
ING	-	*14 970*
Société Générale	90 755	*28 954*
Deposits and saving accounts	**272 935**	***167 522***
Total cash and cash equivalents	**323 313**	***248 173***

NOTE 3 - INVENTORIES

In accordance with IPSAS 12 § 50, expenses recognised for raw materials and consumables, staff costs and other costs by nature, as well as the net change in inventories for the period, are disclosed in the Statement of Financial Performance.

The EDQM inventory is principally made up of EDQM reference substances divided into three categories (finished products, work in progress and raw materials). Finished products and work in progress inventories are valued using the standard cost method in accordance with the accounting principles set out in Note 1 – basis of preparation:

- The stock of finished products consists of reference standards (in vials) which the EDQM has manufactured or had manufactured from raw materials. This is available for sale.
- The in-progress stock consists of future reference standards in the process of production. These are vials filled with substances (raw materials) processed through manufacturing which are awaiting final processing (labelling or final relabelling).
- The stock of raw materials consists of chemical or biological substances purchased or received free of charge, intended for the manufacture of reference standards.

The Organisation also has an inventory of publications comprising publications intended for sale and publications intended for distribution free of charge.

"Supplies and other" include publicity material, stationery and printing paper for the publications and documents stored by the Council. They also include packaging for EDQM samples before their cost is incorporated in the cost of products in the process of being manufactured and of finished products.

The value of the EDQM's final inventory of reference substances and of the publications inventory is written down via a provision for depreciation calculated according to the criteria set out in the statement of accounting policies.

Inventories, other than EDQM reference standards, are valued at the lower of cost or net realisable value.

The breakdown of inventories held by the Council of Europe as at 31 December 2020 and 2019 is as follows:

	31 December 2020 €K	31 December 2019 €K
EDQM - Purchased reference substances		
Finished products (Reference Standards)	8 314	*5 151*
Work in progress	679	*209*
Raw materials	3 146	*2 874*
	12 139	***8 234***
EDQM - Donated reference substances		
Finished products (Reference Standards)	22 420	*21 772*
Work in progress	698	*529*
Raw materials	6 162	*5 224*
	29 280	***27 525***
Total EDQM reference substances - gross value	**41 419**	***35 759***
Other		
General publications	1 656	*1 954*
EDQM publications	241	*319*
Publications for distribution free of charge	1 407	*1 828*
Supplies and other	1 925	*1 385*
	5 229	***5 486***
Total inventories - gross value	**46 648**	***41 245***
Provision for depreciation		
General and EDQM publications	(1 292)	*(1 556)*
Publications for distribution free of charge	(676)	*(997)*
EDQM - reference substances	(3 074)	*(2 558)*
	(5 042)	***(5 111)***
Total inventories - net value	**41 606**	***36 134***

The overall net value of inventories increased by 15.14 % compared with 2019.

The value of the EDQM inventory of reference substances, net of the provision for depreciation, continued to grow, with a rise of 15.49%. This increase is explained by the EDQM's continued efforts to establish a contingency stock to be stored at a back-up facility as part of the contingency and disaster recovery plan. The gross aggregate value of the stock of finished products and of work in progress rose by €4 450K, or 16%, as a result of both the growth in volumes (12%), accounting for 74% of the total impact, and also an increase in average unit production costs (3.8%), accounting for 26% of the impact. Finished products and work in progress have been valued using the standard cost method since 2019. In 2020, the EDQM carried out a comparative analysis of the annual cost base with the aim of aligning this valuation as closely as possible with actual costs, which led to the revision of some cost variables for these products (hourly rate and shares in additional costs).

The "Supplies and other" line comprises the EDQM's stock of consumables. This grew by 58% in 2020 (€419K) in order to form a buffer stock to ensure continuity of production against the background of the health crisis.

The net value of the stock of raw materials reflects substances to be used or very likely to be used in the manufacture of a reference standard. It rose by 12% from 2019 to 2020, from approximately €5 572K to €6 254K. The volumes of raw materials and the number of reference standards remained stable overall, but the average unit cost rose as a result of revaluation of the raw materials on the basis of "fair values", broken down into various categories according to the type (chemical or biological) of the substance.

The provision for depreciation of the EDQM's reference substances remained stable and represented 7.4% of the gross value in 2020 as against 7.1% in 2019.

The net overall value of the inventory of publications was down on 2019, with a decline recorded in the net value of the EDQM's inventory of publications (27%), in particular as a result of the reduction in hard copies in favour of the continuing development of online versions. In addition, physical checks of the inventory of general publications and those intended for distribution free of charge led to the destruction of outdated publications, thereby reducing the net stock by 10%.

NOTE 4 - DEBTORS

	31 December 2020 €K	31 December 2019 €K
Short-term debtors		
Debts due from members and non-members of the Council of Europe (Note 4.1)	10 159	*9 389*
Other short-term debtors (Note 4.2)	78 179	*76 690*
Provision for doubtful debts (Note 4.2)	(236)	*(458)*
	88 102	***85 621***
Long-term debtors		
Purchase of pension rights in respect of temporary service	193	*272*
Extrabudgetary resources to be received	48 865	*60 823*
	49 058	***61 095***

Short-term debtors

Amounts receivable from member and non-member States represent uncollected obligatory contributions, interest on the late payment of obligatory contributions and unpaid invoices for insignificant amounts concerning services provided by the Organisation.

As of 31 December 2020, this line mainly includes late payment interest due by the Russian Federation. In 2019 the Russian Federation paid all its outstanding obligatory contributions for the relevant budgets for the financial years 2017 to 2019. The related late payment interest remains unpaid and amounts to €8 837K. In addition, Argentina has not paid its contribution to the "Eurimages" budget for the financial year 2020 (€1 067K) and the associated late payment interest amounts to €33K. Note 4.1 details the debts due from member States and non members of the Council of Europe.

The line “Other short-term debtors” mainly concerns outstanding value added tax (VAT) reimbursements, EDQM invoices, amounts due from staff members and bank interest payable at the maturity of investments, as well as amounts expected under contracts signed with donors in the framework of projects financed or co-financed by extrabudgetary resources. Other short-term debtors are analysed in detail in Note 4.2.

The provision for doubtful debts principally corresponds to the provision for doubtful EDQM customer accounts.

Long-term debtors

This line includes receivables due after more than one year from permanent staff who opted to purchase pension rights for periods when they were employed under temporary contracts. When these receivables are due less than twelve months from the end of the reporting period they are presented under short-term debtors.

Amounts expected to be paid under contracts signed with donors for projects financed or co-financed by extrabudgetary resources and for which the payment schedule provides for payment beyond twelve months after the end of the financial year are presented under this line.

4.1 - MEMBER STATES AND NON-MEMBERS OF THE COUNCIL OF EUROPE

Debts due from member States and non-members of the Council of Europe at the year-end are set out below:

	Obligatory contributions		Late payment interest on unpaid contributions		Other		Total	
	2020 €K	2019 €K	2020 €K	2019 €K	2020 €K	2019 €K	2020 €K	2019 €K
Member States of the Council of Europe								
France	-	-	-	-	-	*6*	-	*6*
Georgia	-	-	-	-	2	-	2	-
Latvia	-	-	-	-	2	-	2	-
Russian Federation	-	-	8 837	*8 837*	-	-	8 837	*8 837*
San Marino	-	-	-	-	3	-	3	-
Spain	-	-	-	-	79	*133*	79	*133*
Turkey	-	-	-	-	24	*38*	24	*38*
Ukraine	-	-	-	-	6	*6*	6	*6*
	-	**-**	**8 837**	***8 837***	**116**	***183***	**8 953**	***9 020***
Non-members of the Council of Europe								
Algeria	43	-	2	-	-	-	45	-
Cape Verde	38	*28*	10	*6*	-	-	48	*34*
Chile	11	-	-	-	-	-	11	-
Israel	-	*66*	2	*5*	-	-	2	*71*
United States of America	-	-	-	-	-	*1*	-	*1*
Argentina	1 067	*263*	33	-	-	-	1 100	*263*
	1 159	***357***	**47**	***11***	**-**	***1***	**1 206**	***369***
Total	**1 159**	***357***	**8 884**	***8 848***	**116**	***184***	**10 159**	***9 389***

4.2 - OTHER SHORT-TERM DEBTORS

Other short-term debtors comprise the following:

	31 December 2020 €K	31 December 2019 €K
Recoverable VAT	9 974	*10 001*
Insurance claims	1 936	*1 389*
Purchase of pension rights and other staff member's debtors	306	*3 659*
Advances to suppliers	1 293	*816*
EDQM invoices	4 761	*4 825*
Doubtful invoices	241	*464*
Prepaid expenses	1 071	*747*
Accrued bank interest	375	*410*
Extrabudgetary contributions to be received	52 726	*53 176*
Other	5 496	*1 203*
	78 179	***76 690***

The main variations under this heading can be explained as follows:

- The debt relating to recoverable VAT includes the VAT to be recovered on invoices giving rise to a right of deduction in France (€9 488K in 2020 and €9 361K in 2019). This line also includes VAT to be recovered in some countries hosting a Council of Europe office for which a Memorandum of Understanding authorises the refund of the tax.
- The “Insurance claims” line records the amounts owed by the insurance managers relating to the staff medical insurance contract, as well as various insurance reimbursements expected for damage incurred in the buildings (€217K at the end of 2020 and €93K at the end of 2019).
- The “Purchase of pension rights and other staff member’s debtors” line includes in 2019 a total amount of €3 414K paid to pensioners as part of the 2018 tax adjustment. Further to the decision of the French authorities to consider 2018 as a “blank year” when introducing the deduction of income tax at source, this amount has been deducted from pensions in 2020.
- The “EDQM Invoices” line shows the outstanding receivables relating to invoices issued by the EDQM as part of its activities, as at 31 December 2020 and 31 December 2019 respectively. Receivables that have been outstanding for more than twelve months are presented in the “Doubtful invoices” line. A provision for doubtful debts is calculated based on the likelihood of recovery of these receivables. Despite the increase in EDQM receipts in 2020, doubtful invoices continue to decline thanks to rigorous client management.
- In 2020, the “Accrued bank interest” line has slightly decreased compared to the previous year. Short-term investments with semi-annual renewal and increasing interest rates that were initiated in 2014 matured during 2019. New investments initiated in 2020 offer a significantly lower level of remuneration. The balance at the end of 2020 is composed of accrued interest from investments with annual renewal and payment of interest at maturity in 2022 and 2025, interest from savings accounts and other investments with annual payments.
- The “Extrabudgetary resources to be received” line records the amounts expected under extrabudgetary resources for projects financed or co-financed with the European Union, Member States and other donors. The amounts presented under short-term debtors cover amounts due under contracts signed at the closing date of the financial period and which will be paid within twelve months of the reporting date in accordance with the payment terms agreed with the donors. Amounts due after twelve months are presented under long-term debtors.
- “Other” debtors include the following in 2020:
    - a sum of €2 275K pending payment by French Social Security at the reporting date. Further to a decision by the Constitutional Court, the Council of Europe lodged a request for a ruling with the URSSAF Alsace Regional Directorate, seeking the repayment of contributions unduly paid in respect of the higher-rate sickness contributions for staff members resident for tax purposes in France, who are exempt from such contributions. The sum, which covers contributions paid since 2017, was paid in 2021 and will be refunded to the staff members concerned;
    - a sum of €2 189K pending payment by the insurer responsible for medical cover for staff members and pensioners in respect of profit-sharing for the period from 2017 to 2019. This sum was paid in 2021 and a share of the €269K will be paid to the Development Bank in Paris.

The provision for doubtful debts is made up as follows:

	31 December 2019 €K	Utilisation €K	(Increase)/ Decrease €K	31 December 2020 €K
Budget of the European Pharmacopoeia (EDQM)	(430)	268	(58)	(220)
Ordinary Budget	(28)	12	-	(16)
Total provision for doubtful debts	**(458)**	**280**	**(58)**	**(236)**

NOTE 5 - FINANCIAL ASSETS

	31 December 2020 €K	31 December 2019 €K
Pension Reserve Fund	474 677	*430 213*
"Eurimages" reimbursable advances	159 219	*163 108*
Provision for "Eurimages" reimbursable advances	(159 219)	*(163 108)*
	474 677	***430 213***

Pension Reserve Fund

At the 818th meeting of the Ministers' Deputies the Committee of Ministers adopted Resolution Res(2002)53 setting up a Pension Reserve Fund with effect from 1 January 2003 in order to modulate in the medium and long term the member States' contributions to meet their obligations under the pension schemes of the Council of Europe. All assets of the Fund are the property of the Council of Europe. These assets may solely be used for the payment, via the Pensions Budget, of benefits under the pension schemes and authorised Fund expenses.

At the 954th meeting the Committee of Ministers adopted Resolution Res(2006)1, which revised the statute of the Pension Reserve Fund and replaced Resolution Res(2002)53. This Resolution provided for the creation of a Management Board responsible, under the Committee of Ministers' supervision, for the management of the Fund. The initial appointments to the Management Board were made by the Ministers' Deputies at their 965th meeting on 24 May 2006, and on a recommendation of the Board, the Secretary General designated the International Service for Remunerations and Pensions (ISRP) to provide the Secretariat of the Fund.

From its inception at the start of 2003 to the end of 2007 the Pension Reserve Fund was invested in short-term money market deposits. At the end of 2007, after the creation of the definitive governance and management structure provided for under Resolution Res(2006)1, all funds were transferred to a custodian bank account so that the funds would be available to implement, as from 2008, the investment policies approved by the Committee of Ministers on the recommendation of the Pension Reserve Fund Management Board.

The Board submitted in 2007, 2011, 2014 and 2018 to the Committee of Ministers proposals for the general policies, goals and guidelines for investment of the Fund's assets, which the Committee of Ministers approved. These included the objective of investing in Socially Responsible Investments (SRI).

At the end of 2017, the Management Board finalised the third three-year review, as provided for in the PRF Statute. The Chair presented part of the review, the recommendation on the reasonable target return, to the Budget Committee and the GR-PBA on 28 September 2017 (CM(2017)91) and the full report was presented to the GR-PBA on 17 April 2018. The report proposed a new asset allocation, which was approved by the Committee of Ministers on 15 May 2018 and is broken down as follows:

45% world equity, 10% emerging markets equity, 23% global government bonds, 12% euro corporate bonds, 5% global direct real estate and 5% global direct infrastructure.

This new investment strategy is currently being implemented (selection of the investment vehicles and the managers) by the Management Board and seeks to achieve a real net return of 3.4% p.a. in the long term, with associated volatility of 7.8%.

The Management Board conducted an intermediate review of the strategy in 2019 and deemed it still to be appropriate.

The SRI strategy of the Pension Reserve Fund comprises a general policy for the portfolio as a whole and some specifications concerning individual asset classes. Implementation of the SRI strategy depends on the limited offer of suitable products.

The general policy is based on the exclusion, as far as possible, of companies whose business involves alcohol, tobacco, weapons production and trading, pornography and gambling.
Securities are selected in general terms under a Best in Class approach, which consists of selecting the best socially responsible companies within a given sector. Social responsibility is measured in terms of relations with the environment, social policy and corporate governance. There is also an alternative socially responsible investment strategy for asset classes where the available SRI products offer does not permit application of the general strategy. This alternative strategy consists in investing solely according to traditional financial criteria, and companies in the portfolio are approached to carry out a process of dialogue and negotiation aimed at improving their corporate behaviour in terms of environmental, social and governance criteria. Lastly, the companies' activities must be compliant with the UN Sustainable Development Goals (SDGs) that are relevant for investors.

The SRI strategy for individual asset classes includes:

- Equities: best in class for euro area equities and negotiation and dialogue for global and emerging markets equities.
- Government bonds: as most government bond issuers from developed countries or Economic and Monetary Union (EMU) countries are members of or observers at the Council of Europe and thus respect the values of the Organisation, no specific SRI criteria are applied.
- Euro denominated corporate bonds: best in class.
- Alternative investments (real estate and infrastructure): investments in real estate and infrastructure may be placed in traditional (non-SRI) funds as long as their combined value represents less than 10% of the portfolio.

The Pension Reserve Fund also includes short-term assets allocated to pay benefits which must be managed separately from the long-term investments. The investment strategy is not applicable to these short-term investments which correspond to the funds necessary to meet the payment of benefits and administration costs during the current year.
Further information on the management of the Fund in the last three years can be found in the reports of the Management Board to the Committee of Ministers CM(2018)31, CM(2018)123, CM(2019)153, CM(2020)49 CM(2020)95 et CM(2021)6.

Changes in the Pension Reserve Fund during the year were as follows:

	31 December 2019 €K	Additions €K	Disposals/ Adjustments €K	Realised gains/(losses) during the reporting period €K	Unrealised gains/(losses) at reporting date €K	31 December 2020 €K
Gross investment						
Equity investment funds	174 924	14 635	-	-	-	189 559
Fixed income investment funds	146 430	4 035	-	-	-	150 465
Alternative investment funds	20 694	652	-	-	-	21 346
Total gross investment	**342 048**	**19 322**	**-**	**-**	**-**	**361 370**
Adjustment to fair value						
Equity investment funds	78 406	-	-	-	18 487	96 893
Fixed income investment funds	9 113	-	-	-	6 364	15 477
Alternative investment funds	646	-	-	-	291	937
Total adjustment to fair value	**88 165**	**-**	**-**	**-**	**25 142**	**113 307**
Net value	**430 213**	**19 322**	**-**	**-**	**25 142**	**474 677**

Reimbursable advances "Eurimages"

As part of its programme of activities, "Eurimages" provides financial support to film producers in the form of advances on receipts. Since these may become reimbursable, depending on the receipts generated by the films, they are recorded as non-current financial assets. In view of the uncertainty of their recovery, the advances paid are considered as doubtful debts and provisioned for their full amount. Reimbursements recognised during the year reduce the Fund's financial assets and the provision is written back accordingly.

Reimbursable advances at the 2020 year-end concern advances made to co-producers over the ten-year period from 2011 to 2020. Advances outstanding for more than ten years are written off and eliminated from the balance sheet, as their recovery beyond this time-limit is increasingly uncertain.

Details of reimbursable advances at the end of 2020 and 2019 are set out below:

	31 December 2020 €K	31 December 2019 €K
Reimbursable advances at the beginning of the year	163 108	*161 350*
Advances on receipts paid during the year	14 614	*19 667*
Reimbursements received during the year	(1 332)	*(1 339)*
Reimbursable advances written off during the year	(17 171)	*(16 570)*
Reimbursable advances at the end of the year	**159 219**	***163 108***
Provision for irrecoverable co-production advances	**(159 219)**	***(163 108)***

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment and related depreciation for the year are indicated below. Additions recorded in 2020 concern primarily the renewal of IT equipment, and works related to the upgrading of security infrastructures and other works on building installations. Disposals recorded in 2020 mainly concern assets that had become obsolete, in particular IT equipment, furniture and fittings no longer in use with a unit cost of less than €500, and equipment acquired under finance leases which was returned at the end of the contract.

	31 December 2019 €K	Additions €K	Reevaluation adjustment €K	Transfers €K	Disposals €K	31 December 2020 €K
Cost/Valuation						
Land	64 788		-	-		64 788
Buildings	149 602	938	-	8 265		158 805
Buildings under construction	8 151	152	-	(8 265)		38
Building installations	89 268	1 134	-	5 241	(33)	95 610
Building installations under construction	6 373	695	-	(5 241)		1 827
Office and computer equipment	12 269	1 675	-	236	(866)	13 314
Furniture and fittings	4 269	157	-	36	(1 914)	2 548
Vehicles	869	91	-		(78)	882
Audiovisual equipment	8 231	309	-		(68)	8 472
Other property, plant and equipment	12 710	547	-	418	(206)	13 469
Other property, plant and equipment under construction	687	157	-	(690)		154
Equipment under finance leases	3 273	354	-		(373)	3 254
Total cost/valuation	**360 490**	**6 209**	**-**	**-**	**(3 538)**	**363 161**

	31 December 2019 €K	Depreciation during the year €K	Value adjustment €K	Transfers €K	Disposals €K	31 December 2020 €K
Depreciation						
Buildings	(8 749)	(3 189)	-	-		(11 938)
Building installations	(60 245)	(7 081)	-	-	26	(67 300)
Office and computer equipment	(9 852)	(1 481)	-	-	866	(10 467)
Furniture and fittings	(3 735)	(158)	-	-	1 862	(2 031)
Vehicles	(670)	(68)	-	-	78	(660)
Audiovisual equipment	(7 583)	(370)	-	-	68	(7 885)
Other property, plant and equipment	(8 825)	(798)	-	-	190	(9 433)
Equipment under finance leases	(2 994)	(193)	-	-	373	(2 814)
Total depreciation	(102 653)	**(13 338)**	**-**	**-**	**3 463**	**(112 528)**
Total net book value	**257 837**					**250 633**

The net book value of property, plant and equipment amounted to €250 633K as at 31 December 2020. The gross value of fully depreciated assets amounted to €24 690K, corresponding to fixed assets categories other than land and buildings and building installations.

Under the Council of Europe property, plant and equipment accounting policy, which was introduced in 2006, only items with a unit cost or, if bought in quantity, a combined value of more than €1.5K are capitalised. They are recorded at their historical cost less depreciation. Other property, plant and equipment, acquired before 2006, mainly furniture and other technical equipment, that are still in use and meet the criteria for capital assets, were recognised as an expense at the date of their purchase.

“Land”, “Buildings” and “Building installations” mainly comprise the Organisation's headquarters located in Strasbourg. As recommended by IPSAS 17, these assets are regularly valued by an independent expert.

The new storage site for the EDQM went into service at the beginning of March 2020. The “Transfers” column on the “Buildings” and “Buildings installations” lines reflect this operation both for the buildings and for the related installations. The “Building under construction” line also includes the continuation of the renovation of lifts and other renovation and improvement work on security installations. The “Other property, plant and equipment under construction” line concerns the purchase of laboratory equipment in line with the EDQM activities.

All buildings were valued by an independent expert at the end of 2016; previous valuations had been carried out in 2008 and 2011. The Treasury, Payments and Accounting Department will periodically request valuations of all buildings in order to ensure that these assets are recorded in the financial statements at their fair value.

The land on which the Palais de l'Europe, the Strasbourg European Youth Centre, the Agora Building and the new EDQM building stand was acquired from the City of Strasbourg. A clause included in the purchase contract between the Council of Europe and the City of Strasbourg requires the land to be sold back to the City of Strasbourg for the nominal price at which it was bought, should the Council cease its activities in Strasbourg. This nominal price is significantly lower than the current fair value presented in the table below. The City of Strasbourg may also request the assignment of the buildings built on the land on the basis of an agreement to be reached between the parties.

The Paris Office is included in the Council of Europe's Statement of Financial Position, although any proceeds from its sale should be reimbursed to those States which were members of the Council at the time of liquidation of the former Pension Fund according to resolution Res(78)71.

The net book value of the land, buildings and building installations belonging to the Council, determined following the valuation carried out by the expert as at 31 December 2016, increased by improvements capitalised since that date and decreased by cumulative depreciation, was as follows as at 31 December 2020:

	Land €K	Buildings €K	Installations €K
Palais de l'Europe	28 560	60 548	6 643
Human Rights Building	12 060	22 965	4 227
European Youth Centre	1 440	6 534	1 039
Paris Office	-	6 200	96
Agora Building	12 025	24 527	4 906
New EDQM Building	10 300	17 987	7 999
Secondary storage site for EDQM	403	8 144	4 825
Other	-	-	402
	64 788	**146 905**	**30 137**

NOTE 7 - INTANGIBLE ASSETS

Changes in intangible assets and related amortisation for the year are detailed below. Additions in 2020 mainly concern the acquisition and development, outsourced to external service providers, of IT systems used by the various entities. Disposals in 2020 (€786K) correspond mainly to the elimination of assets relating to licenses and developments that had become obsolete.

Changes in intangible assets and related amortisation for the year were as follows:

	31 December 2019 €K	Additions €K	Value adjustment €K	Transfers €K	Disposals €K	31 December 2020 €K
Cost/Valuation						
Software	27 033	1 279	-	509	(786)	28 035
Software under development	411	852	-	(509)	-	754
Total cost/valuation	**27 444**	**2 131**	**-**	**-**	**(786)**	**28 789**
	31 December 2019 €K	**Depreciation during the year €K**	**Value adjustment €K**	**Transfers €K**	**Disposals €K**	**31 December 2020 €K**
Amortisation						
Software	(24 173)	(1 803)	-	-	785	(25 191)
Total amortisation	**(24 173)**	**(1 803)**	**-**	**-**	**785**	**(25 191)**
Total net book value	**3 271**					**3 598**

As at 31 December 2020 the net book value of intangible fixed assets amounted to €3 598K. The gross value of totally amortised items as at that date amounted to €22 919K.

NOTE 8 - CREDITORS

	31 December 2020 €K	31 December 2019 *restated* €K
Suppliers	(22 899)	*(21 089)*
Creditors for "Eurimages" grants:		
- Cinemas support	(731)	*(731)*
- Distribution	-	*(156)*
- Promotion	(29)	*(6)*
- Gender equality	(9)	*(30)*
Employees: charges to be paid	(699)	*(894)*
Employees: payable social contributions	(2 535)	*(2 678)*
French social contributions to be reimbursed to staff	(2 275)	-
Surplus to be deducted from future contributions	(4 016)	*(7 619)*
Bank loan interest	(286)	*(369)*
Receipts paid in advance	(7 433)	*(6 213)*
Provision for employee leave entitlement	(15 227)	*(11 897)*
Provision for employees home leave travel expenses	(468)	-
Provision in respect of ongoing litigation	-	*(8 008)*
Sundry creditors	(1 222)	*(1 547)*
	(57 829)	***(61 237)***

"Suppliers" include invoices received and not yet settled as at the end of 2020 and 2019.

The amount of the "Creditors for Eurimages grants" comprises commitments on contracts already signed by the Board of Management in respect of support to cinemas, distribution, promotion and the gender equality action plan. The Board of Management decided to discontinue the distribution support scheme in its current form as from the 2020 cycle. The grants for films distributed during the last quarter of 2019 were provisioned at the end of 2019 (€100K). The actual expenditure recorded in 2020 after approval by the Board of Management amounted to €63K. The excess provision (€38K) was recognised as a sundry receipt and is presented in Note 12.

"Payable social contributions" correspond to the amounts deducted from salaries and the employer's social contributions pending payment to the insurers as at the end of the year.

The line "Receipts paid in advance" mainly includes contributions to the 2021 and 2020 budgets paid in advance by member and non-member States as detailed below:

	31 December 2020 Contributions to the 2021 budgets €K	31 December 2019 Contributions to the 2020 budgets €K
Member States of the Council of Europe		
Austria	-	*8*
Estonia	379	*354*
Hungary	2 181	*1 612*
Lithuania	725	-
North Macedonia	20	*174*
Poland	37	-
Portugal	312	*244*
Slovak Republic	1 473	*1 423*
Serbia	-	*59*
	5 127	***3 874***
Non-members of the Council of Europe		
Canada	1 028	*1 130*
Israel	13	*12*
Kazakhstan	8	*8*
	1 049	***1 150***
	6 176	***5 024***

This line also includes credit balances in favour of member States, mainly an amount of €414K in favour of Italy (€432K at the end of 2019), an amount of €179K in favour of France at 31 December 2020 and 2019, for Ukraine (€45K at the end of 2020 and €24K at the end of 2019) and for Portugal (€37K at the end of 2020 and €24K at the end of 2019).

The construction of the new general building (Agora) and the implementation of security measures were financed by a bank loan repayable in instalments due on 1 January and 1 July each year. The loan interest payable corresponds to the interest due for the second halves of 2020 and 2019 respectively.

The "Surplus to be deducted from future contributions" line corresponds to amounts due to member States in respect of the allocation of the 2019 year's surplus in accordance with the resolutions adopted by the Committee of Ministers on approving the accounts. This line also includes the amount paid by France for the 2018 tax adjustment that will be returned to it in 2020 (€3 414K). The French authorities decided to consider 2018 as a "blank year" when introducing the deduction of income tax at source.

The provision for employee leave entitlement corresponds to the value of staff's unused leave entitlement at the end of 2020 and 2019. Following a recommendation from the external auditor, a provision has also been recorded as at 31 December 2020 for travel costs covered by the Organisation for home leave in accordance with the entitlements acquired by staff as at 31 December 2020. It has not been possible to restate this information with the situation of open entitlements as at 31 December 2019.

Several appeals were lodged with the Administrative Tribunal of the Council of Europe in 2018 and 2019. The applicants contested the Deputies' decision to apply the budgetary feasibility clause and to not adjust remuneration and pensions as from 1 January 2018. The Administrative Tribunal rendered its judgment on 20 December 2020 and dismissed the appeals. The provision, which became irrelevant, was reversed and is presented under operating revenues for a total amount of €8 008K (Note 12).

"Sundry creditors" principally include unspent amounts of extrabudgetary resources to be reimbursed to donors, in accordance with the final financial reports submitted to the donors. These amounts totalled €384K at the end of 2020 (€670K at the end of 2019). This line also includes a reimbursement from insurers in respect of a claim for which repair work is in progress (€416K at the end of 2020 and €425K at the end of 2019).

NOTE 9 - DEFERRED INCOME

Deferred income relates to:

- *Balances carried over from Special accounts*
  Balances carried over correspond to funds received before the reporting date, but for which the corresponding expenditure will be incurred in future reporting periods. This line includes primarily extrabudgetary resources, consisting of contributions received from the European Union, voluntary contributions paid by member States and other donors, and allocations from the annual budgets to the special accounts. Special accounts are multi-annual in nature. The credit balances carried forward in respect of the special accounts are presented as current or non-current liabilities depending on their planned use within a period of 12 months or longer from the end of the financial year. The annual result of the special account "Staff departure scheme" is not reported under deferred income.

  Extrabudgetary resources awaited under signed contracts:
- Multiyear extrabudgetary resources not paid at the reporting date in the case of contracts signed with donors. These are recorded in the Statement of Financial Position as assets in receivables and liabilities in deferred income. Their status as current or non-current is determined by the terms of payment provided for in the contracts signed with the donors.

Variances depend on the volume of activities implemented throughout the year and the contracts signed with the donors to fund the projects.

	31 December 2020 €K	31 December 2019 €K
Balances carried over from Special accounts	(108 028)	*(82 644)*
Extrabudgetary resources awaited under signed contracts	(52 726)	*(53 176)*
Current deferred income	**(160 754)**	***(135 820)***
Balances carried over from Special accounts	(53 814)	*(40 346)*
Extrabudgetary resources awaited under signed contracts	(48 865)	*(60 823)*
Non current deferred income	**(102 679)**	***(101 169)***
	(263 433)	***(236 989)***

Balances carried over from Special accounts

The annual adjustment (€37 852K) recognised in deferred income is detailed by category of special account below:

Special accounts by category	Balance as at 01/01/2020 €K	Extrabudgetary resources received €K	Refunds to donors €K	Budgetary allocations (b) €K	Other receipts (c) €K	2020 Expenditure €K	Other €K	Balance as at 31/12/2020 €K
Special Accounts to the Ordinary Budget	38 732	25 526	(565)	3 219	341	(19 647)	-	47 606
Special Accounts to the Partial and/or Enlarged Agreements	6 810	4 216	(88)	3 302	93	(5 338)	-	8 995
Special Accounts Joint Programmes with European Union	32 815	43 555	(367)	5 497	269	(34 544)	-	47 225
Total Special Accounts financed by extrabudgetary resources	**78 357**	**73 297**	**(1 020)**	**12 018**	**703**	**(59 529)**	**-**	**103 826**
Other individualised special accounts	44 602	-	-	18 846	6 778	(13 241)	-	56 985
Other deferred income (a)	31	-	-	-	-	-	1 000	1 031
Total deferred income	**122 990**	**73 297**	**(1 020)**	**30 864**	**7481**	**(72 770)**	**1 000**	**161 842**
Total adjustment of the unused annual balance in deferred income				**37 852**				

(a) At the 1386th meeting, the Ministers' Deputies decided to carry over budgetary appropriations amounting to €1 000K in accordance with the provisions of Article 29 of the Financial Regulations. This amount has been adjusted downwards on the "Obligatory contributions" line in 2020 in Note 12. The amount of €31K corresponds mainly to an ECHR publication invoiced in advance.
(b) Budgetary allocations include extrabudgetary resources received in 2020 by the North-South Centre from its operating budget for €173K, less refunds and reallocations of unused balances for €119K. These amounts are transferred to the special account in the form of an allocation.
(c) Other receipts include the appropriations allocated to the special account "Administrative support" (€6 407K), the reversal of the provision in respect of ongoing litigation (€627K), re-invoicing of meeting room hire, conference registrations and other receipts (€447K).

The movements recorded on the special account "Staff departure scheme" (€6 236K in 2020) are not carried forward in the deferred income and are part of the result for the year. The budgetary result of this special account is allocated to "Other reserves".

The line "Total Special Accounts financed by extrabudgetary resources" includes as-yet unexpended balances for projects funded jointly by the European Union, member States and other donors.

The "Other individualised special accounts" include unspent balances carried forward for multiyear projects funded by budgetary allocations and other receipts, namely:

- the balances on the special accounts for general investment programmes in buildings and IT (€25 097K) and EDQM investments (€19 531K). These balances stood at €14 766K and €19 091K respectively at 31 December 2019;
- the special account "Administrative support" (€10 709K et €9 097K at the end of 2019) for the administrative levies applied to projects funded with extrabudgetary resources further to the decision taken by the Deputies at their 1185th meeting (CM(2013)123) to cover the logistical support for the projects;
- the appropriations frozen (€1 648K at the end of 2020 and 2019) in respect of the special measures taken by the Deputies following the Russian Federation's decision to suspend payment of the balance of its contributions.

Extrabudgetary resources: conditional payments under contracts signed with donors

The European Union partly finances activities run by the Council of Europe. In most cases, the financing of these activities is paid to the Council of Europe in three instalments which correspond to 40%, 40% and 20% of the full amount.
The initial prefinancing is payable by the European Union upon signature of the contract and is normally paid within 45 days of signature. The second and third instalments are payable only if the activities have been carried out and the financial report on the use of the funds has been approved by the European Union.

The member States and other donors also contribute to the financing of specific projects or action plans.

Depending on their status, sums not paid at the end of the financial year under contracts signed with the European Union or other donors are presented under current or non-current assets and liabilities in accordance with the payment schedules and terms agreed to upon signature of the contracts.

NOTE 10 - EMPLOYEE BENEFITS

Employee benefits represent the estimated actuarial liability in respect of the defined benefit pension schemes, also including post-employment health cover.

The Council of Europe operates three defined benefit pension schemes, which also provide health cover for retired staff members and their dependants.

The first pension scheme was put in place in 1974, jointly with the other Co-ordinated Organisations, but has been closed to new staff members recruited after 31 December 2002. A New Pension Scheme was implemented on 1 January 2003 and has been closed to staff members recruited after 31 March 2013. Finally, a Third Pension Scheme was implemented on 1 April 2013. The main differences in benefits between the three schemes are as follows:

a) Retirement age with no abatement of pension rights was increased from 60 under the first scheme to 65 (phased between 63 and 65 depending on the age of the staff members concerned on 1 January 2013) under the new scheme and the third scheme.

b) Under the new and the third pension schemes benefits are indexed to inflation and not to the adjustment of serving staff's salaries. The Deputies adopted in November 2019 Resolution CM/Res(2019)30, which amends the Rules of the first scheme as from 1 January 2020 to align the indexation of benefits with the rate of inflation as for the other two schemes.

c) The leaving allowance under the new and third schemes is calculated respectively as 2.25 and 2 times the monthly contribution rate, applied to the last salary and multiplied by the months of service. For the first pension scheme it is calculated as a month and a half of the last salary multiplied by the years of service, plus contributions paid into the pension scheme by the staff member, increased by compound interest at the rate of 4%. This allowance is only paid to staff members who leave the Organisation without attaining ten years' service.

To measure the liability of the Council of Europe in respect of its employee benefits, an actuarial study is carried out on a yearly basis using the Projected Unit Credit Method, as required under IPSAS. This entails measuring the obligation arising from the acquired rights of each individual member of the pension schemes, so as to build up the total final obligation. The International Service for Remunerations and Pensions (ISRP) acts as the Organisation's actuary.

The system set up in accordance with IPSAS 39 is based on the comparison of the actuarial valuation of the employee benefits obligation at the closing date with the projection of the previous year's obligation, also at the closing date of the reporting period, which would result from the increase in the obligation less the benefits paid during the period.

The actuarial valuation of the defined benefits obligation is determined by discounting the probable future payments required to settle the obligation resulting from employee service rendered in the current and prior periods.

Actuarial gains or losses arise when the actuarial assessment differs from the long-term expectation of the obligations: they result from an experience adjustment (difference between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. These actuarial gains or losses are recognised in the “Employee benefits reserve” in the year in which they occur.

The actuarial assumptions applied can be broken down into endogenous and exogenous assumptions. Endogenous assumptions reflect developments internal to the Organisation, both demographic and economic. They include turnover, the probability of retiring or becoming disabled, salary increases and promotions and new entrants' profiles. These actuarial assumptions are subject to regular review. The gains or losses associated with these changes in the assumptions are recorded as actuarial gains or losses in the equity.

Exogenous assumptions reflect factors external to the Organisation and that may affect its situation, again both economically and demographically. They include mortality, the inflation rate and discounting of future cash flows.

The principal external actuarial assumptions as at 31 December 2020 (expressed as weighted averages) were:

	Pension benefits	Post-employment health benefits
Discount rate	0,29%	0,40%
Inflation rate	1,94%	1,94%
Future salary increase	2,18%	-
Future benefit increase for the pension scheme	2,18%	-
Future benefit increase for the new and third pension scheme	1,94%	-
Future health cost increase	-	3,94%

The discount rate (nominal value of 0.29% for pensions and 0.40% for health benefits) used in the actuarial study, defined as the internal rate of return of the related commitments, is determined by reference to the French government bond rate.

The inflation rate (1.94%) is based on the inflation objective of the European Central Bank (2%), corrected for the average difference between French and Eurozone inflation.

The salary increase rate applied in the actuarial study is 0.24% above inflation. This rate was recommended by the Pensions Administrative Committee of the Co-ordinated Organisations (PACCO) and has been approved by the Co-ordinating Committee on Remuneration (CCR).

The future health cost increase represents expected inflation on medical expenditure, regardless of the overall inflation rate and the change in the structure of the population. In view of the most recent medical information, in 2014 it was decided to retain a conservative approach and to adopt a medical inflation assumption corresponding to an additional 2% above the overall inflation rate. This assumption remained unchanged for the assessment as at 31 December 2020.

An increase or decrease of 0.25% in the discount rate would result in a change in the pension benefit obligation of approximately 6.25% for pension benefits and 8.35% for post-employment health benefits as at 31 December 2020.

Assumed trends in health care costs have a significant impact on the amounts recognised in the Statement of Financial Performance. A one percentage point variance in the assumed health care cost trend rates would have the following effects:

	One percentage point increase €K	One percentage point decrease €K
Effect on the aggregate of the service cost and interest cost	9 499	(5 995)
Effect on the defined benefit obligation	190 786	(131 238)

Changes in the present value of the employee future benefits obligation are as follows in 2020 and 2019:

	31 December 2020		
	Pension benefits €K	Post-employment health benefits €K	Total benefits €K
Opening employee future benefits obligation	(3 481 684)	(458 363)	(3 940 047)
Current service cost	(152 664)	(13 157)	(165 821)
Past service cost			-
Interest cost	(31 093)	(4 714)	(35 807)
Benefits paid	53 726	1 441	55 167
Actuarial gains / (losses) for the period	(553 100)	(6 702)	(559 802)
Employee future benefits obligation	**(4 164 815)**	**(481 495)**	**(4 646 310)**

	31 December 2019		
	Pension benefits €K	Post-employment health benefits €K	Total benefits €K
Opening employee future benefits obligation	(2 848 812)	(357 835)	(3 206 647)
Current service cost	(122 370)	(10 632)	(133 002)
Past service cost	96 575	-	96 575
Interest cost	(47 702)	(6 530)	(54 232)
Benefits paid	52 389	2 008	54 397
Actuarial gains / (losses) for the period	(611 764)	(85 374)	(697 138)
Employee future benefits obligation	**(3 481 684)**	**(458 363)**	**(3 940 047)**

The actuarial loss for the pension benefits obligation amounted to €553 100K in 2020. It is explained primarily by the significant decrease in the discount rate from 0.90% in 2019 to 0.29% in 2020. This actuarial loss was in addition to the increase in the obligation relating to the current service cost and the financial (interest) cost. It was nevertheless offset by the positive effect on the obligation of the benefits paid during the year. Since 1 January 2020, benefits under this first pension scheme are indexed to the rate of price inflation, as is the case of those under the new scheme and the third scheme. Previously, Co-ordinated Pension Scheme benefits were adjusted in line with the salary adjustment for serving staff. The total increase in the obligation related to pension benefits is €683 131K.

With regard to post-employment health benefits, the actuarial loss of €6 702K is also mainly attributable to the significant decrease in the discount rate (1.03% in 2019 and 0.40% in 2020) The cost of services rendered and the financial cost also have a negative impact on the obligation, which is slightly offset by the benefits paid during the year. The total increase in the obligation for post-employment health benefits amounts to €23 132K.

The Organisation estimates contributions to the defined benefit pension schemes at €82 815K for the financial year 2021.

The liabilities recognised in the Statement of Financial Position for the defined benefits obligation as at 31 December 2020 and 31 December 2019 are as follows:

	31 December 2020		
	Pension benefits €K	Post-employment health benefits €K	Total benefits €K
Employee benefits - current	(57 081)	(1 963)	(59 044)
Employee benefits - non-current	(4 107 733)	(479 532)	(4 587 265)
Total employee benefits	**(4 164 814)**	**(481 495)**	**(4 646 309)**

	31 December 2019		
	Pension benefits €K	Post-employment health benefits €K	Total benefits €K
Employee benefits - current	(54 613)	(2 421)	(57 034)
Employee benefits - non-current	(3 427 070)	(455 942)	(3 883 012)
Total employee benefits	**(3 481 683)**	**(458 363)**	**(3 940 046)**

The amounts recognised in the Statement of Financial Performance are as follows:

	2020			2019		
	Pension benefits €K	Post-employment health benefits €K	Total benefits €K	Pension benefits €K	Post-employment health benefits €K	Total benefits €K
Member States' contributions	28 718	-	28 718	30 264	-	30 264
Budgetary allocations	32 046	-	32 046	25 789	-	25 789
Contributions from staff members	19 472	-	19 472	15 381	-	15 381
Unrealised capital gains/(losses)	25 143	-	25 143	53 000	-	53 000
Realised capital gains/(losses)	-	-	-	10 004	-	10 004
Interest and other income	203	-	203	710	-	710
	105 582	**-**	**105 582**	**135 148**	**-**	**135 148**
Current service cost	(152 664)	(13 157)	(165 821)	(122 370)	(10 632)	(133 002)
Past service costs	-	-	-	96 575	-	96 575
Interest cost	(31 093)	(4 714)	(35 807)	(47 702)	(6 530)	(54 232)
	(183 757)	**(17 871)**	**(201 628)**	**(73 497)**	**(17 162)**	**(90 659)**

The actuarial gains/(losses) recognised in net Equity are as follows:

	31 December 2020 €K	31 December 2019 €K
Pension benefits	(553 100)	(611 764)
Post-employment health benefits	(6 702)	(85 374)
Total actuarial losses	**(559 802)**	***(697 138)***

The following table sets out the assets and liabilities recognised in the Statement of Financial Position for the defined employee benefits obligation and the progression of the Pension Reserve Fund for the period 2016-2020:

	2020 €K	2019 €K	2018 €K	2017 €K	2016 *(restated)* €K
Employee future benefits obligation	(4 646 309)	(3 940 046)	(3 206 647)	(2 795 788)	(2 757 062)
Net assets held by the Pension Reserve Fund	488 176	437 503	357 904	362 217	320 420

NOTE 11 - BORROWINGS

In 2004 the Council contracted an initial loan of €57 720K with Dexia to finance the construction of the Agora building, the implementation of new security measures and the renewal of the computer network cabling. Due to an increase in the initial budget, a call for tenders was made in 2006 for an increased loan of €63 102K, which replaced the initial loan.

The loan will be repaid over a period of 17 years and 6 months with a fixed annual interest rate of 3.67%. The loan is reimbursed through fixed instalments of €2 545K payable on 1 January and 1 July of each year.

Capital repayments that fall due less than twelve months from the end of the reporting period are presented as short-term debt. Those falling due more than twelve months from the end of the reporting period are presented as long-term debt.

	31 December 2020 €K	31 December 2019 €K
Short-term loan	(4 564)	*(4 397)*
Long-term loan	(10 700)	*(15 263)*
	(15 264)	***(19 660)***

NOTE 12 - OPERATING REVENUE

	2020 €K	2019 €K
Obligatory contributions	297 096	*288 133*
Contributions to special accounts	34 671	*57 513*
Pension contributions	48 463	*45 859*
Accession contributions	301	*417*
EDQM receipts	70 229	*66 090*
"Eurimages" reimbursements of advances on receipts	1 475	*1 441*
Net movement in inventories	5 472	*6 051*
Reversal of provision in respect of ongoing litigation	8 008	-
Sundry receipts	3 823	*3 547*
	469 538	***469 051***

The explanations for the main variances between 2020 and 2019 are as follows:

a) Obligatory contributions are consistent with the annual budget approved by the Committee of Ministers and depend on the budget growth allowed and on any accessions to or withdrawals from Partial Agreements. These contributions are either intended to finance the annual activities of the Organisation or allocated to Special Accounts in the form of an allocation.

At the 1386th meeting, the Ministers' Deputies decided to carry over budgetary appropriations amounting to €1 000K in accordance with the provisions of Article 29 of the Financial Regulations. This amount has been adjusted downwards on the "Obligatory contributions" line in 2020 and as an increase in deferred income (Note 9).

In 2019, the "Obligatory contributions" line increased by €1 637K with a reduction in deferred income:
- at the 1328th meeting, the Ministers' Deputies decided to carry over to 2019 budgetary appropriations from 2018 from the Ordinary Budget for €35K;
- at the 1361st meeting on 19-21 November 2019, the Ministers' Deputies authorised the partial use of appropriations frozen on a special account in 2017 pending the payment of the balance of the Russian Federation's contribution for an amount of €1 601K.

b) The Contributions to special accounts are mostly financed by extrabudgetary resources and allocations from the annual budgets. Extra-budgetary resources and budgetary allocations credited to special accounts during the year but not spent at the balance sheet date are presented as 'deferred income' in the Statement of Financial Position and recognised in the Statement of Financial Performance when they have been spent.

The table below details the movements recorded in this line for 2020 and 2019:

	Extrabudgetary resources received		Refunds or reallocations of unused balances to new projects		Budgetary allocations		IPSAS adjustments		Total	
	2020 €K	2019 €K	2020 €K	2019 €K	2020 €K	2019 €K	2020 €K	2019 €K	2020 €K	2019 €K
Member States (1)	20 320	25 702	(564)	(1 673)	-	-	(20)	20	19 736	24 049
European Union	47 031	46 503	(481)	(1 546)		-	-	-	46 550	44 957
Other donors (2)	6 339	5 772	(94)	(23)	-	-	(8)	8	6 237	5 757
Budgetary allocations (3)	-	-	-	-	32 172	29 626	(32 172)	(29 626)	-	-
Annual (Surplus) / Deficit adjusted to deferred income	-	-	-	-	-	-	(37 852)	(17 250)	(37 852)	(17 250)
Total	**73 690**	**77 977**	**(1 139)**	**(3 242)**	**32 172**	**29 626**	**(70 052)**	**(46 848)**	**34 671**	**57 513**

(1) of which €220K has been allocated to the European Youth Foundation. €20K paid in 2019 were allocated to the special account in 2020.
(2) of which €65K in 2020 and €67K in 2019 for contributions from non-member States to cultural and sports activities, €105K in 2020 for contributions from non-member States to monitoring activities, €602K in 2020 and €161K in 2019 for funds paid by the Human Rights Trust Fund pending budgetary allocation to a project and an amount of €8K received in 2019 which was allocated to the special account in 2020. These amounts are not included in the document DD(2021)111 on extra-budgetary resources received in 2020.
(3) Budgetary allocations include extra-budgetary resources, received in 2020 and 2019 by the North-South Centre from its operating budget, respectively €173K and €1 058K, which are allocated to the special account as an allocation. In 2020 the North-South Centre also reimbursed or reallocated unused balances amounting to €119K.
Budgetary allocations include budgetary allocations to the special accounts (€30 864K) and allocations from the Ordinary Budget to the "staff departure scheme" special account (€1 308K). All these budgetary allocations are eliminated for accounting purposes in the preparation of the financial statements.

c) Pension contributions represent the contributions to the Pensions Reserve Fund from member States (€28 718K in 2020 and €30 263K in 2019), staff members (€18 472K in 2020 and €15 382K in 2019) and the European Audiovisual Observatory (€274K in 2020 and €214K in 2019).

d) Contributions linked to the accession of new members during the year are additional to the contributions approved by the Committee of Ministers in the original budget. They are detailed below for 2020 and 2019:

	2020 €K	2019 €K
Member States of the Council of Europe		
Albania	5	-
Andora	1	-
Armenia	4	-
Georgia	2	-
Italy	55	-
Latvia	-	*3*
Montenegro	-	*123*
Sweden	7	-
Turkey	64	-
Ukraine	150	-
	288	***126***
Non-member of the Council of Europe		
Argentina	-	*263*
Canada	-	*28*
Kazakhstan	13	-
	13	***291***
	301	***417***

e) EDQM receipts are those from the sale of reference substances, publications and samples, and from certification activities. The increase of €4 439K in 2020, as compared with 2019 mainly concerns a €2 143K increase in receipts from the sale of reference substances and biological references and €2 152K from the sale of the publications produced by the EDQM.

f) Repayments of “Eurimages” advances on receipts remained stable compared with 2019. Reimbursements of advances on receipts are recognised in the Statement of Financial Performance as the payments are received. The annual variance in the amount of repayments received mainly depends on the films' commercial success.
In total, 5.98% of advances on receipts for production projects paid by “Eurimages” have been reimbursed since the Fund's creation.

g) The provision in respect of ongoing litigation established in 2018 and 2019 following the appeals lodged with the Administrative Tribunal of the Council of Europe has been reversed in its entirety following the decision against the appeals which was rendered on 20 December 2020 (Note 8).

g) Sundry receipts include registration fees for seminars, board and lodging receipts from the European Youth Centres, receipts from car park rentals, interpretation fees, general publications receipts, rebates received on travel expenses and other minor receipts.
In 2020 this line also includes in the movements recorded during the year in respect of the reserve for health cover for a net amount of €1 822K. This amount includes an expected payment of €1 920K in respect of profit sharing for the period 2017 to 2019 due from the insurer responsible for medical cover (Note 4).

NOTE 13 - SERVICES IN KIND

The Council of Europe receives services in kind, which help the Organisation to run its annual activities. The main services in kind, with an estimated total value of €2 145K in 2020 (€2 261K in 2019), are set out below:

a) European Youth Centre in Budapest

Since 1995 the Hungarian authorities have provided the building which hosts the European Youth Centre in Budapest, the annual rental value of which can be estimated at €1 100K. The donation also includes the cost of maintenance and the investments needed for the renovation of the building. The building has a floor area of 6 410 m² and is situated on the Rose Hill, one of the most prestigious areas of the city.

In 2020 the maintenance costs for the building are estimated at €273K. The Hungarian authorities also provide an engineer who oversees maintenance and investment works at the Centre.

b) European Centre for Modern Languages (Graz)

The Austrian authorities provide the local infrastructure in Graz necessary to run the activities connected with the European Centre for Modern Languages. The contribution in kind can be estimated at €387K. These funds are managed by the Austrian Association “Verein EFSZ”, which maintains the premises, provides assistance with day-to-day logistics and acts as intermediary between the Centre and the national, regional and local bodies.

c) North-South Centre (Lisbon)

The North-South Centre receives services in kind from various organisations that co-operate with the Centre in the organisation of activities. The amount of such contributions in kind received by the Centre is estimated at €4K. In addition, since 2012 the Centre occupies premises made available by the Portuguese Ministry of Foreign Affairs and the rental value is estimated at €153K. Total contributions in kind received by the Centre in 2020 are estimated to amount to €157K.

e) External offices

The premises of the external offices in Geneva, Vienna, Venice, and Bucharest are provided by the local authorities. Overall, these contributions in kind can be estimated to amount to €178K for 2020.

f) Other

- The contribution in kind by the Grand Duchy of Luxembourg under the co-operation agreement concerning the European Institute of Cultural Routes is estimated at €50K, corresponding to the provision of premises and meeting rooms.
- In addition, the Organisation also benefits from the services of staff seconded by member States, which ensure most of the financing. Seconded staff, a significant proportion of whom have been assigned to the European Court of Human Rights, are estimated to number 100 during the year.

NOTE 14 - OPERATING EXPENSES

	2020 €K	**2019** €K
Purchase of goods and services	(50 148)	*(54 340)*
Fees and travel expenses	(31 006)	*(50 430)*
Staff expenses	(423 331)	*(310 390)*
Judges' emoluments	(11 815)	*(11 375)*
“Eurimages” advances on receipts and grants	(15 958)	*(21 642)*
Property, plant and equipment depreciation and amortisation	(15 141)	*(14 616)*
Other expenses	(26)	*(397)*
	(547 425)	***(463 190)***

Apart from staff expenses, operating expenses decreased substantially in 2020 (18.8%) due to the pandemic, as it was not possible for most activities to be held in physical form. The Organisation nevertheless adapted its working methods to ensure business continuity, in particular by expanding online meetings.
The increase in staff expenses was due to the impact of the provision relating to pensions and post-employment benefits.

“Purchases of goods and services” fell by 7.7%. This line includes purchases of non-capitalised items of equipment, purchases of non-storable supplies and other consumables, rents, maintenance, upkeep and repair expenses and the sub-contracting of services.

Fees and travel expenses fell by 38.5%, with a sharp decline of 81.1% in travel expenses, while expenditure on fees rose by 13.6%. The pandemic had a very major impact on “travel expenses”, with travel by staff members and experts coming to a standstill from March 2020.

	2020 €K	**2019** €K
Fees	25 764	*22 677*
Travel expenses	4 774	*27 753*
Provision for home leave travel expenses	468	-
	31 006	***50 430***

“Eurimages” advances on receipts and grants decreased by €5 684K in 2020 compared to 2019. This line corresponds to payments made to co-producers during the year, which increase the Fund’s financial assets. In view of the uncertainty of their recovery, a doubtful debt provision is recorded for the full amount of these advances, which impacts the Statement of Financial Performance. The decrease in 2020 was the result of an increase in the time lags between the date of allocation of support by the Board of Management and the date of signature of co-production agreements. The longer time lags were very likely closely linked to the pandemic, which led to the closure of cinemas for relatively lengthy periods in many member countries, as well as to travel restrictions and other constraints and difficulties stemming from the crisis that had a major impact on film production and shooting.

This item also includes other grants recorded in respect of the programme of activities of “Eurimages” (distribution, promotion, theatres and gender equality). The Board of Management decided to discontinue the distribution support programme in its current from with effect from 2020.

For 2019, the line “Other expenses” includes the net movements recorded during the year in respect of the reserve relating to health cover (-€268K). The movements recorded in 2020 are presented in Note 12 under “Other income” (€1 822K).

The breakdown of staff expenses was as follows:

	2020 €K	2019 €K
Expenditure		
Permanent staff	(185 241)	*(181 622)*
Temporary staff	(31 265)	*(29 669)*
Indemnities for loss of job	-	*(3 763)*
Post-employment employee benefits paid	(55 888)	*(54 397)*
Other	(503)	*(360)*
	(272 897)	*(269 811)*
Accruals		
Provisioned post-employment employee benefits	(146 461)	*(36 262)*
Provisioned leave entitlement	(3 330)	*(262)*
Provision in respect of ongoing litigation	-	*(4 055)*
	(149 791)	*(40 579)*
	(422 688)	***(310 390)***

Expenditure on staff varies primarily as a result of the annual salary increase (2.6% in 2020 and 2.5% in 2019), the impact of the seniority of the Organisation’s employees, and changes in the number of full-time equivalents (FTEs). However, in 2020, the salary increase was offset by an increase in staff contributions to the pension schemes. The rates are now 11.8% for the first and second schemes and 10.6% for the third scheme, as against 9.5%, 9.3% and 9.4% respectively in 2019. Staff expenses increased overall by 36.18% in 2020, but the increase was only 1.14% when staff benefits costs, provisioned leave entitlement and the provision for ongoing litigation are excluded.

Expenditure on the “Permanent staff” line increased by 1.99%, while the increase in expenditure on temporary staff was more substantial (5.38%). This increase was mainly recorded in external offices, in particular in connection with activities financed with extrabudgetary resources. More frequent use of such contracts was also, however, made at headquarters, compared to 2019.

The Organisation also in 2019 implemented an early departure scheme for staff, the principle of which had been approved by the Committee of Ministers as part of the ongoing administrative reform measures. Compensation for loss of employment amounted to €3 763K in 2019. No such compensation was recorded in 2020.

The variation in the provision related to pensions and post-employment benefits is explained by the changes in the actuarial assumptions, the additional cost related to services rendered and the interest cost less past service cost and benefits paid during the year. The expenses recognised in the Statement of Financial Performance in 2020 are considerably higher than in 2019 due to the impact in 2019 of past service costs, following the adoption by the Deputies at the 1361st meeting of Resolution CM/Res(2019)30, in particular the indexation of benefits for the first pension scheme to the rate of inflation as for the other two schemes, with effect from 1 January 2020. In accordance with IPSAS 39, the actuarial gains and losses do not affect the Statement of Financial Performance and are recorded directly in equity.

The expense recognised in the Statement of Financial Performance for the year in respect of pensions and post-employment benefits is shown below. Detailed information is presented in Note 10.

	2020 €K	2019 €K
Current service cost	(165 821)	*(133 002)*
Past service cost	-	*96 575*
Interest cost	(35 807)	*(54 232)*
Benefits paid [1]	55 167	*54 397*
	(146 461)	***(36 262)***

[1] The calculation of the obligation in respect of post-employment health benefits takes account in 2020 of actual reimbursements made in respect of medical cover for pensioners, whereas the expense recorded in Note 14 in respect of *post-employment employee benefits paid* includes employer contributions for medical cover, which explains the variation of €712K on the *benefits paid line.*

The provision in respect of ongoing litigation was reversed following the decision by the Administrative Tribunal in December 2020. The information concerning the reversal of the provision is set out in Note 12 *Operating revenue* and Note 8 *Other creditors*.

The provision for unutilised leave entitlement is up substantially in 2020 because of the impact of the health crisis and a reduction in leave requests by staff members during the financial year.

Full-time equivalents (FTEs) numbered 2 071.25 for permanent staff in 2020 as against 2 058.52 in 2019, while the number of FTEs for temporary staff numbered 688.21 in 2020 as against 609.05 in 2019.

NOTE 15 - FINANCIAL REVENUE AND EXPENSES

	2020 €K	2019 €K
Interest on short-term deposits and savings accounts	431	*646*
Late payment interest on obligatory contributions	63	*4 465*
Realised gains on sales of investments	-	*10 004*
Unrealised gains on financial investments	25 142	*53 000*
Fees on portfolio	154	*307*
Other financial revenue	59	*37*
Total financial revenue	**25 849**	***68 459***

	2020 €K	2019 €K
Bank charges	(273)	*(285)*
Net foreign currency conversion losses	(31)	*(14)*
Financial charges on finance lease contracts	(77)	*(94)*
Dexia loan interest	(611)	*(771)*
Other financial charge	(9)	*(10)*
Total financial expenses	**(1 001)**	***(1 174)***

The change in financial revenue and expenses primarily reflects the performance of the Pension Reserve Fund's investments in 2020 and 2019. The items “Realised gains on sales of investments”, “Unrealised gains on financial investments”, “Fees on portfolio” and “Unrealised losses on financial investments” relate entirely to the Fund's performance in accordance with the investment strategy implemented (see Note 5).

The Pension Reserve Fund's investment transactions, measured at fair value of the portfolio for financial investments, generated a net gain of €25 345K in 2020 and €63 304K in 2019.

In 2020, the line “Interest on short-term deposits and savings accounts” fell compared to the previous year. This was mainly due to the maturity in 2019 of investments with automatic renewal and increasing interest rates initiated in 2014. These investments offered the highest interest rate over the recent period. Against a general background of continuing extremely low interest rates, it was not possible to reinvest the additional cash funds credited during 2020 or those from investments that matured in 2019 and 2020 at comparable rates to previous years. Despite the competition between banks when investing cash surpluses, banks continue to offer interest rates that are close to zero or even negative for short-term investments. Most banks have also introduced upper limits on investments in euros in term deposits or savings accounts.

The line “Late payment interest on obligatory contributions” has decreased significantly in 2020 as a result of the payment by the Russian Federation in the second half of 2019 of its outstanding obligatory contributions for the relevant budgets for the years 2017-2019.

NOTE 16 - SEGMENT INFORMATION

Segment information relating to the Statement of Financial Performance is based on the sources of financing for operating revenue and on the budgetary structure as set out in the Organisation's budgets for 2019 and 2018 for operating expenditure. Budgetary allocations and recharged services by the Subsidiary budgets are internal transactions which are eliminated in the Statement of Financial Performance and are not presented in the segment information.

The segments identified based on the sources of financing are the Ordinary, Subsidiary and Service Budgets (financed by all member States), the partial agreements (financed by only some member States or non-member States), the special accounts (multi-annual activities mainly financed with extrabudgetary resources) and the Pension Reserve Fund.

The presentation of the operating expenditure data is the same as in the Programme and Budget. Expenditure under the Ordinary Budget and other budgets is structured by pillar, with three operational pillars (Human Rights, Rule of Law and Democracy) and an additional support pillar (governing bodies, general services and other). The other segments identified are the special accounts and the Pension Reserve Fund.

The tables below combine budgetary and IPSAS reporting. The IPSAS column shows adjustments not part of the budgetary reporting, which correspond to the accounting adjustments necessary to meet IPSAS requirements. These adjustments mainly concern pension benefits, property, plant and equipment and related depreciation.

On account of the nature of the Organisation's activities, its assets and liabilities are used jointly by all segments and therefore cannot be presented separately.

Segment information – 2020 Operating revenue and expenses

	2020 Operating revenue						
	Ordinary Budget	Subsidiary and services budgets	Partial agreements	Special accounts	Pension Reserve Fund	IPSAS adjustments	Total
	€K	€K	€K	€K	€K	€K	€K
Obligatory contributions	247 326	8 456	42 314	-	-	(1 000)	297 096
Contributions to special accounts	-	220	54	72 277	-	(37 880)	34 671
Pensions contributions	-	-	-	-	48 463	-	48 463
Accession contributions	-	-	301	-	-	-	301
Allocation of previous year's result	-	1 700	73 562	-	-	(75 262)	-
EDQM receipts	-	-	70 229	-	-	-	70 229
"Eurimages" reimbursement of advances on receipts	-	-	1 475	-	-	-	1 475
Net movement in inventories	-	-	-	-	-	5 472	5 472
Reversal of provision in respect of ongoing litigation		21	979	5 564	1 444	-	8 008
Sundry receipts	540	673	265	445	-	1 900	3 823
Total operating revenue	**247 866**	**11 070**	**189 179**	**78 286**	**49 907**	**(106 770)**	**469 538**

	2020 Operating expenses							
	Pillar				Adjustments			Total
	Human Rights	Rule of law (1)	Democracy (1)	Governing bodies, General Services and other	Special accounts	Pension Reserve Fund	IPSAS adjustments	
	€K	€K	€K	€K	€K	€K	€K	€K
Purchase of goods and services	(3 436)	(14 027)	(6 121)	(18 053)	(15 500)	-	6 989	(50 148)
Fees and travel expenses	(3 871)	(2 520)	(2 822)	(5 910)	(16 334)	(438)	889	(31 006)
Staff expenses	(74 587)	(35 159)	(27 361)	(49 118)	(30 969)	(56 531)	(149 606)	(423 331)
Judges' emoluments	(11 815)	-	-	-	-	-	-	(11 815)
"Eurimages" advances on receipts and grants	-	-	(14 944)	-	-	-	(1 014)	(15 958)
Property, plant and equipment depreciation and amortisation	-	-	-	-	-	-	(15 141)	(15 141)
Other expenses	(2)	-	(1)	(22)	(1)	-	-	(26)
Total operating expenses	**(93 711)**	**(51 706)**	**(51 249)**	**(73 103)**	**(62 804)**	**(56 969)**	**(157 883)**	**(547 425)**

[1)] The EDQM was attached to the Human Rights pillar in 2019 and is attached to the Rule of Law pillar in 2020.

Segment information – 2019 Operating revenue and expenses

	2019 Operating revenue						
	Ordinary Budget	Subsidiary and services budgets	Partial agreements	Special accounts	Pension Reserve Fund	IPSAS adjustments	Total
	€K	€K	€K	€K	€K	€K	€K
Obligatory contributions	237 950	8 387	40 160	-	-	1 637	288 133
Contributions to special accounts	-	-	1 059	73 677	-	(17 223)	57 513
Pensions contributions	-	-	-	-	45 859	-	45 859
Accession contributions	-	-	417	-	-	-	417
Allocation of previous year's result	-	1 098	60 971	72	-	(62 142)	-
EDQM receipts	-	-	66 090	-	-	-	66 090
"Eurimages" reimbursement of advances on receipts	-	-	1 441	-	-	-	1 441
Net movement in inventories	-	-	-	-	-	6 051	6 051
Sundry receipts	754	1 992	343	467	-	(9)	3 547
Total operating revenue	**238 704**	**11 476**	**170 481**	**74 217**	**45 859**	**(71 685)**	**469 051**

	2019 Operating expenses							
	Pillar				Adjustments			Total
	Human Rights	Rule of law (1)	Democracy (1)	Governing bodies, General Services and other	Special accounts	Pension Reserve Fund	IPSAS adjustments	
	€K	€K	€K	€K	€K	€K	€K	€K
Purchase of goods and services	(16 167)	(627)	(6 536)	(17 543)	(31 529)	-	18 061	(54 340)
Fees and travel expenses	(8 824)	(4 690)	(7 084)	(6 634)	(24 147)	(403)	1 351	(50 430)
Staff expenses	(95 631)	(14 062)	(26 931)	(52 293)	(30 102)	(55 107)	(36 264)	(310 390)
Judges' emoluments	(11 375)	-	-	-	-	-	-	(11 375)
"Eurimages" advances on receipts and grants	-	-	(19 911)	-	-	-	(1 731)	(21 642)
Property, plant and equipment depreciation and amortisation	-	-	-	-	-	-	(14 616)	(14 616)
Other expenses	-	-	-	(27)	(83)	-	(287)	(397)
Total operating expenses	**(131 997)**	**(19 380)**	**(60 462)**	**(76 497)**	**(85 860)**	**(55 509)**	**(33 486)**	**(463 190)**

NOTE 17 - CONTINGENCIES AND CAPITAL COMMITMENTS

a) CONTINGENT LIABILITIES

The Council of Europe is party to a limited number of administrative complaints and appeal proceedings before the Administrative Tribunal as follows:

Appeals and administrative complaints

Seven appeals and a few administrative complaints relating mainly to remuneration and conditions of service remained open as at 31 December 2020. The judgments had not yet been rendered by the Administrative Tribunal as at the reporting date, but the cost, if any, would not be material, should the Administrative Tribunal decide in favour of the appeals.

Audit of programmes funded by the European Union

Several verification procedures on the use of funds allocated to projects were carried out by independent auditors commissioned by the European Union and have not yet been finalised. The European Union has finalised a verification procedure after the reporting date and is expected to submit a claim for reimbursement of €27K for expenditure that was definitively rejected. Further procedures are still underway for four other projects and ineligible expenditure could amount to approximately €534K. At this stage, the Organisation is continuing discussions with the European Union in view of the disputed amounts identified.

“Eurimages” contingent liabilities

Contingent liabilities at year-end consist of amounts committed against contracts already signed and advances on receipts or support authorised by the Board of Management but for which contracts have not yet been signed. In the former case, although the contracts have already been signed, the payment obligation depends on completion, or partial completion, of the films supported.

1) On signed contracts

	31 December 2020 €K	31 December 2019 €K
“Eurimages” advances on receipts for film co-production	13 269	*14 426*

2) On contracts awaiting signature

The Board of Management also authorised advances on receipts for film co-production programmes, promotion and digital equipment for cinemas in respect of which contracts had not yet been signed by the year-end. These amounts are not included in the Statement of Financial Position since the contracts have not yet been signed.

The total amount allocated to projects awaiting signature (co-production and promotion) was €30 563K in 2020 and €22 536K in 2019.

Amounts allocated but still awaiting contract signature have an impact on the funds available for future projects.

b) CONTINGENT ASSETS

Rental expenses

Rental expenses for operating leases were €2 733K for 2020 and €2 749K for 2019, including property leases of €1 783K in 2020 and €1 729K in 2019.

At the closing date, the Council of Europe had outstanding commitments under non-cancellable operating leases, which would fall due as follows:

	31 December 2020 €K	31 December 2019 €K
No later than one year	997	*843*
Later than one year and no later than five years	735	*238*
Later than five years	70	-
	1 802	***1 081***

Payments made under these leases cover the following items:

(a) rent paid by the Organisation for field offices, “D” Building and the official residence of the Secretary General ;
(b) Rents paid by the Organisation for the use of computer hardware and other equipment.

Finance leases

The annual study conducted on all active leases at the reporting date resulted in the reclassification of certain operating leases as finance leases in accordance with IPSAS 13. These contracts are considered as finance leases due to the substance of the transaction; in all cases these are contracts where the lease covers the major part of the economic life of the asset. The classification of the contracts as finance leases resulted in the recognition of a fixed asset for the value of the assets and a liability corresponding to the future payments related to these contracts in accordance with IPSAS 13.

Finance leases mainly cover long-term leases of computer hardware, printers and copiers.

The future minimum payments under the finance leases at 31 December 2020 are as follows:

	2020 €K	2020 €K
Year	Gross Value	Present Value
0 - 1	542	470
1 - 2	514	473
2 - 3	123	112
3 - 4	65	61
Total minimum lease payments	1 244	1 116
Less amount representing interest	128	-
Obligation under finance leases	**1 116**	**1 116**

NOTE 18 - NOTE TO THE CASH FLOW STATEMENT

Reconciliation of net cash flows from operating activities to the net deficit from operating activities:

	31 December 2020 €K	31 December 2019 €K
(Deficit)/Surplus from operating activities	(77 244)	*5 861*
Non-cash movements		
Depreciation and amortisation	15 141	*14 616*
(Increase) in net movement in inventories	(5 472)	*(6 051)*
Decrease / (Increase) in contributions receivable	(3 784)	*49 075*
(Increase) in VAT receivables	27	*(1 907)*
(Increase) in other current assets	(2 510)	*(1 017)*
Increase in employee benefits costs	142 174	*40 529*
Increase/(Decrease) in accounts payable	1 379	*2 663*
Increase in deferred income	38 604	*15 971*
Other	(764)	*(18)*
Net cash flow from operating activities	**107 551**	***119 722***

NOTE 19 - FINANCIAL RISK MANAGEMENT

The financial assets relating to the Organisation's routine operating activities differ from the financial assets linked to the Pension Reserve Fund, which is managed by a Management Board (see Note 5).

Financial assets relating to operating activities

Financial assets relating to operating activities are exposed to different kinds of risk: credit risk, market risk and liquidity risk. The aim of the financial management methods utilised is to neutralise these risks, with the primary objective of preserving the value of the Organisation's resources. In line with this general objective, the main considerations that arise in managing investments are by order of priority:

- security of the capital
- liquidity
- return on investment.

Credit risk: the risk of default by counterparties.
Under the cash management policy when selecting new investments only banks with a minimum level of own funds in excess of 10 billion euros and minimum average long-term and short-term ratings of A and F1 respectively may be consulted and at least eight European banks must be contacted. This policy seeks to reduce credit risk through a diversification of counterparties with an optimum rating.

The “Eurimages” Fund's advances on receipts paid to film producers become reimbursable when the receipts from a film reach a certain level and their recovery is therefore uncertain. A system for monitoring film projects has nonetheless been implemented and calls for funds are issued when the receipts generated by a film reach the level from which their reimbursement is due.

Market risk: the risk of losses arising from movements in the value of financial assets.
All obligatory contributions are payable in euros, and most voluntary contributions are paid in the same currency. The currency risk resulting from fluctuations in exchange rates is confined to a non-material number of voluntary contributions paid in currencies other than the euro.
Expenditure is almost exclusively denominated in euros. Exchange rate risk is principally restricted to expenditure denominated in local currency in connection with the European Youth Centre in Budapest and the external offices in countries outside the Eurozone. The Organisation holds only minimal amounts denominated in foreign currencies and keeps its funds in euros wherever possible.

The interest rate risk exposure is neutralised by confining investments to fixed-rate products and holding them until their maturity date. The predominance of short-term investments makes it possible to adapt to trends in market rates.

Liquidity risk: the risk that payment obligations cannot be met or that financial assets have to be sold at a loss so as to meet such obligations.

Investments are made having regard to the Organisation's cash flow needs for its operations. Daily monitoring of bank accounts and anticipation of future payments on the basis of a monthly cash flow schedule makes it possible to optimise the return on investments while ensuring the minimum liquidity necessary to meet payment obligations.

Pension Reserve Fund

The financial risks of the PRF are thoroughly described and analysed in document PRF/MB(2013)1/REV1 and in the Second and Third Three-Year Reviews [CM(2014)4 and CM(2018)30] and the Intermediate Review [CM(2020)50]. These documents mention other risks related to the sustainability of the Council of Europe’s Pension Schemes, such as the risk of pension benefits evolving unfavourably. This is subject to longevity risk, structural changes in the workforce, wage and inflation risk. Furthermore, the Organisation shall consider the risk of other sources of funding – contribution rates from staff and employer (Member States) and annual payments of contributions – not meeting the level required for the system to be sustainable.

In the Fund Reviews, the Management Board examines the risk framework, i.e. the risks that the Fund is exposed to. In parallel, the Board studies both the best way to reduce risk and, if any risks need to be borne, how to monitor and control them. The latter implies getting the best information about such risks and deciding when and how to undertake the necessary corrections in the event of deviations from the target (risk budget).

The Management Board can undertake measures to reduce or keep the risk of the PRF at a reasonable level in two instances: (i) while designing the investment strategy or Strategic Asset Allocation (SAA), and (ii) during its quarterly meetings, when the most relevant risk measures are presented and analysed in the performance reports.

The risk allowance of the PRF is approved by the Committee of Ministers when approving the SAA. Concerning the risk framework, the PRF portfolio is exposed to a variety of financial risks, outlined below with the measures available to monitor and reduce them.

Market risk: Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. The Management Board also manages credit risk associated with its Fund investment portfolio, primarily in the context of bonds, as a component of market risk.

- ✓ Currency risk - Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. In the PRF portfolio, it arises from the change in foreign exchange rates for any non-Euro investment - affecting global equity and emerging markets equity. The other PRF investments are denominated in euros.
- ✓ Interest rate risk - affecting fixed-income instruments in the investment portfolio. It relates to the risk of decrease of value and/or future cash flows due to unfavourable movements in interest rates.
- ✓ Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk, credit risk or currency risk):
  - Company or business risk - the risk of decrease of value in the equity or debt of a company due to issues related to the company itself or the sector or country in which it operates.
  - Political/regulatory risk - the risk of decrease of value in the equity or debt of a company due to issues related to the country where the company is located or to the regulations impacting the sector in which it operates or to the company itself.

- o Economy/growth risk - risk of decrease in value of equity and bonds due to general economic conditions (economic cycle).
- ✓ Credit risk - is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. It affects bonds (mostly corporate bonds).

The PRF needs to bear some market risk in order to achieve its target return. Market risk can be reduced through portfolio diversification. Diversification is indeed a key consideration when designing the SAA during Three-Year Reviews. Moreover, the Management Board continuously takes into account any form of market risk that can be reduced through changes in the portfolio.

Market risk is monitored using different risk measures. In the quarterly performance reports, the following measures are analysed for the PRF portfolio as a whole, as in the table below, and for each asset class separately[1]:

	1 year	3 years (annualised)	5 years (annualised)
ABSOLUTE MARKET RISK			
Annualised standard deviation of periodic returns PRF	14.64%	10.00%	8.82%
Annualised standard deviation of periodic returns Benchmark	14.79%	10.00%	8.80%

Source: Aon performance report at 31 December 2020

Relative risk: probability of deviation from the benchmark's performance (representing the target return) due to: (i) the portfolio's mechanical drift as asset classes have different growth patterns, (ii) tactical decisions related to the SAA, or (iii) active management within asset classes. The risk stemming from the first two factors can be controlled by the rebalancing strategy described in the Investment Procedures and by keeping the investment portfolio close to the long-term strategic asset allocation. With regard to the third factor, risk can be limited by investing in index-linked products, imposing certain deviation limits to active asset managers and through close follow-up. Relative risk is monitored using different risk measures in the quarterly performance reports, for the PRF portfolio as a whole, as in the table below, for each asset class and each investment/fund separately (if relevant):

	1 year	3 years (annualise)	5 years (annualised)
RELATIVE RISK PRF			
Correlation [1]	0.99	0.99	0.99
Tracking error [2]	2.31%	1.38%	1.11%
Beta [3]	0.98	0.99	0.99
RISK-ADJUSTED RETURN PRF			
Sharpe ratio PRF [4]	0.39	0.61	0.78
Sharpe ratio benchmark	0.43	0.65	0.80
Information ratio [5]	-0.28	-0.33	-0.15
Alpha [6]	-0.50%	-0.39%	-0.13%

Source: Aon performance report at 31 December 2020

[1] Extent to which investments vary together. Figures close to +1 indicate low relative risk.
[2] Volatility of the performance difference between an investment and its benchmark index.
[3] Measure of the Fund's volatility relative to the benchmark. Should be approximately +1 for the PRF.
[4] Excess return compared to that of the risk-free rate per unit of risk taken. Should be higher than the Sharpe ratio of the benchmark. The lower Sharpe ratio of the Fund comes from the underperformance of corporate bonds and real estate.
[5] Benchmark-relative return gained for taking on benchmark-relative risk. Should be above zero. It is negative for the periods considered due to the underperformance of corporate bonds and real estate.
[6] Measure of excess return relative to the benchmark (after accounting for market risk). Should be above zero when active management is involved. The negative value comes from the underperformance of corporate bonds and real estate.

[1] The interpretation of these figures is extensively explained in PRF/MB(2013)1/REV1.

Liquidity risk: the risk of losses when liquidating positions or when there is no possibility of liquidation at all. This risk is minimised by the selection of liquid asset classes when designing the investment strategy and the evaluation and monitoring of the asset managers' liquidity management policies. In the current investment structure, all asset classes, with the exception of real estate, which are very liquid; redemption of the selected investment vehicles (mutual funds) is straightforward and can be done daily, again with the exception of real estate. Redemption of the latter can be done monthly and is subject to certain restrictions.

Currency risk (in PRF Fund's cash): arises from foreign exchange rate movements. The PRF bears currency risk as some pensions are paid in foreign currency.

Interest rate risk (in Fund's treasury, outside the investment portfolio): is the risk of getting a lower return due to unfavourable movements in interest rates. The PRF is exposed primarily to variations in interest rates on the saving accounts used for treasury management. The PRF's Treasury Management Plan (TMP)[2] and the Investment Procedures set out treasury guidelines to obtain competitive interest rates. The interest rate risk arising from exceptional market conditions, where banks offer negative interest rates, is actively managed by the PRF Secretariat of the Council of Europe and by the Fund Administrator - the International Service for Remunerations and Pensions (ISRP).

Credit risk (in PRF treasury positions, i.e. outside the long-term investment portfolio) is the risk of one party to a financial instrument causing the other party to incur a financial loss by failing to discharge an obligation. This risk is mainly concentrated in the Fund's treasury management operations. It is closely monitored by the ISRP as manager of the PRF treasury through the PRF's TMP in accordance with several risk guidelines approved by the Management Board. The nature of the investment vehicles used for the PRF's portfolio - mutual funds - does not entail direct credit or counterparty risk since the assets are under the ownership of the Council of Europe, and therefore, by definition, cannot be affected in the event of an asset manager failing to discharge his/her obligations.[3]

Operational risk (in the investment portfolio and treasury positions) is the risk of loss resulting from inadequate or failing internal processes, people and systems, or from external events. This risk exists, both within the administration of the PRF by the ISRP and within the asset managers' administration of the mutual funds. The ISRP has implemented investment procedures and control mechanisms to optimise the execution and the administration of investments and treasury management. Mutual funds are selected following an evaluation process during which the effectiveness and control of the operational framework is examined.

Of all the risks mentioned above, the most significant one to the PRF is market risk, notwithstanding the market risk that is expressly allowed in the investment strategy approved by the Committee of Ministers. Market risk is monitored through the performance reports. The interpretation of the risk measures provided by these reports and actions taken in response are the most crucial steps in the market risk management of the PRF. Operational risk and the majority of the credit or counterparty risk in treasury are directly managed by the ISRP, who provides the Organisation with regular reports. Liquidity risk is primarily reduced through the selection of appropriate asset classes and investment vehicles.

[2] The TMP for 2020 is covered in document PRF/MB(2020)3/REV1.
[3] In the event of an asset manager's bankruptcy, there may be a temporary lack of liquidity while eventual legal or administrative procedures are carried out.

The table below summarises the different risks the Fund (investment portfolio and treasury) is exposed to, as well as the degree of exposure by type of investment:

	INVESTMENT PORTOFOLIO						CASH / TREASURY	TOTAL PRF
	Global Equity	Euro area equity	Emerging markets equity	Global government bonds	Euro corporate bonds	Direct Real Estate		
EUR in portofolio (at 31/12/20)	222 131 625	11 508 319	52 812 147	107 247 903	58 693 841	22 282 916	11 933 829	486 610 580
MARKET RISK	High	High	Very high	Medium	Medium	High	Low	High
Interest rate risk	Very low	Very low	Low	High	High	Medium	Low (income coponent only)	Medium
Currency risk	High	Low	Very high	NS	NS	Low	NE (in treasury) / Low (for cash managed directly by COE)	High
Credit risk	NA	NA	Low	Low	High	NA	Medium (direct counterparty risk)	Medium
Price risk	High	High	Very high	Medium	Medium	High	Very low	High
Compagny or business risk	High	High	Very high	NA	High	High	Very low	High
Political/regulatory risk	Very low	Very low	Medium	Low	Very low	Medium	NS	Low
Economy/Growth risk	High	High	High	Medium	Medium	Medium	Very low	High
RELATIVE RISK	Very low	Low	Very low	Low	Low	High	Low	Low
LIQUIDITY RISK	Very low	Very low	Low	Very low	Very low	Medium	Very low	Very low
OPERATIONAL RISK	Very low							

NS : Non significatif, NE : non existent, NA : not applicable

NOTE 20 - POST-BALANCE SHEET EVENTS

Appeals and administrative complaints

Since 31 December 2020, one appeal and four administrative complaints have been lodged regarding the conditions of employment. Should an appeal subsequently be lodged with the Administrative Tribunal, the potential cost to the Organisation would not be material.

New accessions and withdrawals

Since 1 January 2021, Ukraine joined the Enlarged Partial Agreement on Sport (EPAS) and the Enlarged Partial Agreement on Cultural Routes.

As of 31 December 2020, Argentina left the Enlarged Partial Agreement "Eurimages" and Algeria withdrew from the Enlarged Partial Agreement on co-operation in the prevention of, protection against and organisation of relief in respect of major natural and technological disasters.

Building D

Negotiations with the City of Strasbourg concerning the future of the currently rented Building D, with a view to considering a possible transfer of ownership to the Organisation, are continuing. The procedure for the transfer by the city should continue during the year 2021.

Health crisis

The Council of Europe is closely monitoring the possible impact of the health crisis (Covid-19) on the evolution of its income and on the execution of its programme and budget in 2021.

The investment portfolio of the Pension Reserve Fund (PRF) is valued at fair value as determined by the markets. Since the outbreak of the pandemic, there has been significant volatility in financial market values. At this stage, it is not yet possible to measure all the medium and long-term effects of this crisis. The Management Board is monitoring the situation and the evolution of the PRF in conjunction with the asset managers.

NOTE 21 - RECONCILIATION OF BUDGETARY AND NET ACCOUNTING RESULTS

The Council of Europe's budgetary management accounts presented in documents CM(2021)100 and CM(2021)100-add2 give the details of the budgetary decisions and their execution. This note is based on the main figures set out in those documents.

The statement of comparison of budget and actual amounts has been drawn up in accordance with IPSAS 24, which "requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget(s), and for which they are, therefore, held publicly accountable". This applies to all funds covered by the General Budget (Ordinary Budget, Subsidiary Budgets, Extraordinary Budget, Pensions Budget and Budget of the European Youth Foundation) and the Partial Agreement budgets. In contrast, the special accounts, which are mainly financed with extrabudgetary resources, are not concerned.

The information presented below also meets the requirements of IPSAS 24:
- Note 21.1 reconciles the budgetary result (surplus of €112 147K) with the result of the Statement of Financial Performance (deficit of €52 396K);
- Note 21.2 reconciles the budgetary result (€112 147K) with the change in cash position presented in the cash flow statement (+€75 140K);
- Note 21.3 provides additional information indicating the breakdown of the budgetary result into its various components.

21.1 - RECONCILIATION OF BUDGETARY AND NET ACCOUNTING RESULTS

The financial statements are prepared on an accrual basis, while the budget is prepared on a modified cash basis. The table below presents the reconciliation between, on the one hand, the excess of receipts over expenditure on a budgetary basis including the special accounts, as used to calculate the balance of budget execution, and, on the other, the deficit for the year as reported in the Statement of Financial Performance. The differences are due to the various IPSAS adjustments affecting receipts and expenditure.

Basically, and starting out from the budgetary result, the difference between the budgetary surplus (€112 147K) and the IPSAS deficit (€52 396K) stems from:
- the inclusion in the IPSAS result of three elements not taken into account in the budgetary result, namely the annual impact of the increase in the employee benefits obligation (€146 461K to be deducted from the budgetary surplus), the increase in the net assets of the Pension Reserve Fund (€50 673K to be added) and the impact of the "staff departure scheme" special account, the annual result of which is not recorded as deferred income (€6 236K to be added);
- the inclusion in the budgetary result of the carry-forwards on the Partial Agreements, essentially the EDQM, "Eurimages" and the EYF, which represent €75 163K to be deducted from the budgetary result;
- the residual difference (€172K) to be added to the budgetary surplus to ensure full reconciliation with the IPSAS deficit stems from all the other variances between accrual accounting and the budgetary method based on modified cash accounting.

The table below shows these main differences:

	2020 €K
Budgetary result	**112 147**
Items not taken into account in the budgetary result	
Employee benefits obligation variation	(146 461)
Pension Reserve Fund net assets variation	50 673
Impact of the "staff departure scheme" special account	6 236
Items not taken into account in the IPSAS result	
Budgetary results carried forward (namely Eurimages, EDQM, EYF) [1]	(75 163)
Other variances	
Other	172
IPSAS result	**(52 396)**

[1] The detailed table in Note 21.1 shows an amount of €75 262K which includes other carry-forward items with miimal impact (publications, other partial agreements).

The table below gives details of the adjustments to ensure full reconciliation of the budgetary result with the accounting result:

		Note	2020 €K	2019 €K
Ordinary Budget		21.3	5 143	*2 778*
Subsidiary and services budgets		21.3	2 219	*1 700*
Partial agreements		21.3	104 785	*77 531*
Budgetary results			**112 147**	***82 009***
Special accounts - Opening balance	(1)	9	119 528	*107 136*
Special accounts - Balance for the year	(1)	9	44 088	*12 392*
Special Accounts - Year-end cumulative results			**163 616**	***119 528***
Net budgetary results			**275 763**	***201 537***
IPSAS adjustments				
Employee benefits		14	(146 461)	*(36 262)*
Pension Reserve Fund investments			50 673	*79 599*
Fixed assets capitalisation, depreciation and amortisation	(2)	6 et 7	(7 232)	*3 988*
Net movement in inventories		3	5 472	*6 051*
Balances carried over from Special accounts from previous years		9	(119 528)	*(107 136)*
Balances carried over from Special accounts from the current year	(1)	9	(37 852)	*(15 649)*
Allocation of previous year's result to reserves	(1)	24	(75 262)	*(62 081)*
Adjustment concerning the closing of the special accounts related to the construction of new buildings and to security measures		11	4 396	*4 239*
Adjustments for “Eurimages” signed contracts		14	(1 070)	*(1 792)*
Provision for employee leave entitlement		14	(3 330)	*(262)*
Provision for employee home leave travel expenditure		14	(468)	-
Adjustments for finance leases			418	*418*
Adjustments for health cover		12 et 14	1 822	*(268)*
Other			263	*764*
Total reconciliation items			**(328 159)**	***(128 391)***
Net IPSAS result			**(52 396)**	**73 146**

(1) The unspent budgetary balance on special accounts is adjusted in deferred income (Note 9). The special account “staff departure scheme” is excluded from this adjustment. The movements recorded during the year (€6 236K in 2020 and -€3 257K in 2019), are part of the net result. The budgetary result of this special account is allocated to “Other reserves” (Note 23). At the 1396th meeting, the Deputies authorised the Secretary General to allocate €4 936K from the provision for litigation in the Ordinary Budget to the special account “staff departure scheme” (CM/Del/Dec(2021)1396/11.3). This provision, made in 2018 and 2019, was cancelled in its entirety (€8 008K) following the decision of the Administrative Tribunal and constitutes income over the reporting period (Note 12).

(2) This line does not take into account acquisitions recognised during the year under new finance leases which are included in a separate adjustment line.

These adjustments are explained as follows:

Employee benefits

Employee benefits are considered as budgetary expenditure within the limit of the benefits paid during the year concerned, whereas, under IPSAS, the charge recorded for employee benefits reflects all the pension and post-employment health benefits accrued to employees during the year.

Pension Reserve Fund investments

Under IPSAS, the gain or loss resulting from Pension Reserve Fund investments is recognised in the Statement of Financial Performance, whereas for budgetary reporting purposes, it is not taken into account. The adjustment corresponds to the change in the net assets of the Pension Reserve Fund.

<u>Fixed assets capitalisation, depreciation and amortisation</u>
For budgetary reporting purposes, capital expenditure is recorded as current-year expenditure, whereas, under IPSAS, it is recorded as an asset in the Statement of Financial Position, giving rise to depreciation and possible value corrections recorded in the Statement of Financial Performance.

<u>Net movement in inventories</u>
For budgetary reporting purposes, inventory items are considered as budgetary expenditure if purchased or produced during the year concerned, whereas, under IPSAS, they are capitalised and only the net movement in inventories is recorded in the Statement of Financial Performance.

<u>Credit balances carried forward in respect of the special accounts</u>
The surplus on the special accounts is adjusted and recorded as deferred income for IPSAS reporting purposes, whereas for budgetary reporting purposes, the surplus constitutes the result for the financial year. The “staff departure scheme” special account concerns the measures for early staff departures approved by the Committee of Ministers: its annual result is not adjusted in deferred income, but forms part of the net result for the year.

<u>Allocation of previous year’s result to reserves</u>
Under IPSAS, the previous year’s result is allocated to “Other reserves”, whereas for budgetary reporting purposes, where the resolution adopted by the Committee of Ministers authorises its carry forward to the reporting period, it is considered as income for that period.

<u>Adjustment concerning the closing of the special accounts related to the construction of new buildings and to security measures</u>
For budgetary reporting purposes, the full amount of the loan was initially recorded as receipts. Under IPSAS, the obligatory contributions intended for repayment of the loan from Dexia are recognised as revenue when they are received.

<u>Adjustments for “Eurimages” signed contracts</u>
Under IPSAS, advances on receipts are recorded as financial assets upon payment to the co-producers with a provision for their full amount being made in view of the uncertainty of their recovery. Grants for distribution, cinema support, promotion and the gender equality action plan are recorded as expenditure for IPSAS purposes when obligations arise under the terms of the contracts. For budgetary reporting purposes, advances on receipts and grants are expensed upon signature of the contracts.

<u>Adjustment relating to the provision for employee leave entitlement and employee home leave travel expenditure</u>
The provisions for employee leave entitlement and employee home leave travel expenditure are recorded in accordance with IPSAS and will impact budgetary accounting only if such leave is paid.

<u>Adjustments for finance leases</u>
For budgetary reporting purposes, rentals are considered as an expense for the period, whereas under IPSAS, the expenses relating to finance leases are adjusted so as to reduce the finance lease obligation and recognise the corresponding financial charge.

<u>Adjustments for health cover</u>
Any increase or reduction in the health cover reserve is recognised as revenue or expenditure under IPSAS, whereas it has no impact on the budgetary management accounts.

21.2 - RECONCILIATION OF THE BUDGETARY RESULT WITH THE CASH FLOW STATEMENT

Given that, on the one hand, the budgetary result includes elements that have no impact in cash flow terms ("modified" cash accounting) and, on the other hand, the financial statements are broader in scope than the budgetary documents, IPSAS 24 (*Presentation of budget information in financial statements*) requires the actual amounts presented on a basis comparable to the budget in the statement of comparison of budget and actual amounts to be reconciled with the net cash flows from all of the Organisation's operating, investing and financing activities.

This involves the identification of several types of differences: under IPSAS 24, the differences between the cash flows resulting from budget execution and the flows recorded for all of the Council of Europe's activities in the financial statements may be divided into four categories:

(a) Basis differences, which occur when the approved budget is prepared according to a different accounting method from the financial statements: at the Council of Europe, the financial statements are prepared on an accrual basis, while the budget is presented on a modified cash accounting basis;

(b) Timing differences, which occur when the budget period differs from the reporting period reflected in the financial statements: this is never the case at the Council of Europe.

(c) Entity differences, which occur when the budget approved by the Committee of Ministers does not include some activities of the Organisation that are taken into account for the preparation of the financial statements – this applies to extrabudgetary activities mainly financed by voluntary contributions, which are reflected in the special accounts.

(d) Differences in the formats and classification approaches adopted for the presentation of the financial statements and the budget – this applies, in particular, to the distinction between operating, investing and financing activities, which are presented separately under IPSAS, but are not treated separately for budgetary presentation purposes.

The variance between the balance of budget execution and the cash flow statement is broken down in the table below according to these types of differences.

	Operating activities €K	Investing activities €K	Financing activities €K	Total €K
Actual amount on a comparable basis	**112 147**	**-**	**-**	**112 147**
Basis and presentation differences	(43 121)	(27 065)	(5 346)	(75 532)
Entity differences	38 525	-	-	38 525
Actual amount in the cash flow statement	**107 551**	**(27 065)**	**(5 346)**	**75 140**

The cash flow statement includes flows relating to the special accounts[4] (€38 525K), which is not the case for the budgetary result ("entity difference"). Reconciliation of the budgetary result (€112 147K) and the total change in cash (+€75 140K) therefore only concerns the balance, giving a negative difference of €75 532K.[5]

This difference is mainly due to the carry forward of the 2019 budget surpluses, in accordance with the decisions taken by the Committee of Ministers, i.e. €27 637K for "Eurimages", €45 948K for the EDQM and €1 578K for the European Youth Foundation. This total carry forward of €75 163K constitutes a pre-existing budgetary resource for the current year, with no impact on cash flows in 2020: it explains most of the basis and presentation difference of €75 532K in the above table.

[4] €38 525K = €44 088K - €5 563K. This is the 2020 result for all special accounts, less the reversal of the provision in respect of ongoing litigation, which had no impact on cash flows in 2020 (€4 936K for the "staff departure scheme" special account + €627K for the other special accounts).
[5] €75 532K = €112 147K + €38 525K - €75 140K.

Regarding the remainder (€75 532K - €75 163K = €369K), other component elements of the 2020 budget surplus would require more detailed adjustments to reflect in full the cash inflows and outflows for the year. This applies, in particular, to items that do not generate cash in the current financial year (provisions), temporary mismatches in cash receipts or payments (receivables and accounts payable to suppliers) and other variable items to be taken into account. Given their low net impact, they are not quantified.

21.3 - OTHER INFORMATION RELATING TO BUDGET EXECUTION

For the budget as a whole, the result of €112 147K can be explained by underspending of appropriations amounting to €111 207K and unanticipated surplus receipts amounting to €940K.

The net credit balance for each budget and Partial Agreement is shown below:

BUDGETARY SURPLUS/(DEFICIT)	2020 €K
Ordinary Budget	5 143
Subsidiary Budget for Publications	146
Budget of the European Youth Foundation	2 073
Partial Agreement of the European Pharmacopoeia	67 027
Enlarged Partial Agreement on the Council of Europe Development Bank	60
Enlarged Partial Agreement on the Co-operation Group to combat drug abuse and illicit trafficking in drugs (Pompidou Group)	103
Enlarged Partial Agreement on the Co-operation Group for the prevention of, protection against, and organisation of relief in major natural and technological disasters	99
Enlarged Agreement on the European Commission for Democracy through Law	284
Enlarged Partial Agreement establishing the European Centre for Modern Languages (Graz)	17
Enlarged Agreement on the “Group of States against corruption - GRECO”	119
Enlarged Partial Agreement on Sport (EPAS)	18
Enlarged Partial Agreement on Cultural Routes	31
Enlarged Partial Agreement “Eurimages”	36 995
Enlarged Partial Agreement on the North-South Centre	32
TOTAL	**112 147**

Detailed information is available in the budgetary management accounts (CM(2021)100-add and CM(2021)100-add2).

NOTE 22 - RELATED PARTIES

The Council of Europe is governed by a Committee of Ministers composed of representatives of all the member States. They do not receive any remuneration from the Council, but the member States should nonetheless be considered related parties. Information concerning transactions with member States is provided in Note 4.1, Note 8 and Note 12 in the budgetary management accounts (CM(2021)100-add).

The Council of Europe is placed under the direct control of the member States and has no ownership interest in associations or joint ventures.

In 1992, the Committee of Ministers, together with the European Union and the Eureka Committee, approved the creation of the European Audiovisual Observatory. This Partial Agreement does not comply with the requirements in IPSAS 35 for consolidation purposes but is nevertheless considered a related party. Transactions incurred with the European Audiovisual Observatory were as follows:
These transactions correspond to the contribution paid by the Audiovisual Observatory to the Pension Reserve Fund and the Ordinary Budget, as well as to services provided by the Council of Europe, mainly in respect of interpretation and the production of documents.
Transactions with the European Audiovisual Observatory are shown in the table below.

The Development Bank was established as the “Council of Europe Resettlement Fund for National Refugees and Overpopulation in Europe” in 1955 under Resolution Res(55)34. The Bank is attached to the Council of Europe, and the Secretary General can participate in meetings of its Governing Board or send a representative to them. The Committee of Ministers and the Parliamentary Assembly are also regularly informed of the Bank's activities.

The Bank is not included in the scope of the consolidated financial statements under IPSAS 35 and is solely regarded as a related party. Transactions with the Development Bank cover the annual contribution to the Partial Agreement on the Council of Europe Development Bank, the lump sum contribution made in respect of translation expenses and interpreting services provided by the Council of Europe. The totals of these transactions are shown below.

	European Audiovisual Observatory		Development Bank	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
	€K	€K	€K	€K
Income	408	*349*	588	*526*
Debtors	78	*70*	23	*4*
Creditors	(161)	*(201)*	-	-

The Council of Europe Secretariat is managed by the Secretary General, who directs the Secretariat assisted by the Deputy Secretary General and other senior managers and officers. They are remunerated by the Council of Europe; detailed information is provided in the table of the key management remuneration in this note.

Benefits in kind

The French authorities grant exemption from the payment of taxes on the purchase of a limited quantity of alcohol. Expatriate staff members are exempt from the payment of VAT on the acquisition of personal vehicles and on their replacement on a two-yearly basis. All staff also receive exemption from the payment of income tax on the remuneration received from the Council.

Staff members with diplomatic status are exempt from the payment of taxes on a limited amount of petrol, and from the payment of local taxes on the occupation of property.

The Secretary General benefits from an official residence in Strasbourg. The running cost of this residence was €294K in 2020 and €259K in 2019.

The official cars of the Council can be used by a limited number of persons; those allowed to use the official cars are:

- the Chair of the Committee of Ministers
- the President of the Parliamentary Assembly
- the Secretary General
- the President of the European Court of Human Rights
- the Chair of the Ministers' Deputies
- the President of the Congress of Local and Regional Authorities
- the Deputy Secretary General
- the Secretary General of the Parliamentary Assembly
- the Commissioner for Human Rights
- the Secretary General of the Congress of Local and Regional Authorities.

The official cars and drivers cost the Council of Europe €327K in 2020 and €306K in 2019.

Information on the key managers of the Organisation and their remuneration is set out below:

	Number of key managers		Remuneration €K		Leaving Allowance €K		Aggregate remuneration €K	
	2020	2019	2020	2019	2020	2019	2020	2019
Secretary General	1	*1*	311	*329*	-	*483*	311	*812*
Deputy Secretary General	1	*1*	306	*291*	-	-	306	*291*
Secretary General of Parliamentary Assembly	1	*1*	318	*302*	-	-	318	*302*
Other key managers	6	*6*	1 599	*1 551*	-	-	1 599	*1 551*
	-	-	**2 534**	***2 473***	-	***483***	**2 534**	***2 956***

For the purposes of this note key managers are considered to include specially appointed officials and managers at grade A7.

Under Resolution 67(6), adopted by the Committee of Ministers on 7 April 1967, “on the first day of the month following the termination of his duties, and for a period of three years, a specially appointed official shall receive a temporary monthly allowance equal to 50% of his last monthly salary”. The former Secretary General, Mr Thorbjørn Jagland, received a remuneration of €109K in 2020.

NOTE 23 - NET LIABILITIES

	31 December 2020 €K	31 December 2019 €K
Working capital fund reserve	3 476	*3 476*
Pension Reserve Fund	437 503	*357 904*
Fixed assets reserve	260 828	*256 708*
Inventories reserve	36 134	*30 083*
Employee benefits reserve	(4 499 848)	*(3 903 784)*
Other reserves	61 339	*45 699*
(Deficit)/Surplus for the period	(52 396)	*73 146*
	(3 752 964)	***(3 136 768)***

In accordance with Articles 12 and 14 of the Financial Regulations, a working capital fund is placed at the disposal of the Council to ensure the availability of the funds necessary for its operations. The Fund increases when there are accessions of new member States during the reporting period.

At their 818th meeting the Deputies decided to set up a Pension Reserve Fund, as of 1 January 2003, in order to stabilise in the medium and the long term the members States' contributions to meet their obligations under the Organisation's pension schemes. The increase in the Fund includes the contributions paid by member States and staff members, plus the income obtained from the investment of Fund assets, less expenses for the payment of pensions.

The property, plant and equipment reserve and the inventories reserve represent capitalised property, plant and equipment and inventories, which are considered as expenditure for budgetary reporting purposes. The impact of revaluations of property and of other adjustments to the value of property, plant and equipment is recorded directly in the property, plant and equipment reserve under net liabilities.

The employee benefits reserve represents the impact on net assets of the estimated actuarial liability in respect of the defined benefit pension schemes and post-employment health cover.

"Other reserves" includes the following:

	31 December 2020 €K	31 December 2019 €K
Reserve for the North-South Centre working capital fund	91	*91*
Reserve for health cover	1 972	*2 240*
Budgetary surpluses suspense account	6 027	*3 278*
Staff departure scheme	(3 431)	*(173)*
Reserve for accounting adjustments	56 680	*40 263*
	61 339	***45 699***

The component items of "Other reserves" are described below:

Reserve for the North-South Centre working capital fund
Reserve established in order to cope with any delays in the payment of contributions.

Reserve for health cover
Reserve to which the profit-related premium refunds by the insurer, the differences resulting from the "pensioners solidarity" mechanism and the financial income earned from the cash surplus are credited. At their 1185th meeting the Deputies approved the operating procedure for this reserve and delegated its management to the Secretary General.

Suspense Account Budgetary Results
At the 1388th meeting, the Deputies decided to allocate an amount of €2 749K to the suspense account corresponding to the freezing of late payment interest on the unpaid obligatory contributions from the Russian Federation for the Ordinary Budget. The Deputies had already decided at the 1361st meeting to allocate an amount of €3 278K to the suspense account, of which €3 229K corresponded to the freezing of late payment interest on unpaid obligatory contributions from the Russian Federation for the Ordinary Budget and €48K corresponded to the balance of unpaid compulsory contributions for the Enlarged Partial Agreement on Natural Hazards.

Budgetary result special account "Staff departure scheme":
Special account covering the measures for early retirement of staff members approved by the Committee of Ministers at their 1081st meeting on 31 March 2010. The Organisation implemented in 2019 an early retirement scheme, the principle of which had been approved by the Committee of Ministers as part of the continuing administrative reform measures. Compensation for loss of employment amounted to €3 764K.

Reserve for accounting adjustments
Reserve containing the amounts resulting from the adjustment of the budgetary management and IPSAS accounts other than those mentioned above (property, plant and equipment reserve; inventories reserve; employee benefits reserve).
The main components of the reserve for accounting adjustments as at 31 December 2020 are listed below:

- Allocation of prior year's result €75 262K
- Provision for employee leave entitlement €(11 897)K
- Adjustment of "Eurimages" advances on receipts €14 404K
- Outstanding capital on the Dexia loan for the construction of the Agora building and for works on security measures €(19 660)K

Article 68 of the Financial Regulations provides "A surplus in the budgetary management accounts of a financial year shall be returned to the member States unless the Committee of Ministers decides otherwise. Changes in the Organisation's equity, apart from those of a technical nature resulting from the application of accounting standards defined in Article 62 or of decisions already taken by the Committee of Ministers, shall be approved by the latter."
At their 1388th meeting on 12 November 2020, the Deputies decided on the distribution among member States of the budgetary credit balances at the end of 2019 amounting to €3 998K. Other appropriations from the 2019 annual result are technical in nature or correspond to earlier decisions of the Committee of Ministers.

PART II - EXTERNAL AUDIT REPORT

on the consolidated financial statements

of the Council of Europe

for the financial year 2020

Translation from French

Cour des comptes
FRANCE

EXTERNAL AUDIT OF THE COUNCIL OF EUROPE

AUDIT REPORT
CONSOLIDATED FINANCIAL STATEMENTS OF THE COUNCIL OF EUROPE FOR THE YEAR ENDED 31 DECEMBER 2020

COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

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I. OBJECTIVES AND SCOPE OF THE AUDIT

1. In accordance with our letter of notification dated 15 March 2021, a team of seven auditors carried out the final audit of the Council of Europe's consolidated financial statements[8] for 2020. The objective of this audit was to examine the consolidated financial statements of the Council of Europe for the year ended 31 December 2020.

2. The audit of the financial statements was carried out in accordance with Part VII of the Financial Regulations of the Council of Europe, the International Standards on Auditing (ISA) and the International Standards of Supreme Audit Institutions (ISSAI) on financial auditing.

3. In accordance with Article 71 of the Financial Regulations, the purpose of the audit was to obtain reasonable assurance that the financial statements as a whole were free from material misstatement, whether due to fraud or error, so that the External Auditor could express an opinion on whether they had been prepared, in all material respects, in accordance with the International Public Sector Accounting Standards (IPSAS) for the financial year 2020.

4. Owing to the pandemic, it was only partly possible to carry out the interim audit phase at the Council of Europe's headquarters (from 30 November to 4 December), with the second part carried out remotely from 7 to 11 December 2020. This phase was mainly devoted to:

- a review of internal control, prior to auditing the financial statements for the financial year 2020;
- an assessment of the IT environment for managing the Organisation's finances and accounts;
- a review of the trial balance covering the period from 1 January to 30 September 2020.

5. According to Article 61 of the Financial Regulations, the draft financial statements for the year ended 31 December 2020 were sent to the External Auditor on 31 March 2021. A revised version of the drafts was then delivered on 12 April 2021, when the final audit started.

6. The final phase of the audit was carried out *in situ* in Strasbourg from 12 to 30 April 2021. In essence, all tasks (particularly with regard to physically checking that certain assets exist and are as described in the inventory, such as stocks of publications or stocks of products and materials of the Pharmacopoeia) were completed and in a timely manner.[9]

7. Each observation and each recommendation was discussed with the staff responsible. Management received the External Auditor's interim report on 5 May 2021 and its written comments and responses received on 17 May 2021 are fully reflected herein.

8. The External Auditor has issued an **unqualified** opinion on the financial statements for the year ended 31 December 2020.

II. LIST OF RECOMMENDATIONS

9. The recommendations made have been prioritised by the External Auditor as follows:

- ***Priority 1:*** a crucial area of concern, requiring immediate attention from management;
- ***Priority 2:*** a less urgent area, that needs to be addressed by management;
- ***Priority 3:*** an area where oversight could be improved and to which the attention of management is drawn.

[8] The scope of the consolidated financial statements encompasses the Council of Europe, the European Support Fund for the Co-production and Distribution of Creative Cinematographic and Audiovisual Works (Eurimages) and the European Centre for Global Interdependence and Solidarity (North-South Centre).

[9] Article 72(1) of the Financial Regulations provides: "*The External Auditor shall formulate opinions on the financial statements and the budgetary management accounts no later than 31 May following the financial year to which they relate*".

Field and departments concerned	Priority	Recommendations
TPA	1	1. The External Auditor recommends that from 2021 onwards, the generally accepted accounting convention of positive and negative signs for the presentation of assets, liabilities, expenses and income be applied, including in the explanatory notes.
	1	2. The External Auditor recommends that, in the context of the preparation of the next financial statements, a second-level mechanism be set up to check the correct separation of the accounting periods for purchases and fees paid in December and the following two months.
	1	3. The External Auditor recommends that, within a maximum of two years, second-level checks be introduced on compliance with competitive bidding procedures by local buyers.
	3	4. The External Auditor recommends that, within 2 years, a direct notification procedure be introduced in the FIMS tool with respect to services provided.
Secretariat/Committee of Ministers	2	5. The External Auditor recommends that in the context of updating the Financial Regulations, Article 46 be adapted to bring it into line with Council of Europe practices regarding the communication of documents in support of payments.
Secretariat/Committee of Ministers	2	6. The External Auditor recommends that, in the context of updating the Financial Regulations, Article 54 be adapted to bring it into line with Council of Europe practices on the physical inventory of fixed assets.
TPA and fixed asset-holding entities	1	7. The External Auditor recommends that, by the time the financial statements for the financial year 2021 are prepared, TPA's requirements for monitoring inventories be clarified for entities holding fixed assets, so as to limit the number of discrepancies to be analysed when reconciling the inventories transmitted with the accounts.
	3	8. The External Auditor recommends that assets retained under finance leases should not continue to be recorded under the category "equipment under finance lease" but be reclassified under other headings of tangible and intangible fixed assets.
TPA	1	9. The External Auditor recommends that by the end of the current financial year, a formalised procedure be put in place for the annual review of signature authorisations for each bank with which the Council of Europe has current or savings accounts, both in Strasbourg and in the locations of the field offices.
Committee of Ministers	1	10. The External Auditor recommends that the Committee of Ministers decides, in liaison with the Eurimages Board of Management and the Executive Committee of the North-South Centre, to cease producing separate financial statements, if possible as early as the financial year 2021.
Secretariat	1	11. The External Auditor recommends that the internal procedure for implementing and following up the recommendations in the External Auditor's reports be formalised in writing and validated. These procedures should include prior consultation and comment by the Auditor on the report to the GR-PBA. This new mechanism should be operational before the GR-PBA meeting in July 2022.

III. OBSERVATIONS AND RECOMMENDATIONS

1. Introductory observation

10. The Council of Europe presents its financial statements in accordance with IPSAS 1 on the presentation of financial statements. However, this presentation deviates from a generally accepted accounting convention: liabilities in the statement of financial position and expenses in the statement of financial performance are shown in negative terms, and the same policy is applied to the notes to the financial statements, whereas the generally accepted accounting convention in this area is the opposite: liabilities in the statement of financial position and expenses in the statement of financial performance are usually shown in positive terms.

11. This difference in presentation does not in any way affect the accuracy of the financial statements or their explanatory notes. Nevertheless, for the sake of harmonisation and better comparability with the other international organisations that present their financial statements in accordance with IPSAS 1, the External Auditor suggests that the Council of Europe apply, from 2021 onwards, the usual accounting convention with regard to positive and negative signs.

Finding: The Council of Europe's financial statements are presented in accordance with a sign convention which is the reverse of the usual practice, notably observed by other international organisations, without this being contrary to IPSAS 1, which says nothing on the subject, and without this affecting their accuracy or that of their explanatory notes.

Recommendation No. 1. The External Auditor recommends that from 2021 onwards, the generally accepted accounting convention of positive and negative signs for the presentation of assets, liabilities, expenses and income be applied, including in the explanatory notes.

Priority: 1

12. The main audit observations on the financial statements presented in this report are devoted successively to:

- the general accounting framework: analytical review of the financial statements for the year 2020 and observations on the internal control framework in place at the Council of Europe;
- the operational elements reflected in the accounts: contributions and other income/receivables, stocks, liabilities and other accounts payable, employee benefits, provisions/contingent liabilities, impact of budget implementation;
- investments: fixed assets;
- the year-end financial closure: cash and deposits, net position;
- the certification of the 2020 financial statements of Eurimages and the North-South Centre and their consolidation in the financial statements of the Council of Europe.

2. Analytical review of the financial statements for 2020

13. In 2020, the Council of Europe's operating revenues remained unchanged at €469.5M, with the fall in contributions to the special accounts (-€22.8M) offset by the slight increase in obligatory contributions (+€9M), the EDQM receipts (+€4.1M) and the reversal of a provision for litigation of €8M.

14. The significant increase in operating expenses (+€83.6M, +18%) is the result of the sharp rise in staff costs (+€112M, +36%), which is explained by the impact of the provision for pensions and post-employment benefits (+€110.2M).

15. At the same time, other operating expenses fell significantly due to the Covid-19 pandemic, as most activities could not be maintained in their "face-to-face" form: travel expenses fell by 83% (-€23M) to €4.8M.

16. Financial revenue fell sharply (-€42.6M) to €25.8M. This situation is almost entirely attributable to the poorer performance of the Pension Reserve Fund's investments.

17. In total:

- the Council of Europe, partly as a result of the pandemic, was able to generate an operational cash surplus of €107.6M in 2020 (€119.7M in 2019), enabling it to finance its investment activities to the tune of €27.1M and its financing activities to the tune of €5.3M: on a net basis, the cash position increased by €75.1M in 2020 (after a rise of €73M in 2019) and stood at €323.3M at 31 December 2020;
- the provision for employee benefits increased by €706.3M to €4 646.3M at 31 December 2020 due to an actuarial loss (€559.8M) resulting from the decrease in the discount rate from 0.90% in 2019 to 0.29% in 2020. Owing to this loss, the net liability deteriorated by €616.8M to €3 753M.

Finding: the analytical review of the 2020 financial statements shows that:

- in the short term, with cash and cash equivalents reaching €323.3M at 31 December 2020, the Council of Europe was in a comfortable financial position at that date, partly due to the pandemic;
- in the long term, however, mainly due to the automatic effect of the decrease in the discount rates, the Organisation's net liabilities continued to grow and reached nearly €3.8bn.

3. Internal control

18. The External Auditor's checks on the Council of Europe's internal control mechanisms focused in particular on:

- the information systems;
- the internal fraud prevention and detection measures;
- the identification and monitoring of related parties.

3.1 Audit of the IT systems

19. The External Auditor notes the Organisation's efforts to meet the challenges of IT system governance, in particular with regard to the system's steering mechanisms. The observations made during our previous audits have been given due consideration and action has been taken in response.

20. With regard to the FIMS, PeopleSoft and SAP applications, the External Auditor has no comments to make concerning the operating, back-up, change-management and user-account creation processes.

21. It does, however, point out that the Council of Europe and the European Directorate for the Quality of Medicines & HealthCare (EDQM) do not have a business continuity plan, but only an IT continuity plan (ICP), which is designed to help restart business activities as swiftly as possible and minimise downtime in the event of major incidents or disasters.

22. The Council of Europe's integrated management software package (FIMS), the human resources software (PeopleSoft) and the EDQM's integrated financial management software package (SAP) already underwent recovery testing in 2019. Following our recommendations, DIT[10] and the EDQM have developed a new business continuity plan, which will be implemented in 2021 in the case of DIT and in 2022 in the case of the EDQM.

[10] Directorate of Information Technology.

23. The Council of Europe has two main server rooms located on the Strasbourg campus and an external back-up site in Germany. As already noted last year, one of the main server rooms is located in the IT building. The visit to this building revealed weaknesses stemming from its advanced age, windows facing the street, an adjoining equipment preparation room containing highly flammable material, and a room where excessively high temperatures are reached during hot spells, requiring additional air-conditioning, or even the opening of the server room for ventilation. While measures have been implemented to mitigate the risks of intrusion or service outages, it should be pointed out that the Council of Europe has a new and more secure server room in the Agora building, of which DIT currently makes very little use. The server room should be moved to the Agora building as soon as possible or the current server room should be made more secure.

24. The Council of Europe's IT system is characterised by its disparate nature and poor interconnections. For example, the financial management package (FIMS) is not connected to the budget programming tool, the supplier record creation tool (electronic form available in the Multiservice Assistant), the e-procurement tool or the EDQM management package. As a result, many operations are not automated between the different systems and require repeated manual data input, which is by its very nature a source of errors.

25. With regard to the management of access to the Council of Europe's financial management package (FIMS), the responsibilities, which used to be shared between DIT and the Directorate of Programme and Budget, have been centralised at DIT since October 2020. Procedures describing the processes for managing and reviewing application accounts have been drafted and will be shared with application managers.

26. The tests conducted on the PeopleSoft application did not reveal any anomalies in the process of deleting user accounts, but although an annual review of user accounts is carried out, it is not documented.

27. The tests carried out revealed some anomalies in the FIMS and SAP applications, the risks of which it has been possible to manage. Concerning access to the systems:

- for the SAP application, the check carried out shows that three user accounts whose permissions should have been cancelled remained active in the application;[11]
- for the FIMS application, three user accounts also remained active in the application. The access permissions should have been cancelled but DIT had not received the information concerning the departures of the staff members concerned.

28. The External Auditor checked that these former users had not logged on after their departure. DIT believes that the ongoing Identity and Access Governance (IAG) project should help to improve and simplify the management of identities, permissions and accounts.

29. In terms of the Separation of Duties (SoD), the work showed that:

- with regard to the procurement process within the FIMS application, in December 2020 five profiles had access to incompatible transactions. They simultaneously had the ability to create suppliers (including their bank details), issue invoices and validate payments. Compensatory ex-post checks were introduced to mitigate the risks associated with this inadequate separation of duties;
- for the PeopleSoft application, there is no segregation of duties matrix or segregation of duties review. However, the External Auditor's work did not identify any anomalies in this respect.

[11] EDQM points out that the "accounts of staff who leave the EQDM are quickly deleted from the active directory after they leave. In addition, SAP is only accessible to staff in the EDQM network, which is impossible for a staff member not in the active directory. Although EDQM considers the risk of access to SAP to be minimal, it will review the process for staff leaving the Organisation to identify how to further reduce the risk."

30. The FIMS software package gives rise to repeated manual data input, but there are few automated reports that could be reviewed to ensure the integrity and conformity of the data entered and transmitted. For example, in the area of procurement, such reports would enable the supplier base to be updated in order to identify:

- suppliers from which nothing has been ordered;
- duplicate suppliers;
- modified bank account details;
- invoices that do not correspond to any order.

31. Similar findings were made in the previous financial year and resulted in some recommendations – the status of implementation of these recommendations is presented in the fourth part of this report.

Finding: the IT checks and tests carried out for the financial year 2020 revealed, as in the previous year, the absence of a business continuity plan that includes business-side activities, security shortcomings in the server room in the IT building, continued access to IT systems by staff who have left the Organisation, and shortcomings in the separation of access by certain staff to incompatible functions. The recommendations of the previous report are therefore repeated.

3.2 Prevention and detection of fraud

32. The ISA 240 standard, while setting out in paragraphs 5 to 8 the limits to the External Auditor's responsibility with regard to the prevention and detection of fraud, states in paragraph 17 b) that *"the auditor shall make inquiries of management regarding […] the process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention".*

33. The Investigation Unit of the Directorate of Internal Oversight (DIO) is responsible for conducting investigations into alleged fraud or corruption relating to Council of Europe staff, funds, and resources. It receives and acts upon information provided by staff or third parties.

34. In this context, the Council of Europe has set up an anti-fraud system based on a whistleblower mechanism, with a link on the Intranet and internet site, under the heading "investigations: how to report? [fraud or corruption]". There are several ways of reporting to DIO: an online form, email, telephone and post.

35. This system is governed by a set of legal provisions, including, in particular, Rule No.1327 of 10 January 2011 on awareness and prevention of fraud and corruption, which guarantees the whistleblower's anonymity and his or her protection against possible retaliatory measures, and Instruction 65 of 26 June 2016 on investigation.

36. The Investigation Unit also raises staff awareness of fraud and corruption prevention through various awareness-raising and risk-mitigation activities. In particular, it has developed two e-learning courses, on "Ethics" and "Fraud awareness and prevention".

37. Fourteen alerts were received in 2020. One investigation was completed in 2020, concluding that there was no evidence of fraud. At the time of the audit, no fraud investigation was underway.

Finding: fraud prevention and detection procedures are in place at the Council of Europe and result in alerts, none of which had a significant impact on the Organisation's accounts in 2020.

3.3 Identification and monitoring of related parties

38. The Council of Europe considers the member States, the European Audiovisual Observatory and the Development Bank to be related parties. It has eight main leaders, who are also considered related parties.

39. The External Auditor has confirmed that the information in Note 23 to the financial statements, concerning related parties, was coherent and in line with the principles set out in IPSAS 20.

Finding: the criteria for identifying related parties are in compliance with the IPSAS standards and the data provided in Explanatory Note 23 require no comment.

4. Contributions

40. Overall, the total contributions (obligatory and voluntary) paid to the Council of Europe were down slightly compared with the previous financial year, from €345.6M in 2019 to €324.8M in 2020. The small increase in obligatory contributions did not offset the reduction in contributions to the special accounts.

4.1 Obligatory contributions

41. From 2019 to 2020, obligatory contributions grew by 3.11%, from €288 133K to €297 096K. This amount does not include the €1 000K included in deferred income and carried over into budget appropriations, in accordance with the decision adopted by the Committee of Ministers at its 1386th meeting.

42. The External Auditor has checked that the amounts called corresponded to the relevant budget decisions (document CM/Res(2019)6).

43. It also checked the receivables disclosed in Note 4.1 to the financial statements, of which the three largest at the time of the April 2021 review were due from the Russian Federation (in respect of late-payment interest) amounting to €8 837K, Argentina (Eurimages) amounting to €1 067K and Cape Verde (North-South Centre) amounting to €38K.

44. Lastly, it audited the accounts payable with respect to contributions, presented in Note 8 to the financial statements, amounting to €6 176K.

4.2 Voluntary contributions

45. In the context of the audit of the 2019 financial statements, the External Auditor noted that the Council of Europe applied IPSAS 9 (for purchases of goods and services) to voluntary contributions rather than IPSAS 23 (for non-exchange transactions) – which is the case for all contributions to the Organisation, whether obligatory or voluntary. This anomaly has been corrected in the context of the audit of the consolidated financial statements for 2019.[12] The corresponding amounts, recorded in full for the first time in the 2019 accounts, remain stable in respect of short-term commitments, falling from €53.2M in 2019 to €52.7M in 2020. On the other hand, there is a sharp drop in long-term commitments, from €60.8M to €48.9M, which may ultimately indicate a slowdown in the Council of Europe's extrabudgetary activities.

46. In the course of this rectification, the External Auditor identified two types of weakness in the valuation of the receivables recorded for voluntary contributions:

- those denominated in foreign currencies should have been valued in euros at 31 December 2019, whereas in the PMM tool, which served as the source of information, they were valued on the date the donors signed the agreements;
- the monitoring of voluntary contributions in PMM, which is a database independent of the integrated management software package (FIMS), exposed the Council of Europe to criticism of a lack of completeness and to a risk of errors, as these contributions were recorded manually in the accounts. This situation led the External Auditor to recommend that TPA, ODGP and DIT introduce a procedure for collecting and processing information on extrabudgetary resources that was better suited to accounting under IPSAS 23.

[12] The practical consequence of the application of IPSAS 23 is the recognition in the balance sheet, under both assets and liabilities, of a receivable and a payable representing the value of the extrabudgetary resources pledged by the donors when agreements are entered into: it requires that once a donor has signed the voluntary contribution agreement, the contribution must be fully recognised in the Council of Europe's balance sheet instead of being merely mentioned in the notes to the financial statements.

47. These two aspects were the subject of a new verification in the accounts at 31 December 2020. Accordingly:

- the valuation of voluntary contribution agreements denominated in foreign currency is now carried out manually on the basis of the exchange rates at 31 December, in accordance with IPSAS 4. The audit did not detect any errors in this area;
- the monitoring of voluntary contributions in PMM still involves many manual adjustments. The Council of Europe has indicated that the interfacing between the PMM database and the accounting system should take place before the end of the first half of 2021, but it was not in place at the time of the External Auditor’s final visit (see follow-up to previous recommendations in Part IV of this report).

Finding: The recording of all contributions is now compliant with IPSAS 23 (capitalisation) and IPSAS 4 (valuation of foreign currency contributions). However, the improved procedure for collecting and processing information on extrabudgetary resources, with a view to limiting manual adjustments, and the interfacing between PMM and FIMS, had still not been implemented at the time of the final audit of the consolidated financial statements for 2020.

5. Other receivables/liabilities

48. The other short-term receivables amounted to €88.1M, an increase of €2.5M compared with 31 December 2019. They consisted of:

- extrabudgetary resources to be received amounting to €52.7M (a decrease of €0.5M), recorded in accordance with IPSAS 23;
- recoverable VAT amounting to €10M (unchanged compared with the previous year);
- late-payment interest from the Russian Federation amounting to €8.8M (amount unchanged from 31 December 2019);
- EDQM receivables of €4.8M (amount also stable compared with the previous year);
- and various receivables such as a pending payment of €2.2M from the insurer and a pending payment of €2.3M from the French social security scheme following a request for a social ruling.

49. Tests were carried out on tax and social security receivables. EDQM clients were sent confirmation feedback requests but only a limited number of replies were received. However, this did not result in any discrepancies being found. The ageing balance of EDQM receivables was analysed.

50. The accounts payable amounted to €57.8M at 31 December 2020, a drop of €3.4M compared to 31 December 2019. This decrease results from the reversal of the €8M provision for the litigation relating to the adjustment of remuneration and pensions, as the Administrative Tribunal delivered its decision on 20 December 2020 and dismissed the appeals.

51. This decrease is partially offset by the increase in supplier payables of €1.8M and the provision for employee leave entitlement of €3.3M.

52. Following the External Auditor’s recommendation concerning the 2019 financial statements, the Council of Europe made a provision in 2020 for home leave travel costs. It amounted to €464K at 31 December 2020.

Finding: the various tests carried out on other receivables and payables revealed no anomalies.

6. Stocks

53. Stocks (inventories) increased by €5.5M in 2020 and their net value amounted to €41.6M at 31 December 2020.

54. €38.3M (gross value: €41.4M) of this is made up of EDQM products ("reference substances" - i.e. raw materials, manufacturing work in progress and finished products) valued according to the standard cost method. Their net value went up by €5.1M in 2020 as a result of a €3.3M increase in quantities in stock and a €2.3M revaluation of standard costs, offset by a €0.5M rise in the provision for raw material depreciation. In addition:

- the increase in stock quantities is explained by the EDQM's continued effort to build up a precautionary stock available on a back-up site as part of the contingency and disaster recovery plan;
- the revaluation of standard costs[13] follows a study carried out in 2020 on the method of applying additional costs, which aims to align this valuation as closely as possible with actual costs, leading to the revision of certain variables (hourly rate and shares of additional costs).

55. The other stocks amount to €3.3M net (€5.2M gross) and concern publications for sale or free distribution, the EDQM packaging and consumables, advertising material, office supplies, etc. They increased by €0.3M in 2020 due to the establishment of a buffer stock of EDQM consumables to ensure continuity of production against the background of the health crisis.

56. To validate the accounting data concerning stocks, the External Auditor:

- carried out spot checks on stocks of the EDQM products (10 locations tested during the interim visit in December 2020 and 10 tested during the final visit in April 2021);
- ensured that a physical inventory of stocks of publications had been made;
- verified the consistency of the revaluation of the standard costs of EDQM products.

57. No anomalies were found.

Finding: the External Auditor validates the accounting data concerning stocks.

7. Procurement and supplier accounts

58. The audit tests covered the following totals, split on the balance sheet between accounts payable and other short-term receivables, and on the income statement, between purchases of goods and services and fees and travel expenses.

Table 1: Totals tested (in € thousands)

Consolidated accounts	31/12/2020	31/12/2019	Variation
Operating expenses	**81 154**	**104 770**	**- 23 616**
Purchases of goods and services	*50 148*	*54 340*	*- 4 192*
Fees and travel costs	*31 006*	*50 430*	*- 19 424*
Accounts payable	**23 668**	**22 012**	**+ 1 656**
Suppliers	*22 899*	*21 089*	*+ 1 810*
Payables linked to "Eurimages" support	*769*	*923*	*- 154*
Other short-term receivables	**2 364**	**1 563**	**+ 801**
Prepaid expenses	*1 071*	*747*	*+ 324*
Suppliers - advances	*1 293*	*816*	*+ 477*

Source: External Auditor.

[13] The Standard Cost Model was introduced in 2019.

59. Fees and travel expenses and purchases of goods and services in 2020 amounted to €31M and €50.1M respectively. They were €50.4M and €54.3M respectively in 2019. The main variations between 2019 and 2020 were explained by TPA during the interim visit. Most of them are due to the pandemic:

- the volume of travel was reduced by about 95% and many official journeys, meetings, conferences/seminars and field visits were cancelled or postponed. These activities were replaced by others that could be carried out in compliance with the health restrictions to achieve their objectives, as well as by the allocation of grants to external bodies;
- although purchases and fees decreased overall, certain new needs, also linked to the pandemic, limited the decline in expenses: purchases of masks, gel and wipes, access to platforms for remote meetings and associated services, and changes to the operation of the air-conditioning units in Council of Europe buildings.

7.1 General checks

60. The External Auditor's checks mainly consisted in reconciling supplier balances and accounting balances and reviewing reconciliation entries, ensuring that negative or long-outstanding supplier balances were justified and reconciling supplier confirmation feedback with the accounting data.

61. With regard to unbilled payables, prepaid expenses and supplier advances, tests were carried out to ascertain their existence and correct valuation, with no significant anomaly identified.

62. Notes 4 (Debtors), 8 (Creditors), 14 (Operating expenses) and 17 (Contingencies and capital commitments) to the consolidated financial statements have also been reviewed and do not require any comment.

7.2 Cut-off tests

63. Cut-off tests consist in checking, on the basis of a sample, that end-of year expenditure is properly charged in accordance with IPSAS standards ("accrual accounting"), either during the current financial year or in the following year. An incorrect charge alters the result of the Statement of performance account of the financial year.

64. Tests carried out by the External Auditor revealed several anomalies, the cumulative impact of which is the overestimation of purchases in 2020 amounting to €407K, which can be broken down into the following operations:

- a purchase of IT subcontracting by DIT with the supplier Microsoft Ireland Operations Ltd, was recorded in full on 2020 for an amount of €132K whereas the invoice received in December 2020 refers to a service to be rendered over the period January 2021 to February 2023;
- a grant of €65K made by DIT to the *Bibliothèque nationale et universitaire de Strasbourg* (BNU) was charged in full to the financial year 2020, whereas the agreement of 8 December 2020 on depositing the collection of publications of the Council of Europe Archives with the BNU states in section 1 that the aim of the grant is "to fund the recruitment of a member of staff responsible for publicising, cataloguing and equipping the deposited collection over a 24-month period starting from the date of their arrival on BNU premises";
- an advance of €97K paid in December 2020 to the supplier LMC Project & Consulting, at the request of the Council of Europe Office in Tunisia was recorded for the financial year 2020. It represented 30% of a contract for the purchase, installation, testing and documentation of plugs and cables for the local IT network of the Tunisian courts. As an advance paid, this expense should not have had any effect on the result for 2020;

- fees amounting to €212K paid to Gartner France SARL were recorded for the financial year 2020 in respect of a support service for the negotiation of a three-year SaaS Microsoft contract. This €212K corresponds to the invoice expected in 2020 for this service by DIT and the ECHR. Two other instalments of €73K are expected in 2021 and 2022 by DIT and the EDQM, bringing the total cost of the service for the Council of Europe over the term of the Microsoft contract to €358K. When asked to clarify the logic behind the assignment of these invoices to two different financial years, TPA and the DiT considered that the service had in fact been provided in full in the 2020 financial year, the deferral of payments being no more than a commercial facility offered by the supplier: in this case, the charge for the financial year should have been €358K and the fees for the financial year were underestimated by €146K.

Finding: the cut-off tests revealed cases of either the overestimation or underestimation of purchases charged to the financial year 2020, with the balance corresponding to an overestimation of €148K. Similar tests resulted in the External Auditor identifying a discrepancy of the same order (€304K) and with the same effect (overcharge for the current financial year) for 2019.

Recommendation No. 2. The External Auditor recommends that, in the context of the preparation of the next financial statements, a second-level mechanism be set up to check the correct separation of the accounting periods for purchases and fees paid in December and the following two months.

Priority 1

7.3 Other observations

65. During the interim visit, the External Auditor noted that data on competitive bidding procedures were held locally by entities and were not subject to internal checks by another department.

Finding: the External Auditor notes the lack of second-level checks to ensure commitments officers' compliance with the competitive bidding procedure.

Recommendation No. 3. The External Auditor recommends that second-level checks be introduced on compliance with competitive bidding procedures by local buyers.

Priority 3

66. The acceptance of goods or services not yet invoiced at the year-end closing is not formalised in FIMS. TPA has established a procedure for the various cost centre managers (CCMs) in connection with the preparation of the financial statements in order to obtain details of open purchase orders (POs) for which a request for payment has not yet been made but for which the service has been provided. The procedure for collecting information and accounting for outstanding invoices is currently manual and time-consuming.

Finding: The acceptance of goods or services not yet invoiced at the year-end closing is not formalised in FIMS. A compensatory procedure is nevertheless implemented when the accounts are closed by TPA in order to identify from among the open purchase orders for which no payment request has yet been made those which have resulted in the delivery of goods or the provision of services before the end of the year. This procedure is manual and time-consuming.

Recommendation No. 4. The External Auditor recommends that, within 2 years, a direct notification procedure be introduced in the FIMS tool with respect to the acceptance of goods and services provided not yet invoiced.

Priority 3

67. Article 46 of the Financial Regulations mentions the original documents to be provided by the commitments officer or the cost centre manager (CCM) to the Treasurer (TPA) for the payment of any expense. The current procedure, imposed in the context of the pandemic, instead provides for the transmission of supporting documents by e-mail to TPA.

Finding: the procedures for communicating supporting documents for the payment of invoices made necessary by the pandemic no longer comply with Article 46 of the Financial Regulations, which requires that original documents be produced by the commitments officer to the Treasurer before the latter can make payment.

Recommendation No. 5. The External Auditor recommends that in the context of updating the Financial Regulations, Article 46 be adapted to bring it into line with Council of Europe practices regarding the communication of documents in support of payments.

Priority 2

8. Staff costs and employee benefits

8.1 Expenditure and commitments

68. Staff costs amounted to €272.9M in the financial year 2020, up by 1.14% over the previous year, for which they were €269.8M. The rise was mainly due to the 2.60% increase in the 2020 pay scale and length-of-service increments. The variation in staff costs was also determined by downward effects, such as the absence of loss-of-job indemnities paid in 2020, whereas these amounted to €3.8M in 2019.

69. The employee benefit commitments recorded as liabilities amounted to €4 646.3M at the end of 2020, having been €3 940M at the end of the previous year. This rise of €706.3M was mainly due to:

- an actuarial loss of €559.8M owing to the reduction in discount rates;
- the staff benefits costs amounting to €146.5M, the principal component of which was staff seniority pay increases ("current service cost"), with the cost amounting to €165.8M.

70. The External Auditor carried out, without identifying any anomalies:

- random tests of the details of staff files. The aim of these tests was to ensure the accuracy and existence of the remuneration details recorded according to the professional and personal situation of the staff concerned;
- analyses aimed at checking the consistency of the staff costs recorded over the financial year;
- tests aimed at reconciling the data from information systems used by the Directorate of Human Resources and those from information systems used by the Accounting Department.

71. The External Auditor also:

- checked the accuracy of the receivables and staff cost liabilities outstanding at the end of 2020. Tests were conducted to check the clearance of these receivables and liabilities;
- reviewed the accuracy and consistency of the parameters used in the actuary's report (discount rate, mortality table, population by pension scheme category, characteristics of pension schemes);
- examined the accounting entries relating to employee benefits. It made sure that they complied with the IPSAS 39 principles, especially with regard to the distinction between the flows to be recorded as net liabilities in the statement of financial position and those to be recorded in the income statement (statement of financial performance).

Finding: the analyses and tests carried out by the External Auditor on staff costs and commitments did not reveal any anomalies.

8.2 Pension Reserve Fund

72. The financial assets of the Fund amounted to €474.6M at 31 December 2020, up by €44.4M compared with 31 December 2019, when the portfolio was assessed at €430.2M. The rise is explained by acquisitions amounting to €19.3M and by unrealised capital gains of €25.1M. No disposal took place during the financial year 2020.

73. The portfolio is made up of:

- equity funds valued at €286.5M, up by €33.1M over the previous year, at the end of which they were valued at €253.4M. The rise was due to acquisitions worth €14.6M and unrealised capital gains of €18.5M;
- bond funds valued at €165.9M, up by €10.4M over the previous year, at the end of which they were valued at €155.5M. The rise was due to acquisitions worth €4M and unrealised capital gains of €6.4M;
- alternative investment funds valued at €22.3M, up by €1M over the previous year, at the end of which they were valued at €21.3M. The rise was due to acquisitions worth €0.7M and unrealised capital gains of €0.3M.

74. The External Auditor made sure that the valuation of the portfolio was correct by requesting confirmation from the bank holding the account. It reviewed the calculation of the unrealised capital gains on the basis of the costs of acquisition, prices at 31 December 2020 and the unrealised capital gains recorded at 31 December 2019.

Finding: as a result of the checks carried out on the assets of the Pension Reserve Fund, the External Auditor validates the data contained in the financial statements for 2020.

9. Provisions/contingent liabilities

75. The External Auditor consulted the communication from the Council of Europe's legal department in order to identify ongoing legal disputes and proceedings. It made sure that a provision had been established for disputes with a significant and probable accounting impact. Checks were performed on the reconciliation between the provisions recorded in liabilities and the allocations and write-backs recorded in the income statement.

9.1 Litigation concerning the non-adjustment of staff remuneration in 2018

76. The provisions in respect of ongoing litigation amounted to €8M at the beginning of the financial year 2020 and covered the risk associated with the litigation brought by the appellants against the Council of Europe's decision not to adjust staff remuneration and pensions in the financial year 2018. The Administrative Tribunal had already dismissed the appeal in its decision of 20 June 2019 but it registered several new appeals following the Russian Federation's payment of all its outstanding obligatory contributions in 2019.

77. It delivered its new judgment on 20 December 2020 and again dismissed the appeals. As the provision was no longer justified, it was written back in full into the financial statements for 2020.

9.2 Other ongoing legal disputes and proceedings

78. In 2020, several appeals were lodged with the Administrative Tribunal of the Council of Europe in which the appellants challenged the Deputies' decision to modify the indexation method for adjusting pensions under the Co-ordinated Pension Scheme. Since 1 January 2020, these pensions have been adjusted in line with consumer price inflation rather than with the annual salary adjustment.

79. The Administrative Tribunal delivered its decision on 20 April 2021 and dismissed the appeals. This decision after the close of the financial year has completely eliminated the risk for the Council of Europe: no liability was therefore recorded in this connection at 31 December 2020, in accordance with IPSAS 19 (taking account of post-balance sheet date events with regard to making provision for litigation).

80. Seven other disputes of less importance, pending at 31 December 2020, have not led to any provisions being made.

9.3 Unpaid late-payment interest

81. The late-payment interest owed by the Russian Federation is estimated at €8 837K at 31 December 2020 and recorded as short-term receivables.

82. Although disputed, these receivables currently do not give rise to a provision being made: the payment of late-payment interest is part of member States' financial obligations and the analysis of the situation made at the time of the annual closing of accounts did not conclude there was any need to record a provision in accordance with IPSAS 19.

83. Nonetheless, pursuant to the prudence principle with regard to the risk associated with this receivable, following a decision by the Committee of Ministers:

- part of the Ordinary Budget surplus for 2018 and 2019 has not been redistributed to the member States and has been paid into a reserve account in the amount of €6 027K;
- another sum, amounting to €1 648K, has also been frozen in the special deferred expenses (unpaid contributions) account, which is part of deferred income;
- lastly, part of the annual budget surplus of Eurimages and the European Youth Foundation has not been carried forward: amounts corresponding to the late-payment interest (€139K for Eurimages and €131K for the EYF) remain frozen in budgetary terms.

84. The bulk of the balance corresponds to late-payment interest of €873K, recorded in the receivables of the Pension Reserve Fund.

Finding: at 31 December 2020, the financial statements contained no provision for legal disputes. As a precaution, however, the possible risk corresponding to the late-payment interest not paid by a member State has been covered in budgetary terms by the "freezing" of budget surpluses of previous financial years, which have not been redistributed or carried forward.

10. Budget implementation and financial statements

85. IPSAS 24 "*requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities which are required to, or elect to, make publicly available their approved budget(s) and for which they are, therefore, held publicly accountable*".

86. As far as the Council of Europe is concerned, this IPSAS requirement applies to all funds under the General Budget (Ordinary Budget, Subsidiary Budgets, Extraordinary Budget, Pensions Budget and European Youth Foundation Budget) and the Partial Agreements. However, it does not apply to the special accounts, as they are financed by extrabudgetary resources.[14]

10.1 Statement of comparison of budget and actual amounts

87. Compared to the previous year, the presentation of the financial statement of comparison of budget and actual amounts (Statement V) has, in agreement with the External Auditor, been refocused on the specific purpose of IPSAS 24. Unlike the previous year, it does not therefore include the detailed budgetary breakdown that appears in the report on budgetary implementation but only the overall amounts of budgetary resources and expenditure by pillar. This simplified version has the advantage of better focusing the analysis on the overall balance of budget implementation, i.e. in 2020 a result of +€112 147K (excess of final resources over actual expenditure, all budgets combined).

[14] Any voluntary contributions paid by the Council of Europe to these special accounts are, admittedly, budgetary expenditure for the Council but are nonetheless extrabudgetary resources for the special accounts that benefit from them.

88. Under IPSAS 24, Note 21, which explains this financial statement, must ensure the reconciliation of this budget surplus with, on the one hand, the accounting result (statement of performance, i.e. a deficit of -€52 396K in 2020) and, on the other, the change in cash flow (cash flow statement, i.e. an increase of +€75 140K in 2020). The presentation of these reconciliations has also been simplified compared to the previous year, in order to make it clearer, thus avoiding unnecessary duplication with the report on budget implementation bearing no direct connection to the IPSAS 24 recommendations.

89. It can be seen that the difference between the budget surplus (€112.1M) and the accounting deficit (€-52.4M), analysed in Note 21.1, is mainly due to the different way in which commitments received and given are taken into account, either according to the budgetary approach (modified cash basis[15]) or the IPSAS accounting approach (accrual basis). These commitments are recorded as revenue and expenditure under IPSAS, whereas, in most cases, under the budgetary approach, only the receipts and disbursements relating to these commitments made in the current year are taken into account. The difference can be considerable, particularly in the case of employee benefits, where the future obligations and their actuarial fluctuations far exceed the annual payments. The other major source of difference is that IPSAS accounting takes into account extrabudgetary resources and expenditure on special accounts, whereas the latter are not included in the budgetary result. The following table, which has been prepared and included in Note 21.1 in agreement with the External Auditor, summarises the main differences in a simplified way.

Table 2: Difference between the budget surplus and the accounting deficit (in € million)

Budgetary result	**112.1**
Items not taken into account in the budgetary result	
Employee benefits obligation variation	-146.5
Pension Reserve Fund net asset variation	+50.7
Impact of the “staff departure scheme” special account	+6.2
Items not taken into account in the IPSAS result	
Budget results carried forward (namely EDQM/Eurimages/EYF)*	-75.1
Other differences	
Miscellaneous	+0.2
IPSAS result	**-52.4**

(*) The table in Note 21.1 shows an amount of €75.2M, which also includes other carry-forward items with minimal impact (publications, other partial agreements).
Source: External Auditor on the basis of the 2020 financial statements.

[15] So-called “modified cash” accounting consists in combining elements of the two principal accounting methods, namely cash-based accounting (which only mentions the year’s receipts and disbursements) and accrual accounting (which takes into account not only cash movements but also commitments given and received during the year). Budget accounting is referred to as “modified cash accounting”, mainly because the budget carry-forwards from one financial year to another are also taken into account, although they do not correspond to any cash movement during the year. There may be other adjustments that do not correspond to receipts and disbursements during the year, such as the inclusion of payments that can be linked to the current year’s budget but the remittance of which is deferred to the beginning of the following year, the making of budgetary provisions, etc.

90. The difference between the budget surplus (€112.1M) and the cash surplus recorded in 2020 (+€75.1M), analysed in Note 21.2, is mainly due to a) the carry-forward to 2020 of the 2019 budget surpluses for EDQM (€45.9M), Eurimages (€27.6M) and the European Youth Foundation (€1.6M), i.e. a total of €75.1M,[16] whereas these pre-existing resources did not generate any cash flow in 2020; and b) the fact that the special accounts provided an extrabudgetary cash increase in 2020 of €38.5M, which is by definition unrelated to the budget surplus. €38.5M of extrabudgetary cash should therefore be deducted from the cash increase of €75.1M. The sum of €75.1M in respect of pre-existing authorisations which were “inherited” from the 2019 budget and therefore did not give rise to any new payment in 2020 should also be deducted from the budgetary result of €112.1M – resulting in both cases in approximately €37M. There are still half a dozen other differences with a lesser impact, which explain why the balance of the reconciliation described above is not zero (€369K). These differences have not been individually quantified. The External Auditor considers that their overall balance is not material but believes that more extensive reconciliation could be considered in the future.

91. The External Auditor has verified the consistency of all these data with those contained in the statement of performance and the cash flow variation statement, as well as the report on the budgetary management accounts (which it also certified).

Finding: statement V of the comparison of amounts entered in the budget and those actually spent complies with the requirements of IPSAS 24, as does Note 21 which explains it. The External Auditor has found no material inaccuracies, but the reconciliation between the budgetary result and the statement of cash flows does not quantify several sources of unexplained discrepancies amounting to some €369K for the financial year 2020.

11. Fixed assets

92. The net book value of tangible and intangible assets amounted to €254.2M at 31 December 2020, €6.9M lower than at 31 December 2019. This decline was mainly due to the opening of the EDQM’s secondary site in Metz in the first quarter of 2020 and the start of the associated depreciation, most of the components of which, with a total gross book value of €14.5M, were included in assets under construction as at 31 December 2019.

93. The new acquisitions of the financial year were tested in detail on the basis of a selection. No significant anomalies were identified, either in terms of their capitalisable nature, their date of commissioning or the depreciation methods used. Fixed asset disposals for the year were also tested on a selection basis with no significant anomalies identified

94. Explanatory Notes 6 (Property, plant and equipment), 7 (Intangible assets), and the part of Note 17 (Contingencies and capital commitments) on the finance leases in the appendix to the consolidated accounts have also been reviewed and do not call for any comment.

95. The External Auditor has also checked the correspondence between the inventories and the accounts and the monitoring of finance leases.

11.1 Inventories

96. In particular, the External Auditor’s tasks were to review the physical inventory records sent to TPA by each fixed asset-holding entity.

97. The review revealed that the physical inventory procedures implemented by these entities do not comply with Article 54 of the Financial Regulations, which requires that a physical inventory be carried out at least once a year. Some fixed assets with a significant gross value have not been inventoried for several years. While the use of a rolling inventory over a period of several years is not in itself problematic, the Financial Regulations should be amended.

[16] The fact that this amount is identical to the cash flow is purely coincidental.

Finding: the physical inventory procedures do not comply with Article 54 of the Financial Regulations, which requires that a physical inventory be carried out at least once a year.

Recommendation No. 6. The External Auditor recommends that, in the context of updating the Financial Regulations, Article 54 be adapted to bring it into line with Council of Europe practices on the physical inventory of fixed assets.

Priority 2

98. The reconciliation between the physical inventory registers sent to TPA by each entity and the information contained in the FIMS integrated management software is manual and reveals numerous discrepancies involving significant amounts. Almost all the discrepancies noted, amounting to a cumulative gross value of €82.9M, can be explained by a difference in scope: the inventory registers include assets acquired before 2006 that are still in service, whereas the FIMS database only contains assets acquired from that date. General installations, on the other hand, are excluded for the most part from the inventory registers kept by the entities, as they cannot be labelled. Other sources of discrepancies have been identified but should be clarified with the entities, and the data should be presented in a homogeneous way in both databases to facilitate this reconciliation. The differences not explained by the differences in the scope amount to a gross balance of €322K at 31 December 2020, the amount of fixed assets inventoried being higher than the fixed assets recorded. The External Auditor considers that this unexplained balance is not significant.

Finding: The reconciliation between the physical inventory records sent to TPA by each entity and the FIMS integrated management software is manual and reveals numerous discrepancies , most of which stem from differences in the scope of the records kept by the entities and the fixed assets recorded. The explanation of the differences observed requires complex analyses, which leave a balance of unexplained differences in gross value, but not significant in net value at 31 December 2020.

Recommendation No. 7. The External Auditor recommends that, by the time the financial statements for the financial year 2021 are prepared, TPA's requirements for monitoring inventories be clarified for entities holding fixed assets, so as to limit the number of discrepancies to be analysed when reconciling the inventories transmitted with the accounts. This could be done by amending the "Guidelines for accounting for tangible and intangible fixed assets", in particular paragraph 4.7 ("**Recording of the fixed asset in the inventory"**).

Priority 1.

11.2 Financial lease contracts

99. The accounting entries relating to the restatement of rental expenses for finance leases have been reviewed and no significant anomalies have been identified. The monitoring of fixed assets under finance leases is carried out outside the accounting systme: as a result, the assets controlled in this way are not individually identified in the Fixed assets module in the FIMS integrated management software, but an inventory register of the assets concerned is kept up to date and validated with the entities that hold them, which makes it possible to identify the equipment under current contracts, as well as the equipment that has been totally or partially returned. The assets retained at the end of the contracts are however kept, for internal monitoring reasons, in the "equipment under finance lease" category (€397K gross value at 31 December 2020), which could lead to confusion. Nevertheless, their net book value at 31 December 2020 is negligible.

Finding: the assets retained by the Council of Europe at the end of finance leases are kept in the category "equipment under finance lease", so that this category actually includes various fixed assets not subject to a current finance lease.

Recommendation No. 8. **The External Auditor recommends that assets held under finance leases should not continue to be recorded under the category "equipment under finance lease" but be reclassified under other headings of tangible and intangible assets.**

Priority 3

12. Cash, deposits and borrowings

100. The cash holdings increased by €75.1M in 2020, due in particular to the impact of the pandemic on the Council of Europe's activities.

Table 3:The Council of Europe's cash holdings (in € thousands)

	2020	2019	Change
Current accounts	50 378	80 651	(30 273)
Deposits and savings accounts	272 935	167 522	105 413
Total cash holdings	**323 313**	**248 173**	**+75 140**

Source: External Auditor

12.1 Cash management

101. For several months now, TPA has been experiencing difficulties with investments owing to the current low interest rates. Despite the competition between banks when it comes to investing cash surpluses, they continue to offer almost zero or even negative interest rates for short-term investments. Most banks have also introduced ceilings for payments in euros on term deposits or savings accounts. In order to circumvent these difficulties, deposits have been moved to banks, mostly French, which do not yet charge negative rates. This strategy has enabled the Council to achieve positive net financial income in 2020, and to remain optimistic for 2021.

102. However, this financial environment could continue and it is possible that other banks will apply negative rates in the future, which could eventually place a financial burden on the Council, which at present refuses to invest its funds in riskier or less liquid products. The Council's financial investments must be made with institutions with an "A" rating or better (the "A-" rating being accepted for continuing existing investments with financial institutions whose rating has since been downgraded). The External Auditor considers that this cautious approach is appropriate to the situation despite its drawbacks.

103. The External Auditor has conducted tests to check the recording of accrued interest and other financial revenue and expenses. These tests require no particular comment.

12.2 Bank confirmation letters

104. The bank reconciliations and bank confirmations from the Council of Europe's 35 banks have been checked by the External Auditor. The replies received from seven banks contacted initially revealed discrepancies concerning the signatories authorised to handle the bank accounts: some discrepancies were noted between the signatories mentioned by the banks and the list provided by the Council of Europe. TPA investigated these discrepancies, as a result of which six out of seven corrections were made, which corresponded to misunderstandings about the circularisation process itself. In the seventh case, the response to the circularisation was being clarified at the end of the final certification mission.

105. TPA does not carry out an annual review of the signature authorisations but does reply to questionnaires sent by the banks each year and amends its list of authorised signatories in the event of staff changes. The anomalies revealed by the bank confirmation letters show that these checks are not sufficient.

12.3 Borrowings

106. The Council of Europe is repaying a loan taken out with Dexia Bank in 2006 through fixed instalments in January and July. The remaining capital due is approximately €15M and the interest paid by the Council is calculated in accordance with the depreciation schedule for the loan. The loan amount will be fully repaid on 1 January 2024.

Finding: the examination of bank authorisations reveals differences between the lists of authorised staff held by TPA on the one hand and by certain banks on the other.

Recommendation No. 9. The External Auditor recommends that by the end of the current financial year, a formalised procedure be put in place for the annual review of signature authorisations for each bank with which the Council of Europe has current or savings accounts, both in Strasbourg and in the locations of the field offices.

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13. Net position

107. The net position at 31 December 2020 was in debit to the tune of 3.754bn euros, with the net liability rising by €617M compared to the previous financial year.

108. This high level of liabilities is the result of pension obligations, which appear as liabilities on the balance sheet and amount to 4.646bn euros (4.5bn excluding the impact of the result of the year), which is considerably higher than the assets represented by the Pension Reserve Fund, which amounted to €488.2M at the end of the financial year (€437.5M excluding the impact of the result of the year). The Pension Reserve Fund was adopted by the Delegates at their 818th meeting with effect from 1 January 2003.

109. Various IPSAS adjustments, especially those relating to fixed assets, are the other principal elements of the net liabilities, but the worsening situation recorded in 2020 is mainly the result of the increase in pension liabilities over the period.

Finding: the External Auditor has reviewed the consistency of the elements making up the Council of Europe's net liabilities and compliance with the resolutions adopted by the Committee of Ministers on this subject. It approves the Statement of Changes in Net Liabilities for the financial year 2020.

14. Eurimages, North-South Centre and consolidation

14.1 Obligatory contributions to Eurimages and the North-South Centre

110. In accordance with professional audit practice, the certification of the financial statements produced by Eurimages and the North-South Centre is based on materiality thresholds[17] proportional to the total income of each reporting entity concerned – as this income is much lower than that of the Council of Europe, the materiality thresholds for each of these two agreements, which could, in the event of anomalies involving amounts exceeding them, lead to a possible qualification of the External Auditor's opinion, are therefore much lower than those used for the Council of Europe's consolidated accounts.

111. For each of the enlarged partial agreements, the External Auditor has noted a situation that increases the risk of being forced to implement thresholds in the future in connection with the audit of the financial statements of one and/or other of these agreements when obligatory contributions are not paid for prolonged periods:

- in the case of Eurimages, this involves the contribution of a country that acceded to the agreement in 2019, that did not pay its accession contribution for 2019 until 2020, had not paid its 2020 contribution by the completion of the External Auditor's final visit (end of April 2021) and had left the agreement on 31 December 2020. Negotiations are underway with the contributor concerned, and it is only in the light of the outcome of these negotiations that it may or may not be necessary to determine the possible depreciation of the receivable on the balance sheet of the agreement;

[17] With regard to certification, the "materiality threshold" is the level below which errors or potential errors noted by External Auditors are not such as to call into question the conformity and fairness of the financial statements on which they are required to issue opinions.

- in the case of the North-South Centre, a similar situation concerns one of the contributors, in the amount of €48K,[18] which exceeds both the amount of unrectified discrepancies to be reported and that for a possible modification of the opinion, although it does not exceed any relevant amount at the consolidated level of the Council of Europe.

112. In both cases, as these are recent payment delays (less than two years for Eurimages, slightly longer for the North-South Centre), the External Auditor considers that paragraphs 67 ff. of IPSAS 29 (Financial Instruments: Recognition and Measurement) do not require the impairment of these financial receivables from the financial year 2020. However, the issue will need to be revisited should it persist and/or worsen in the next few years.

14.2 Eurimages

113. The Eurimages statement of financial performance ended in 2020 with a surplus of €8.1M, an increase of €7.1M over the surplus for 2019 (€1M). This rise is mainly due to a decrease of €5.1M in the provisions for the risks of non-repayment of advances on receipts (for film co-production) and the increase in obligatory contributions amounting to €1.7M.

114. The repayable advances relating to film co-production amounted to €159.2M in 2020, a fall of €3.9M compared with the balance of the previous year (€163.1M). This decrease was due to the write-off of advances of €17.1M granted in 2010, payments of €14.6M made during the year and repayments of €1.3M received during the year in respect of films co-produced in the past ten years.[19]

115. Given the risks of non-repayment, the repayable advances are fully depreciated.

116. The External Auditor checked in particular, on the basis of a sample, the contractual film co-production commitments entered into, as well as the receipts and disbursements relating to the contracts selected. No significant anomalies were identified.

14.3 North-South Centre

117. The North-South Centre falls within the scope of the general checks on the Council of Europe's consolidated accounts carried out by the External Auditor. The audit of the financial statements drawn up by the Centre did not identify any anomalies.

118. The surplus for the year is €51 000, compared with €8 000 in 2019. This increase is due to the reduction in operating expenditure, as the pandemic had a significant impact on the Centre's activities. For example, fees and travel expenses only amounted to €85 000 in 2020, compared with €385 000 in 2019 (a decrease of €300 000).

119. The External Auditor also identified a substantial reduction (€358 000) in the contributions to the special account, which fell to €237 000 in 2020 against €595 000 in 2019. This was due, on one hand, by the finalisation of the JP/178 Joint Programme for an amount of €304 919 (EP iLegend Grant Agreement) which was finalised at the end of July 2019 and, on the other hand, by the pre-financing of the new Joint Programme JP/2482 (EP iLegend II Grant Agreement) signed in October 2019 for a duration of 36 months (€523 649).

[18] The sum of €48K represents the cumulative amount of unpaid obligatory contributions for the financial years 2017-2020, plus €10K in late-payment interest.
[19] The repayable advances recorded as assets comprise all the advances made in the last ten years (from 2011 to 2020).

14.4 Consolidation

120. In the previous financial year, the External Auditor found that the definition of the scope of the Council of Europe's consolidated accounts (which encompass the financial statements of Eurimages and the North-South Centre) was formally not compliant with the IPSAS guidelines on consolidation. It recommended "*that the Treasury, Payments and Accounting Department (TPA), as part of the ongoing process of updating the Accounting Procedures Manual (MAP), update and refine the analysis of the scope of consolidation under IPSAS 35, as IPSAS 6 is no longer applicable as of 1 January 2017".*

121. The difficulty in finding a convincing argument for an exception to the IPSAS consolidation principles is that such an argument would make it hard to explain why, on a purely accounting basis, it does not apply to all partial/enlarged agreements that find themselves in a similar situation. Conversely, it would obviously make no sense, in cost/benefit terms, to require separate financial statements for each partial/enlarged agreement.

122. In order to avoid this anomaly, which was not resolved by last year's recommendation, the External Auditor studied the advantages/disadvantages of an opposite approach, consisting in bringing Eurimages and the North-South Centre into line with the accounting treatment applied to all other partial/enlarged agreements included in the Council of Europe's scope of consolidation.

123. The analysis focused on the advantages/disadvantages of producing separate financial statements for Eurimages and the North-South Centre from three perspectives: technical usefulness, efficiency in the preparation and the use of accounts, and legal constraints on the current accounting framework.

124. <u>From a technical point of view</u>, bringing Eurimages and the North-South Centre into line with the common accounting regime of the other enlarged partial agreements would avoid the inconsistency, with regard to the application of IPSAS consolidation principles, involved in applying different accounting treatments to similar situations.

125. The External Auditor believes that this alignment could be achieved without compromising the reliability of the accounts or the quality of the information concerning these two partial/enlarged agreements:

- <u>with regard to reliability</u>, when auditing the financial statements of the Council of Europe, Eurimages and the North-South Centre, the External Auditor does not separate its work by accounting entity, since most of the income and expenses (especially staff costs) are processed in the same enterprise resource planning system and are based on the same internal control system, both of which are systematically audited annually as part of the interim visit. As far as the tests of details as part of the final visit are concerned, the ISA requires that they cover the various areas of activity of all Council of Europe budgetary or extrabudgetary entities, and producing separate accounts for two specific agreements does not imply any more or any less testing of details than for the other partial/enlarged agreements. On the other hand, as mentioned above, the low materiality thresholds for these two agreements increase the risk of modified opinions on their financial statements with respect to discrepancies that would have remained insignificant at the Council of Europe level;

- <u>as regards the quality of information</u>, if the governing bodies of Eurimages and the North-South Centre consider that the consolidated financial statements of the Council of Europe and the accompanying explanatory notes and appendices do not sufficiently explain certain specific financial or accounting totals that are useful or necessary to them, these could easily be requested directly from the secretariats of the two partial agreements, without having to resort to a framework for the preparation of separate accounts giving rise to non-IPSAS 35 compliant consolidation.

126. <u>From the point of view of efficiency</u>, i.e. the ratio between the resources mobilised and the result obtained, the production of separate financial statements is certainly not an optimal solution, on three levels:

- TPA considers that the preparation of separate financial statements for Eurimages and the North-South Centre requires the equivalent of one FTE for 20 days in the annual closure process, even though all the basic elements of this work are included in the preparation of the Council of Europe's consolidated financial statements;

- there is also a workload for the secretariats of the two partial agreements, which have to keep, provide and verify specific information for the sole purpose of ensuring that the various elements provided, which are generally already available for day-to-day management, are technically brought up to the specific standards required for separate accounting;

- lastly, this arrangement also creates an additional burden for the decision-making bodies, as these separate financial statements are submitted to the relevant partial/enlarged agreement committees, the Budget Committee and the Oversight Advisory Committee.

127. From the legal point of view, and according to the legal department, the preparation of separate financial statements is based solely on a Committee of Ministers' decision in the case of the North-South Centre and on a statutory provision in the case of Eurimages. There is no such provision in the case of the other Council of Europe partial/enlarged agreements, even though these two agreements are legally indistinguishable from the others. None of the resolutions governing the establishment of the enlarged partial agreements requires the preparation of a separate financial statement.

128. Legally, therefore, nothing would prevent the Committee of Ministers from deciding to abandon this practice:

- in the case of the North-South Centre, the Deputies would have to directly adopt a corresponding new decision;

- in the case of Eurimages, they would have to adopt a new decision to amend the Statute of the agreement.

129. In both cases, the authority to take these decisions should be restricted to the member States of the enlarged partial agreement concerned:

- on the proposal of the Eurimages Board of Management;

- on the proposal of the Executive Committee of the North-South Centre.

130. If such decisions were taken, it would not be necessary to amend the Council of Europe's Financial Regulations. The Treasury, Payments and Accounting Department would only need to identify any applicable internal regulations in order to align them, if necessary, without the need for a decision by the decision-making bodies.

131. The External Auditor notes that these decisions would be in line with Recommendation 2 made at the 1263rd meeting of the Oversight Advisory Committee (document CM(2016)86, page 6): "*the OAC recommends [...] simplify(ing) and possibly combin(ing) all or some of the four annual Financial Statements [...] issued by the Council of Europe*".[20] The recommendation below would enable this number to be reduced to two.

Finding: The audit of the financial statements of Eurimages and the North-South Centre did not reveal any anomalies. However, the Auditor reiterates the observation made last year that the scope of consolidation currently defined is not consistent and is difficult to reconcile with IPSAS 35. It also notes that the production of separate accounts for Eurimages and the North-South Centre is technically unnecessary from the point of view of the reliability and quality of accounting information, that it is a source of inefficiency in terms of the preparation of the annual accounts and that the only legal constraint on which it is based could be removed by simple decisions of the Committee of Ministers in the composition restricted to the States participating in these two enlarged partial agreements.

Recommendation No. 10. The External Auditor recommends that Committee of Ministers decides, in liaison with the Eurimages Board of Management and the Executive Committee of the North-South Centre, to cease producing separate financial statements, if possible as early as the financial year 2021.

Priority 1

[12] The OAC included in its recommendation not only the three IPSAS financial statements (Council of Europe, Eurimages and North-South Centre) but also the annual budget implementation report, also certified by the External Auditor.

IV. FOLLOW-UP TO PREVIOUS RECOMMENDATIONS

1. Situation of previous recommendations at 30 April 2021

1.1 Recommendations issued by previous Auditors

132. The External Auditor has reviewed the status of all recommendations from previous audit reports on the consolidated financial statements and accounts made by its predecessors and brought to the attention of the Committee of Ministers and its delegated bodies. In particular, it drew on the report GR-PBA (2021)5 of 16 March 2021 and the data from the JCAD tool on 12 April 2021.

133. The External Auditor notes that 28 recommendations from previous audits brought to the attention of the Committee of Ministers were yet to be implemented at 1 April 2021, of which 25 were from the audit reports on the financial statements and three from the audit reports on the budgetary management accounts.

134. Of the 25 outstanding recommendations from the audit reports on the consolidated financial statements, 16 dated back to years prior to 2019 and nine had been made in the audit report on the consolidated financial statements for 2019.

135. The following table shows the level of implementation of the recommendations from the external audit reports on the consolidated financial statements and the budgetary management accounts made in respect of the financial years 2019 and earlier.

Table 4:Follow-up to the External Auditor's earlier recommendations

	Recommendations implemented since 1 April 2020	Recommendations still being implemented at 1 March 2021
Audit reports on the consolidated financial statements for 2019 and earlier years	7	25
Audit reports on budgetary management for 2019 and earlier years	2	3
Total	**9**	**28**

Source: JCAD.

1.2 Recommendations issued by the present Auditor

136. As far as follow-up to its own earlier recommendations is concerned:

- the External Auditor has examined the level of implementation of eleven recommendations issued in connection with the certification of the 2019 financial statements,[21] based on interviews held in April 2021 and on the documentation provided by the Council of Europe;
- however, the analysis of the implementation of recommendations made in the performance reports[22] will be carried out during the interim visit on the consolidated financial statements for 2021.

137. Of the 11 recommendations related to the audit of the consolidated financial statements for 2019, two were considered by the Secretariat to have been implemented and nine were reported as being in the process of being implemented. The new recommendations made in this report and those resulting from the last performance audits already sent to the Organisation (management of the ECHR, procurement of intellectual services and official journey expenses of Council of Europe staff and experts) will be considered in our future audit reports. The recommendations resulting from the performance audits carried out in the first half of 2021 will also be included in the next follow-up review.

138. The following table shows the status of outstanding recommendations from the audit reports on the statements at the end of the review, at 30 April 2021.

[21] The follow-up to the recommendations from the reports on the budgetary management accounts is set out in the last report accompanying that certification and is therefore not covered in this observation.
[22] Owing to the Covid-19 pandemic, the performance audit reports were sent to the Council of Europe after the presentation of its reports to the Committee of Ministers at its November 2020 session.

Table 5: Summary of the implementation of the External Auditor's recommendations relating to the audit of the Council of Europe's financial statements for the financial year 2019

Subject	*Implementation*	*Implementation in progress*	*No implementation*	*Total*
Voluntary contributions				
1. Continue to upgrade the PMM (Project Management Methodology) tool with the support of the Directorate of Information Technology and put in place a procedure for collecting and processing information relating to the amounts stipulated in extrabudgetary resources contracts signed with donors, so as to ensure that their accounting treatment complies with IPSAS standards, in particular IPSAS 23 and 4.		X		
Information systems				
2. Put in place a business continuity plan, including all necessary measures to ensure the continuity of business-side activities and integrating the business directorates and their manual crisis management procedures. To this end, the roles and responsibilities of the business directorates and the Directorate of Information Technology should be defined at the highest level of governance of the Organisation.			X	
3. In the event that renovation work on the building housing the IT services cannot be scheduled in the near future, relocate the servers from D-building to the more secure server room in the more recent Agora building.	X			
4. Introduce a procedure for managing electronic access to financial applications intended for business directorates. This procedure should specify the arrangements for creating, deactivating and reviewing accounts, and for modifying access. It should include the roles and responsibilities of the stakeholders as well as the control systems put in place. Account reviews should include a job analysis, so that any incompatible profiles can be eliminated to prevent or minimise the risk of errors or irregularities.	X			
Treasury				
5. Classify cash flows from investing activities and cash flows from financing activities in the cash flow statement in accordance with IPSAS 2.	X			
6. Add more data to the portfolio movements spreadsheet, which gives all the details for calculating capital gains, especially realised capital gains, to allow better traceability and more direct reconciliation with the accounts.	X			
VAT				
7. Put the signing of Memoranda of Understanding (MoU) with relevant states on a more systematic footing, in order to secure the widest possible exemption from value added tax (VAT) in the countries from which it makes purchases.		X		

Subject	Implementation	Implementation in progress	No implementation	Total
Employee benefits				
8. In view of the high probability of claims for reimbursement of travel expenses from expatriate staff taking annual leave, make an accounting provision for such expenditure.	X			
Amounts due to staff				
9. Record, in the notes to the consolidated financial statements, certain staff-related payables under a line other than accounts payable to suppliers.	X			
Consolidation				
10. As part of the ongoing process of updating the Accounting Procedures Manual (MAP), update and refine the analysis of the scope of consolidation under IPSAS 35, as IPSAS 6 is no longer applicable as of 1 January 2017.		X[23]		
11. Should the TPA's assessment under IPSAS 35 confirm its assessment under IPSAS 6, according to which the Council controls neither Eurimages nor the North-South Centre, it is recommended that:		X		
- the Accounting Procedures Manual explain in greater detail why the Council has chosen to depart from the scope of consolidation that would result from strict application of IPSAS 35, by exercising the option under IPSAS 1 (paragraphs 31 and 32) not to apply a standard if to do so would result in a failure to present fairly the entity's financial position, financial performance and cash flows;				
- the notes to future consolidated financial statements include a notice explaining the scope of consolidation and the departure from IPSAS 35 based on paragraphs 31 and 32 of IPSAS 1.				
Total number: 11	6	4	1	

139. Of the 11 recommendations relating to the 2019 consolidated financial statements, six have been implemented, four are in the process of being implemented and one has not yet been implemented.

140. Recommendation No. 1 on voluntary contributions is considered partially implemented. The recording of all contributions is now in line with IPSAS 23 (balance sheet capitalisation) and IPSAS 4 (valuation of foreign currency contributions). However, the improvement to the procedure for collecting and processing information on extrabudgetary resources, with a view to limiting manual adjustments, and the development of the PMM functionalities were still not implemented. ODGP indicates that these functionnalities were being tested in April for a planned implementation before the end of May 2021.

[23] Recommendations 10 and 11 have been closed. As these recommendations have been partially implemented, it has been decided to close them and to clarify the External Auditor's expectations in new recommendations presented in the corresponding section of this report.

141. Recommendations Nos. 2 and 3 relating to the business continuity plan including business-side activities and the security of the server room are considered to be in the process of being implemented. However, the External Auditor notes the absence of such a business continuity plan. With regard to server security, a budget feasibility study for the relocation of the server room from D-building to the Agora building is still pending, as the necessary electrical and air-conditioning work on the Agora building has not been carried out owing to unavailability of funds. A preliminary budgetary study has been carried out by DGS and DIT. Due to the critical nature and financial requirements (between €350K and €400K) of this project, DGS has decided to commission external services to carry out an additional study for the work.

142. Recommendation No. 4. The recommendation is considered implemented. In the report on the 2019 financial statements, the External Auditor invited the Council of Europe to set up a procedure for managing electronic access to the FIMS system. An access management procedure has been put in place by DIT and approved by TPA and DPB. This procedure came into force on 1 November 2020.

143. Recommendation No. 5 on the classification of cash flows under IPSAS 2 is considered implemented, with financial investments now reported within cash flows from investing activities rather than financing activities.

144. Recommendation No. 6 is considered implemented. The External Auditor noted that for capital gains realised on transactions initiated over several previous years, and not only in the year in which the disposal took place, the audit trail was more complex to trace and required additional explanations, which were provided. The Council of Europe was thus required to complete the portfolio movement tracking file.

145. Recommendation No. 7 on the signing of Memoranda of Understanding (MoUs) with the States concerned in order to obtain an exemption from Value Added Tax (VAT) is being implemented but remains complicated to implement in practice. Negotiations are ongoing and a formal clause on VAT is being drafted for the MoU negotiation model.

146. Recommendation No. 8 on the establishment of an accounting provision for annual leave expenses has been implemented. A provision of €464K was recorded to this effect in the 31 December 2020 financial statements.

147. Recommendation No. 9 on the classification of staff-related payables has been implemented. This recommendation concerned an improvement to the information provided in Note 8 to the financial statements on “Creditors”. The line “Employees: charges to be paid” now includes the provision for severance benefits to be paid to staff (€324K) which was previously presented in the “Suppliers” line.

148. Recommendations Nos. 10 and 11 are about the scope of the consolidation of the financial statements. The scope currently defined is not consistent and is difficult to reconcile with IPSAS 35. The production of separate accounts for Eurimages and for the North-South Centre is technically unnecessary from the point of view of the reliability and quality of accounting information. In view of these elements, the External Auditor considers that the two recommendations described above have been partially implemented. In part 13.4 of this report, the External Auditor makes a new recommendation that clarifies its expectations and highlights the points that should be further developed next year. These two recommendations made in 2019 are therefore closed.

2. Internal procedure for following up the External Auditor’s recommendations

149. The External Auditor also noted that the Treasurer of the Council of Europe carries out an annual review of the follow-up to the implementation of all the pending recommendations, paying particular attention to those contained in the reports submitted to the Committee of Ministers and its delegated bodies, in particular the GR-PBA, when following up the external audit reports on the consolidated financial statements and on budgetary management.

150. This review uses the JCAD monitoring tool and triggers at the end of the year a systematic procedure for consulting individuals and departments responsible for implementing the recommendations. This tool should be replaced in 2021 by the TeamMate audit management software. In this general context, the External Auditor points out that:

- it is not consulted in this internal process. As a result, some recommendations may be declared implemented by the departments without the Auditor having had the opportunity to voice a different opinion, in particular in the context of the follow-up document submitted annually to the GR-PBA;

- the follow-up procedure is not formalised, i.e. neither set out in writing nor validated by the Secretariat.

151. The monitoring of the implementation of these recommendations is fully in line with a results-based management approach. It enables effective risk management and fosters continuous improvements to the Organisation’s operating and oversight practices. It would be appropriate to include the External Auditor’s observations in this regard in the annual monitoring document submitted to the GR-PBA.

Finding: The External Auditor, after taking stock of the degree of implementation of its past recommendations, as well as those of its predecessors, notes that:
- a document on the follow-up to its recommendations was sent to the GR-PBA on 16 March 2021;
- there is no formalised procedure for internal follow-up to recommendations;
- it was not involved in drawing up the report in the Treasurer’s document to the GR-PBA presented in the first half-year.

Recommendation No. 11. The External Auditor recommends that the internal procedure for implementing and following up the recommendations in the External Auditor’s reports be formalised in writing and validated. These procedures should include prior consultation and comment by the Auditor on the report to the GR-PBA. This new mechanism should be operational before the GR-PBA meeting in July 2022.

Priority 1

V. ACKNOWLEDGMENTS

152. The audit team wishes to express its deep gratitude to all the Council of Europe teams for their time and assistance and for the accurate information provided.

End of Auditor’s comments