COMMITTEE OF MINISTERS
COMITÉ DES MINISTRES

COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

MINISTERS' DEPUTIES | CM Documents | **CM(2023)100** | 31 May 2023[1]

1474th meeting, 13 September 2023

11 Programme, Budget and Administration

11.1 Financial Statements of the Council of Europe for the year ended 31 December 2022

PART I: Financial Statements

PART II: External Auditor's Report

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

PART I - FINANCIAL STATEMENTS

of the Council of Europe for the year ended
31 December 2022

Financial statements for the year ended 31 December 2022

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' obligatory contributions, which are based on population and wealth, as well as extrabudgetary resources. 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. She has to ensure the efficient administration of the Council of Europe and the economic use of the resources entrusted to her. To this end she 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 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 2022. 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 2022 by adopting the draft resolution appearing on page 6 of this document.

TABLE OF CONTENTS

Financial statements for the year ended 31 December 2022

DRAFT RESOLUTION

**Draft resolution CM/Res(2023)…
concerning the financial statements of the Council of Europe
for the year ended 31 December 2022**

*(Adopted by the Committee of Ministers on … 2023
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 financial statements of the Council of Europe for the year ended 31 December 2022, submitted by the Secretary General (CM(2023)100);

Having regard to the opinion of the External Auditor;

Having regard to the report of the External Auditor;

Decides:

1. The financial statements of the Council of Europe for the year ended 31 December 2022 are approved.

2. Discharge is hereby given to the Secretary General in respect of her financial management for the year 2022.

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.

The Statement of Financial Position as at 31 December 2022 shows a decrease in net liabilities from €3 077M at 31 December 2021 to €1 527M at 31 December 2022. This is mainly due to the obligation for future employee benefits which amounts to €2 588M at 31 December 2022 compared to €4 182M at 31 December 2021. In particular, an actuarial gain of €1 737M was recorded, partly due to a significant increase in the discount rate. This rate was below 1% and reached 3.28% in 2022 for pension benefits and for post-employment medical benefits (Note 10).

The Statement of Financial Performance for the year 2022 shows a deficit of €184 144K, up from €9 841K in 2021. Although the variation is affected by a significant increase in operating expenses (Note 14) which is only partially offset by an increase in operating income (Note 12), it is mainly explained by financial expenses, notably net unrealised losses on financial investments of the Pension Reserve Fund amounting to €73 058K (Notes 5 and 15).

As a consequence of the cessation of membership of the Russian Federation under Article 8 of the Statute with effect from 16 March 2022, the Committee of Ministers revised the scale of contributions for the 2022 budget. As a result, a total amount of €25 711K in additional contributions was called (Note 4).

The provision for doubtful debts set up in the 2021 accounts for an amount of €8 837K to cover the risk of non-payment of late payment interest due by the Russian Federation has been reduced by €528K following the partial allocation of the 2021 budgetary balance due to the Russian Federation (Note 4).

A provision for doubtful debts amounting to €1 438K has been constituted at the end of 2022 to cover the risk of non-payment of obligatory contributions and related late payment interest due by Argentina and Cape Verde, non-members of the Council of Europe. Argentina withdrew from the Enlarged Partial Agreement “Eurimages” with effect from 31 December 2020 but has not paid its obligatory contribution for the year 2020. Cape Verde has not paid its obligatory contribution to the North-South Centre Enlarged Partial Agreement and related late payment interest since 2017 (Notes 4, 12 and 15).

Several appeals were lodged with the Administrative Tribunal of the Council of Europe in 2022. The applicants challenge the decisions of the Deputies to apply the affordability clause and to partially grant the salary increase resulting from the salary adjustment method. As the decisions have not yet been rendered, it was considered necessary, in application of the principle of prudence, to constitute a provision for litigation corresponding to the amount that would have to be recognised in the event of a decision unfavourable to the Secretary General (€5 244K) (Notes 8.2 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(2023)100-add) and in the Progress Review Report for 2022 (CM/Inf(2023)7).

We are of the opinion that these financial statements fairly present the financial situation of the Council of Europe at 31 December 2022 and its financial performance and cash flows for the year then ended.

Strasbourg, 10 May 2023

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

GOVERNANCE STATEMENT

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 have put in place a governance system including notably risk management, internal control, internal audit, performance indicators and evaluation of results.

2. PURPOSE OF THE INTERNAL CONTROL FRAMEWORK

The internal control framework in place 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 are met;
- financial data and information published internally or externally are accurate, reliable and timely;
- actions and operations conducted by Council of Europe staff comply with the Staff Regulations, the Financial Regulations, and other rules, regulations, policies and procedures of the Organisation;
- works, goods and services are acquired at the best cost 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 2022 and up to the date of approval of the accounts and complies with proper practice.

3 . RISK APPETITE

The Council of Europe manages and mitigates the risks which arise from the delivery of its mandate and the implementation of its programmes and operations, taking due consideration to balance the cost of risk mitigation actions against the practical and other aspects of accepting certain exposure levels of risk in its daily operations.

Considering its risk management capacity and the mitigation measures already in place, the Organisation expresses the following risk appetite, which will be reviewed yearly. The Council of Europe:

- has zero tolerance for fraud and corruption, all forms of harassment and unethical behaviour and any form of retaliation against persons reporting wrongdoing or cooperating with a preliminary assessment or an investigation;

- has low appetite for risks affecting the health, safety and security of its personnel and all individuals on its premises, security risks impacting the Organisation’s assets and premises, risks related to Information Technology security, regulatory compliance risks and risks associated with investments and borrowing;

- has a medium appetite for risks resulting from its network of partners and risks resulting from operations undertaken in non-member States;

- considers adopting a higher risk strategy for uncertainties that may arise from engaging in new areas of intervention, encouraging innovation in working methods, extending its outreach, and maximising its visibility.

4. INTERNAL CONTROL ENVIRONMENT

The governance system in place for the Organisation is derived directly from the expression of the above risk appetite and relies on the following internal control environment:

- The principles which must be respected by all staff are stated explicitly in the *Staff Regulations* and the *Charter of Professional Ethics*, supplemented by the *Purchasing Code of Ethics*, *Rule No. 1296 on the acceptance of fees, gifts, decorations or honours, invitations, and other advantages from third parties,* and by *Rules No. 1282, 1375 and 1392 on the declarations of interests in the context of procurement and grant awards*. In order to prevent, detect, and investigate fraud and corruption, all members of the Secretariat and specially appointed officials and persons who are not Council of Europe Secretariat members who participate in the Council of Europe's activities are required to report any reasonable suspicion of misconduct they deem to be fraud or corruption in accordance with *Rule No. 1327 on awareness and prevention of fraud and corruption*[3];

- Allegations of fraud or corruption are investigated in accordance with *Instruction 65 on investigations*; other breaches of internal rules are addressed in accordance with *Instruction 51 on internal inquiries.* In addition to fraud and corruption, internal control weaknesses and other deficiencies detected during preliminary assessments and investigations are also reported and addressed;

- Comprehensive financial and staff regulations, together with instructions and rules, which are reviewed at regular intervals. These arrangements promote compliance with standards and best practices;

- The Council of Europe policy on internal control relating to financial management referring to the COSO[4] framework with a list of 42 key control points which are included in the annual Internal Control Self-Assessment Questionnaire (ICSAQ);

- The Council of Europe Policy on Risk Management, providing for an annual risk assessment for each Major Administrative Entity (MAE);

- For each biennium, according to the financial delegation framework, I send the head of each MAE a Letter of Delegation, specifying the details of the operation of delegated financial authority and responsibility and underlining their responsibility for internal control and risk management within their sector.

5. 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 management of operational risks and 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 bringing to my attention any risk that may impact it. They are asked to carry out a self-assessment of internal controls in support of the signature of this letter;

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[3] See also Policy Statement by the Secretary General on Awareness and Prevention of Fraud and Corruption.
[4] COSO stands for "Committee of Sponsoring Organisations" 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 organisational performance and governance and to reduce the extent of fraud in organisations." Source: COSO website

- The work of the Directorate of Internal Oversight (DIO) throughout the year provides the required assurance on internal controls by conducting audits in accordance with a risk-based annual work programme, which is drawn up in consultation with senior managers and approved by myself. The DIO reports annually to me on the follow-up to its recommendations and escalates any issues as appropriate;

- The External Auditor, who audits the financial statements and reports on both the compliance of the accounts with the financial regulations and other regulatory texts, as well as on the performance of selected areas of the Organisation;

- The advice and recommendations provided by the Oversight Advisory Committee (OAC) when pertaining to the governance system. The OAC serves in an expert advisory capacity and reports to the Committee of Ministers and advises the Secretary General in the following areas: the Organisation's governance, risk management and internal and external control, the work of the Directorate of Internal Oversight and the External Auditor, and on the timely and effective implementation of audit and evaluation recommendations.

Based on the information from these sources, I consider that the internal controls within the Organisation are on the whole satisfactory. Weaknesses identified by the governance system and notably in internal and external audit reports are addressed, and potential areas of improvement observed in the self-assessments are managed and followed within the MAEs.

6. PROGRESS IN 2022 AND AREAS FOR DEVELOPMENT IN 2023 IN INTERNAL CONTROL AND OTHER GOVERNANCE AREAS

Internal Control

In 2022, a comprehensive Internal Control Policy was developed and should be adopted in early 2023.The policy covers both financial and other management areas and is integrated with the risk management policy and other reform-related initiatives, such as the new delegation framework.

From 2023 the policy will be progressively supplemented with guidelines, procedures, and practical tools on the implementation of internal control. The policy will be communicated and promoted through the intranet page on Internal Control which went online in 2022, and through other relevant methods.

In 2022, the use of the internal control self-assessment questionnaire prior to the signature of the Letters of Representation was systematic. Ad-hoc training and information sessions were organised for CCMs to raise their awareness on the effective use of self-assessment, as well as accompanying actions when needed. All Commitments Officers submitted a Letter of Representation, as well as around 70 CCMs and delegated CCMs.

The awareness-raising actions on internal control continued, leading to an improvement in the quality of the annual self-assessments, with a more documented and informed assessment of controls, in particular with regard to the control environment and risk assessment parts of the questionnaire, thus demonstrating the growing maturity of the Organisation in these areas. Some areas for improvement were identified, namely in the training of staff with financial responsibilities, particularly in the field offices, and in the monitoring of controls.

These elements, together with the developments in risk management, will help to better target efforts, improve the efficiency of actions taken and in the longer term strengthen assurance of an effective internal control system.

Risk Management, Crisis Management and Business Continuity

In 2022, a series of steps were taken to promote greater maturity in risk management, in line with the recent DIO consultancy assignment on Enterprise Risk Management and its agreed action plan. A Risk Maturity Matrix was adopted by the Senior Management Group. A Risk Management IT tool (RMT) was developed and deployed at the end of 2022 in order to consolidate risk management practices across the Organisation, to reinforce links with Results Based Management (RBM) and to allow a closer follow-up of mitigating actions. In addition, almost 150 participants from across all major administrative entities (MAEs) followed the training sessions organised in 2022, which further consolidated a common understanding of risk management across the Organisation and provided practical advice on how to manage risks on a daily basis. To support these positive advances, an update of the risk management Policy and Guidelines and the further development of transversal risks registers are foreseen in 2023.

The Organisation continued to strengthen its approach to crisis management and business continuity processes in the longer term, with several recent developments. Throughout 2022, the high-level Task Force on Crisis Management and Business Continuity oversaw the implementation of a number of required measures, including the development of horizon scanning capacities, a crisis competency framework, appropriate forums to manage Organisation-wide crises, communication lines in times of crises, and a framework for the implementation of Business Continuity Plans (BCPs) throughout the Organisation. This work will be pursued in 2023, notably through the organisation of workshops which will support the introduction of BCPs across MAEs. This should ultimately reinforce the Organisation's capacity to continue to deliver its services in the case of a disruptive event.

Internal Audit, Evaluation and Investigation

In 2022, Internal Audit continued its COSO-based audits on the internal control framework of Council of Europe Major Administrative Entities and external offices.

An external quality assessment of the internal audit function was performed in 2022 and concluded that the internal audit function generally conforms to the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors.

Internal Audit's capacity to provide assurance was affected in 2022 by staff vacancies.

As foreseen in the Evaluation Policy, an external peer review of the evaluation function was carried out during 2022. The Peer Review concluded that the evaluation function has been noticeably strengthened over the past years, building on a strong normative framework and a satisfactory level of independence of DIO under the authority of the Secretary General. DIO managed a number of strategic evaluations which were presented to the different Committee of Ministers rapporteur groups. These concerned the sub-programme on 'Violence against Women', the Venice Commission evaluation and the evaluation of the Council of Europe Monitoring Mechanisms.

At the beginning of 2022 the Investigation function was reinforced with an additional Head of Division position to reflect the increased responsibilities in the investigation of wrongdoing arising from the new secondary legislation. In 2022, the Investigation function developed a comprehensive fraud-risk assessment framework, produced training materials, raised awareness, and issued a report summarising the results of the monitoring of the declarations of interests. It also acted upon reports or other indications of suspected fraud and/or corruption and conducted preliminary assessments and investigations.

With regard to the follow-up of DIO recommendations, the pace of implementation remains unchanged due to the more strategic nature of the recommendations which take longer to implement. The follow-up IT tool for DIO and external audit recommendations was fully deployed and used by all Major Administrative Entities. Its reporting capabilities enables the Secretary General and Commitments Officers to monitor the implementation of recommendations more effectively.

With regard to the work of the OAC in 2022, the Committee met on three occasions and presented its annual report for 2021 to the Committee of Ministers. Its annual report for 2022 was presented to the GR-PBA in the first quarter of 2023.

Ethics

The Ethics Officer, a role established by the Secretary General in 2019, provides an independent advisory function with respect to ethics related matters, and provides guidance to staff as well as any other person taking part in Council of Europe activities.

A new Ethics Officer was appointed on 1 January 2021. He has submitted Annual Reports for 2021 and 2022. The function of the Ethics Officer is currently carried out by the Deputy Secretary of GRECO. Separate funding for a full-time Ethics Officer has been secured and his appointment was formalised in March 2023. The mandate of the Ethics Officer has been considerably reinforced by the adoption of a new Code of Conduct, Staff regulations and Staff rules, which entered into force on 1 January 2023. The “Ethics framework” also includes a new “Speak-Up” Policy (currently being finalised), the Policy on Respect and Dignity, and the Policy on Diversity (currently being finalised).

Strasbourg, 10 May 2023

Signed

Marija Pejčinović Burić
Secretary General

OPINION OF THE EXTERNAL AUDITOR

Cour des comptes
FRANCE

The First President

Paris, 19 May 2023

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 2022. These Financial Statements include a Statement of Financial Position as at 31 December 2022, a Statement of Financial Performance, a Statement of Cash Flow, a 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 financial position of the Council of Europe as at 31 December 2022, as well as the financial performance, the cash flow and the changes in net liabilities for the 12 months period ended 31 December 2022 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 the International Standards of Supreme Audit Institution (ISSAI) of the International Organization of Supreme Audit Institutions (INTOSAI) which encompass public-sector auditing requirements, 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 ISA sand ISSAIs 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

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

I. STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2022 €K	31 December 2021 Restated [1] €K	31 December 2021 Initial €K
ASSETS				
Current assets				
Cash at bank	2	41 198	51 296	51 296
Short-term money deposits	2	316 561	306 024	306 024
Inventories	3	62 771	61 161	61 161
Short-term debtors	4	70 517	55 245	55 245
Total current assets		**491 047**	**473 726**	**473 726**
Non-current assets				
"Eurimages" Reimbursable advances	5	155 060	154 995	154 995
"Eurimages" Provision for reimbursable advances	5	(155 060)	(154 995)	(154 995)
Financial investments	5	521 464	579 527	579 527
Long-term debtors	4	55 241	42 982	42 982
Property, plant and equipment	6	279 760	276 598	276 598
Intangible assets	7	4 708	3 904	3 904
Total non-current assets		**861 173**	**903 011**	**903 011**
TOTAL ASSETS		**1 352 220**	**1 376 737**	**1 376 737**
LIABILITIES				
Current liabilities				
Creditors	8	78 200	68 877	68 877
Deferred income	9	135 456	125 158	148 719
Employee benefits	10	68 747	63 343	63 343
Obligations under finance leases	17	284	449	449
Short-term loans	11	4 913	4 735	4 735
Total current liabilities		**287 600**	**262 562**	**286 123**
Non-current liabilities				
Deferred income	9	70 591	65 797	83 214
Employee benefits	10	2 519 711	4 119 321	4 119 321
Obligations under finance leases	17	490	173	173
Long-term loans	11	1 052	5 965	5 965
Total non-current liabilities		**2 591 844**	**4 191 256**	**4 208 673**
TOTAL LIABILITIES		**2 879 444**	**4 453 818**	**4 494 796**
NET ASSETS		**(1 527 224)**	**(3 077 081)**	**(3 118 059)**
Working capital fund reserve	23	3 341	3 476	3 476
Pension Reserve Fund	23	589 794	488 176	488 176
Fixed assets reserve	23	286 933	284 123	284 123
Inventories reserve	23	61 161	41 606	41 606
Employee benefits reserve	23	(2 445 645)	(4 025 792)	(4 025 792)
Other reserves	23	161 336	141 171	96 542
Deficit for the period	23	(184 144)	(9 841)	(6 190)
TOTAL NET ASSETS		**(1 527 224)**	**(3 077 081)**	**(3 118 059)**

[1] Explanations concerning the restated 2021 comparative data are provided on pages 25-26.

The notes on pages 20 to 64 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

II. STATEMENT OF FINANCIAL PERFORMANCE

	Notes	2022 €K	2021 Restated €K	2021 Initial €K
OPERATING REVENUE				
Obligatory contributions	12	299 667	302 451	302 451
Contributions to special accounts	12	89 130	64 188	67 839
Pension contributions	12	55 022	52 218	52 218
Accession contributions	12	84	47	47
EDQM receipts	12	72 975	72 430	72 430
Reimbursement of “Eurimages” advances on receipts	12	1 332	1 577	1 577
Net movement in inventories	12	1 609	19 555	19 555
Sundry receipts	12	3 304	2 047	2 047
Total operating revenue		**523 123**	**514 513**	**518 164**
OPERATING EXPENSES				
Purchase of goods and services	14	81 014	62 347	62 347
Fees and travel expenses	14	50 711	40 130	40 130
Staff expenses	14	454 808	443 860	443 860
Judges' emoluments	14	11 864	11 935	11 935
“Eurimages” advances on receipts and grants	14	21 260	19 233	19 233
Fixed assets depreciation and amortisation	14	15 894	15 734	15 734
Other expenses	14	47	57	57
Total operating expenses		**635 598**	**593 296**	**593 296**
Surplus/(Deficit) from operating activities		**(112 475)**	**(78 783)**	**(75 132)**
NON-OPERATING REVENUE/(EXPENSES)				
Financial revenue	15	3 487	82 611	82 611
Financial expenses	15	75 156	13 669	13 669
Total net non-operating revenue		**(71 669)**	**68 942**	**68 942**
DEFICIT FOR THE PERIOD		**(184 144)**	**(9 841)**	**(6 190)**

[(1)] Explanations concerning the restated 2021 comparative data are provided on pages pages 25-26.

The notes on pages 20 to 64 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

III. CASH FLOW STATEMENT

	Note	2022 €K	2021 €K
CASH FLOW FROM OPERATING ACTIVITIES			
Operating revenue			
Obligatory contributions		283 562	301 603
Voluntary contributions		86 937	62 183
Pension contributions		52 844	52 315
Accession contributions		84	47
EDQM receipts		73 087	72 159
"Eurimages" reimbursement of advances on receipts		1 332	1 577
Sundry receipts		1 937	2 648
Cash inflows		**499 783**	**492 532**
Operating expenses			
Staff expenses		306 671	286 944
Judges' emoluments		11 864	11 935
Suppliers and other payments		128 117	96 088
"Eurimages" advances on receipts and grants		21 316	19 217
Surpluses reimbursed to member States		165	242
Cash outflows		**468 133**	**414 426**
Net cash flow from operating activities		**31 650**	**78 106**
CASH FLOW FROM INVESTING ACTIVITIES			
Financial investments		14 635	27 143
Purchase of fixed assets		12 616	11 472
Net cash outflows		**27 251**	**38 615**
Net cash flow from investing activities		**27 251**	**38 615**
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of loans		4 735	4 564
Repayment of finance lease obligations		315	495
Net financial expenses		-	425
Net cash outflows		**5 050**	**5 484**
Net financial income		1 090	-
Net cash inflows		**1 090**	**-**
Net cash flow from financing activities		**3 960**	**5 484**
Net increase/(decrease) in cash and cash equivalents		**439**	**34 007**
Cash and cash equivalents at beginning of period	2	357 320	323 313
Cash and cash equivalents at end of period	2	**357 759**	**357 320**

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 20 to 64 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

IV. STATEMENT OF CHANGES IN NET LIABILITIES / NET EQUITY

	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 2020 ***(Restated)***	**3 476**	**(41 625)**	**437 503**	**260 828**	**36 134**	**(4 499 848)**	**95 196**	**(3 708 336)**
Allocation to the Pension Reserve Fund	-	(50 673)	50 673	-	-	-	-	-
Allocation to fixed assets reserve	-	7 039	-	(7 039)	-	-	-	-
Allocation to inventories reserve	-	(5 472)	-	-	5 472	-	-	-
Surpluses to be reimbursed to member States	-	(9 738)	-	-	-	-	-	(9 738)
Budgetary surpluses carried over from the prvious period	-	(102 410)	-	-	-	-	102 410	-
Allocation to other reserves *(Restated)*	-	56 419	-	-	-	-	(56 436)	(17)
Allocation to employee benefits reserve	-	146 462	-	-	-	(146 462)	-	-
Actuarial (losses)/gains related to employee benefits	-	-		-	-	620 518	-	620 518
Differences in the revaluation of land, buildings and installatior	-	-	-	30 334	-	-	-	30 334
Deficit 2021 *(Restated)*	-	(9 841)	-	-	-	-	-	(9 841)
31 December 2021	**3 476**	**(9 841)**	**488 176**	**284 123**	**41 606**	**(4 025 792)**	**141 171**	**(3 077 081)**
Allocation to the Pension Reserve Fund	-	(101 618)	101 618	-	-	-	-	-
Allocation to fixed assets reserve	-	3 851	-	(3 851)	-	-	-	-
Allocation to inventories reserve	-	(19 555)	-	-	19 555	-	-	-
Surpluses to be reimbursed to member States	-	(9 543)	-	-	-	-	-	(9 543)
Budgetary surpluses carried over from the prvious period	-	(57 253)	-	-	-	-	57 253	-
Allocation to other reserves *(Restated)*	-	37 088	-	-	-	-	(37 088)	-
Allocation to employee benefits reserve	-	156 872	-	-	-	(156 872)	-	-
Actuarial (losses)/gains related to employee benefits	-	-	-	-	-	1 737 019	-	1 737 019
Impact of property, plan and equipment revaluation	-	-	-	6 661	-	-	-	6 661
Decrease in working capital reserve	(135)	-	-	-	-	-	-	(135)
Deficit 2022	-	(184 144)	-	-	-	-	-	(184 144)
31 December 2022	**3 341**	**(184 144)**	**589 794**	**286 933**	**61 161**	**(2 445 645)**	**161 336**	**(1 527 224)**

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

The notes on pages 20 to 64 form part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

V. STATEMENT OF COMPARISON OF BUDGETED AND ACTUAL AMOUNTS

			Budgeted amounts	Acutal amount on a comparable basis	Variation (Actual - budgeted amounts)
Ordinary Budget			258 324	259 246	922
Other budgets			200 176	198 845	(1 331)
Annual balance of subsidiary budgets		(1)	-	170	170
Resources	**Total (A)**		**458 500**	**458 261**	**(239)**
Ordinary Budget			258 324	259 014	690
Other budgets			200 176	146 347	(53 829)
Expenditure	**Total (B)**		**458 500**	**405 361**	**(53 139)**
Ordinary Budget			-	232	232
Other budgets			-	52 498	52 498
Annual balance of subsidiary budgets			-	170	170
Annual balance of the Ordinary Budget and other budgets	**Total (C) = (A) - (B)**		**-**	**52 900**	**52 900**
Special accounts - Resources			N/A	139 806	139 806
Special accounts - Expenditure			N/A	135 712	135 712
Special accounts annual balance	**Total (D)**	(2)	**N/A**	**4 094**	**4 094**
Net budgetary outcome	**Total (E) = (C) + (D)**				**56 994**
Reconciliation with the accounting resultt					
Basis and differences presentation					(241 138)
2022 accounting result					**(184 144)**

(1) Only the subsidiary budget for publications shows a surplus of €170K.

(2) The special accounts are not subject to an annual public budgetary authorisation of resources and expenditure approved by the Committee of Ministers. As allowed under IPSAS 24 §20, the budgeted amounts are therefore disclosed for the Ordinary and Other Budgets only. Revenue and expenditure reflect the actual transactions recorded in the financial year.

Note 21 provides more detailed explanations and presents the reconciliation of the budgetary execution result with the cash flow variation shown in the Cash Flow Statement (Statement III) and the accounting result shown in the Statement of Financial Performance (Statement II).

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

EXPLANATORY NOTES

NOTE 1 - ACCOUNTING 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 2022 shows a negative balance of total net liabilities of €1 527 224K, compared to €3 077 081K as at 31 December 2021. This is mainly due to the obligation for future employee benefits, which amounts to €2 588 458K as at 31 December 2022 which consists of a long-term obligation of €2 519 711K and a short-term obligation of €68 747K; this item amounted to €4 182 664K as at 31 December 2021 (long-term obligation of €4 119 321K and short-term obligation of €63 343K). The financing of this obligation is provided for in Article 40 of the Pension Scheme Rules. This article provides that the member States of the Organisation shall jointly guarantee the payment of benefits and that, if a member State or former member State of the Organisation is unable to meet its obligations under this article, the other States shall pay the contributions in proportion to their contributions to the budget of the Organisation, as determined annually, from the time when the State concerned is in default and thereafter.

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 Organisation has not adopted any further IPSAS standards in the 2022 financial statements.

The scope of the consolidation remained the same as in 2021. 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 financial year 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

Contributions to special accounts correspond to the revenue related to extrabudgetary resources, including European Union contributions to joint programmes (JP) and voluntary contributions (VC). This revenue is recognised in the Statement of Financial Performance in the year in which the expenditure it funds is incurred. The unspent balance of the extrabudgetary resources, for which expenditure will be incurred in future financial years, 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) EDQM[4] 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 the invoicing of 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 is reviewed.

For all other receivables a provision for doubtful debts is calculated based on the probability of recovery of these receivables. EDQM receivables older than 12 months are provisioned at 100%, those between 9 and 12 months are provisioned at 80%, and those between 6 and 9 months old are provisioned at 50%. In cases where the debt is definitively irrecoverable (judicial liquidation), the debt is written off.

EXPENSE RECOGNITION

The principles of accrual accounting apply to expenditure. Expenditure is recognised in the financial year to which it relates, even if the invoices are paid in the following financial year.

[4] European Directorate for the Quality of Medicines and HealthCare

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 financial year.

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, according to 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 are 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.

Pension Reserve Fund

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, bonds and alternative investment funds recognised as non-current assets and adjusted to fair value through the Statement of Financial Performance. At the end of each financial year, 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.

“Eurimages” Fund

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.

FIXED ASSETS

According to the Council of Europe property, plant and equipment accounting policy 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 fixed assets, were recognised as an expense at the date of their purchase.

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.

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 at the end of the financial year.

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.).

The finished goods inventory is written down to 100% if sales are suspended or withdrawn at the end of the financial year. Work in progress, due to its nature, is not subject to the calculation of the provision for depreciation.

Reference standards are prepared from raw materials purchased or received free of charge. Raw materials are included in the cost of production at their cost of valuation in the raw materials inventory.

The raw material inventory consists of chemical or biological substances purchased or received free of charge. Purchased substances are valued at actual purchase cost. Substances received free of charge are valued on the basis of “fair values” determined as the average cost of substances acquired free of charge in previous periods, divided into several categories depending on the nature (chemical or biological) of the substance.

The raw materials inventory is analysed in order to identify references potentially unsuitable for production purposes. This analysis is carried out in several stages, the first of which concerns the use attributed to the raw materials received, making it possible to assess the likelihood of the incorporation of these raw materials into the process of producing finished products. No provision for depreciation is recorded for raw materials to be used in the manufacturing process.

For the remaining raw materials, an analysis is then made on :
- the date of release of the last production batches for the residual materials inventories available for refilling purposes,
- the date of receipt for raw materials intended for manufacturing replacement batches,

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.

The EDQM also holds a stock of consumables and packaging used in the manufacturing and shipping process of reference standards, valued at average purchase cost.

General publications, other than those of the EDQM, are valued at cost. A generic provision for depreciation of 80% is recognised for all publications intended for sale produced more than 12 months prior to the reporting date, as their sale becomes uncertain. Publications intended for free distribution are subject to an 80% provision for depreciation when the publication date is more than 12 months previously and their distribution rate is very low.
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 produced more than 12 months before the reporting date, given the uncertainly surrounding their distribution. The provision is 100% for publications produced more than 24 months before the reporting date. For periodical publications, a provision of 80% is recognised in the second year after release of the new issue edition and 100% from the third year.

COMPARISON WITH BUDGET AMOUNTS

Statement V, the 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. The special accounts are mainly financed by extra-budgetary resources and are not subject to an annual public budgetary authorisation approved by the Committee of Ministers. However the annual balance of the special accounts is added to the budgetary execution surplus. The budget 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 (Statement II) and with the cash flow variation presented in the Cash Flow Statement (Statement III). Explanations are given for the main reconciliation items and further information shows the breakdown of the budgetary result between its different components.

CHANGES COMPARED TO THE 2021 PRESENTATION

- **<u>Deferred income:</u>**

In 2020 an analysis was performed of the special accounts carried forward as deferred income in accordance with IPSAS 23. The special accounts relating to the general and EDQM investment programmes, due to their specific nature, have been reclassified as accounting reserves. These reserves will evolve according to the use of the funding foreseen for the IT works and other projects defined in the general investment programme and for the projects defined in the EDQM investment programme.

The Statement of Financial Performance and the Statement of Financial Position have been revised accordingly. The impact of these changes is presented below. The opening balance at 1 January 2021 (31 December 2020) has also been restated in the Statement of Changes in Net Liabilities by 44 629K with a reduction of €10 771K in the 2020 deficit and an increase in other reserves (€33 857K).

Impact on the Statement of Financial Position as of 31 December 2021

	Notes	31 December 2021 *Initial* €K	Restatement *Deferred income* €K	31 December 2021 *Restated* €K
TOTAL ASSETS		**1 376 737**	**-**	**1 376 737**
LIABILITIES				
Current liabilities				
Deferred income	9	148 719	(23 561)	125 158
Non-current liabilities				
Deferred income	9	83 214	(17 417)	65 797
Total non-current liabilities		**4 208 673**	**(17 417)**	**4 191 256**
TOTAL LIABILITIES		4 494 796	(40 978)	4 453 818
NET ASSETS		**(3 118 059)**	**40 978**	**(3 077 081)**
Other reserves	23	96 542	44 629	141 171
Deficit for the period	23	(6 190)	(3 651)	(9 841)
TOTAL NET ASSETS		**(3 118 059)**	**40 978**	**(3 077 081)**

Impact on the Statement of Financial Performance as of 31 December 2021

	Notes	2021 *Initial* €K	Restatement *Deferred income* €K	2021 *Restated* €K
OPERATING REVENUE				
Contributions to special accounts	12	67 839	(3 651)	64 188
Total operating revenue		**518 164**	**(3 651)**	**514 513**
OPERATING EXPENSES				
Total operating expenses		**593 296**	**-**	**593 296**
Surplus/(Deficit) from operating activities		**(75 132)**	**(3 651)**	**(78 783)**
Total net non-operating revenue		**68 942**	**-**	**68 942**
DEFICIT FOR THE PERIOD		**(6 190)**	**(3 651)**	**(9 841)**

- **<u>Changes in the presentation of segment information</u>**

Following the request of the External Auditor and in order to comply with IPSAS 18, the presentation of segment reporting has been reviewed in 2022 in order to align revenue and expenditure on the same segment basis (see Note 16).

Considering the constraints in preparing the new presentation and referring to the *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, Chapter 3 on qualitative characteristics and the item on Cost-benefit, the 2021 segment information has not been revised.

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 yielded a very small amount of interest with the average rate of remuneration close to 0%. The average yield of the funds placed on time deposit and in savings accounts was 0.39% in 2022 and 0.18% in 2021. The rate of interest earned depends on the trend in market rates and varies according to the amount and the duration of the deposit. 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).

Overall cash balances remained stable in 2022 with different impacts depending on the budget. The recovery of activities after the health crisis shows a significant increase in expenditure compared to 2021 with a strong effect on the volume of activities implemented by the Organisation.Other timing differences, such as the payment in advance of receipts, also had an impact on cash balances.

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

	31 December 2022 €K	31 December 2021 €K
Société Générale	25 185	25 095
Barclays	200	4 900
BPCE (Banque Populaire)	15 106	-
BNP Paribas	6	13
Crédit Agricole	-	20 500
ING	1	-
External offices	700	788
Current accounts	**41 198**	**51 296**
BNP Paribas	26 510	50 011
Barclays	15 000	-
BPCE (Banque Populaire)	71 491	113 890
Crédit Agricole	22 938	21 347
DNB	20 000	-
Fortis	7 000	-
HSBC	35 518	14 515
ING	38 000	-
Santander	25 000	-
Société Générale	55 104	106 261
Deposits and saving accounts	**316 561**	**306 024**
Total cash and cash equivalents	**357 759**	**357 320**

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 stock of “EDQM consumables” consists of consumables and packaging used in the manufacturing and shipping process of reference standards.

“Supplies and other” consists of advertising material, computer consumables, administrative supplies and printing paper for publications and documents stored by the Council of Europe.

The Organisation also holds an inventory of publications consisting of publications intended for sale and publications intended for distribution free of charge.

The value of the final inventory of EDQM reference substances and of the publications inventory is subject to a provision for depreciation according to the criteria set out in the statement of accounting policies.

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

The breakdown of inventories held by the Council of Europe as at 31 December 2022 and 2021 is as follows:

		31 December 2022 €K	**31 December 2021** €K
EDQM - Purchased reference substances			
Finished products (Reference Standards)		13 221	12 987
Work in progress		931	1 075
Raw materials		3 859	3 277
		18 011	**17 339**
EDQM - Donated reference substances			
Finished products (Reference Standards)		39 035	36 186
Work in progress		1 386	1 086
Raw materials		7 767	7 060
		48 188	**44 332**
EDQM -Reference substances - consumables		1 849	1 231
Total EDQM reference substances - gross value		**68 048**	**62 902**
Other			
General publications		1 000	1 782
EDQM publications		234	280
Publications for distribution free of charge		1 437	1 437
Supplies and other		474	635
		3 145	**4 134**
Total inventories - gross value	*continued*	**71 193**	**67 036**

		31 December 2022 €K	31 December 2021 €K
Total inventories - gross value	*continued*	**71 193**	**67 036**
Provision for depreciation			
EDQM - reference substances		(6 884)	(3 752)
General and EDQM publications		(798)	(1 328)
Publications for distribution free of charge		(740)	(795)
		(8 422)	**(5 875)**
Total inventories - net value		**62 771**	**61 161**

The overall net value of inventories increased by 2.6% compared with 2021.

The value of the EDQM inventory of reference substances remained stable with an increase of 8% in the total gross inventory, while the value of the inventory net of the provision for depreciation increased by 3% from €59 150K to €61 163K.

The stock of finished products and work in progress has been valued at standard cost since 2019. The cost base is revised annually to be as close as possible to actual cost and includes direct and indirect cost variables for the production of these products. A study carried out in 2022 by an external consultant led to a review of the application of the annual standard cost to only those items entering into inventory during the year, whereas previously the entire stock was affected.

The cumulative gross value of the inventory of finished products and work in progress increased by €3 239K, or 6%, and is mainly explained by the increase in the average unit cost of production. The very small change in quantities is explained by the end of the project to build up a contingency stock to be held at a secondary site as part of the risk management and disaster recovery plan.

The gross value of the raw materials inventory reflects all substances in stock, whether purchased or acquired free of charge. It increased by 12% between 2021 and 2022 from €10 337K to €11 626K. The change in the inventory value is due to an increase in quantities (9%) and in the average unit cost which rose by 3%.

In accordance with IPSAS 23, raw materials received free of charge by the EDQM are entered in the inventory upon receipt. They are measured at fair value which is calculated on the basis of the average cost of raw materials purchased in previous periods, and represent €1 442K in 2022 and €1 258K in 2021.

The inventory of consumables and packaging used in the process of manufacturing and shipping of reference standards has increased by 50% and is explained by both an increase in quantities and the average unit cost.

The provision for depreciation of the EDQM reference substances increased significantly and represents 10% of the gross value in 2022 compared to 6% in 2021.

The net value of the publications stock remained stable compared to the end of 2021. The decrease is mainly due to a physical check of the inventory of general publications which led to the destruction of obsolete publications.

NOTE 4 - DEBTORS

	31 December 2022 €K	31 December 2021 €K
Short-term debtors		
Debts due from members and non-members of the Council of Europe (Note 4.1)	18 518	10 351
Provision for unpaid late interest on obligatory contributions (Note 4.3)	(9 747)	(8 837)
Other short-term debtors (Note 4.2)	62 028	53 832
Provision for other doubtful debts (Note 4.3)	(282)	(101)
	70 517	**55 245**
Long-term debtors		
Purchase of pension rights in respect of temporary service	343	125
Extrabudgetary resources to be received	54 898	42 857
	55 241	**42 982**

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.

Note 4.1 details all amounts due from member States and non-members of the Council of Europe. As a consequence of the cessation of the membership of the Russian Federation under Article 8 of the Statute and with effect from 16 March 2022, the Deputies adopted the principle of a distribution of certain contributions from the 2022 budget between the other member States and non-members according to a revised scale. A total amount of €25 711K in additional contributions was called. As of 31 December 2022 a balance of €6 915K remained to be paid. By decision of the Committee of Ministers, late payment interest will only be calculated on the amount of additional contributions due from 1 May 2023.

A new assessment of the risk related to the non-payment of obligatory contributions due by non-members of the Council of Europe was carried out at the end of the financial year 2022 and led to a provision for doubtful debts amounting to €1 438K, as detailed in Note 4.3.

A provision for bad debts of €8 837K was set up at 31 December 2021 following the non-payment of late payment interest due by the Russian Federation. This late payment interest is a result of the payment in 2019 of all outstanding obligatory contributions due for the budgets concerned for the years 2017 to 2019. Following the decision taken by the Deputies at the 1448th meeting in November 2022 to return the 2021 balance to member States, the share attributed to the Russian Federation reduced the debt due by €528K. The provision for bad debt was reversed accordingly which had an impact on the Statement of Financial Performance (Note 15). The outstanding debt now amounts to €8 309K at 31 December 2022.

Note 4.2 details other short-term debtors which mainly include value added taxes (VAT) awaiting reimbursement, invoices issued by the EDQM as part of its activities, amounts due by 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.

Note 4.3 details the provisions for doubtful debts set up for member States and non-members and for other debtors.

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.
- amounts expected to be received under contracts signed with donors for projects financed or co-financed by extrabudgetary resources, and for which the payment schedule foresees a payment beyond the twelve months following the financial year-end.

These receivables, when they are due within twelve months following the current financial year, are presented as short-term debtors.

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	
	2022 €K	2021 €K	2022 €K	2021 €K	2022 €K	2021 €K	2022 €K	2021 €K
Member States of the Council of Europe								
Azerbaijan	2	-	-	-	-	-	2	-
Belgium	2	10	-	-	-	-	2	10
Bulgaria	116	-	-	-	-	-	116	-
Croatia	1	-	-	-	-	-	1	-
Cyprus	36	-	-	-	-	-	36	-
Denmark	383	-	-	-	-	-	383	-
Estonia	1	-	-	-	-	-	1	-
Finland	6	-	-	-	-	-	6	-
France	50	-	-	-	-	-	50	-
Georgia	3	-	-	-	2	2	5	2
Germany	-	-	-	-	-	2	-	2
Greece	20	-	-	-	22	15	42	15
Hungary	2	2	-	-	-	-	2	2
Iceland	32	-	-	-	-	-	32	-
Ireland	10	-	-	-	-	-	10	-
Italy	39	-	-	5	-	7	39	12
Latvia	1	-	-	-	2	2	3	2
Luxembourg	-	-	-	-	65	-	65	-
Montenegro	42	-	-	2	-	-	42	2
North Macedonia	2	-	-	-	-	-	2	-
Portugal	29	-	-	-	-	-	29	-
Romania	380	-	-	-	-	-	380	-
San Marino	12	-	-	-	-	-	12	-
Serbia	97	-	-	-	-	-	97	-
Slovak Republic	2	-	-	-	-	-	2	-
Slovenia	3	-	-	-	-	-	3	-
Spain	36	-	-	-	60	80	96	80
Sweden	612	-	-	-	-	-	612	-
Türkiye	1 329	-	-	-	34	37	1 363	37
Ukraine	1 881	-	-	-	6	6	1 887	6
United Kingdom	3 278	-	-	-	-	-	3 278	-
	8 407	**12**	**-**	**7**	**191**	**151**	**8 598**	**170**
Non-members of the Council of Europe								
Algeria	-	-	-	-	-	-	-	-
Argentina [(1)] [(3)]	1 067	1 067	292	162	-	-	1 359	1 229
Belarus	9	-	-	-	-	-	9	-
Burkina Faso	15	7	1	-	-	-	16	7
Cape Verde [(3)]	58	48	21	15	-	-	79	63
Chile	1	21	1	2	-	-	2	23
Costa Rica	6	-	-	-	-	-	6	-
Holy See	1	-	-	-	-	-	1	-
Israel	-	-	-	-	-	-	-	-
Lebanon	34	11	2	-	-	-	36	11
Mexico	16	-	-	-	-	-	16	-
Morocco	59	-	2	1	-	-	61	1
Russian Federation [(2)] [(3)]	-	-	8 309	8 837	-	-	8 309	8 837
Tunisia	-	10	-	-	-	-	-	10
United States of America	24	-	2	-	-	-	26	-
	1 290	**1 164**	**8 630**	**9 017**	**-**	**-**	**9 920**	**10 181**
Total	**9 697**	**1 176**	**8 630**	**9 024**	**191**	**151**	**18 518**	**10 351**

(1) Argentina, non member of the Council of Europe, withdrew from the “Eurimages” Partial Agreement with effect from 31 December 2020.

(2) Cessation of the membership of the Russian Federation with effect from 16 March 2022.

(3) A provision for bad debts was established and is detailed in Note 4.3.

4.2 - OTHER SHORT-TERM DEBTORS

Other short-term debtors comprise the following:

	31 December 2022 €K	31 December 2021 €K
Recoverable VAT	10 223	9 341
Insurance claims	1 685	1 357
Purchase of pension rights and other staff member's debtors	401	202
Advances paid to suppliers	3 224	1 207
EDQM receivables	4 572	5 076
EDQM doubtful receivables	284	102
Prepaid expenses	1 512	1 388
Accrued bank interest	933	647
Extrabudgetary resources to be received	37 895	33 418
Other	1 299	1 094
	62 028	**53 832**

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

- The debt relating to recoverable VAT includes the VAT to be reimbursed on invoices giving rise to a right of reimbursement in France (€9 280K in 2022 and €8 670K in 2021). 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.
- “Advances paid to suppliers” relate to amounts paid on contracts signed with service providers for which services have not yet been provided or projects not finalised at the year end. The increase in 2022 mainly concerns advances paid by “Eurimages” on the signature of contracts within the co-production support programme, for grants of less than €150K, and advances paid within the co-production promotion programme for projects not yet finalised at the end of the 2022 and 2021 financial years.
- The line “EDQM receivables” shows the outstanding receivables relating to invoices issued by the EDQM as part of its activities as at 31 December 2022 and 31 December 2021 respectively. Receivables that have been outstanding for more than twelve months are presented in the “EDQM doubtful receivables” line. A provision for doubtful debts is calculated based on the likelihood of recovery of these receivables.
- The line “Prepaid expenses” mainly corresponds to IT services or the renewal of annual licenses invoiced by suppliers for expenses that extend beyond the financial year-end period.
- In 2022 the line “Accrued bank interest” increased significantly compared to the previous year. Since the third quarter of 2022, short-term euro market rates have evolved positively, allowing new term deposits to be concluded with maturities of 1 to 12 months. In addition, accrued interest on some short-term investments with annual renewal and increasing interest rates which were initiated in 2020 and 2022, will only be paid at their maturity in 2025. This line also includes accrued interest on savings accounts and other investments with half-yearly 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 includes other receivables pending settlement at the end of 2022 and 2021.

4.3 - PROVISION FOR DOUBTFUL DEBTS

The provision for doubtful debts is made up as follows:

	31 December 2021 €K	Utilisation/ Reversal of provision €K	Increase €K	31 December 2022 €K
Unpaid obligatory contributions	-	-	1 125	1 125
Unpaid late payment interest on obligatory contributions	8 837	(528)	313	8 622
Provision for doubtful debts from non-members of the Council of Europe	**8 837**	**(528)**	**1 438**	**9 747**
Budget of the European Pharmacopoeia (EDQM)	101	(29)	210	282
Total provision for other doubtful debts	**101**	**(29)**	**210**	**282**

A provision for doubtful debts was set up at the end of 2022 to cover the risk of non-payment of obligatory contributions and related late payment interest from Argentina (€1 359K) and Cape Verde (€79K), non-members of the Council of Europe. Argentina withdrew from the Enlarged Partial Agreement "Eurimages" with effect from 31 December 2020 but has not paid its obligatory contribution for the year 2020. Cape Verde has not paid its obligatory contribution to the North-South Centre Enlarged Partial Agreement and related late payment interest since 2017.

At their 1428ter meeting on 16 March 2022 on the consequences of the aggression of the Russian Federation against Ukraine, the Deputies adopted Resolution CM/Res(2022)2 on the cessation of the membership of the Russian Federation of the Council of Europe, under Article 8 of the Statute. Further to a risk review, a provision for non-payment of late payment interest was recognised at the end of 2021 for the amount of the outstanding debt of €8 837K. As explained in Note 4, the return of the 2021 balance to member States reduced the receivable due from the Russian Federation by €528K. The provision for doubtful debts was consequently reversed and affected the Statement of Financial Performance (Note 15).

The provision for other doubtful debts mainly shows the evolution of the provision for bad debts of EDQM customer accounts.

NOTE 5 - FINANCIAL ASSETS

	31 December 2022 €K	31 December 2021 €K
Pension Reserve Fund	521 464	579 527
"Eurimages" reimbursable advances	155 060	154 995
Provision for "Eurimages" reimbursable advances	(155 060)	(154 995)
	521 464	**579 527**

a) Pension Reserve Fund

At the 818th meeting 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, 2018 and 2022 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. This report proposed a new asset allocation which was approved by the Committee of Ministers on 15 May 2018 to achieve a real net return of 3.4% p.a. in the long term, with associated volatility of 7.8%.

In 2021, the Management Board conducted a four-year review (as a continuation of the three-year reviews). The four-year review of the investment strategy was submitted to the Committee of Ministers in early 2022 (CM(2022)37) and was approved on 13 July 2022. The recently approved Strategic Asset Allocation (SAA) is consisted of 30% global equity, 10% emerging markets equity, 20% European area equity, 10% global government bonds, 5% global corporate bonds, 5% emerging market debt, 5% euro area listed real estate, 5% global direct real estate, 5% global direct infrastructure and 5% European private equity. It is expected to generate a long-term average annual real rate of return of 3.4% with a volatility of 10.6%. This SAA will be implemented from 2023.

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. The implementation of the SRI strategy depends on the availability 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.

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. With respect to emerging market sovereign bonds, investment shall be in SRI funds excluding controversial activities, integrating environmental, social and governance factors (in accordance with the Fund's SRI criteria) when selecting securities and engaging with debt issuers to improve their social responsibility.
- Euro denominated corporate bonds: best in class.

- Alternative investments : investments in direct real estate, infrastructure and private equity may be placed in traditional (non-labelled SRI) funds as long as their combined value represents less than 15% of the long-term assets of the Fund, the funds incorporate SRI principles compliant with the Council of Europe's SRI policy in their investment process, and the asset managers demonstrate high standards in investment responsibility.
- Eurozone listed real estate : ESG integration and commitment.
- The Board of Directors will continue to explore opportunities to improve the ESG approach in the Fund and consider engaging up to 5% in listed equity and up to 5% in fixed income in environmental investments, evaluated on a case-by-case basis.
- Asset managers of non-labelled SRI are asked about their SRI practices in their investment process.

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(2020)95, CM(2021)6, CM(2021)95, CM(2022)36, CM(2022)152 and CM(2023)35.

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

	31 December 2021 €K	Additions €K	Disposals/ Adjustments €K	Realised gains/(losses) during the reporting period €K	Unrealised gains/(losses) at reporting date €K	31 December 2022 €K
Gross investment						
Equity investment funds	189 676	122	-	-	-	189 798
Fixed income investment funds	172 651	14 872	-	-	-	187 523
Alternative investment funds	26 336	1	-	-	-	26 337
Total gross investment	**388 663**	**14 995**	**-**	**-**	**-**	**403 658**
Adjustment to fair value						
Equity investment funds	174 666	-	-	-	(47 914)	126 752
Fixed income investment funds	11 405	-	-	-	(26 333)	(14 928)
Alternative investment funds	4 793	-	-	-	1 189	5 982
Total adjustment to fair value	**190 864**	**-**	**-**	**-**	**(73 058)**	**117 806**
Net value	**579 527**	**14 995**	**-**	**-**	**(73 058)**	**521 464**

b) Reimbursable advances “Eurimages”

As part of its programme of activities to support co-production, “Eurimages” provides financial support to film producers. When the support granted is over €150K, it is considered as an advance on receipts, in other cases it takes the form of a grant. As advances on receipts 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 end of 2022 concern advances made to co-producers over the ten-year period from 2013 to 2022. 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 2022 and 2021 are set out below:

	31 December 2022 €K	31 December 2021 €K
Reimbursable advances at the beginning of the year	154 995	159 219
Advances on receipts paid during the year	20 122	17 849
Reimbursements received during the year	(1 119)	(1 374)
Reimbursable advances written off during the year	(18 938)	(20 699)
Reimbursable advances at the end of the year	**155 060**	**154 995**
Provision for irrecoverable co-production advances	**(155 060)**	**(154 995)**

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

The net value of property, plant and equipment was €279 760K at 31 December 2022.

Changes in property, plant and equipment and their related depreciation are detailed below.

	31 December 2021 €K	Additions €K	Reevaluation adjustment €K	Transfers €K	Disposals €K	31 December 2022 €K
Cost/Valuation						
Land	62 562	-	3 546	-	-	66 108
Buildings	156 170	322	2 492	9	-	158 993
Buildings under construction	16	32	-	(9)	-	39
Building installations	70 546	1 561	623	(346)	(401)	71 983
Building installations under construction	381	1 693	-	(299)		1 775
Office and computer equipment	12 857	1 791	-	318	(749)	14 217
Furniture and fittings	2 697	324	-	-	(31)	2 990
Other property, plant and equipment	24 279	2 374	-	726	(2 211)	25 168
Other property, plant and equipment under construction	930	1 790	-	(726)	-	1 994
Equipment under finance leases	2 786	467	-	(318)	(1 720)	1 215
Total cost/valuation	**333 224**	**10 354**	**6 661**	**(645)**	**(5 112)**	**344 482**

	31 December 2021 €K	Depreciation during the year €K	Value adjustment €K	Transfers €K	Disposals €K	31 December 2022 €K
Depreciation						
Buildings	-	(3 156)	-	-	-	(3 156)
Building installations	(22 779)	(7 082)	-	645	373	(28 843)
Office and computer equipment	(10 190)	(1 726)	-	(318)	744	(11 490)
Furniture and fittings	(2 080)	(109)	-	-	31	(2 158)
Other property, plant and equipment	(19 021)	(1 420)	-	-	2 153	(18 288)
Equipment under finance leases	(2 556)	(269)	-	318	1 720	(787)
Total depreciation	(56 626)	**(13 762)**	**-**	**645**	**5 021**	**(64 722)**
Total net book value	**276 598**		**6 661**			**279 760**

The gross value includes fully depreciated assets amounting to €24 780K corresponding to categories of fixed assets other than land, buildings and buildings installations.

“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 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 are to be returned only to those States which were members of the Council at the time of the liquidation of the former Pension Fund in accordance with Resolution Res(78)71.

The Organisation finalised the purchase of D building from the city of Strasbourg in June 2022 for a symbolic value of €1. The building was previously rented. The land, building and related general installations have been recognised in fixed assets at their fair value, as defined by the valuation carried out at the end of 2021 by an independent expert for all the buildings.

The additions recognised in 2022 mainly relate to the renewal of audiovisual equipment and works carried out as part of the continued implementation of the digital strategy. The Organisation continued to renew its IT and security equipment. Disposals in 2022 relate mainly to the disposal of obsolete equipment, notably IT equipment, as well as equipment acquired under finance leases which was returned at the end of the contract. In 2022, an analysis of expenditure capitalised since 2006 concerning technical equipment led to the disposal of old or obsolete items. These assets, fully depreciated, amount to €1 573K.

The “Building installations under construction” line mainly concerns building refurbishment and security improvement works. The “Other property, plant and equipment under construction” line relates to laboratory equipment for EDQM activities and audiovisual equipment acquired in the framework of the implementation of the Council of Europe's digital strategy.

Fair value adjustment

All buildings were valued by an independent expert at the end of 2021.

The purchase of D Building was recognised as a fixed asset on the basis of the expert's valuation at 31 December 2021. This initial value of €6 661K represents a revaluation gain and was recognised directly in Equity in accordance with IPSAS 17.

The net book value of the land; buildings and buildings installations, as at 31 December 2022 was as follow:

	Land €K	Buildings €K	Installations €K
Palais de l'Europe	28 250	58 291	17 810
Human Rights Building	13 527	25 087	5 745
European Youth Centre	4 248	4 422	1 003
Paris Office	-	8 803	344
Agora Building	9 378	31 689	9 525
New EDQM Building	6 791	21 728	6 479
Secondary storage site for EDQM	368	3 354	1 264
Building D	3 546	2 464	600
Others	-		372
	66 108	**155 837**	**43 141**

NOTE 7 - INTANGIBLE ASSETS

As at 31 December 2022 the net book value of intangible fixed assets amounted to €4 708K.

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

	31 December 2021 €K	Additions/ Amortisation €K	Value adjustment €K	Transfers €K	Disposals €K	31 December 2022 €K
Cost/Valuation						
Software	29 918	2 359	-	248	(2 563)	29 962
Software under development	316	606	-	(248)	(29)	645
Total cost/valuation	**30 234**	**2 965**	**-**	**-**	**(2 592)**	**30 607**
Amortisation						
Software	(26 330)	(2 132)	-	-	2 563	(25 899)
Total amortisation	**(26 330)**	**(2 132)**	**-**	**-**	**2 563**	**(25 899)**
Total net book value	**3 904**					**4 708**

The gross value of totally amortised items at that date amounted to €23 120K.

Changes in intangible assets and related amortisation for the year are detailed below. Additions in 2022 mainly concern IT developments, outsourced to external service providers, for applications used by the various entities as well as specific licences and software. Disposals in 2022 (€2 592K) correspond mainly to licences and developments that have become obsolete.

NOTE 8 – CREDITORS

	31 December 2022 €K	31 December 2021 €K
Suppliers, accrued expenses and other creditors (Note 8.1)	72 956	68 877
Provision for liabilities and charges (Note 8.2)	5 244	-
	78 200	**68 877**

8.1 - SUPPLIERS, ACCRUED EXPENSES AND OTHER CREDITORS

	31 December 2022 €K	31 December 2021 €K
Suppliers	33 565	27 606
Creditors for “Eurimages” grants:		
- Cinemas support	680	706
- Promotion	26	63
- Gender equality	23	16
Employees: charges to be paid	1 302	1 057
Employees: payable social contributions	3 079	2 527
French social contributions to be reimbursed to staff members	20	19
Budgetary surpluses to be deducted from calls for obligatory contributions	7 961	9 394
Bank loan interest	154	201
Receipts paid in advance	9 837	11 415
Provision for employee leave entitlement	15 876	15 131
Provision for employees home leave travel expenses	310	247
Sundry creditors	123	495
	72 956	**68 877**

“Suppliers” include invoices received and not yet settled as at the end of 2022 and 2021.

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, promotion and the gender equality action plan.

“Employees: charges to be paid” mainly covers leaving allowances to be paid to employees who have left the Organisation and the pay of interpreters and other staff members pending payment at the end of the financial year.

“Employees: payable social contributions” corresponds 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 “Budgetary surpluses to be deducted from calls for obligatory contributions” records the amounts due to member States in respect of the allocation of the budgetary surpluses for the financial years 2021 and 2020 in accordance with the resolutions adopted by the Committee of Ministers when the accounts were approved.

The “Receipts paid in advance” line mainly includes obligatory contributions paid by member and non-members States before the beginning of the financial year to which they relate and are detailed below:

	31 December 2022 Contributions to the 2023 budgets €K	31 December 2021 Contributions to the 2022 budgets €K
Member States of the Council of Europe		
Estonia	405	347
Georgia	-	7
Hungary	-	2 228
Italy	154	-
Lithuania	44	771
Poland	-	37
Portugal	3 937	3 119
Slovak Republic	1 895	1 720
Slovenia	6	-
Sweden	-	9
United Kingdom	338	-
	6 779	**8 238**
Non-members of the Council of Europe		
Canada	1 118	1 006
Israel	-	14
Kazakhstan	-	1
	1 118	**1 021**
	7 897	**9 259**

This line also includes credit balances from previous years in favour of member States which remain pending allocation at the end of the 2022 and 2021 financial years, €1 315K and €946K respectively. The Council of Europe Development Bank paid, in advance, at the end of 2021 its 2022 contribution to the Enlarged Partial Agreement on the Council of Europe Development Bank (€616K). Other payments received in advance amount to €625K at the end of 2022 compared to €594K at the end of 2021, and correspond mainly to payments made by customers of the EDQM in respect of its activities, €434K and €541 K respectively .

The construction of the Agora building and the implementation of security measures were financed by a bank loan, repayable in instalments due on 1 January and 1 July of each year. The loan interest payable corresponds to the interest due for the second halves of 2022 and 2021 respectively.

The provision for employee leave entitlement corresponds to the value of the unused leave entitlement of the Organisation's staff at the end of 2022 and 2021.

The provision for travel expenses covered by the Organisation for home leave is calculated on the basis of the rights acquired by staff as at 31 December 2022 and 2021.

8.2 - PROVISION FOR LIABILITIES AND CHARGES

The provision for liabilities and charges at the year-end corresponds to the valuation of the amounts to be paid in respect of several disputes to which the Organisation is a party

Several appeals were lodged with the Administrative Tribunal of the Council of Europe in 2022. The applicants contest the decisions of the Deputies to apply the budgetary feasibility clause and to partially apply the salary increase resulting from the salary adjustment method. Since the sentences have not been rendered, in application of the principle of prudence, it was considered necessary to record a provision in respect of ongoing litigation corresponding to the amount that would need to be accrued in the event of a decision against the Secretary General (€5 244K).

	31 December 2021	Utilisation / Reversal unsued amounts	Increases during the year	31 December 2022
	€K	€K	€K	€K
Provision in respect of ongoing litigation	-	-	5 244	5 244
Provision for liabilities and charges	**-**	**-**	**5 244**	**5 244**

NOTE 9 - DEFERRED INCOME

Deferred income concerns mainly the special accounts, which are budgets of a multiannual nature. They correspond to the cumulative credit balances carried forward and the extrabudgetary resources not received at the year-end closing for contracts signed with donors. They are presented under current or non-current liabilities depending on their planned use.

- *Balances carried over from Special accounts*
  Balances carried over correspond to funds received before the year-end closing but for which the corresponding expenditure will be incurred in future reporting periods. This line includes primarily extrabudgetary resources received from the European Union, voluntary contributions paid by member States and other donors, and allocations from the annual budgets to the special accounts. 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 special account “Staff departure scheme” and the special accounts linked to the general and EDQM investment programmes are not included in deferred income due to their specific nature. They are presented as accounting reserves.

- *Extrabudgetary resources awaited under signed contracts:*
  In the case of contracts signed with donors, multiannual extrabudgetary resources not received at the year-end closing are accounted for 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.

Changes in deferred income depend on the volume of activities implemented throughout the year and the contracts signed with donors for the financing or cofinancing of projects.

	31 December 2022	31 December 2021 *Restated*
	€K	€K
Balances carried over from Special accounts	97 253	91 740
Extrabudgetary resources awaited under signed contracts	37 895	33 418
Appropriations carried forward to the next financial year	308	-
Current deferred income	**135 456**	**125 158**
Balances carried over from Special accounts	15 693	22 940
Extrabudgetary resources awaited under signed contracts	54 898	42 857
Non current deferred income	**70 591**	**65 797**
	206 047	**190 955**

a) Balances carried over from Special accounts

The changes in deferred income are detailed below:

Special accounts by category	Balance as at 31/12/2021 *Restated* (a) €K	Extrabudgetary resources received (b) €K	Refunds to donors €K	Budgetary allocations (c) €K	Other receipts (d) €K	Expenditure €K	Other (e) €K	Balance as at 31/12/2022 €K
Special Accounts to the Ordinary Budget	48 723	44 006	(2 976)	983	360	(32 625)	-	58 471
Special Accounts to the Partial and/or Enlarged Agreements	8 132	5 334	(111)	5 046	154	(10 013)	-	8 542
Special Accounts Joint Programmes with European Union	46 105	42 078	(1 324)	5 746	10	(58 475)	-	34 140
Total Special Accounts financed by extrabudgetary resources	**102 960**	**91 418**	**(4 411)**	**11 775**	**524**	**(101 113)**	**-**	**101 153**
Other special accounts	11 720	-	-	-	7 968	(7 895)	-	11 793
Appropriations carried forward to the next financial year	-	-	-	-	-	-	308	308
Total deferred income	**114 680**	**91 418**	**(4 411)**	**11 775**	**8 492**	**(109 008)**	**308**	**113 254**
Deferred income adjustment recognised in the Statement of Financial Performance [f]				**(1 734)**				

[a] Given their specific nature, the balance of the special accounts relating to the general and EDQM investment programmes has been restated from "Other special accounts" to other reserves (€40 978K). The line "Special Accounts to the Ordinary Budget" includes an amount of €30K as at 31 December 2021 and 31 December 2022 corresponding to a publication of the ECHR invoiced in advance
[b] Note 12 details the extrabudgetary resources received in 2022 by donor category. The difference of €389K corresponds to voluntary contributions recorded under the annual budget of the European Youth Foundation which is not included in deferred income.
[c] Budgetary allocations correspond to obligatory contributions paid under the annual budgets and which are allocated, according to decision, to the financing of the activities of the special accounts reported in deferred income.
[d] Other revenue mainly includes levies on extrabudgetary resources for administrative and logistical support to projects in accordance with the decision (CM(2013)13). The remaining balance of revenue to be spent amounts to €11 793K at 31 December 2022.
[e] Decision adopted by the Deputies at the 1452nd meeting to carry forward to the 2023 financial year budgetary appropriations amounting to €308K.
[f] €1 734K = €1 639K for the budgetary balance and €95K for the impact of the provision for invoices not received.

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

The "Other special accounts" line includes mainly the Special Account "Administrative and logistical support to projects financed by extrabudgetary resources" which records administrative charges levied on extrabudgetary resources. The balance carried forward on this Special Account (€11 793K at 31 December 2022 and €11 602K at 31 December 2021) will be used to cover the administrative and logistical support costs of projects financed or co-financed by extrabudgetary resources. The special account "Deferred expenditure (unpaid contributions)", which had a balance at €118K at 31 December 2021, was closed during the financial year.

The Ministers' Deputies decided at the 1452nd meeting on 14 December 2022, to carry forward to the 2023 financial year budgetary appropriations amounting to €308K in accordance with the provisions of Article 29 of the Financial Regulations. This amount has been adjusted in 2022 by decreasing the line "Obligatory Contributions" (Note 12).

The annual adjustment in deferred income corresponds to the difference between the budgetary resources allocated to the special accounts and the expenses recorded during the financial year. This adjustment is positive in the event of unspent resources, or negative if the expenditure for the financial year exceeds the resources for the year and is thus financed, for the surplus, by the absorption of a part of the resources carried forward as deferred income in previous periods. The negative adjustment for 2022 amounts to €1 734K and has reduced the balance of deferred income at 31 December 2022. This amount is included in the line "Contributions to special accounts" (Note 12).

Further information on the special accounts is detailed in the budgetary management accounts (CM(2023)100-add).

b) Expected extra-budgetary resources for signed donor contracts

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, which also include post-employment health cover.

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.

The first pension scheme was established in 1974 jointly with the other Co-ordinated Organisations, and 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 characteristics of the three pension schemes are detailed below:

Employee benefits	**Co-ordinated Pension Scheme (COPS)**	**New Pension Scheme (NPS)** (from 1/1/2003)	**Third Pension Scheme** (from 1/4/2013)
Retirement age without reduction	60	63-65	65
Accumulation by year of service (of last basic salary)	2%		1.75%
Distribution of cost of scheme between staff and employer	1/3 – 2/3	40% - 60%	45% - 55%
Current contribution rate (staff part % of salary	11.8%		10.6%
Maximum pension (last salary)	70%		
Adjustment of pensions	In-line with country-specific inflation		

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 main external actuarial assumptions as at 31 December 2022 and 2021 (expressed as weighted averages) are as follows:

	Pension benefits		Post-employment health benefits	
	2022	2021	2022	2021
Discount rate	3.28%	0.86%	3.28%	0.98%
Inflation rate	1.71%	1.93%	-	-
Future salary increase	1.95%	2.17%	-	-
Future benefit increase for the pension schemes	1.71%	1.93%	-	-
Future health cost increase	-	-	3.71%	3.93%

The discount rate (nominal value of 3.28% for pensions and 3.28% for health benefits), used in the actuarial study and defined as the internal rate of return on the related committments, is determined by reference to the French government bond rate.

The inflation rate (1.71%) 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 2022.

The table below details the impacts of changes in the obligation related to pension benefits and post-employment health benefits following a change in an assumption.

	Base Case 31/12/2022 €K	Discount rate +0,25 %	Discount rate -0,25 %	Inflation rate + 1 %	Inflation rate -1 %
Pension scheme obligation	2 366 261	2 262 233	2 477 632	2 850 732	1 990 678
Impact v base		(104 028)	111 371	484 471	(375 583)
Impact %		-4.4%	4.7%	20.5%	-15.9%
Post-Employment health benefits obligation	222 197	208 421	237 190	291 037	172 285
Impact v base		(13 776)	14 993	68 840	(49 912)
Impact %		-6.2%	6.7%	31.0%	-22.5%

The changes in the present value of the employee future benefit obligation for 2022 and 2021 are as follows:

	31 December 2022		
	Pension benefits €K	Post-employment health benefits €K	Total benefits €K
Employee future benefits obligation at the beginning of the year	3 756 129	426 535	4 182 664
Current service cost	157 817	13 203	171 020
Interest cost	32 037	4 168	36 205
Benefits paid	(61 891)	(2 520)	(64 411)
Actuarial (gains) / losses for the period	(1 517 831)	(219 188)	(1 737 019)
Employee future benefits obligation at the end of the year	**2 366 261**	**222 197**	**2 588 458**
Liability recognised in the Statement of Financial Position:			
Current (less than one year)	66 448	2 299	68 747
Non current (over one-year)	2 299 813	219 898	2 519 711
Employee future benefits obligation	**2 366 261**	**222 197**	**2 588 458**

	31 December 2021		
	Pension benefits €K	Post-employment health benefits €K	Total benefits €K
Employee future benefits obligation at the beginning of the year	4 164 815	481 495	4 646 310
Current service cost	186 453	15 315	201 768
Interest cost	11 996	1 921	13 917
Benefits paid	(56 534)	(2 279)	(58 813)
Actuarial (gains) / losses for the period	(550 601)	(69 917)	(620 518)
Employee future benefits obligation at the end of the year	**3 756 129**	**426 535**	**4 182 664**
Liability recognised in the Statement of Financial Position:			
Current (less than one year)	61 226	2 117	63 343
Non current (over one-year)	3 694 903	424 418	4 119 321
Employee future benefits obligation	**3 756 129**	**426 535**	**4 182 664**

The overall employee benefit obligation amounts to €2 588 458K at 31 December 2022. It decreased by €1 594 206K, i.e. by approximately 38%, of which:

- an amount of €142 813K was recognised as expenditure in the Statement of Financial Performance in respect of the current service cost, the interest cost, reduced by the benefits paid (Note 14);
- an amount of €1 737 019K corresponding to the actuarial gain was recognised directly in Equity in the Statement of Financial Position.

The pension benefits obligation decreased by €1 389 868K, mainly due to the significant increase in the discount rate from 0.86% in 2021 to 3.28% in 2022. The actuarial gain in 2022 amounts to €1 517 831K. The current service cost and the interest cost, less the pension benefits paid during the year, have impacted the Statement of Financial Performance by €127 963K.

The post-employment health benefit obligation decreased by €204 338K, mainly due to a significant increase in the discount rate from 0.98% in 2021 to 3.28% in 2022. The actuarial gain amounts to €219 188K. The current service cost and interest cost, less benefits paid during the year, have impacted the Statement of Financial Performance by €14 850K.

The Organisation estimates the amount of contributions to the defined benefit pension schemes to be €86 910K for the financial year 2023.

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

	2022			2021		
	Pension benefits €K	Post-employment health benefits €K	Total benefits €K	Pension benefits €K	Post-employment health benefits €K	Total benefits €K
Current service cost	157 817	13 203	171 020	186 453	15 315	201 768
Interest cost	32 037	4 168	36 205	11 996	1 921	13 917
Benefits paid	(61 891)	(2 520)	(64 411)	(56 534)	(2 279)	(58 813)
	127 963	**14 850**	**142 813**	**141 915**	**14 957**	**156 872**

The actuarial gains recognised in net Equity in the Statement of Financial Position are as follows:

	31 December 2022 €K	31 December 2021 €K
Pension benefits	(1 517 831)	(550 601)
Post-employment health benefits	(219 188)	(69 917)
Total actuarial (gains)/losses	**(1 737 019)**	**(620 518)**

The increase/decrease of the net assets of the Pension Reserve Fund in 2022 and 2021 is detailed below:

	2022 €K	2021 €K
Income		
Member States' contributions	33 105	32 096
Other contributions [1]	33 934	32 082
Contributions from staff members	21 625	19 838
	88 664	**84 016**
Expenses		
Pensions benefits and medical coverage	64 411	58 813
Provision for unpaid late payment interest	-	873
Administration costs and other	470	478
	64 881	**60 164**
Net unrealised gains/(losses) on financial investments	(72 788)	77 766
Annual variation in the Pension Reserve Fund	**(49 005)**	**101 618**

(1) Contributions fom Ordinary Budget, Partial agreements and special accounts.

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 2018-2022:

	2022 €K	2021 €K	2020 €K	2019 €K	2018 €K
Employee future benefits obligation	2 588 458	4 182 664	3 940 046	3 206 647	2 795 788
Net assets held by the Pension Reserve Fund	540 789	589 794	488 176	437 503	357 904

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 year-end closing 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 2022 €K	31 December 2021 €K
Short-term loan	4 913	4 735
Long-term loan	1 052	5 965
	5 965	**10 700**

NOTE 12 - OPERATING REVENUE

	2022 €K	2021 *Restated* €K
Obligatory contributions	299 667	302 451
Contributions to special accounts	89 130	64 188
Pension contributions	55 022	52 218
Accession contributions	84	47
EDQM receipts	72 975	72 430
"Eurimages" reimbursements of advances on receipts	1 332	1 577
Net movement in inventories	1 609	19 555
Sundry receipts	3 304	2 047
	523 123	**514 513**

The explanations for the main variances between 2022 and 2021 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 (€333 410K in 2022 and €333 028K in 2021). These contributions are either intended to finance the annual activities of the Organisation or allocated to Special Accounts in the form of an allocation. Budgetary allocations to special accounts amounted to €26 883K in 2022 and €26 266K in 2021. The obligatory contribution to the Pension Reserve Fund (€33 105K in 2022 and €32 096K in 2021) is presented in a separate "Pension contributions" line.

As a consequence of the cessation of the membership of the Russian Federation under Article 8 of the Statute with effect from 16 March 2022, the Deputies adopted a principle of the distribution of some contributions to the 2022 budget among the other member States and non-members, according to a revised scale. The details are presented in Note 4 and 4.1.

At the 1452nd meeting on 14 December 2022, the Ministers' Deputies decided to carry forward to 2023 budgetary appropriations amounting to €308K in accordance with the provisions of Article 29 of the Financial Regulations. This amount has been adjusted as a decrease in the 2022 "Obligatory contributions" line and as an increase in deferred income (Note 9).

In addition, a provision for bad debts was recognised to cover the risk of non-payment of obligatory contributions due by non-members of the Council of Europe, amounting to €1 125K (Note 4.3). This amount has reduced the "Obligatory contributions" line in 2022.

Other contributions called for under the annual budgets compose the total obligatory contributions for the financial year.

The movements for the year are summarised in the table below:

	2022 €K	2021 €K
Obligatory contributions approved by the Committee of Ministers	333 410	333 029
- of which Pension contributions shown on a separate line	(33 105)	(32 096)
Contributions from the Development Bank	505	488
Non-member contributions to conventions and monitoring activities	290	30
Appropriations carried forward to the next financial year (see Note 9)	(308)	1 000
Provision for doubtful debts - unpaid obligatory contributions	(1 125)	-
	299 667	**302 451**

b) Contributions to special accounts correspond to the extrabudgetary resources, net of reimbursements, paid by donors during the financial year. They are recognised in the Statement of Financial Performance in the financial year in which they are spent. Accordingly, the difference between the budgetary resources allocated to the special accounts and the expenditure recorded during the financial year is adjusted under this line, either as a decrease, in the case of unspent resources, or as an increase, if the expenditure of the year exceeds the resources of the year and is thus financed, for the surplus, by the absorption of a part of the resources carried forward as deferred income in previous periods.

The table below details the movements recorded in this line for 2022 and 2021:

	Extrabudgetary resources received		Refunds or reallocations of unused balances to new projects		IPSAS adjustments		Total	
	2022 €K	2021 €K	2022 €K	2021 €K	2022 €K	2021 *Restated* €K	2022 €K	2021 *Restated* €K
Member States	40 594	20 548	(1 565)	(663)	-		39 029	19 885
European Union	46 291	38 916	(1 400)	(277)	-	-	44 891	38 639
Other donors	4 922	4 351	(1 446)	(236)	-		3 476	4 115
Annual Deficit/(Surplus) adjusted to deferred income	-	-	-	-	1 734	1 549	1 734	1 549
Total	**91 807**	**63 815**	**(4 411)**	**(1 176)**	**1 734**	**1 549**	**89 130**	**64 188**

c) Pension contributions represent the contributions to the Pensions Reserve Fund from member States (€33 105K in 2022 and €32 096K in 2021), staff members (€21 625K in 2022 and €19 838K in 2021) and the European Audiovisual Observatory (€292K in 2022 and €284K in 2021). The contributions allocated from the annual budgets and special accounts to the Pension Reserve Fund amounted to €33 642K in 2022 and €31 798K in 2021 and are eliminated in the Statement of Financial Performance.

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 2022 and 2021:

	2022 €K	2021 €K
Member States of the Council of Europe		
Albania	4	-
Belgium	-	23
Greece	3	-
Hungary	20	2
North Macedonia	4	-
Republic of Slovakia	8	-
Ukraine	-	22
	39	**47**
Non-members of the Council of Europe		
Canada	40	-
Lebanon	5	-
	45	**-**
	84	**47**

e) EDQM receipts cover those from the sale of reference substances, publications and samples, and from certification activities.

f) Reimbursements of “Eurimages” advances on receipts decreased slightly compared to 2021. 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 largely depends on the commercial success of the films.
In total, 5% of advances on receipts for production projects paid by “Eurimages” has been reimbursed since the creation of the fund.

g) The net movement in inventories mainly corresponds to the change in the value of the EDQM reference substance inventory (Note 3). This line also includes the revenue recognised in 2022 and 2021 for the valuation of the raw materials received free of charge. EDQM's reference standards are manufactured by using raw materials purchased or received free of charge. In accordance with the requirements of the accounting standard IPSAS 23, the raw materials received free of charge by EDQM are entered in the inventory upon receipt. They are recognised at fair value, calculated on the basis of the average cost of raw materials purchased in previous periods, and represent €1 442K in 2022 and €1 258K in 2021.

h) 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.

NOTE 13 - SERVICES IN KIND

The Council of Europe receives services in kind, which help the Organisation to run its annual activities. In accordance with IPSAS 23, these services in kind are not recognised in the accounts. They can be estimated to €2 001K for 2022 (€2 006K in 2021) and are detailed below:

Beneficiary	Premises €K	Infrastructure[5] €K
European Youth Centre in Budapest Rent, maintenance costs and the necessary investments for the refurbishment of the 6 410 m² building.	1 000	195
European Centre for Modern Languages (Graz) The main running costs of the ECML and its local infrastructure are covered directly by the Austrian authorities.	387	
North-South Centre in Lisbon Premises provided by the Portuguese Ministry of Foreign Affairs.	150	8
External offices The premises of the external offices in Geneva, Vienna, Venice, and Bucharest are provided by the local authorities.	178	/
The co-operation agreement concerning the European Institute of Cultural Routes The contribution of the Government of the Grand Duchy of Luxembourg under this agreement includes the provision of premises and meeting rooms.	24	14
Venice Commission The rental of rooms, interpretation booths and equipment for the plenary sessions held in Venice are at the expense of the Italian authorities and the Ministry of Foreign Affairs.	/	45

In addition, the Organisation also benefits from the services of staff seconded by the member States, which largely finance the services. During the financial year, the number of staff seconded was 136, assigned in particular to the European Court of Human Rights and to the operational directorates.

[5] Infrastructure costs cover the costs of maintaining the premises, expenses for logistics for the organisation of meetings and the implementation of activities.

NOTE 14 - OPERATING EXPENSES

	2022 €K	2021 €K
Purchase of goods and services	81 014	62 347
Fees and travel expenses	50 711	40 130
Staff expenses	454 808	443 860
Judges' emoluments	11 864	11 935
“Eurimages” advances on receipts and grants	21 260	19 233
Property, plant and equipment depreciation and amortisation	15 894	15 734
Other expenses	47	57
	635 598	**593 296**

Operating expenditure excluding staff costs increased overall by 23% compared to 2021 and confirms a continued recovery of activity since the health crisis in 2020. The recovery concerns both the annual budgets and the special accounts, with an increase in the number of meetings and other events held in a physical and hybrid form. The increase in staff costs is mainly due to the impact of the provision relating to pensions and post employment benefits.

“Purchases of goods and services” increased by 30%, and includes purchases of non-capitalised material and equipment, purchases of non-stockable supplies and other consumables, rent, maintenance, upkeep and repairs, and outsourcing of services. The increase in 2022 relates to expenditure linked to the organisation of events, more particularly service contracts and other services (€11 419K), as well as expenditure on maintenance and bringing buildings up to standard, in particular asbestos removal work (€3 192K).

“Fees and travel expenses increased” by 26%, with a significant increase of 229% in travel expenses for official missions and a decrease of 14% in fees. The increase in 2022 concerns in particular the “Official travel expenses – Other” line (251%), which includes expenses reimbursed to governmental and non-governmental experts, and other participants in the activities of the Organisation. These trends are in line with the general recovery observed, with an increase in the number of activities held in a physical format and a lower use of consultants which increased during the pandemic.

	2022 €K	2021 €K
Fees	28 631	33 221
Official travel expenses - Staff	5 174	1 883
Official travel expenses - Other	16 077	4 583
Other travel costs	765	663
Provision for home leave travel expenses	64	(220)
	50 711	**40 130**

Advances on receipts and “Eurimages” grants have increased by €2 027K in 2022 compared to 2021. This item corresponds to payments made during the year to co-producers, which increase the Fund's financial assets. These advances are provisioned at 100% due to the uncertainty of their reimbursement and therefore have an impact on the Statement of Financial Performance.
This line also contains other grants accounted for in the framework of the “Eurimages” programme of activities (grants to co-production when less than €150K, promotion, support to cinemas and to gender equality). The grants are accounted for as expenditure in the financial year during which the projects are finalised. The amounts paid on signature of the contracts are recorded as advances. The variation on this line from one year to the next reflects the projects completed during the period.

Staff costs are broken down as follows:

	2022 €K	2021 €K
Expenditure		
Permanent staff	197 279	193 425
Temporary staff	37 082	34 216
Indemnities for loss of job	6 555	-
Post-employment employee benefits	64 411	58 813
Other	678	630
	306 005	287 084
Accruals		
Provision for post-employment employee benefits	142 813	156 872
Provision for leave entitlement	746	(96)
Provision in respect of ongoing litigation	5 244	-
	148 803	156 776
	454 808	**443 860**

Staff costs are mainly driven by annual salary increases (1.2% on 1 January 2022 and 0.7% on 1 December 2022 and 1.3% in 2021), the impact of the seniority of the Organisation's employees and changes in the full-time workforce. Overall, staff costs have increased by 6.59% in 2022, excluding provisions for employee benefits and untaken paid leave at year-end.

Expenditure on the “Permanent staff” line increased by 2%, while expenditure on temporary staff has risen by a more substantial 8% (€2 866K). The variance is explained by the increased use of short-term temporary contracts, both at headquarters and in the field, for the implementation of activities funded by extra-budgetary resources.

In 2022 the Organisation implemented a plan for the early departure of staff, the principle of which was approved by the Committee of Ministers. Compensation for loss of employment under the plan amounts to €5 858K and the concerned staff members left during the last quarter of 2022. Other compensation for loss of employment amounting to €707K was paid during the financial year and is related to individual departures from the Organisation.

The increase in the pension benefits line for 2022 compared to 2021 is explained by the annual adjustement and the net number of new pensions granted (+58).

The change in the provision for pensions and post-employment benefits is explained by the change in actuarial assumptions, the additional service cost and the current financial cost of benefits paid during the year. In accordance with IPSAS 39, actuarial gains and losses do not impact the Statement of Financial Performance and are recognised directly in Equity.

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

	2022 €K	2021 €K
Current service cost	171 020	201 768
Interest cost	36 205	13 917
Benefits paid	(64 411)	(58 813)
	142 813	**156 872**

The provision for unused leave entitlement increased slightly compared to 2021 (Note 8). The variation on this line shows that leave requests submitted by staff during the year did not absorb the number of untaken leave days accumulated at the end of the previous year.

The number of full-time equivalent (FTE) for permanent staff was 2 207.96 in 2022 compared to 2 177.71 in 2021, and for temporary staff 641.34 in 2022 compared to 691.01 in 2021.

NOTE 15 - FINANCIAL REVENUE AND EXPENSES

	2022 €K	2021 €K
Interest on short-term deposits and savings accounts	1 392	611
Interest on current bank accounts	5	-
Late payment interest on obligatory contributions	149	151
Reversal of provision for unpaid late interest on obligatory contributions	528	-
Net foreign currency conversion gains	-	3
Unrealised gains on financial investments	1 188	81 629
Fees on portfolio	145	151
Other financial revenue	80	66
Total financial revenue	**3 487**	**82 611**

	2022 €K	2021 €K
Bank charges	256	238
Net foreign currency conversion losses	2	-
Unrealised losses on financial investments	74 246	4 073
Financial charges on finance lease contracts	31	70
Dexia loan interest	308	441
Provision for unpaid late payment interest on obligatory contributions	313	8 837
Other financial charge	-	10
Total financial expenses	**75 156**	**13 669**

The change in financial income and expenses mainly reflects the performance of the Pension Reserve Fund investments in 2022 and 2021. The items “Unrealised gains on financial investments”and “Unrealised losses on financial investments” correspond entirely to the Fund’s performance in accordance with the investment strategy implemented (Note 5).

The Pension Reserve Fund’s investment transactions, measured at fair value of the portfolio for financial investments, generated an overall net loss of €72 788K in 2022 compared to an overall net gain of €77 766K in 2021.

In 2022, the line “Interest on short-term deposits and savings accounts” has increased significantly compared to the previous year. With an overall stable cash and cash equivalents position between 2021 and 2022, this variation is explained mainly by an increase in the average interest rate obtained for short-term deposits and the saving accounts. After a long period of negative key interest rates in the Euro zone, the European Central Bank raised its rates several times in 2022. The overnight interbank rate became positive again in September 2022.

“Late payment interest on obligatory contributions” is mainly composed in 2022 and 2021 of the late payment interest related to the non-payment of the obligatory contribution to “Eurimages” due by Argentina, non-member of the Council of Europe for the year 2020, which continues to generate interest until the contribution is paid.

The line “Provision for unpaid late payment interest on obligatory contributions” corresponds in 2022 to the provision for doubtful debts set up for the non-payment of late payment interest by Argentina and Cape Verde, non-members of Council of Europe (Note 4.3). At the end of 2021 this line also included the provision for late payment interest due by the Russian Federation for a total of €8 837K. Following the decision taken by the Deputies at the 1448th meeting in November 2022 to return the 2021 surplus to member States, the share of the Russian Federation reduced the amount due by €528K. The provision for bad debt set up in 2021 has been reversed accordingly and is presented in the “Reversal of provision for unpaid late interest on obligatory contributions” line.

NOTE 16 - SEGMENT INFORMATION

Segment information relating to the Statement of Financial Performance presents the accounting operations of revenue and expenditure according to identified segments, which seek to reflect the sources of financing used for the budgetary management:

- Segment of the Ordinary Budget: is financed by all member States of the Council of Europe;
- Segment of the other budgets: consists of subsidiary and services budgets, as well as the Partial agreements, that are financed by some member States or non-members of Council of Europe;
- Segment of the special accounts: refers to multi-annual activities financed mainly by extrabudgetary resources or budget allocations from the annual budgets.

A fourth segment shows the movements in the Pension Reserve Fund (PRF) as well as the variation in the present value of the employee benefit obligation.

The table below eliminates from the operating revenue budgetary surpluses carried forward from the previous financial year as they constitute an accounting reserve, and also internal operations, such as allocations and reciprocal re-invoicing between budgets and segments, which are neutralised between income and expenditure.

The balances provide a breakdown by segment of the accounting balance and does not correspond to the budgetary execution balances. The reconciliation between the accounting result and the budgetary balances is the subject of Note 21 in support of the table “Statement V of the comparison of the amounts entered in the budget and the actual amounts”.

Due to the nature of the Organisation's activities, its assets and liabilities are used jointly by all segments and cannot therefore be presented by segment.

		Segment information					
		Segment of Ordinary Budget €K	Segment of other budgets €K	Segment of Special Accounts €K	Segment of employee benefits €K	Non-disaggregated items [1] €K	Total €K
Obligatory contributions		250 065	49 602	-	-	-	299 667
Contributions to special accounts		-	389	88 741	-	-	89 130
Pension contributions		-	-	-	55 022	-	55 022
Accession contributions		-	84	-	-	-	84
EDQM receipts		-	72 975	-	-	-	72 975
Reimbursement of “Eurimages” advances on receipts		-	1 332	-	-	-	1 332
Net movement in inventories		-	1 609	-	-	-	1 609
Sundry receipts		691	2 127	641	-	(155)	3 304
Total operating revenue	**(A)**	**250 756**	**128 118**	**89 382**	**55 022**	**(155)**	**523 123**
Purchase of goods and services		23 077	21 539	36 438	-	(41)	81 014
Fees and travel expenses		17 616	5 952	26 592	418	134	50 711
Staff expenses		149 613	48 835	48 600	207 223	537	454 808
Judges' emoluments		11 865	-	-	-	-	11 865
“Eurimages” advances on receipts and grants		-	21 260	-	-	-	21 260
Fixed assets depreciation and amortisation		-	-	-	-	15 894	15 894
Other expenses		20	23	4	-	0	46
Total operating expenses	**(B)**	**202 191**	**97 609**	**111 634**	**207 641**	**16 523**	**635 598**
Total net non-operating revenue	**(C)**	**1 043**	**75**	**2**	**(72 819)**	**30**	**(71 669)**
Net balance	**(A) - (B) + (C)**	**49 608**	**30 585**	**(22 251)**	**(225 438)**	**(16 649)**	**(184 144)**

[1] includes items for which a breakdown between segments is not practicable.

This presentation improves user information by reconciling income and expenditure by sector. Although it relates to a methodological change, it is impractical to present this information retrospectively for the purposes of comparative information.

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 before the Administrative Tribunal

Several appeals were lodged with the Administrative Tribunal of the Council of Europe in 2022. The applicants contest the decisions of the Deputies to apply the budgetary feasibility clause and to partially apply the salary increase resulting from the salary adjustment method. Since the sentences have not been rendered, in application of the principle of prudence, it was considered necessary to record a provision in respect of ongoing litigation corresponding to the amount that would need to be accrued in the event of a decision against the Secretary General (€5 244K) (Notes 8.2 and 14).

Other appeals and administratives complaints

A number of administrative complaints mainly relating to employment procedures and conditions remained open at 31 December 2022. The cost, if any, would not be significant in the event of a decision in favour of these claims.

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 mandated by the European Union and have not yet been finalised. Ineligible expenditure for three projects could amount to approximately €80K. At this stage the Organisation is continuing discussions with the European Union in view of the disputes raised.

“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 2022 €K	31 December 2021 €K
“Eurimages” advances on receipts for film co-production	17 373	15 682

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 €28 232K in 2022 and €34 758K in 2021.

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 €3 873K for 2022 and €3 570K for 2021, including property leases of €1 847K in 2022 and €1 943K in 2021.

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

	31 December 2022 €K	31 December 2021 €K
No later than one year	1 300	1 181
Later than one year and no later than five years	2 935	705
Later than five years	460	-
	4 695	**1 886**

Payments made under these leases cover the rent paid by the Organisation for field offices, the EDQM premises and the official residence of the Secretary General.

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, as 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 lease payments under finance leases at 31 December 2022 are as follows:

	2022 €K	
Year	Gross Value	Present Value
0 - 1	308	284
1 - 2	250	236
2 - 3	261	254
Total minimum lease payments	819	774
Less amount representing interest	45	-
Obligation under finance leases	**774**	**774**

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 2022 €K	31 December 2021 €K
Deficit from operating activities	(112 475)	(78 783)
Non-cash movements		
Depreciation and amortisation	15 894	15 734
(Increase) in net movement in inventories	(1 609)	(19 555)
(Increase)/Decrease in contributions receivable	(19 045)	(267)
(Increase)/Decrease in VAT receivables	(882)	633
(Increase)/Decrease in other current assets	(2 719)	2 185
Increase in employee benefits costs	148 946	156 916
Increase/(Decrease) in accounts payable	5 833	4 267
Increase/(Decrease) in deferred income	(2 147)	(6 585)
Other	(146)	(90)
Net cash flow from operating activities	**31 650**	**74 455**

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, in the Second and Third Three-Year Reviews (CM(2014)4 and CM(2018)30), the Intermediate Review (CM(2020)50) and the Four Year Review (CM(2022)37).

The risk allowance of the PRF is approved by the Committee of Ministers when approving the Strategic Asset Allocation (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 or hedged into euro.
- ✓ 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):
  - o 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.
  - o 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).

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.

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 in place on 31 December 2022, all asset classes, with the exception of real estate are very liquid. Redemption of the selected investment vehicles (mutual funds) is straightforward and can be done daily. Redemption of the latter can be done monthly and is subject to certain restrictions.

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

<u>Interest rate risk (in Fund's treasury positions, outside the investment portfolio):</u> 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) 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, or in an inflationary environment with rising 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).

<u>Credit/ counterparty risk (in the PRF treasury positions, i.e outside the long-term investment portfolio):</u> 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.

<u>Operational risk (in the investment portfolio and treasury positions):</u> 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.

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 31/12/21)	257 408 698	12 289 659	46 852 066	110 174 251	62 420 829	32 318 641	18 924 632	540 388 776
MARKET RISK	High	High	Very high	Medium	Medium	High	Low	High
Interest rate risk	Very low	Very low	Very low	Very high	High	Medium	Low (income coponent only)	Medium/High
Currency risk	High	NE	Very high	NS	NE	NS	NE (in treasury) / Low (for cash managed directly by COE)	High
Credit risk	NA	NA	NA	Low	Medium	NA	Medium (direct counterparty risk)	Very low
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	Low	Medium	NS	Low
Economy/Growth risk	High	High	High	Medium	Medium/High	Medium	Very low	High
RELATIVE RISK	Very low	Low	Very low	Low	Medium	High	Low	Low
LIQUIDITY RISK	Very low	Very low	Low	Very low	Very low	Medium	Very low	Low
OPERATIONAL RISK	Very low							

NS : Not significatif, NE : not existent, NA : not applicable

NOTE 20 - POST-BALANCE SHEET EVENTS

<u>New accessions and withdrawals</u>

Bulgaria and Romania joined the Enlarged Partial Agreement on Youth Mobility through the Youth Card on 1 January 2023. The Republic of Moldova joined the Enlarged Partial Agreement on Cultural Routes on 20 April 2023. San Marino will withdraw from the Enlarged Partial Agreement on the North-South Center and Belarus, non-member of Council of Europe, will withdraw from the Enlarged Partial Agreement on Sport (EPAS), both effective on 31 December 2023.
The Russian Federation, non-member of the Council of Europe, announced its withdrawal from the Enlarged Agreement "GRECO" with effect from 1 July 2023.

NOTE 21 - RECONCILIATION OF BUDGETARY AND NET ACCOUNTING RESULTS

The Council of Europe produces Budgetary Management Accounts which are the subject of an audited report approved by the Committee of Ministers. Document CM(2023)100-add contains information on the budgetary execution for the Ordinary Budget and the other budgets and provides information on the annual balance of the special accounts. This latter point is completed by an annual report, DPB(2023)10, on the special accounts, which details, for each account, the actual revenue and expenditure for the year and the cumulative balance at the end of the financial year.

Statement V, the Comparison of Budgeted 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 their approved budget(s) public, 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. However, special accounts, which are mainly funded by extra-budgetary resources and budgetary allocations, are not subject to an annual public budgetary authorisation of resources and expenditure approved by the Committee of Ministers. As permitted by IPSAS 24 §20, the above table does not show budgeted amounts for this category. However, the annual balance resulting from the difference between actual revenue and expenditure recorded during the financial year is added to the annual budget execution balance.

The information presented below also meets the requirements of IPSAS 24:

- Note 21.1 reconciles the budgetary result (surplus of €56 994K) with the result of the Statement of Financial Performance (deficit of €184 144K);
- Note 21.2 reconciles the budgetary result (€56 994K) with the change in cash position presented in the Cash Flow Statement (€439K).

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 from the budgetary result, the difference between the budgetary surplus (€56 994K) and the IPSAS deficit (€184 144K) stems from the most significant elements in 2022:

a) the inclusion in the IPSAS result of elements that are not taken into account in the budgetary result, namely:

- The adjustment of special accounts, for which the annual balance is carried forward as deferred income (€1 734K to be added)
- the annual impact of the increase in the employee benefits obligation (€142 813K to be deducted from the budgetary surplus);
- the decrease in the net assets of the Pension Reserve Fund (€49 005K to be deducted);

b) the inclusion in the budgetary result of budgetary carry-forwards. In 2022 these were primarily for the Partial Agreement “Eurimages”, the European Youth Fund, the budget for publications, and for the EDQM to its investment special account, which amount to a total of €57 253K to be deducted from the budgetary result;

c) the balance of €6 199K to be added corresponds to all other accounting adjustments that affected revenue and expenditure. These items, of which the main components are detailed in the table below, are to be added to or deducted from the budgetary surplus in order to fully reconcile the IPSAS deficit, which is based on accrual accounting, with the budgetary approach, which is based on modified cash accounting.

The table below shows these main differences:

	Notes	2022 K €
Budgetary result from Ordinay Budget and other budgets		52 900
Annual balance from Special accounts		4 094
Budgetary result for the financial year		**56 994**
Items not included in the budgetary result		
Special accounts adjustment to deferred income [1]	9	1 734
Employee benefits obligation variation	10 et 14	(142 813)
Pension Reserve Fund net assets variation	10	(49 005)
Net movement in inventory	12	1 609
Fixed assets capitalisation, depreciation and amortisation [2]	6 et 7	(3 163)
Adjustment concerning the closing of the special accounts related to the construction of new buildings and to security measures	11	4 735
Allocation of previous year's budgetary results to reserves [3]	23	(57 253)
Other differences between budgetary and accrual accounting	12, 14 et 15	3 018
IPSAS accounting result for the financial year		**(184 144)**

(1) The balance of the special account "Staff Departure Scheme", the general investment programme and the EDQM investment programme is excluded from the deferred income carry forward. The annual balance of these special accounts (€5 734K) is part of the net result and is allocated to reserves.
(2) This line does not include additions recorded during the year through new finance leases, the accounting adjustment of which is included in the Other differences line.
(3) In 2022, the budgetary results carried forward from 2021 concern "Eurimages" (€38 018K), the publications budget (€167K), the European Youth Foundation (€1 766K), the partial carry forward of the EDQM Partial Agreement budgetary result to its investment special account (€17 259K), as well as the result of the Graz Centre Partial Agreement (€28K) and a partial carry forward of the Greco Enlarged Agreement (€15K) to their respective activity special accounts.

These adjustments are explained as follows:

Type of adjustment	Adjustement description
Special accounts adjustment to deferred income	The unspent balance of the special accounts is carried forward as deferred income. The surplus or deficit of the special accounts adjusts the deferred income in the IPSAS accounts, whereas for budgetary reporting purposes, this surplus or deficit constitutes the result for the year. The annual adjustment is the difference between the budgetary resources allocated to the special accounts and the expenditure recorded during the reporting period. This adjustment is negative in the case of unspent resources, or positive if the expenditure of the year exceeds the resources of the year and is thus financed, for the surplus, by the absorption of a part of the resources carried forward as deferred income in previous periods. The special accounts below, given their specific nature, are not carried forward as deferred income; their annual balance is part of the net result for the year which is then allocated to reserves: - "Staff departure scheme" special account contains the measures for the early termination service for staff members approved by the Committee of Ministers. - Special accounts for the General and EDQM investment programmes finance infrastructure works and other projects related to information technology and EDQM investment activities. Most of this expenditure is capitalised.
Employee benefits obligation variation	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 net assets variation	On an IPSAS basis, movements in the Pension Reserve Fund are considered an integral part of the Statement of Financial Performance whereas they are not included in the budgetary management accounts. The adjustment corresponds to the change in the net assets of the Pension Reserve Fund.
Net movement in inventories	For budgetary reporting purposes inventory items are considered as budgetary expenditure if they are 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.
Fixed assets capitalisation, depreciation and amortisation	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.

Adjustment concerning the closing of the special accounts related to the construction of new buildings and to security measures	For budgetary reporting purposes the full amount of the loan was initially recorded as a receipt. Under IPSAS the obligatory contributions intended for repayment of the loan from Dexia are recognised as revenue when they are received.
Allocation of previous year's result to reserves	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.
Other differences between budgetary and accrual accounting	The other differences between budgetary and accrual accounting relate to accounting adjustments that have affected the revenue and expenditure items in the Statement of Financial Performance.

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: at the Council of Europe, special accounts are not subject to an annual public income and expenditure budget approved by the Committee of Ministers, but the annual balance, which corresponds to the difference between actual resources and actual expenditure, is part of the budgetary execution surplus. Therefore, there is no difference between the entities.

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	**56 994**	**-**	**-**	**56 994**
Basis and presentation differences	(25 344)	(27 251)	(3 960)	(56 555)
Actual amount in the Cash Flow Statement	**31 650**	**(27 251)**	**(3 960)**	**439**

The reconciliation between the overall budgetary surplus (€56 994K) and the total cash flow variation (€439K) shows a negative base and presentation difference of €56 555K.

This difference is mainly explained by the carry forward of the 2021 budgetary surpluses, in accordance with the decisions taken by the Committee of Ministers, i.e. €38 018K for “Eurimages”, €1 766K for the European Youth Foundation, and €17 259K for the EDQM result carried forward partially to its special investment account. The total carry forward of €57 253K constitutes a pre-existing budgetary resource for the current year which does not impact the cash flow in 2022: it explains most of the basis and presentation difference shown in the above table.

Regarding the remainder (-€698K), other component items of the 2022 budgetary surplus should also be taken into account in order to fully reconstitute the cash inflow or outflow of the financial year. This applies in particular to items that do not generate cash in the current financial year (e.g. provision for ongoing litigation, provision for doubtful debts), temporary timing differences in cash receipts or payments (receivables and accounts payables to suppliers) and other variable items.

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, Note 12 and in the budgetary management accounts (CM(2023)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 of IPSAS 35 for consolidation purposes but is nevertheless considered a related party. Transactions with the European Audiovisual Observatory are detailed in the table below and correspond to its contribution 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.

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 consolidation according to 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 2022	31 December 2021	31 December 2022	31 December 2021
	€K	€K	€K	€K
Income	411	408	674	663
Debtors	79	149	3	11
Creditors	157	157	-	616

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.

	Number of key managers		Remuneration €K	
	2022	2021	2022	2021
Secretary General	1	1	315	315
Deputy Secretary General	1	1	311	316
Secretary General of Parliamentary Assembly	1	1	356	345
Other key managers	6	6	1 504	1 483
	-	-	**2 486**	**2 459**

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

In accordance with Resolution 2007(3), adopted by the Committee of Ministers on 31 January 2007, “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 €82K in 2022 and €109K in 2021. This allowance ended in September 2022.
According to this same Resolution, the former official who was Secretary General of the Parliamentary Assembly receives a temporary monthly allowance of 50% of the salary for a period of three years. The former Secretary General of the Parliamentary Assembly received in 2022 an amount of €110K and €91K in 2021.

Benefits in kind

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 €353K in 2022 and €406K in 2021.

The Secretary General benefits from official residence in Strasbourg, for which expenditure amounted to €305K in 2022 and €293K in 2021. This expenditure includes the rental from the City of Strasbourg as well as running costs for maintenance and utilities.

The French authorities grant a tax exemption on the purchase of a limited quantity of alcohol.

All staff also receive exemption from the payment of income tax on the remuneration received from the Council.

Expatriate staff members holding a special residence title granted by the Ministry of Europe and Foreign Affairs are exempt from paying VAT on the purchase of vehicles and on their replacement every 2 years. When their status is assimilated to a diplomatic status, they are exempted of taxes on a limited quantity of petrol.

NOTE 23 - NET LIABILITIES

	31 December 2022 €K	31 December 2021 *Restated* €K
Working capital fund reserve	3 341	3 476
Pension Reserve Fund	589 794	488 176
Fixed assets reserve	286 933	284 123
Inventories reserve	61 161	41 606
Employee benefits reserve	(2 445 645)	(4 025 792)
Other reserves	161 336	141 171
Deficit for the period	(184 144)	(9 841)
	(1 527 224)	**(3 077 081)**

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 financial year.

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 2022 €K	31 December 2021 *Restated* €K
Reserve for the North-South Centre working capital fund	91	91
Reserve for health cover	3 736	3 794
Budgetary surpluses suspense account	1 948	6 027
Budgetary result for the “Staff departure scheme” special account	4 113	2 805
Budgetary result for the “General Investment” special account	21 175	25 098
Budgetary result for the “EDQM Investment” special account	50 983	19 531
Budgetary result for the “EDQM activities” special account	32 000	-
Reserve for accounting adjustments	47 290	83 825
	161 336	**141 171**

The component items of “Other reserves” are described below:

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

<u>Reserve for health cover</u>
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 for Budgetary Surpluses
At the 1388th meeting in November 2020 and at the 1361st meeting in November 2019, the Deputies decided to allocate an amount of €2 749K and €3 229K respectively to a suspense account corresponding to the freezing of late payment interest on the unpaid obligatory contributions from the Russian Federation for the Ordinary Budget. This total amount of €5 978K was used to set up a provision for doubtful debts in 2021. At the 1361st meeting, the Deputies had already decided to allocate an amount of €48K to the suspense account, corresponding to the balance of unpaid obligatory contributions for the Enlarged Partial Agreement on Natural Hazards. At the 1448th meeting on 16 November 2022, the Deputies approved a transfer of €1 900K from the 2021 Ordinary Budget result to a suspense account to mitigate the risks of rising energy costs during 2023. Any part of the €1 900K not used for energy cost increases will be re-credited to the member States in 2024.

Budgetary result special account "Staff departure scheme":
Special account covering the measures for early retirement of staff members approved by the Committee of Ministers.

Budgetary results of the Investment Special Accounts
The reserve for the special accounts related to investments is fed by the use of the funding provided for the infrastructure works and other information technology projects defined in the general investment programme and for the projects defined in the EDQM investment programme.

Budgetary result of the special account "EDQM activities"
At the 1414th meeting in October 2021, the Deputies approved the allocation of an amount of €32 000K to a special account to set up a reserve to cover EDQM contingency provisions in case of crisis, as specified in the document CM(2021)92.

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 components of the reserve for accounting adjustments amounted to €47 290K at 31 December 2022 compared to €83 825K at 31 December 2021 and are detailed as follows:

	31 December 2022 €K	31 December 2021 €K
Adjustment to the reserve of the budgetary result carried forward from the previous year (1)	57 253	102 410
Provision for employee leave entitlement	(15 131)	(15 226)
Adjustment to "Eurimages" advances on receipt	15 682	13 269
Adjustment of the outstanding capital of the Dexia loan for the construction of the Agora building and the financing of security measures	(10 700)	(15 264)
Other accounting adjustments	186	(1 364)
	47 290	**83 825**

(1) In 2022, "Eurimages" (€38 018K), Publications Budget (€167K), European Youth Foundation (€1 766K), EDQM (€17 259K) to its Investment Special Account, Partial Agreement of the Graz Centre (€28K) and Enlarged Agreement "Greco" (€15K) to their respective activity special account.
In 2021, "Eurimages" (€36 995K), Publications Budget (€146K), European Youth Foundation (€2 072K), Partial Agreement of the Graz Centre to its special activity account (€17K) and EDQM to its two special investment and activity accounts (€63 180K).

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 the 1442nd meeting on 14 September 2022 and at the 1448th meeting on 16 November 2022, the Deputies decided on the distribution among the member States of the budgetary credit balances at the end of 2021 for the amount of €9 543K. In addition, at the 1448th meeting the Deputies decided to allocate an amount of €1 900K to a suspense account to exclusively mitigate the risks related to the increase of energy costs during the year 2023.

Other appropriations from the 2021 annual budget are technical in nature or correspond to earlier decisions of earlier decisions of the Committee of Ministers.

PART II - EXTERNAL AUDIT REPORT

on the financial statements

of the Council of Europe

for the financial year 2022

Translation from French

Cour des comptes
FRANCE

EXTERNAL AUDIT OF THE COUNCIL OF EUROPE

AUDIT REPORT FINANCIAL STATEMENTS OF THE COUNCIL OF EUROPE FOR THE YEAR ENDED 31 DECEMBER 2022

REFERENCE: CE 2023-02

COUNCIL OF EUROPE

CONSEIL DE L'EUROPE

EXECUTIVE SUMMARY

This report accompanies the External Auditor's opinion and sets out the observations and recommendations arising from the audit of the Council of Europe's consolidated financial statements for the 2022 financial year.

The audit did not identify any major new anomalies affecting the financial statements. The observations generally address issues raised in previous audits and update their findings.

The report reviews the internal control, information systems, the various expense and resource items, and major asset and liability items.

The analytical review indicates that the accounting result has deteriorated, in particular owing to the recognition of an unrealised loss on the assets of the Pension Reserve Fund. At the same time, the sharp decrease in the estimated liability for employee benefits is explained by the change in the discount rate.

With regard to the presentation of the financial statements, the audit stresses the advantage of budget forecasts for the special accounts, having due regard not only for the principles laid down by IPSAS 24 but also for the increasing relative size of these accounts.

TABLE OF CONTENTS

I. OBJECTIVES AND SCOPE OF THE AUDIT

1. The audit of the financial statements for 2022 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.

2. 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 2022 financial year.

3. The interim and final audit phases were carried out at the Council of Europe's headquarters from 28 November to 9 December 2022 in the case of the former and from 3 to 21 April 2023 in the case of the latter.

4. In accordance with the notification of 14 March 2023, a team of six auditors carried out the final audit of the Council of Europe's consolidated financial statements for the 2022 financial year.

5. The financial statements for the year ended 31 December 2022 were sent to the External Auditor on 30 March 2023. The audit work resulted in adjustments being made directly during the final audit before the final presentation of the financial statements on 26 April 2023.

6. In response to the Committee of Ministers decision of 13 October 2021 (CM/Del/Dec(2021)1414/11.3) to cease the production of separate financial statements for the European Support Fund for the Co-Production and Distribution of Creative Cinematographic and Audiovisual Works (Eurimages), in line with the External Auditor's recommendation and the subsequent agreement of the Eurimages Board of Management, the External Auditor no longer issues a separate opinion on the financial statements of Eurimages as from the 2021 financial year.

7. In response to the Committee of Ministers decision of 13 October 2021 (CM/Del/Dec(2021)1414/11.2) to cease the production of separate financial statements for the European Centre for Global Interdependence and Solidarity (North-South Centre), in line with the External Auditor's recommendation and the subsequent agreement of the North-South Centre's Executive Committee, the External Auditor no longer issues a separate opinion on the North-South Centre's financial statements as from the 2021 financial year.

8. Each comment and each recommendation was discussed with the staff responsible. Management received the External Auditor's interim report on 28 April 2023 and its written comments and responses are fully reflected in this report.

9. The External Auditor has issued **unqualified opinion** on the financial statements for the year ended 31 December 2022.

II. LIST OF RECOMMENDATIONS

10. The new recommendations made have been prioritised by the External Auditor as follows: The recommendations are classified in the order in which they are presented in the report and assigned a level of priority determined by the External Auditor:

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

Field and departments concerned	**Priority**	**Recommendation**
CM TPA DPB	1	Clarify and formalise, from the next budget cycle, the rules relating to the approval of the budgets of the “special accounts”, including the arrangements for its approval of the estimates of receipts and expenditure.

III. OBSERVATIONS AND RECOMMENDATIONS

1. Introductory observations

11. On 16 March 2022, at the 1428ter meeting of the Ministers' Deputies, the Committee of Ministers adopted Resolution CM/Res(2022)2 on the cessation of the Russian Federation's membership of the Council of Europe, reaffirming that the Russian Federation's aggression against Ukraine constituted a serious violation of its obligations under Article 3 of the Statute of the Council of Europe. As a consequence, the Russian Federation ceased to be a member of the Council from 16 March 2022.

12. As stated in the introductory observations in the audit report on the 2021 financial statements, in accordance with IPSAS, the accounting consequence of this event which occurred in 2022 is that it was treated as a post-balance sheet event in the previous audit and its financial effects were considered in respect of 2022, giving rise, where appropriate, to comments in section 9 of this report, which relates to obligatory contributions.

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

- the general accounting framework: introductory observations and analytical review of the financial statements for the 2022 financial year;
- the budget comparison statement and the presentation of the segment information;
- the internal control framework and the IT systems 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;
- fixed assets;
- the financial frame of reference of the financial year: cash and deposits, net position.

14. The Management Report introducing the financial statements signed by the Secretary General, the Director General of Administration and the Treasurer sets out in particular the principal figures and totals characterising the 2022 accounting year.

15. It indicates that net assets rose from -€3 077m to -€1 527m in 2022, the improvement being mainly due to the recognition of an actuarial gain in the accounting estimate of long-term staff obligations, influenced by the change in the discount rate. This is an exogenous parameter the fluctuations of which have a strong impact on the estimate of the present value in euros in 2022 of the Council's future obligations to its staff after their departure.

16. The Management Report mentions the amount of the results in the Statement of Financial Position, with the 2022 financial year ending with a deficit of €184.1m – more than 18 times the previous year's deficit[6]. Management mainly attributes this deterioration to the recognition of unrealised losses (of €73m) on the financial investments of the Pension Reserve Fund, while the 2021 financial year recorded unrealised gains of €77.6m.This item accordingly explains 35% of the deterioration in the overall result. However, the latter is mainly due to an increase in operating expenses (+7.2%), which was much higher than the rise in revenue (+1.7%). The increase in expenses affected almost all expense items.

[6] The deficit for the 2021 financial year amounted 9.841 million euros.

17. In this connection, the External Auditor wishes to point out that, according to the decisions of the Committee of Ministers (in particular the founding resolution Res(2002)53), the purpose of the Pension Reserve Fund is to stabilise in the medium and long term the contributions due from the member States to meet their future obligations regarding the Council of Europe's staff pension schemes. The unrealised loss in 2022 therefore means a significant drop in the assets available to those states, the main source of which are the "shares" and, to a lesser extent, the "bonds" components of the portfolio.

Finding No. 1: The overall presentation of the financial statements in five statements[7] with current and previous year data complies with the mandatory requirements of IPSAS. The comparative data for statements 1 to 4 set out in the "2021" column have been restated from the amounts shown in the corresponding final financial statements for the 2021 financial year. These restatements are explained in the paragraph "changes to the 2021 presentation" in Note 1 "accounting policies", and the External Auditor considers the explanations satisfactory.

2. Analytical review of the 2022 financial statements

18. In 2022, the Council of Europe's operating revenues amounted to €523.1m, an increase of €8.6m, which mainly came from contributions to the special accounts (+€24.9m), partially offset by the net stock variation (€17.9m). The significant increase in contributions to the special accounts is due to the increased mobilisation of extrabudgetary resources in 2022 compared with 2021, which was impacted by the COVID-19 pandemic.

19. The increase in operating expenses (+€42.3m) is mainly due to the rise in purchases of goods and services (+€18.7m), in staff costs (+€10.9m) and in fees and travel expenses (+€10.6m). The increase in purchases, staff costs and travel expenses is due to the resumption of activities in 2022 compared with 2021, which was impacted by the COVID-19 pandemic.

20. The operating result is therefore a loss of €112.4m, an increase of €33.7m compared with 2021 (€78.8m).

21. The financial result amounts to -€71.7m, a very sharp drop of -€140.6m compared with 31 December 2021. This financial loss is mainly due to unrealised losses on the investment operations of the Pension Reserve Fund, which benefited in 2021 from the very good performance of the equity markets.

22. The Council of Europe's activities generated a cash surplus of €0.4m in 2022, leading to liquid assets (cash and term deposits) of €357.8m at 31 December 2022, i.e. approximately eight months' of expenditure cash flow in 2022.

23. In all, the Council of Europe's assets fell from €1 376.7m to €1 352.2m. This decrease was mainly caused by the fall in the value of the Pension Reserve Fund's financial investments (-€58.1m) compared with 31 December 2021.

24. Liabilities decreased very significantly by €1 574.3m due to the sharp fall in the estimated future value of employee benefits (down by €1 594.2m) as a result of the significant rise in the discount rate for pensions from 0.86% in 2021 to 3.28% in 2022.

25. The Council of Europe's net liabilities at 31 December 2022 were accordingly €1 527.2m, which is the amount member States will have to finance in the long term to ensure the Council of Europe can meet its commitments, foremost among them employee benefits, as estimated at the end of the financial year.

[7] 1- Statement of Financial Position ("balance sheet"), 2- Statement of Financial Performance ("income statement"), 3- Cash flow statement, 4- Statement of changes in equity/net liabilities, 5- Statement of Comparison of budgeted and actual amounts.

3. Budget comparison statement

26. Under IPSAS 1, an entity's annual financial statements consist of five required statements and notes. Among the five mandatory statements required by IPSAS is Statement No. 5, which compares budget amounts and actual amounts. Normally presented in tabular form, this statement, according to IPSAS 24, is supported by a note to reconcile the budget outturn with the cash flow variation for the year.

27. The Council of Europe has presented the budget comparison statement no. 5 in the financial statements for 2022 and set out the relevant details in Note 21. However, the comparative statement is only partial with regard to the forecast of income and expenditure owing to the absence of an annual estimated budget of income and expenditure approved by the Committee of Ministers in the case of the "special accounts".

28. The External Auditor notes the partial presentation, permitted by IPSAS 24 paragraph 20, in Statement No. 5 of the comparison between budget and actual amounts in the case of operations that have not been the subject of a publicly available approved budget, which is the situation with the "special accounts".

29. The 21 "special accounts" are given a specific status according to Article 4(2) of the Financial Regulations, which states that the Committee of Ministers may establish the procedures for the creation of special accounts. The special accounts are a departure from the principle laid down in Article 4(1) of the Financial Regulations, according to which "all receipts and all expenditure of the Organisation shall be shown in the budgets of the Organisation".

30. The operation of the "special accounts" corresponds to the decades-long practice, which the Administration justifies by reference to Articles 4(2), 11 and 17 of the Financial Regulations. It stresses that the operation of the special accounts corresponds to a modus operandi that has long been shared with the Committee of Ministers without having to be formalised in the form of a written procedure.

31. In response to the External Auditor's request for documentation describing the arrangements for the operation of the special accounts agreed by the Committee of Ministers, the Administration provided the decisions of 25 October 2006 (GR-AB (2006) 15 and CM/Del/Dec (2005)951/11.1) on the structure of the special accounts. However, these decisions contain no explicit reference to exempting these accounts from prior approval of their annual estimates of receipts and expenditure, which would complement the above-mentioned provisions of Articles 4, 11 and 17 of the Financial Regulations.

32. The "special accounts" accounted in 2022 for about €140m of receipts and €136m of expenditure, i.e. about one quarter (25%) of the Council of Europe's total revenue. It is difficult at such a level to classify "special accounts" as specific activities subject to non-formalised exceptional procedures, especially since Articles 4, 11 and 17 of the Financial Regulations may give rise to contradictory readings and interpretations. In addition, the perpetuation of special accounts entails risks of the renewal of operating costs once the specific activity to which they were dedicated has been completed.

33. Article 4(1) of the Financial Regulations states that the Committee of Ministers shall determine the procedures applicable to the special accounts that it decides to create. It would be useful and necessary for it to formalise and update the management arrangements, particularly regarding the approval of annual estimates of receipts and expenditure, especially in view of the financial volumes involved in the case of the "special accounts".

Recommendation 1. The External Auditor recommends that the Committee of Ministers clarify and formalise, from the next budget cycle, the rules relating to the approval of the budgets of the "special accounts", including the arrangements for its approval of the estimates of receipts and expenditure.

Priority 1

4. Presentation of segment information

34. IPSAS 18 requires the presentation of a range of information under the heading "Segment information", which, in principle, enables public decision-makers and users to measure the activity and performance of the separate segments of the institution concerned.

35. The application of IPSAS 18 in an entity such as the Council of Europe poses practical and policy challenges. The standard assumes that the entity is able to isolate homogeneous blocks of activities that may constitute segments to which revenues, expenses, assets and liabilities, including cash, may be assigned. The External Auditor and the Treasurer considered that the previous presentation in the financial statements up to 2021 was no longer appropriate, owing to the lack of an accounting information system preconfigured to identify homogeneous segments and to assign to them the accounting entries, particularly in assets and liabilities.

36. The 2022 financial statements include a modified and improved version of the tables and comments relating to segment reporting in Note 16. In order to improve previous presentations, the Council of Europe has endeavoured to align the breakdown of its activities with the budget breakdown. Although the new presentation in Note 16 has now unified the headings grouping resources with those of expenditure, which is in line with the requirements of IPSAS 18, the segment breakdown remains highly aggregated. The efforts to make improvements must be continued.

37. The External Auditor notes that the Directorate of Programme and Budget (DPB) produces an annual report on the budgetary management accounts and submits it to the Committee of Ministers. This gives a detailed description of the operations relating to all the institution's budget components and aims to provide a final picture of budget performance. The External Auditor points out that the information in this report makes a substantial contribution to the provision of information to users, broken down into the 42 components of the general budget, the partial agreements and the "special accounts".

38. Since the breakdown into segments in Note 16 now adopts and aggregates the budget breakdown set out in the report on budgetary management, it can be assumed that the financial statements supplemented by this report, which is itself audited, provide detailed information to users, in particular to the contributing states, even if it does not cover all the expectations required by IPSAS 18, especially with regard to the allocation of assets and liabilities or the identification of segments the activities and performance of which can be distinguished.

39. The External Auditor accepts the impracticality of an additional retrospective comparative presentation of segment information as set out by the Council of Europe in Note 16 to the 2022 financial statements.

Finding No. 2: The External Auditor encourages the Council of Europe to continue its efforts to produce a fine-tuned and realistic presentation of the activities and performance of its different identifiable segments, in correlation with DPB's annual report on the budgetary management accounts.

5. Internal control environment and risk assessment

40. Risk management at the Council of Europe has its origins in the Risk Management policy signed by the Council's Secretary General on 28 June 2016.

41. Risk management is currently co-ordinated by the Transversal Support Division in the Directorate General of Administration for the Ordinary Budget part and by the Central Co-ordination and Risk Management Division in the Directorate General of Programmes for the extrabudgetary part. Two exceptions remain, namely the European Court of Human Rights and the European Directorate for the Quality of Medicines, which have set up their own risk management operations.

42. Risk assessment in relation to activities under the Ordinary Budget is documented via a register of organisational risks, approximately 60 registers of operational risks and two registers of transversal risks (a financial management risk register and an IT risk register).

43. Operational risks are broken down in line with the Organisation’s structure in terms of programmes and budgets. Registers have been drawn up by the programme and sub-programme teams and managers, with the Transversal Support Division and the dozen or so risk officers only providing methodological and training support and consolidating all the data produced. All these risks are updated annually by the teams and programme and sub-programme managers.

44. More specifically, the transversal risks relating to financial management were described by the Council’s network of financial managers at workshops. They comprise 18 general financial risks, the Council’s objective being to identify and raise awareness of the major risks, rather than identifying all the financial risks.

45. The risk assessment for extrabudgetary activities is carried out locally for each office after discussions with the Central Co-ordination and Risk Management Division in the Directorate of Programme Co-ordination (DPC). This risk assessment is also applied locally to each project, with a current rate of completion of risk registers by project of around 70%. This rate will continue to rise owing to the mandatory nature of the risk component in the PMM project management tool[8].

46. The Central Co-ordination and Risk Management Division in the Directorate of Programme Co-ordination (DPC) co-ordinates this work and carries out risk assessments at action-plan level or even at the external-presence level as a whole. The Directorate of Internal Oversight has produced a risk map that is used and updated in connection with planning internal audit activities.

47. Lastly, the External Auditor notes the strengthening of risk management and internal control within the Council. For example, an IT risk management tool – the *Risk Management Tool (RMT)* – based on a module of the *Programme & Budget Tool (PBT) w*as introduced in November 2022. The aim of this new tool is to harmonise and simplify the monitoring of risk registers, which was previously drawn up in an Excel table. Financial risks and their associated control(s) are now identified in detail.

48. The Directorate General of Administration has filled a post of internal controller attached to the Treasury, Payments and Accounting Department. The controller’s work is currently centred on internal financial control but it is intended to extend it to non-financial controls. The creation of this post is part of a more general governance strengthening strategy developed by the Private Office of the Secretary General in accordance with the External Auditor’s recommendations.

49. The main tool for monitoring the implementation of internal control in financial management is the *Internal Control Self-Assessment Questionnaire* (ICSAQ). This is completed annually by the *commitment officers* and the *cost centre managers* (CCMs) prior to the signing of the representation letter. In 2022, an ICSAQ was completed for all the nineteen representation letters signed by the commitment officers before they were signed. In addition, 70 representation letters were drawn up by CCMs or deputy CCMs. In all, 78 self-assessments were completed in 2022, representing all the Council of Europe’s 19 entities, either by the financial officers, the cost centre managers or the commitment officers. The work of collecting and summarising the 2022 questionnaires has been completed and an overview of this work sent to the External Auditor in connection with its final visit.

Finding No. 3: Risk management and internal control at the Council, both at the Headquarters and in the field offices, have become structured and been strengthened.

[8] PMM : Project management methodology (PMM): tool for monitoring the implementation of programmes and projects by filing documents (budgets, financial and narrative reports, resource allocation, etc.).

6. IT systems

50. The External Auditor notes the efforts made by the Council of Europe to respond to the observations made during previous audits. An IT risk map was formally drawn up and was updated in 2022. The new IT Strategy 2023-2025 for the Council of Europe has been confirmed. It comprises structural projects for financial software, especially the Source to Pay project.

51. In the course of its mission, the External Auditor analysed the following applications: Oracle, the Financial Information Management System (FIMS), the financial ERP[9] used by the Council of Europe, the PeopleSoft tool used for human resources management at the Council of Europe and the SAP tool used by the EDQM[10] for inventory management and customer accounting management.

6.1. Access management

52. The External Auditor has no comments to make on the processes of user-account creation and deletion, the annual qualitative and quantitative review of user accounts or password management in the case of the FIMS, SAP and PeopleSoft applications.

53. The review of the separation of procurement tasks within the FIMS application highlighted two profiles with incompatible transaction permissions in May 2021. These profiles are authorised to create supplier records (including banking details), issue invoices and validate payments. Although some permissions have to be maintained for reasons of operational continuity, countervailing checks should be documented and tested at least once every six months.

54. Administrator access to the FIMS application is granted to three application managers. The External Auditor noted that two of them had administrator access (allowing them to grant themselves permissions) and “business” access to answer users’ questions. Although the creation of purchase orders was blocked, consideration should be given to restricting these accesses to limit the risk of inappropriate action being taken on the system. It was also noted that one person has administrator access on both FIMS and PeopleSoft.

6.2. Change management

55. As far as the FIMS, PeopleSoft and SAP applications are concerned, the External Auditor has no comments to make concerning the change management processes. The applications have separate development, quality and production environments. In a sample of releases in 2022, it was noted that each change was the subject of a ticket mentioning a request, tests and pre-release validation.

6.3. Operational resilience

56. The Council of Europe has identified the critical processes and the level of acceptance of each service with regard to the loss of data in the event of an incident and has accordingly drawn up a business continuity plan. The first tests were carried out in 2022, using the procedures already in place for the IT and physical security aspects of the buildings. With the help of a service provider, a small team from DGA[11] is holding workshops with each department to formalise their procedures, critical data and tools and produce a crisis plan. By April 2023, half of the interviews had been conducted. The first tests on key processes are planned for May 2023.

57. An IT recovery plan designed to help restart business activity quickly and minimise business loss in the event of major incidents has been written specifically for the PeopleSoft and FIMS applications. This plan was successfully tested for PeopleSoft in 2022. A release upgrade took place on the FIMS application in 2022, for which the IT recovery plan was updated but not tested. It is necessary, particularly in the event of a change, to ensure the reliability of the procedure.

[9] ERP (Entreprise Resource Planning).
[10] EDQM: European Directorate for the Quality of Medicines, a directorate of the Council of Europe usually referred to by the acronym "EDQM" or the name “Pharmacopoeia”.
[11] Directorate General of Administration.

58. Backup restoration tests are carried out on a case-by-case basis when requested by users. There are no tests to restore all data backups. As part of the FIMS and PeopleSoft Disaster Recovery Plans (DRP), data recovery tests are organised on these areas as part of the reconstruction of the IT environment. Although the restoration of all the Council's data is difficult owing to the volume of data, it is important to ensure that the restoration of backups of sensitive data is carried out on a regular basis, field by field.

59. The European Directorate for the Quality of Medicines has drawn up a business continuity plan and an IT recovery plan has been put in place at the Strasbourg and Metz sites. Tests were carried out in 2022 on the IT systems' infrastructure. The application tests of the business recovery and continuity plans were not approved in 2022 and these plans will have to be tested in 2023.

60. The Council of Europe has two main server rooms, one located on the Strasbourg campus and the other on an external backup site in the "cloud"[12] in France. One of the main server rooms is located in the IT building. The External Auditor identified weaknesses stemming from the building's advanced age. While measures have been taken to mitigate the risks of intrusion or service outages, the Council has a new and more secure server room in the Agora building. In response to a recommendation by the External Auditor on this issue in 2019, the Council of Europe recognised the need to move the server room to the Agora building. However, the new building initially did not have the power supply capacity to install this room. This transfer should take place in the summer of 2023.

Finding No. 4: The External Auditor stands by its previous recommendations to complete the business continuity plan of the European Directorate for the Quality of Medicines (EDQM) and the Council of Europe and to carry out formalised tests of business continuity and IT recovery plans and back-ups (see below).

7. Identification and monitoring of related parties

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

62. The External Auditor checked that the information in Note 22 to the financial statements, concerning related parties, was coherent and in line with the principles set out in IPSAS 20.

Finding No. 5: The criteria for identifying related parties are in compliance with the IPSAS standards, and the data provided in Explanatory Note 22 require no comment.

8. Prevention and detection of fraud

63. 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 "(t)he 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".

64. The Investigation Division of the Directorate of Internal Oversight (DIO)[13] 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. 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 site and the DIO website, under the heading "How to report fraud or corruption". There are several ways of reporting to the DIO: an online form, email, telephone and post.

[12] A "cloud" is a set of networked servers (including operating systems and software), installed in a data centre, which carry out processing and store data.
[13] Directorate of Internal Oversight

65. 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.

66. The Investigation Division 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".

67. Lastly, pursuant to Rule No. 1282 of 18 October 2007 on the declaration of interests in the context of procurement and grant award, commitments officers, cost centre managers and their hierarchical superiors, as well as everyone involved in the procurement or grant award process, must file a declaration of interests at the beginning of each year. This obligation, which is now widespread, has so far been monitored by the Directorate of Internal Oversight and it is expected to be transferred to the Council of Europe Ethics Officer, a position created in 2023 as recommended by the External Auditor in 2020.

Finding No. 6: The procedures established at the Council of Europe to identify and respond to the risk of fraud do not call for any comments by the External Auditor.

9. Contributions

68. Total contributions (obligatory and voluntary) paid to the Council of Europe were higher compared with the previous financial year, having risen from €366.6 m in 2021 to €388.8m in 2022. This rise concerns voluntary contributions.

9.1. Obligatory contributions

69. Obligatory contributions decreased slightly from €302.5m in 2021 to €299.7m in 2022, taking into account in particular the recognition of the €1m of provision for doubtul debt relating to "Eurimages" receivables due from Argentina in 2022.

70. The External Auditor has checked that the amounts called up (initial and additional contributions following the cessation of the Russian Federation's membership) correspond to the resolutions of the Committee of Ministers.

71. The External Auditor also checked the receivables disclosed in Note 4.1 to the financial statements, of which the three largest at the time of the April 2023 review, apart from receivables from additional contributions, were due from the Russian Federation (in respect of late-payment interest) amounting to €8.3m, fully depreciated since 2021, Argentina (Eurimages) amounting to €1.4m and Cape Verde (North-South Centre) amounting to €0.08m.

72. The External Auditor recommended in its report on the 2021 accounts that the risk of non-recovery of overdue receivables be assessed. This analysis led the Council of Europe to depreciate in full the receivables due from Argentina and Cape Verde in its 2022 accounts.

73. Lastly, the External Auditor audited the accounts payable with respect to contributions, presented in Note 8 to the financial statements, amounting to €8m.

9.2. Voluntary contributions

74. Voluntary contributions fund additional activities related to the Council of Europe's priorities but not financed by the annual budget approved by the Committee of Ministers. The income allocated to these projects includes financial contributions provided for in contracts and paid according to a schedule and budgetary allocations from other budgets.

75. The External Auditor has checked that these resources are presented in accordance with IPSAS: revenue is initially entered as deferred income where it is not spent by the end of the financial year and then recorded in the income statement as and when the associated expenditure is charged. Note 9 to the financial statements sets out the movements that impact deferred income, and Note 12 details the revenues received, including voluntary contributions.

76. In 2022, the total amount of authorised expenditure out of appropriations carried forward as deferred income was €109.2m compared with €99.2m in 2021. Assigned revenue, net of reimbursements, amounted to €107.2m in 2022 compared with €94.0m[14] in 2021. Accordingly, the 2022 adjustment of deferred income leads to a €1.8m increase in contributions to the special accounts. The 2021 adjustment also increased the deferred income (by €5.2m).

77. At 31 December 2022, the audited deferred income amounted to €206.0m[15] compared with €231.9m at 31 December 2021. At 1 January 2022, the deferred income amounted to €191.0m, a fall of €40.9m compared with the 2021 accounts certified by the External Auditor. The adjustment to the opening balance sheet follows the implementation of the 2021 recommendation to ensure that all balances carried forward from special accounts meet the IPSAS definition of deferred income.

Finding No. 7: The correspondence of the amounts called, the provision made certain contributions and the recognition of obligatory contributions in accounts receivables do not require any comment. The same applies to voluntary contributions, their recognition as deferred income and then their inclusion in the income statement.

10. Other revenue/receivables

10.1. Other debtors and creditors

78. The other debtors amounted to €62.0m at 31 December 2022, an increase of €8.2m compared with 31 December 2021. This rise is mainly due to the increase in recoverable VAT of €1m, advances paid to suppliers of €2m and extrabudgetary resources receivable of €4.4m.

79. Creditors amounted to €78.2m at 31 December 2022, a rise of €9.3m compared with 31 December 2021. This is due in particular to the increase in accounts payable to suppliers of €6m, and a provision of €5.3m for litigation, offset by the decrease in budgetary surpluses to be deducted from calls for obligaotory contributions of €1.4m and advance receipts, mainly comprising obligatory contributions of €2m paid by member States and non-members before the start of the budget year to which they relate.

80. These increases are partly offset by lower budget surpluses to be deducted from calls for obligatory contributions of €1.4m and advance receipts of €2m, mainly comprising obligatory contributions paid by member states and non-members before the start of the budget year to which they relate.

81. An external confirmation request was sent to a selection of 11 EDQM clients. The seven replies received revealed no anomalies.

82. In addition, 10 sales at the end of 2022 and early 2023 were tested and revealed no anomaly with regard to compliance with the cut-off principle.

[14] The amount of assigned revenue from budgetary allocations was €11.8m in 2022 compared with €11.3m in 2021.
[15] This balance is made up of the amounts carried forward in respect of the special accounts and the extrabudgetary resources expected under signed contracts.

10.2. Eurimages reimbursable advances

83. The reimbursable advances relating to film co-production amounted to €155.1m at 31 December 2022, slightly up (by €0.1m) on the previous year's balance. This insignificant increase was due to the write-off of advances of €18.9m granted in 2012, payments of €20.1m made in 2022 and repayments of €1.1m received during the year in respect of films co-produced over the last ten years.

84. It should be noted that reimbursable advances recorded as assets comprise all the advances made in the last ten years (from 2013 to 2022). In consideration of the risk of non-repayment, the reimbursable advances are fully depreciated.

85. The External Auditor carried out checks on the activities of Eurimages. With particular regard to its film co-production activities, the contractual commitments made in the context of this activity, as well as the receipts and disbursements relating to the contracts selected, were considered on the basis of a sample. No significant anomaly was identified.

Finding No. 8: The various tests carried out on other debtors and creditors revealed no anomalies.

11. Inventories

86. Inventories increased by €1.6m in 2022 and their net value amounted to €62.8m at 31 December 2022. €59.3m (gross value: €66.2m) 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 €1.4m in 2022, a rise mainly due to an increase in stock volumes combined with the updating of the standard costs of finished products and manufacturing work in progress.

87. Since the introduction of standard costs in 2019, a recosting exercise has been undertaken each year, affecting all reference substances in stock at 31 December. The External Auditor informed EDQM last year that this method was not IPSAS compliant and that only production for the year should be subject to standard cost updates. As it was technically impossible to limit the update of standard costs to the year's production and the impact on the financial statements was insignificant, the External Auditor made no recommendation in this connection.

88. In 2022, EDQM developed the SAP ERP system to restrict the updating of standard costs to the year's production. Accordingly, EDQM decided that the costs of all finished products produced before 2022 would remain at their 2021 level and that finished products would in future not continue to be revalued every year. The 2022 hourly rates for direct costs and the allocation percentages for indirect costs were therefore only applied to items that came into stock in 2022.

89. From 2022 onwards, the valuation of reference substances excludes the contribution to the Ordinary Budget (this contribution corresponds to EDQM's share of the Council of Europe's common services such as communications, human resources, IT, the Staff Committee, the Secretary General's Office and other support functions. It amounts to a lump sum of €13 800 per item/position in 2022). These contributions are only for non-production overheads and should therefore be excluded from production costs.

90. The other stocks amount to €3.5m net (€5.0m gross) and include publications for sale or free distribution, EDQM packaging and consumables, advertising material, office supplies, etc. The gross value of these stocks fell by €0.4m in 2022.

91. In order to validate the accounting data concerning inventories, the External Auditor:

- carried out spot checks on stocks of EDQM products (10 locations tested during the interim visit in December 2022 at the Strasbourg site and 10 reference substances tested at the Metz site during the final visit in April 2023);
- verified the consistency of the revaluation of the standard costs of EDQM products;
- confirmed the compliance of the method and presentation with IPSAS 12.

92. No anomalies were found.

Finding No.9: The External Auditor validates the accounting data concerning inventories.

12. Procurement and supplier accounts

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

Table 1: Totals tested (in € thousands

Consolidated accounts	31/12/2022	31/12/2021	Variation
Operating expenses	**131 725**	**102 477**	**29 248**
Purchases of goods and services	*81 014*	*62 347*	*18 667*
Fees and travel expenses	*50 711*	*40 130*	*10 581*
Suppliers	**33 565**	**27 606**	**5 959**
Other short-term debt	**4 736**	**2 595**	**2 141**
Prepaid expenses	*1 512*	*1 388*	*124*
Suppliers – advances	*3 224*	*1 207*	*2 017*

Source: External Auditor.

94. Fees and travel expenses and purchases of goods and services in 2022 amounted to €50.7m and €81m respectively. The figures were €40.1m and €62.3m respectively in 2021.

95. The main variations between 2021 and 2022 were explained by the Treasury, Payments and Accounting Department (TPA) as follows:

- most of the variation in fees and travel expenses is due to the general recovery observed, after a 2021 impacted by the health crisis, with travel restrictions for staff and experts as well as meetings cancelled or held remotely;

- the increase in purchases of goods and services relates in particular to expenditure linked to the organisation of events (service contracts and other services – €11.4m) and expenditure on maintenance and bringing buildings up to standard (€3.5m), including asbestos removal work costing €3.2m.

12.1. General checks

96. The External Auditor's checks mainly consisted in reconciling the supplier subsidiary balances and general balances and reviewing entries by reconciliation, ensuring that negative or long-outstanding supplier balances were justified and reconciling the confirmation feedback from seven of the 17 suppliers with the accounting data. No anomaly was identified in connection with these checks.

12.2. Review of the correct separation of accounting periods and cut-off test

97. 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 affects the result of the performance account for the financial year.

98. With regard to unbilled payables, prepaid expenses and supplier advances, tests were carried out to ascertain their existence and correct valuation. The correct separation of the accounting periods was also verified by means of a selection of purchases of goods and services as well as fees and travel expenses based on the purchase journals for December 2022 and January, February and March 2023.

99. No other anomaly (or potential anomaly) was identified in the course of the External Auditor's tests to ensure the correct separation of accounting periods. The second-level checks carried out in the context of this closing of accounts constitute a robust form of control that should be repeated in the years to come.

Finding No. 10: The External Auditor notes the effectiveness of the second-level checks in correcting potential anomalies.

100. The receipt of goods or services not yet invoiced at the annual closing date is not formalised in FIMS. A confirmation feedback procedure was initiated 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 on and recording unbilled payables is currently manual and time-consuming.

Finding No. 11: The External Auditor reiterates its previous year's recommendation that a direct notification procedure be introduced in the FIMS tool with respect to the receipt of goods or services not yet invoiced.

12.3. Other observations

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

102. The checks carried out during the audit of the financial statements for the 2022 projects and action plans[16] showed that, in almost all cases, the competitive bidding procedures in the field offices did not give rise to any significant observations.

103. The External Auditor notes that second-level checks are carried out on local purchasers' compliance with competitive bidding procedures.

13. Staff costs and employee benefits

13.1. Expenditure and commitments

104. Staff costs amounted to €454.8 m in 2022, up by €10.9m (or 2.5%) over the previous year, for which they were €443.9m. Excluding provisions for employee benefits and unused paid leave, these expenses increased by 6.6% in 2022. This rise can be seen in all categories of expenditure: permanent staff (+3.9m, or +2.0%), temporary staff (+€2.9m, or +8.4%) and pensioners (+€5.6m, or +9.5%).

[16] Council of Europe offices in Albania, Armenia, Georgia, Moldova, Serbia, Türkiye and Ukraine.

105. The increase in expenditure on permanent staff is explained by the salary scale increase of 1.2% on 1 January 2022 and 0.7% on 1 December 2022, as well as by the rise in staff numbers (2 208 full-time staff in 2022 compared to 2 178 in 2021). In the case of temporary staff, the increase results from the more frequent use of short-term contracts. Lastly, the rise in pension benefits is due to the annual adjustment for inflation and the net rise in the number of pensions granted (+58).

106. In addition, the launch by the Council of Europe of an early departure scheme in 2022 has resulted in the recognition of a compensation for loss of employment expense of €5.9m.

107. Lastly, the Council of Europe's decision to apply the affordability clause and only partially grant the salary increase resulting from the salary adjustment method suggested by the CCR has led to several appeals being lodged with the Administrative Tribunal of the Council of Europe.[17] A provision for litigation of €5.2 million was recorded at 31 December 2022 to cover the risk of an unfavourable outcome.

108. Employee benefits recorded as liabilities correspond to pensions and post-employment benefits. By its very nature, this is an estimate that relies in particular on assumptions based on mortality tables and employing actuarial calculation techniques. As mentioned in Note 10, the Council of Europe uses the SIRP as actuary to make these estimates, which came to €2 588.5m at 31 December 2022. The figure for these obligations amounted to€4 182.7m at the end of the previous financial year. This decrease of €1 594.2m was due to:

- an actuarial gain of €1 737.0m resulting from the rise in discount rates;
- €64.4m in benefits paid during the year,
- partial offset by staff benefits costs amounting to €207.2m, the principal component of which was staff seniority pay increases ("current service cost") to the tune of €171.0m.

109. The External Auditor carried out random checks on the details of staff files, with the aim of ensuring the accuracy and truth of the remuneration details recorded according to the professional and personal situation of the staff concerned.

110. The External Auditor carried out analytical reviews to ensure the consistency of the staff costs recorded over the financial year. It verified the reconciliation of the data from information systems used by the Directorate of Human Resources and those from information systems used by the Accounting Department.

111. The External Auditor 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).

112. Lastly, the External Auditor examined the accounting entries relating to employee benefits and made sure 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 Statement of Financial Performance.

Finding No. 12: These various tests and reviews of staff costs showed no significant anomalies.

13.2. Pension Reserve Fund

113. The financial assets amounted to €521.5m at 31 December 2021, down by €58.0m compared with 31 December 2021, when the portfolio was assessed at €579.5m. The fall is explained by unrealised losses amounting to €73.0m, which were partially offset by additions amounting to €15.0m. No disposals took place during the 2022 financial year.

[17] The Administrative Committee on Pensions of the Co-ordinated Organisations (CAPOC) recommended a pay rise of 3.7% for 2022, whereas the Council of Europe implemented an increase of 1.2% on 1 January and 0.7% on 1 December 2022.

114. This performance downturn of €73.0m is made up of an unrealised loss of €47.9m (-13%) on capital market investments, an unrealised loss of €26.3m (-14%) on bond investments and an unrealised gain of €1.2m (+4%) on alternative investments.

115. The performance on the capital markets (-13%) and the bond markets (-14%) is in line with the benchmarks used by the Pension Reserve Fund.

116. The Strategic Asset Allocation approved by the Committee of Ministers on 13 July 2022 will be implemented from 2023. It consists of 30% global equities, 10% emerging markets equities, 20% euro area equities, 10% global government bonds, 5% global corporate bonds, 5% emerging markets sovereign bonds, 5% euro area listed real estate, 5% global direct real estate investment, 5% global direct infrastructure and 5% European private equity.

117. The External Auditor ascertained that the valuation of the portfolio was correct by requesting confirmation from the bank holding the account.

118. It reviewed the consistency of the fund's financial performance in 2022 given the composition of the portfolio.

Finding No. 13: 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 2022.

14. Provisions/contingent liabilities

119. The External Auditor has not identified any significant ongoing litigation and proceedings other than the provision related to the litigation pending before the Administrative Tribunal of the Council of Europe concerning salary increases. This litigation was provisioned for €5.2m as at 31 December 2022.

15. Fixed assets

120. The net book value of tangible and intangible assets amounted to €284.4m at 31 December 2022, €3.9m higher than at 31 December 2021. This rise was mainly due to the acquisition of D Building from the City of Strasbourg for a symbolic €1, recorded at a market price of €6.6m on the basis of the report by the property valuation experts, Quadral Expertise.

121. New additions during 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 entry into use or the depreciation methods used. Fixed asset retirements for the year were also tested on a selection basis with no significant anomalies identified.

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

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

15.1. Inventories

124. In particular, the External Auditor's tasks were to review the physical inventory registers sent to TPA by each entity which holds fixed assets.

125. The External Auditor notes that the reconciliation work between the physical inventory registers sent to TPA by each entity and the information contained in the FIMS integrated management software continued in 2022. The workshops initiated in 2021 with the main entities concerned in order to clarify TPA's needs and also understand the difficulties faced by the entities were also held in 2022, leading to a significant reduction in the discrepancies between the inventories and the accounts. The work on increasing the reliability of the fixed assets inventory will continue in 2023. The External Auditor will pay particular attention to the finalisation of the reconciliations of the inventory registers held by the Directorate of General Services (DGS) and the Interpreting, Travel, Events and Multimedia Department (ITEM) with the fixed assets recorded in FIMS.

126. The External Auditor pointed out in its previous reports 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. The Financial Regulations were amended at the 1452nd meeting of the Ministers' Deputies on 14 December 2022, and Article 54 now provides that a rolling inventory over a maximum period of 4 years shall be carried out when the annual control of all fixed assets inventoried is not possible.

127. The recommendation made in 2020 on the requirements for monitoring fixed asset inventories has been implemented. A focus sheet for administrative entities, specifically designed to account for and monitor fixed assets has been produced and distributed to the dedicated teams. It defines the different concepts of inventories, the roles and responsibilities of each person and the steps to be followed. The External Auditor will analyse the results of the implementation of this recommendation in the years to come.

15.2. Finance lease contracts

128. No material misstatements were identified in the review of the IPSAS adjustment entries relating to finance lease contracts.

Finding No. 14: The reviews and tests conducted on intangible assets, on new additions during the year, on inventory registers and on finance lease contracts revealed no significant anomalies. Article 54 of the Financial Regulations has been amended to prescribe only a rolling inventory over a maximum period of 4 years, in accordance with the External Auditor's recommendation.

16. Cash, deposits and borrowings

129. Cash and cash equivalents were stable. The variation results from offsetting the increase in expenditure against advance receipts.

Table 2: The Council of Europe's cash and cash equivalents (in € thousands)

	2022	2021	Change
Current accounts	41 198	51 296	-10 098
Deposits and savings accounts	316 561	306 024	+10 537
Total cash holdings	**357 759**	**357 320**	**+439**

Source: External Auditor

16.1. Cash management

130. After two years of difficulties with investments due to low interest rates, which were almost zero or even negative for short-term investments, the Council of Europe benefited from positive interest rates on term deposits and savings accounts from September 2022. In 2022, this financial income amounted to €1.4m.

131. The External Auditor has conducted checks on the recording of accrued interest and other financial revenue and expenses. These checks require no particular comment.

16.2. Bank confirmation letters

132. The bank reconciliations and bank confirmations from all the Council of Europe's banks have been checked by the External Auditor. The replies received did not reveal any differences concerning the signatories authorised to operate the bank accounts between the signatories mentioned by the banks and the list provided by the Council of Europe.

133. The significant improvement noted in the consistency of the information provided has to do with the anticipation of this work by TPA department, which reviewed all its signature authorisations with its banking partners during the fourth quarter and asked for changes to be made when there was an inconsistency.

134. The reconciliation of the bank balances did not reveal any discrepancies.

16.3. Borrowings

135. The Council of Europe is repaying a loan taken out with Dexia Bank in 2006 through fixed instalments in January and July. The remaining principal due is approximately €6m and the interest paid is calculated in accordance with the depreciation schedule for this loan. The loan amount will be fully repaid on 1 January 2024.

Finding No. 15: The bank confirmation letters show an improvement in the monitoring of bank authorisations by the banks, a consequence of the implementation of the recommendation made last year by the External Auditor.

17. Net position

136. The net position at 31 December 2022 was in debit to the tune of €1 527m, with the net liability falling by €1 550m compared with the previous financial year.

137. The change for the year is mainly due to the actuarial gain of €1 737m in connection with the obligation concerning future employee benefits and due to the increase in discount rates.

138. This high level of liabilities is the result of pension obligations, which appear as liabilities on the balance sheet and amount to €2 588m, which is considerably higher than the net assets represented by the Pension Reserve Fund, which amounted to €541m at the end of the financial year.

139. Various IPSAS adjustments, especially those relating to the fixed assets of €287m, are the other principal elements of the net liabilities.

Finding No. 16: 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/Equity for the financial year 2022.

IV. FOLLOW-UP TO PREVIOUS RECOMMENDATIONS

1. Situation of previous recommendations at 30 April 2023

1.1. Recommendations issued by the present auditor

140. The External Auditor examined the draft document on follow-up to the implementation of the External Auditor's recommendations, to be presented for consideration by the GR-PBA[18] at its meeting on 4 July 2023, on follow-up to the recommendations made in the audits of the financial statements and budgetary management accounts and either in the process of being implemented or already implemented since the last follow-up (GR-PBA(2022)10 of 13 June 2022).

[18] GR PBA : Programme, Budget and Administration Rapporteurs' Group, a delegated body of the Committee of Ministers responsible for examining audit reports on the financial statements and following up the recommendations made by the external auditor.

141. In accordance with the External Auditor's recommendation, the follow-up procedure was reviewed and aligned with the timetable for preparing the annual accounts in the context of the follow-up to the recommendations made in the financial and budgetary management audits. In this connection, the follow-up document on the recommendations issued in the audits of the financial statements and budgetary management was submitted to the External Auditor for comment before being finalised.

142. The 10 recommendations made by the External Auditor on the Financial Statements (FS) and on the Budgetary Management Accounts (BMA) for the 2021 financial year (CM(2022)101) are all considered by the Council of Europe Secretariat to have been implemented.

143. The following table shows the level of implementation of the recommendations from the external audit reports on the consolidated financial statements and the budget management accounts made in respect of the financial years 2021 and earlier:

Table 3: Follow-up to the External Auditor's earlier recommendations originating from the audit reports on the financial statements and management accounts

	Recommendations implemented since 1 April 2022	Recommendations still being implemented at 1 April 2023
Audit reports on the consolidated financial statements for 2021 and earlier years	15	4
Audit reports on budgetary management for 2021 and earlier years	9	-
Total	**24**	**4**

Source : External Auditor

144. When finalised, the follow-up document for the GR-PBA on the implementation of the recommendations will also include those resulting from the performance and compliance audits of the action plans and projects. As this document was not yet finalised at the date of writing this audit report, all the External Auditor's observations on the follow-up to the recommendations resulting from the audits of the financial statements and of budgetary management and from the performance and compliance audits of the action plans and projects will be included in the report on the follow-up to the recommendations to be presented for consideration by the GR-PBA at its meeting on 4 July 2023.

1.2. Recommendations issued by previous Auditors

145. As far as follow-up to its own earlier recommendations is concerned, the External Auditor has examined the level of implementation of nineteen recommendations issued in connection with the certification of the financial statements for 2021 and previous years,[19] based on the interviews held in April 2023 and on the documentation provided by the Council of Europe.

146. Of the nineteen recommendations relating to the audit of the financial statements for 2021 and previous years, fifteen were considered by the Council of Europe Secretariat to have been implemented and four were reported as currently being implemented. The new recommendations made in this report will be considered in our future audit reports.

147. The four recommendations, which are currently being implemented, are as follows:

- The recommendation made by the previous External Auditor in 2018 concerned transferring responsibility for data transmission to the IT project management methodology tool from the project managers to the entity's management. There were no changes during 2022. Measures will be carried out in 2023, including in particular the drafting of a memorandum on this subject;

[19] 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. The analysis of the implementation of the recommendations made in the performance and compliance reports is included in the follow-up document on the implementation of the External Auditor's recommendations to be presented for consideration by the GR-PBA at its meeting on 4 July 2023.

- The two recommendations resulting from the audit of the 2019 financial accounts, relating to the Business Continuity Plan (BCP), including the business-side directorates and the security of the server room, are considered to be in the process of being implemented. The External Auditor recommends that the implementation of the IT BCP for all Major Administrative Entities (MAEs) should be continued. These developments will require that tests be formalised. Lastly, with regard to server security, the work initially planned for 2021 is now scheduled for the summer of 2023;

- There were also no changes during the year with regard to the recommendation resulting from the audit of the 2020 financial accounts to introduce a direct notification procedure in FIMS. Working group meetings are planned in 2023 to draw up this procedure.

2. Internal procedure for following up the recommendations

148. The External Auditor 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 financial statements and on budgetary management.

149. This review uses the TeamMate audit management software package and triggers at the end of the year a systematic procedure for consulting individuals and departments responsible for implementing the recommendations.

V. ACKNOWLEDGMENTS

150. The audit team wishes to express its sincere thanks to all the Council of Europe teams, especially the Treasury, Payments and Accounting Department (TPA), for their time and assistance and for the accurate information provided.

End of Auditor’s comments

APPENDIX: TABLE OF UNRECTIFIED DISCREPANCIES (IN € THOUSANDS)

Adjustments not accounted for	**Impact on the statement of financial position**					**Impact on the statement of financial performance**
	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Net position	
NONE	NONE	NONE	NONE	NONE	NONE	NONE

Source: Work by the External Auditor