COMMITTEE OF MINISTERS
COMITÉ DES MINISTRES

COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

MINISTERS' DEPUTIES | CM Documents | CM(2018)100 | 31 May 2018[1]

1323rd meeting, 12 September 2018

11 Programme, Budget and Administration

11.1 Consolidated Financial Statements of the Council of Europe for the year ended 31 December 2017

PART I: Consolidated Financial Statements

PART II: External Auditor's Report

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

Consolidated Financial Statements of the Council of Europe for the year ended 31 December 2017 and External Auditor's report

Consolidated financial statements for the year ended 31 December 2017

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

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

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

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

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

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

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

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

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

The financial statements of the European Centre for Global Interdependence and Solidarity ("North-South Centre") are consolidated in these financial statements, but they are also the subject of a separate document (CM(2018)101) and are submitted to the representatives of the member States of the Centre for approval in accordance with a decision taken by the Committee of Ministers in April 1991 (456th meeting, item 20).

Similarly, the financial statements of the Partial Agreement on the European Support Fund for the co-production and distribution of creative cinematographic and audio-visual works "Eurimages" are consolidated in these financial statements, but, pursuant to Resolution (88) 15, item 4.4, they also appear in a separate document (CM(2018)102) and are submitted to the representatives of the member States of the Fund for approval.

The Secretary General herewith submits to the Committee of Ministers for examination the consolidated financial statements of the Council of Europe for the year ended 31 December 2017. 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 his financial management in respect of the financial year 2017 by adopting the draft resolution appearing on page 6 of this document.

Consolidated financial statements for the year ended 31 December 2017

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Draft Resolution CM/Res(2018)…
concerning the consolidated financial statements of the Council of Europe
for the year ended 31 December 2017

(Adopted by the Committee of Ministers on … 2018
at the ... meeting of the Ministers' Deputies)

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

Having regard to Article 68 of the Financial Regulations;

Having regard to the consolidated financial statements of the Council of Europe for the year ended 31 December 2017, submitted by the Secretary General (CM(2018)100);

Having regard to the opinion of the External Auditor;

Having regard to the report of the External Auditor;

Decides:

1. The consolidated financial statements of the Council of Europe for the year ended 31 December 2017 are approved.

2. Discharge is hereby given to the Secretary General in respect of his financial management for the year 2017.

Part I

Consolidated Financial Statements of the Council of Europe for the year ended 31 December 2017

COUNCIL OF EUROPE

CONSEIL DE L'EUROPE

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.

We are of the opinion that these financial statements fairly present the financial situation of the Council of Europe as at 31 December 2017 and its financial performance and cash flows for the year then ended.

Strasbourg, 17 May 2018

Signed	Sgned	Signed
Thorbjørn Jagland Secretary General	Francis Dangel Director General of Administration	Mesut Ozyavuz Treasurer

STATEMENT OF INTERNAL CONTROL 2017

1. SCOPE OF RESPONSIBILITY

As Secretary General, I have responsibility for maintaining a sound system of internal control, which supports the Organisation's policies and objectives. I also have responsibility for ensuring that funds are safeguarded and properly accounted for, and that they are used economically, efficiently and effectively.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risks to a reasonable level rather than to eliminate all risks of failure to achieve the Organisation's objectives and ensure compliance with regulations and rules. It has been in place in the Council of Europe for the year ended 31 December 2017 and up to the date of approval of the accounts and accords with proper practice.

3. THE INTERNAL CONTROL ENVIRONMENT

The key elements of the internal control environment include:

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

- The principles which must be respected by all staff are stated explicitly in the Charter of Professional Ethics. This is supplemented by the Purchasing Code of Ethics, which addresses the issues of conflicts of interest and the receipt of gifts, and by the rules requiring declarations of conflicts of interest. In order to mitigate the level of risk specifically regarding potential fraud and corruption, all members of the Secretariat are required to comply with Rule 1327 on awareness and prevention of fraud and corruption.

- At the start of every year, I send the head of each Major Administrative Entity a Letter of Delegation, specifying the details of the operation of delegated financial authority and responsibility and underlining their responsibility for internal control within their sector.

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

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

4. REVIEW OF EFFECTIVENESS

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

- the Commitments Officers and their Cost Centre Managers within the Organisation, who are responsible for the development and maintenance of the internal control framework within their respective administrative entities. Commitments Officers are requested to submit to me a Letter of Representation at the end of the year confirming the proper implementation of internal controls;

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

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

- the Oversight Advisory Committee, which advises me on:

  - the scope, adequacy, efficiency and effectiveness of the Organisation's system of internal and external controls, as well as on risk management, including the internal audit functions, the external audit functions and the implementation of audit recommendations;
  - all corporate governance issues relating to the system of internal and external controls and its performance;
  - any matters of policy requiring corrective action and improvements in the area of internal controls;

  and makes recommendations in their annual report on these matters.

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

5. PROGRESS IN 2017 AND AREAS FOR DEVELOPMENT IN 2018

The work in relation to risk management continued during 2017 under the co-ordination of the Directorate General of Administration and the Office of the Directorate General of Programmes. In accordance with the decision of the Secretary General, the risk management policy has been implemented progressively. As from 2017, the risk management policy applies to all the programmes of the Organisation. In 2018, the preparation of an Organisation-wide risk register will be further developed by combining a bottom-up (analysis of operational risk registers, of high exposure and transversal risks) and top-down approach (strategic risks).

As detailed above, the work of the Directorate of Internal Oversight informs my view on the effectiveness of internal controls. In 2017, the Internal Audit function was the subject of a Quality Assessment (as required by the professional standards of the Institute of Internal Auditors (IIA)) and was rated as "Generally Conforms" with IIA standards. "Generally Conforms" is the top rating, and means that the Internal Audit activity has a Charter, policies and processes which are judged to be in conformance with IIA Standards.

In 2017 the Evaluation function was also subject to an External Peer Review and a number of recommendations were made. These will be implemented by the Organisation in the context of a revision of the Evaluation policy and work to develop further evaluation culture.

The DIO conducted an audit in 2017 on the Internal Control Framework relating to financial management at the Council of Europe using as a reference the COSO Internal Control framework, which is a recognised framework employed for designing, implementing and conducting internal control, and assessing the effectiveness of internal control. Outputs from this audit included an internal control self-assessment questionnaire which budget holders have been invited to complete to inform their Letter of Representation for 2017. A document setting out specific elements of internal controls, linked to the COSO framework, and how they should apply in the Council of Europe was also appended to my letters of delegation to budget holders for 2018. Building on the work of the audit, a formal Internal Control Framework will be developed in 2018 and support for full use of the self-assessment questionnaire will be provided.

In June 2017, a specific dedicated investigation function became operational for the first time within the Organisation following the recruitment of an investigator. This has enabled the fraud awareness and prevention activities of the Organisation to further develop through the provision of staff training, and the development of fraud risk assessments.

In 2017, various vacant management positions within the Directorate General of Administration and the Directorate of Internal Oversight were filled.

Strasbourg, 17 May 2018

Signed

Thorbjørn Jagland
Secretary General

PREZES
NAJWYŻSZEJ IZBY KONTROLI
KRZYSZTOF KWIATKOWSKI

KST.410.002.01.2018 Warsaw, 21 May 2018

Mr Thorbjørn Jagland
Secretary General
of the Council of Europe

Opinion of the External Auditor

Najwyższa Izba Kontroli (NIK), the External Auditor of the Council of Europe, has examined the consolidated financial statements of the Council of Europe for the year ended 31 December 2017, which comprise:

- the Statement of Financial Position,
- the Statement of Financial Performance,
- the Cash Flow Statement,
- the Statement of Changes in Net Assets,
- the Statement of Comparison of Budget and Actual Amounts,
- the summary of the principal accounting policies and other supporting notes.

The External Auditor is responsible for expressing an opinion on these financial statements on the basis of an audit, in accordance with Articles 71 and 72 of the *Financial Regulations and Supplementary Provisions of the Council of Europe*.

The Secretary General of the Council of Europe is responsible for the preparation and fair presentation of the financial statements in accordance with Articles 61 and 62 of the *Financial Regulations and Supplementary Provisions of the Council of Europe,* and for implementing adequate internal control to ensure the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The NIK team has conducted an external audit in accordance with the *International Standards of Supreme Audit Institutions (ISSAI)*, the *International Standards on Auditing (ISA)* and Article 71 of the *Financial Regulations and Supplementary Provisions of the Council of Europe*. Our work was planned and performed so as to obtain reasonable assurance that the financial statements are free from material misstatement. The NIK auditors examined the amounts and other disclosures in the financial statements, the accounting principles applied, as well as significant estimates and judgments made by the Secretary General in the preparation of the financial statements. We believe that our audit provides a reasonable basis for the following opinion:

The financial statements present fairly the financial position of the Council of Europe as at 31 December 2017 and the results of its operations and cash flows for the year then ended. They were prepared in accordance with the *International Public Sector Accounting Standards (IPSAS)* ***as required by* the** *Financial Regulations and Supplementary Provisions of the Council of Europe*.

Emphasis of Matter

We find the two following facts important for understanding the *Consolidated Financial Statements of the Council of Europe* for the financial year 2017:

A receivable due from the Russian Federation at 31 December 2017, in the amount of 22,3 million EUR, is an unpaid part of the obligatory annual contribution for 2017.
Out of this amount, 2.5 million EUR is an unpaid Member State's direct contribution to the *Pension Reserve Fund*. This receivable represents 67.6% of the total contribution of the Russian Federation in the amount of 33.0 million EUR, out of which 10.7 million EUR were paid on time. The assessment of the Council regarding the probability of repayment of the unpaid obligatory contribution indicates that this receivable is recoverable in the full amount.

The *employee benefits* **recognised as liabilities in the** *Statement of Financial Position* **as at 31 December 2017 exceeded the** *total assets* **of the Council of Europe by 1 940.1 million EUR**, and the *net assets* of the *Pension Reserve Fund* of the Council of Europe – by 2 433.6 million EUR. The Member States of the Organisation jointly guarantee the payment of the benefits under the *Pension Schemes*[2].

We draw the readers' attention to the fact that, in line with the current *Investment Strategy*, the *Pension Reserve Fund* should remain sustainable in the long term if the *long-term real return on the Fund's assets (EROA)* of 5% is achieved. However, in accordance with the *Third three-year review of the Pension Reserve Fund*, the long term reasonable target return is 3.4%, and the objective of sustainability can only be achieved with an increase of the Global Contribution Rate from 30,1% (current GCR) to 37.85%. Given the above, the Committee of Ministers has decided to gradually increase contributions over a four-year period. The simulations of long term consequences for PRF related to this decision have not been made yet, however, according to the decision of the Committee of Ministers, a mid-term review of the required level of funding will be presented in 2019.

The *Opinion of the External Auditor on the Consolidated Financial Statements of the Council of Europe for Financial Year 2017* is not qualified in respect of this matter.

Report

In accordance with Articles 71 and 72 of the *Financial Regulations and Supplementary Provisions of the Council of Europe*, we have also prepared a detailed audit report concerning the Consolidated Financial Statements of the Council of Europe.

Signed

[2] In accordance with article 40 paragraph 2 of Appendixes V, V bis and V ter to the *Staff Regulations*.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT

	Notes	31 December 2017 € 000	31 December 2016 *(restated)* € 000
ASSETS			
Current assets			
Cash at bank	2	38 813	*41 133*
Short-term money deposits	2	153 141	*147 958*
Inventories	3	20 670	*19 410*
Short-term debtors	4	38 922	*15 900*
Total current assets		**251 546**	***224 401***
Non-current assets			
"Eurimages" Reimbursable advances	5	159 898	*158 944*
"Eurimages" Provision for reimbursable advances	5	(159 898)	*(158 944)*
Financial investments	5	345 397	*308 888*
Long-term debtors	4	495	*591*
Property, plant and equipment	6	254 281	*258 609*
Intangible assets	7	3 945	*4 001*
Total non-current assets		**604 118**	***572 089***
TOTAL ASSETS		**855 664**	***796 490***
LIABILITIES			
Current liabilities			
Creditors	8	(48 542)	*(43 405)*
Deferred income	9	(96 640)	*(84 151)*
Employee benefits	10	(51 376)	*(47 407)*
Obligations under finance leases	17	(545)	*(637)*
Short-term loans	11	(4 086)	*(3 938)*
Total current liabilities		**(201 189)**	***(179 538)***
Non-current liabilities			
Employee benefits	10	(2 744 412)	*(2 709 655)*
Obligations under finance leases	17	(895)	*(1 216)*
Long-term loans	11	(23 899)	*(27 985)*
Total non-current liabilities		**(2 769 206)**	***(2 738 856)***
TOTAL LIABILITIES		**(2 970 395)**	***(2 918 394)***
NET LIABILITIES/EQUITY			
Working capital fund reserve	24	3 476	*3 476*
Pension Reserve Fund	24	320 420	*281 335*
Fixed assets reserve	24	261 161	*266 492*
Inventories reserve	24	19 410	*17 955*
Employee benefits reserve	24	(2 662 583)	*(2 638 842)*
Other reserves	24	23 203	*14 728*
Deficit for the period	24	(79 818)	*(67 048)*
TOTAL NET LIABILITIES		**(2 114 731)**	***(2 121 904)***

The notes on pages 19 to 66 form part of these financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR

	Notes	2017 € 000	2016 *(restated)* € 000
OPERATING REVENUE			
Obligatory contributions	12	299 304	*301 917*
Contributions to special accounts	12	48 554	*33 249*
Pension contributions	12	41 583	*39 797*
Accession contributions	12	953	*164*
EDQM receipts	12	57 809	*52 304*
Reimbursement of “Eurimages” advances on receipts	12	1 990	*2 184*
Net movement in inventories	12	1 260	*1 455*
Sundry receipts	12	3 009	*3 889*
Total operating revenue		**454 462**	***434 959***
OPERATING EXPENSES			
Purchase of goods and services	14	(55 425)	*(51 636)*
Fees and travel expenses	14	(53 750)	*(50 013)*
Staff expenses	14	(397 000)	*(373 709)*
Judges' emoluments	14	(11 137)	*(10 942)*
“Eurimages” advances on receipts and grants	14	(24 670)	*(22 521)*
Fixed assets depreciation and amortisation	14	(16 421)	*(16 242)*
Other expenses	14	(1 056)	*(34)*
Total operating expenses		**(559 459)**	***(525 097)***
Deficit from operating activities		**(104 997)**	***(90 138)***
NON-OPERATING REVENUE/(EXPENSES)			
Financial revenue	15	26 630	*33 040*
Financial expenses	15	(1 451)	*(9 950)*
Total non-operating revenue		**25 179**	***23 090***
DEFICIT FOR THE PERIOD		**(79 818)**	***(67 048)***

The notes on pages 19 to 66 form part of these financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR

	Notes	2017 € 000	2016 € 000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Obligatory contributions		278 163	*297 218*
Voluntary contributions		56 915	*58 848*
Pension contributions		39 178	*40 118*
Accession contributions		953	*164*
EDQM receipts		58 533	*52 201*
“Eurimages” reimbursement of advances on receipts		1 990	*2 184*
Sundry receipts		761	*4 417*
		436 493	***455 150***
Payments			
Staff expenses		(263 699)	*(254 863)*
Judges' emoluments		(11 137)	*(10 942)*
Suppliers		(107 509)	*(101 066)*
“Eurimages” advances on receipts and grants		(24 400)	*(22 739)*
Surpluses reimbursed to member States		(283)	*(1 312)*
Other payments		(107)	*(50)*
		(407 135)	***(390 972)***
Net cash flow from operating activities		**29 358**	***64 178***
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(10 848)	*(9 825)*
Disposal of fixed assets		10	*28*
Net cash flow from investing activities		**(10 838)**	***(9 797)***
CASH FLOW FROM FINANCING ACTIVITIES			
Financial investments		(11 785)	*(14 790)*
Repayment of borrowings		(3 938)	*(3 792)*
Repayment of finance lease obligations		(688)	*(734)*
Net interest income		754	*(774)*
Net cash flow from financing activities		**(15 657)**	***(20 090)***
Net increase in cash and cash equivalents		**2 863**	***34 291***
Cash and cash equivalents at beginning of period	2	**189 091**	***154 800***
Cash and cash equivalents at end of period	2	**191 954**	***189 091***

See Note 18 for the reconciliation between the net surplus from operating activities and the net cash flows from operating activities.
The notes on pages 19 to 66 form part of these financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CONSOLIDATED STATEMENT OF CHANGES IN NET LIABILITIES/EQUITY AS AT

		Working capital fund reserve	Deficit of the period *(restated)*	Pension Reserve Fund	Fixed assets reserve	Inventories reserve	Employee benefits reserve *(restated)*	Other reserves	Total
		€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
31 December 2015	***(restated)***	**3 476**	**(72 685)**	**249 016**	**256 141**	**17 709**	**(2 253 149)**	**6 697**	**(1 792 795)**
Allocation to the Pension Reserve Fund		-	(32 319)	32 319	-	-	-	-	-
Allocation to fixed assets reserve		-	6 988	-	(6 988)	-	-	-	-
Allocation to inventories reserve *(restated)*		-	(246)	-	-	246	-	-	-
Surpluses to be reimbursed to member States		-	(9 048)	-	-	-	-	-	(9 048)
Allocation to other reserves		-	(8 031)	-	-	-	-	8 031	-
Allocation to employee benefits reserve		-	115 341	-	-	-	(115 341)	-	-
Actuarial (losses)/gains related to employee benefits		-	-	-	-	-	(270 352)	-	(270 352)
Impact of property, plan and equipment revaluation		-	-	-	17 339	-	-	-	17 339
Deficit 2016		-	(67 048)	-	-	-	-	-	(67 048)
31 December 2016	***(restated)***	**3 476**	**(67 048)**	**281 335**	**266 492**	**17 955**	**(2 638 842)**	**14 728**	**(2 121 904)**
Allocation to the Pension Reserve Fund		-	(39 085)	39 085	-	-	-	-	-
Allocation to fixed assets reserve		-	5 331	-	(5 331)	-	-	-	-
Allocation to inventories reserve *(restated)*		-	(1 455)	-	-	1 455	-	-	-
Surpluses to be reimbursed to member States		-	(7 488)	-	-	-	-	-	(7 488)
Allocation to other reserves		-	(8 475)	-	-	-	-	8 475	-
Allocation to employee benefits reserve		-	118 220	-	-	-	(118 220)	-	-
Actuarial (losses)/gains related to employee benefits		-	-	-	-	-	94 479	-	94 479
Deficit 2017		-	(79 818)	-	-	-	-	-	(79 818)
31 December 2017		**3 476**	**(79 818)**	**320 420**	**261 161**	**19 410**	**(2 662 583)**	**23 203**	**(2 114 731)**

Explanations about the nature of the components of Net Liabilities/Equity are provided in Note 24.
The notes on pages 19 to 66 form part of these financial statements.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Pillar / Sector	Original Budget	Adjustments to the budget	Transfers	Final Budget	Actual amounts on comparable basis	Balance compared to adjusted original budget	Balance compared to final budget
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Human Rights	**(187 077)**	**(8 610)**	**724**	**(194 963)**	**(160 814)**	**(34 873)**	**(34 149)**
Protection of Human Rights	**(87 395)**	-	**318**	**(87 077)**	**(86 832)**	**(563)**	**(245)**
Ordinary Budget	(87 395)	-	318	(87 077)	(86 832)	(563)	(245)
Other Budgets	-	-	-	-	-	-	-
Promoting Human Rights	**(18 033)**	-	**299**	**(17 734)**	**(17 640)**	**(393)**	**(94)**
Ordinary Budget	(18 033)	-	299	(17 734)	(17 640)	(393)	(94)
Other Budgets	-	-	-	-	-	-	-
Ensuring Social Rights	**(81 649)**	**(8 610)**	**107**	**(90 152)**	**(56 342)**	**(33 917)**	**(33 810)**
Ordinary Budget	(5 529)	-	107	(5 422)	(5 345)	(184)	(77)
Other Budgets	(76 120)	(8 610)	-	(84 730)	(50 997)	(33 733)	(33 733)
Rule of Law	**(26 725)**	**(20)**	**(195)**	**(26 940)**	**(26 637)**	**(108)**	**(303)**
Justice	**(5 115)**	-	**358**	**(4 757)**	**(4 732)**	**(383)**	**(25)**
Ordinary Budget	(5 115)	-	358	(4 757)	(4 732)	(383)	(25)
Other Budgets	-	-	-	-	-	-	-
Common standards and policies	**(10 061)**	-	**(233)**	**(10 294)**	**(10 179)**	**118**	**(115)**
Ordinary Budget	(5 708)	-	(233)	(5 941)	(5 843)	135	(98)
Other Budgets	(4 353)	-	-	(4 353)	(4 336)	(17)	(17)
Threats to the Rule of Law	**(11 549)**	**(20)**	(320)	**(11 889)**	**(11 726)**	**157**	**(163)**
Ordinary Budget	(8 226)	-	(320)	(8 546)	(8 449)	223	(97)
Other Budgets	(3 323)	(20)	-	(3 343)	(3 277)	(66)	(66)
Democracy	**(81 638)**	**(27 506)**	**44**	**(109 100)**	**(82 759)**	**(26 385)**	**(26 341)**
Democratic governance and innovation	**(34 280)**	-	**77**	**(34 203)**	**(33 757)**	**(523)**	**(446)**
Ordinary Budget	(32 857)	-	77	(32 780)	(32 376)	(481)	(404)
Other Budgets	(1 423)	-	-	(1 423)	(1 381)	(42)	(42)
Diversity and Participation	**(47 358)**	**(27 506)**	**(33)**	**(74 897)**	**(49 002)**	**(25 862)**	**(25 895)**
Ordinary Budget	(14 518)	-	(33)	(14 551)	(14 506)	(12)	(45)
Other Budgets	(32 840)	(27 506)	-	(60 346)	(34 496)	(25 850)	(25 850)
Governing bodies, general services and other	**(114 348)**	**-**	**(573)**	**(114 921)**	**(115 469)**	**1 121**	**548**
Governing bodies and general services	**(73 434)**	-	**794**	**(72 640)**	**(72 295)**	**(1 139)**	**(345)**
Ordinary Budget	(73 434)	-	794	(72 640)	(72 295)	(1 139)	(345)
Other Budgets	-	-	-	-	-	-	-
Other expenditure	**(40 914)**	-	**(1 367)**	**(42 281)**	**(43 174)**	**2 260**	**893**
Ordinary Budget	(9 276)	-	(1 367)	(10 643)	(11 536)	2 260	893
Other Budgets	(31 638)	-	-	(31 638)	(31 638)	-	-
TOTAL EXPENDITURE	**(409 788)**	**(36 136)**	**-**	**(445 924)**	**(385 679)**	**(60 245)**	**(60 245)**

	Original Budget	Adjustments to the budget	Transfers	Final Budget	Actual amounts on comparable basis	Balance compared to adjusted original budget	Balance compared to final budget
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Obligatory contributions	**328 137**	-	-	**328 137**	**328 137**	-	-
Ordinary Budget	253 234	-	-	253 234	253 234	-	-
Other Budgets	74 903	-	-	74 903	74 903	-	-
Other receipts	**81 651**	**36 136**	-	**117 787**	**118 729**	**(942)**	**(942)**
Ordinary Budget	6 857	-	-	6 857	7 509	(652)	(652)
Other Budgets	74 794	36 136	-	110 930	111 220	(290)	(290)
TOTAL RECEIPTS	**409 788**	**36 136**	**-**	**445 924**	**446 866**	**(942)**	**(942)**

Explanations on the above table are given in Note 22.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. STATEMENT OF 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 2017 shows negative Total Net Liabilities of €2 114 731K, compared with €2 121 904K as at 31 December 2016. This situation arises from the Employee Future Benefits Obligation, amounting to €2 795 788K as at 31 December 2017 (comprising a long-term liability of €2 744 412K and a short-term liability of €51 376K), and €2 757 062K as at 31 December 2016 (comprising a long-term liability of €2 709 655K and a short-term liability of €47 407K). The financing of this obligation is provided for in Article 40 of the Pension Scheme Rules, which stipulates that the member States of the Organisation jointly guarantee the payment of the benefits and should a country, being a member or ex-member of the Organisation, fail to comply with its obligations under this article, the other countries shall meet the cost thereof in proportion to their contribution to the budget of the Organisation, as fixed annually, from and after the said country's default.

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

The Council of Europe applied IPSAS 39 for the establishment of the 2016 and 2017 financial statements, before the mandatory implementation date, which is foreseen for financial years beginning on or after 1 January 2018.

The scope of the consolidation remained stable in 2017 and 2016, encompassing the four charts of accounts that exist within the Organisation: the North-South Centre, “Eurimages”, the General Budget (Ordinary Budget, Subsidiary Budgets, the Partial Agreements, other than the North-South Centre and “Eurimages”, and the special accounts) and the Pension Reserve Fund.

The amounts presented in the financial statements are expressed in thousands of euros (€K).

REVENUE RECOGNITION

a) Obligatory contributions

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

b) Pension contributions

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

c) Accession contributions

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

d) Contributions to special accounts

Income related to voluntary contributions is recognised as “Contributions to special accounts” when the corresponding expense is incurred. The balance of unspent voluntary contributions, for which expenditure will be incurred in future periods, is deferred accordingly.

e) Financial income

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

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

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

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

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

DEBTORS

Receivables are stated at their nominal value.

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

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

EXPENSE RECOGNITION

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

CREDITORS

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

Provisions

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

LEASES

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

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

FOREIGN CURRENCY TRANSACTIONS

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

Foreign currency exchange risk

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

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

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

FINANCIAL ASSETS

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

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

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

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

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

"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.

PROPERTY, PLANT AND EQUIPMENT

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

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

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

Buildings	50 years
Hardware	3 years
Software	3 years
Furniture and fittings	5 years
Building installations	10 years
Other property, plant and equipment	3 to 10 years

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Adjustment of values

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

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

EMPLOYEE BENEFITS

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

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

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

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

BORROWINGS

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

INVENTORIES

Inventories are valued at the lower of cost or net realisable value. They are mainly composed of the reference substances of the EDQM, which are divided into three categories (finished products, work in progress and raw materials). Where such substances are prepared from purchased raw materials, the fair value is calculated on the basis of their purchase cost 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, etc.). However, in some cases these reference substances are prepared from raw materials received free of charge. The latter substances have been valued by applying a “proxy cost” based on the average purchase cost for reference substances sold at the same price by the EDQM, plus the cost of bottling and labelling and certain indirect costs.
Inventories of raw materials received free of charge are valued solely when they are, or are likely to be, consumed in the manufacture of finished products.
The value of the EDQM's final inventory of reference substances is written down when, as provided for in IPSAS 12, inventory items have been damaged or have become completely or partially obsolete, or if their selling price has declined.
The raw materials inventory is analysed to identify references potentially unsuitable for production purposes. This analysis is based on:

- the date of receipt for raw materials to be used in manufacturing replacement batches and;
- the date of release of the last production batches for residual raw materials inventories available for refilling purposes.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

No provision for depreciation is calculated when the difference between these dates and the reporting date does not exceed 24 months. A provision is calculated at a rate of 50% if the difference is between 25 and 60 months, and subsequently at 100%.
Finished products in the inventory are written down in full if sales have been suspended or they have been withdrawn from sale at the reporting date.

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

Publications are valued at cost. A generic provision for depreciation of 80% is recorded for all publications intended for sale produced more than 12 months before the reporting date, considering that their sale becomes uncertain. The EDQM, due to the nature of the publications produced, conducts a specific study by publication in order to determine the amount of the depreciation to be recorded.

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

COMPARISON WITH BUDGET AMOUNTS

The Committee of Ministers approves the Organisation's annual budget of expenditure and receipts comprising the General Budget (Ordinary Budget, Subsidiary Budgets, Extraordinary Budget, Budget of the European Youth Foundation and Pensions Reserve Fund) and the Partial Agreements' budgets. Where authorised by the resolution adopted at the time of their approval, these budgets are adjusted in the course of the financial year in line with actual receipts.
The budgetary and accounting bases differ. The Statement of Comparison of Budget and Actual Amounts compares the original budget and the final budget with actual amounts on a comparable budgetary basis. Note 22 shows the reconciliation of the actual amounts appearing in this statement and in the Cash Flow Statement. Explanations are given for differences greater than €15K representing a variance over 10% or which, without exceeding these criteria, are regarded as significant in the light of the nature of the expense or revenue concerned.

CHANGES IN RESPECT OF THE 2016 PRESENTATION

Employee benefit – Post-employment health benefits

The post-employment health benefits obligation was revised following a change in the calculation method used by the the actuary to take into account the distribution of the obligation between employees and employer. The obligation at the end of 2016 has been recalculated accordingly to reflect this change.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The following table shows the impact of these changes on the opening Statement of Financial Position and Statement of Financial Performance for 2016.

	31 December 2016 € 000	Post-employment health benefits *(Restatement)* € 000	31 December 2016 *(restated)* € 000
STATEMENT OF FINANCIAL POSITION			
LIABILITIES			
Current liabilities			
Employee benefits	(47 622)	215	(47 407)
Non-current liabilities			
Employee benefits	(2 735 006)	25 351	(2 709 655)
	(2 782 628)	**25 566**	**(2 757 062)**
NET LIABILITIES/EQUITY			
Employee benefits reserve	(2 659 222)	20 380	(2 638 842)
Deficit for the period	(72 234)	5 186	(67 048)
	(2 731 456)	**25 566**	**(2 705 890)**
STATEMENT OF FINANCIAL PERFORMANCE			
OPERATING EXPENSES			
Staff expenses	(378 895)	5 186	(373 709)
Deficit of the period	**(378 895)**	**5 186**	**(373 709)**

2. CASH AND CASH EQUIVALENTS

Cash intended to cover needs for instant access to funds is held in interest-bearing 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 deposit or in savings accounts guaranteeing the funds' availability on a fortnightly basis without penalty and according to contractual conditions. These accounts are denominated in euros, but 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' invoices. The Organisation has minimum amounts of foreign currency in such cases or holds its funds in euros wherever possible.

The current accounts yielded interest at an average rate close to 0% in 2017 and 0.01% in 2016. The average yield of the funds placed on time deposit and in savings accounts was 0.61% in 2017 and 0.66% in 2016. The rate of interest earned depends on the trend in market rates and is determined according to the amount concerned and the duration for which it is invested. These rates are fixed and do not expose the Organisation to any interest rate risk.

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

	31 December 2017 € 000	31 December 2016 € 000
Current accounts		
HSBC	14 939	*15 363*
Société Générale	23 204	*17 478*
Fortis	20	*4 020*
BPCE (Banque populaire)	19	-
DNB	-	*4 004*
External offices	631	*268*
	38 813	*41 133*
Deposits and saving accounts		
BNP Paribas	5 000	*6 541*
Barclays	20 000	-
BPCE (Banque populaire)	20 989	*33 345*
CIC (Crédit Industriel et Commercial)	8 175	-
Crédit Agricole	18 376	*21 500*
Fortis	15 992	*15 987*
HSBC	24 500	*35 500*
ING	14 964	*14 529*
Société Générale	25 145	*20 556*
	153 141	*147 958*
Total cash and cash equivalents	**191 954**	***189 091***

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 made up of purchased and donated stocks of reference substances. In the case of purchased raw materials the fair value is calculated on the basis of their purchase price plus the cost of bottling and labelling and certain indirect costs. However, certain substances are prepared using donated raw materials. The latter substances have been valued by applying a “proxy-cost” based on the average purchase price of reference substances sold at the same price by the EDQM, plus the cost of bottling and labelling and certain indirect costs.

EDQM inventories of raw materials received free of charge are valued solely when they are consumed in the manufacture of finished products or when their use in the production process is likely.

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

“Supplies and other” include publicity material, stationery and printing paper for the publications and documents in the Council's stocks. They also include packaging for EDQM samples before their cost is incorporated in the cost of products in the process of being manufactured or finished products.

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Inventories are valued at the lower of cost or net realisable value. The breakdown of inventories held by the Council of Europe as at 31 December 2017 and 2016 is as follows:

	31 December 2017 € 000	31 December 2016 € 000
EDQM - Purchased reference substances		
Finished products	2 919	*2 760*
Work in progress	708	*736*
Raw materials	1 779	*1 278*
	5 406	*4 774*
EDQM - Donated reference substances		
Finished products	8 937	*8 456*
Work in progress	2 542	*1 548*
Raw materials	2 689	*3 175*
	14 168	*13 179*
Total EDQM reference substances - gross value	19 574	*17 953*
Other		
General publications	1 962	*1 947*
EDQM publications	707	*1 070*
Publications for distribution free of charge	1 785	*1 794*
Supplies and other	1 526	*1 482*
	5 980	*6 293*
Total inventories - gross value	**25 554**	**24 246**
Provision for depreciation		
General and EDQM publications	(1 571)	*(1 536)*
Publications for distribution free of charge	(897)	*(814)*
EDQM - reference substances	(2 416)	*(2 486)*
	(4 884)	***(4 836)***
Total inventories - net value	**20 670**	***19 410***

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The overall net value of inventories increased by 6.5% compared with 2016.

The net value of the EDQM inventory of reference substances, after the provision for depreciation, continues to progress with a rise of 10.9%. As was already the case in 2016, the EDQM is continuing to establish a contingency stock to be stored at a back-up facility as part of its contingency and disaster recovery plan. This accounts for the bulk of the increase in the value of the stock of finished products (5.7%) and products in the process of production (42.3%). The significant increase in the value of products in the process of production is explained by the inclusion of several raw materials with a high value per bottle for these products, and also by an increase in the quantities produced. The value of the stock of raw materials remains stable compared to 2016.

The provision for depreciation of the EDQM's reference substances remained stable with a slight decrease in 2017, and represented 12.3% of the gross value in 2017 and 13.8% in 2016.

The overall net value of the publications inventory has decreased compared to 2016. This decrease mainly concerns the EDQM publication inventory which recorded a 34.4% decrease in its net worth. This is mainly due to a decrease in the quantities in stock at 31 December 2017 following the destruction of old publications during the year, and also by a reduction in paper copies in favour of the continuous development of online versions.

4. DEBTORS

	31 December 2017 € 000	31 December 2016 € 000
Short-term debtors		
Debts due from members and non-members of the Council of Europe (see Note 4.1)	23 135	*469*
Other short-term debtors (see Note 4.2)	17 688	*17 606*
Provision for doubtful debts (see Note 4.2)	(1 901)	*(2 175)*
	38 922	***15 900***
Long-term debtors		
Purchase of pension rights in respect of temporary service	495	*591*
	495	***591***

Short-term debtors

Amounts receivable from member and non-member States represent uncollected obligatory contributions, interest on late payment of contributions and unpaid invoices for insignificant amounts concerning services rendered by the Organisation.
The level of receivables detailed in Note 4.1 increased significantly as at 31 December 2017 compared to 31 December 2016, mainly as a result of the decision of the Russian Federation in its letter dated 3 July 2017 to suspend the payment of the balance of its contribution due for 2017.

The line “Other short-term debtors” mainly concern outstanding value added tax (VAT) reimbursements, EDQM invoices, amounts due from staff members and accrued bank interest payable solely at the maturity date of cash investments. Other short-term debtors are analysed in detail in Note 4.2.

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Long-term debtors

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

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

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

	Obligatory contributions		Late payment interest on unpaid contributions		Other		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Armenia	-	-	-	-	-	*4*	-	*4*
Azerbaijan	-	-	-	-	-	*10*	-	*10*
Cape Verde	10	-	2	*2*	-	-	12	*2*
Croatia	-	*18*	-	*2*	-	-	-	*20*
France	-	-	-	-	2	-	2	-
Greece	-	-	-	-	22	*22*	22	*22*
Italy	-	*142*	-	*4*	-	-	-	*146*
Republic of Kyrgyzstan	2	-	-	-	-	-	2	-
Morocco	-	*20*	2	*8*	-	-	2	*28*
Montenegro	27	*27*	14	*10*	-	-	41	*37*
Romania	-	*4*	-	-	-	-	-	*4*
Russian Federation	22 263	-	683	-	1	-	22 947	-
Saint-Marin	1	-	-	-			1	-
Spain	-	-	-	-	67	*62*	67	*62*
“The former Yugoslav Republic			-	-			-	-
of Macedonia”	-	-	-	*1*	-	-	-	*1*
Serbia	-	-	-	*1*	-	-	-	*1*
Turkey	-	-	-	-	3	-	3	-
Ukraine	4	*103*	26	*23*	6	*6*	36	*132*
Total	**22 307**	***314***	**727**	***51***	**101**	***104***	**23 135**	***469***

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

4.2. OTHER SHORT-TERM DEBTORS

Other short-term debtors comprise the following:

	31 December 2017 € 000	31 December 2016 € 000
Recoverable VAT	7 151	*5 292*
Insurance claims	1 099	*966*
Purchase of pension rights and other staff member's debtors	244	*258*
Advances to suppliers	402	*500*
EDQM invoices	4 739	*5 333*
Doubtful invoices	1 925	*2 198*
Prepaid expenses	356	*380*
Accrued bank interest	756	*1 805*
Other	1 016	*874*
	17 688	***17 606***

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

- The debt relating to recoverable VAT is higher at the end of 2017 compared to the end of 2016 due to a delay in the reimbursement of VAT refund claims submitted during 2017 in respect of invoices which are eligible for deduction in France.
- The “Insurance claims” line records the amounts owed by the insurance managers related to the staff medical insurance contract, as well as various insurance reimbursements expected for damage incurred in the buildings.
- The “EDQM Invoices” line shows the outstanding receivables relating to invoices issued by the EDQM as part of its activities, as at 31 December 2017 and 31 December 2016 respectively. Receivables that have been outstanding for more than twelve months are presented in the “Doubtful invoices” line. A provision for bad debts is calculated based on the likelihood of recovery of these receivables. Despite the increase in EDQM receipts in 2017, doubtful receivables continue to decline thanks to rigorous client management.
- The line "Accrued interest receivable" decreased in 2017 and is mainly due to the maturity of investments, initiated in 2014, with periodic renewal and increasing interest rates, for which interest payments were made during the year. Accrued interest receivable as at 31 December 2017 and 2016 concerns investments of the same type which will mature between 2019 and 2022. Payment of accrued interest will only occur at maturity.

The provision for doubtful debts is made up as follows:

	31 December 2016 € 000	Utilisation € 000	(Increase)/ Decrease € 000	31 December 2017 € 000
Budget of the European Pharmacopoeia (EDQM)	(2 173)	536	(263)	(1 900)
Ordinary budget	(2)	2	(1)	(1)
Total provision for doubtful debts	**(2 175)**	**538**	**(264)**	**(1 901)**

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5. FINANCIAL ASSETS

	31 December 2017 € 000	31 December 2016 € 000
Pension Reserve Fund	345 397	*308 888*
"Eurimages" reimbursable advances	159 898	*158 944*
Provision for "Eurimages" reimbursable advances	(159 898)	*(158 944)*
	345 397	***308 888***

Pension Reserve Fund

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

At the 954th meeting the Committee of Ministers adopted Resolution Res(2006)1, which revised the statute of the Pension Reserve Fund and replaced Resolution Res(2002)53.This Resolution provided for the creation of a Management Board responsible, under the Committee of Ministers' supervision, for the management of the Fund. The initial appointments to the Management Board were made by the Ministers' Deputies at their 965th meeting on 24 May 2006, and on a recommendation of the Board, the Secretary General designated the International Service for Remunerations and Pensions (ISRP) to provide the Secretariat of the Fund.
From its inception at the start of 2003 to the end of 2007 the Pension Reserve Fund was invested in short-term money market deposits. At the end of 2007, after the creation of the definitive governance and management structure provided for under Resolution Res(2006)1, all funds were transferred to a custodian bank account so that the funds would be available to implement, as from 2008, the investment policy approved by the Committee of Ministers on the recommendation of the Pension Reserve Fund Management Board.

The Board submitted 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).
The asset allocation for each phase, as defined by the Management Board and approved by the Committee of Ministers in November 2014, is as follows:

35% world equity, 15% emerging markets equity, 10% euro area equity, 24% euro area government bonds and 16% corporate bonds denominated in euros.

This new investment strategy, implemented since 29 January, 2016, aims to provide a net real return of 5% per year over the long term with an associated volatility of 8.5%.

Due to fluctuations in the financial markets, the composition of the portfolio may not at all times exactly match the strategic asset allocation defined by the Management Board. In the light of the exceptional market conditions noted at the end of 2008, the Management Board revised in 2010 and 2016 the policy to be applied for the periodic rebalancing of the Fund's portfolio and the investment of new net contributions.

The Pension Reserve Fund also includes a short-term element, allotted to pay benefits, which is to be managed separately from the long-term investments. The investment strategy is not applicable to these short-term placements, which correspond to the funds necessary to meet the payment of benefits and administration costs during the current year.

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The SRI strategy of the Pension Reserve Fund comprises a general policy for the portfolio as a whole and some specifications concerning individual asset classes. Implementation of the SRI strategy depends on the limited offer of suitable products. The general policy is based on the exclusion, as far as possible, of companies whose business involves alcohol, tobacco, weapons production and trading, pornography and gambling.

Securities are selected in general terms under a Best in Class approach, which consists of selecting the best socially responsible companies within a given sector. Social responsibility is measured in terms of relations with the environment, social policy and corporate governance. There is also an alternative socially responsible investment strategy for asset classes where the available SRI products offer does not permit application of the general strategy. This alternative strategy consists in investing solely according to traditional financial criteria, and companies in the portfolio are approached to carry out a process of dialogue and negotiation aimed at improving their corporate behaviour in terms of environmental, social and governance criteria.

Policies for individual asset classes include:

Government Bonds: investments will be made in euro-denominated bonds issued by Eurozone States members of the Council of Europe.

Equities: best in class for euro area equities and negotiation and dialogue for global and emerging markets equities.

Euro denominated corporate bonds: best in class.

Further information on the management of the Fund during the last three financial years can be found in the reports of the Management Board to the Committee of Ministers: CM(2015)4, CM(2015)91, CM(2016)8 and CM(2016)88, CM(2016)167 and CM(2017)81.

The Management Board finalised, at the end of 2017, the Third Triennial Review, as provided for in the Statute of the Fund. The President has already presented part of this study, the recommendation on the reasonable return target, to the Budget Committee and the GR-PBA on 28 September 2017 (CM (2017)91). The full report will normally be submitted to the GR-PBA on 17 April 2018.

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

	31 December 2016	Additions	Disposals/ Adjustments	Realised gains/(losses) during the reporting period	Unrealised gains/(losses) at reporting date	31 December 2017
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Gross investment						
Equity investment funds	156 122	996	-	-	-	157 118
Fixed income investment funds	103 605	11 159	-	-	-	114 764
Total gross investment	**259 727**	**12 155**	**-**	**-**	**-**	**271 882**
Adjustment to fair value						
Equity investment funds	37 802		-	-	22 863	60 665
Fixed income investment funds	11 359	-	-	-	1 491	12 850
Total adjustment to fair value	**49 161**	**-**	**-**	**-**	**24 354**	**73 515**
Net value	**308 888**	**12 155**	**-**	**-**	**24 354**	**345 397**

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Reimbursable advances "Eurimages"

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

Reimbursable advances at the 2017 year-end concern advances made to co-producers over the ten-year period from 2008 to 2017. 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 2017 and 2016 are set out below:

	31 December 2017 € 000	31 December 2016 € 000
Reimbursable advances at the beginning of the year	158 944	*156 625*
Advances on receipts paid during the year	22 841	*20 891*
Reimbursements received during the year	(1 778)	*(2 085)*
Reimbursable advances written off during the year	(20 109)	*(16 487)*
Reimbursable advances at the end of the year	**159 898**	***158 944***
Provision for irrecoverable co-production advances	**(159 898)**	***(158 944)***

6. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment and related depreciation for the year were as follows:
Additions recorded in 2017 mainly concern the renewal of IT equipment and works related to the upgrading of security infrastructures. Disposals recorded in 2017 mainly concerns assets that had become obsolete.

	31 December 2016 € 000	Additions € 000	Reevaluation adjustment € 000	Transfers € 000	Disposals € 000	31 December 2017 € 000
Cost/Valuation						
Land	64 385	39	-	-	-	64 424
Buildings	141 755	1 774	-	838	-	144 367
Buildings under construction	961	2 011	-	(838)	-	2 134
Building installations	81 817	1 452	-	843	(34)	84 078
Building installations under construction	1 097	500	-	(843)	-	754
Office and computer equipment	10 103	1 239	-	-	(492)	10 850
Furniture and fittings	3 910	160	-	-	(49)	4 021
Vehicles	858	35	-	-	(93)	800
Audiovisual equipment	7 171	758	-	-	(136)	7 793
Other property, plant and equipment	10 173	1 388	-	5	(321)	11 245
Other property, plant and equipment under construction	5	150	-	(5)	-	150
Equipment under finance leases	4 988	275	-	-	(1 538)	3 725
Total cost/valuation	**327 223**	**9 781**	**-**	**-**	**(2 663)**	**334 341**

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	31 December 2016 € 000	Depreciation during the year € 000	Value adjustment € 000	Transfers € 000	Disposals € 000	31 December 2017 € 000
Depreciation						
Buildings	-	(2 848)	-	-	-	(2 848)
Building installations	(39 566)	(7 480)	-	-	17	(47 029)
Office and computer equipment	(8 451)	(1 033)	-	-	492	(8 992)
Furniture and fittings	(3 035)	(287)	-	-	48	(3 274)
Vehicles	(570)	(108)	-	-	93	(585)
Audiovisual equipment	(5 992)	(779)	-	-	134	(6 637)
Other property, plant and equipment	(7 455)	(676)	-	-	317	(7 814)
Equipment under finance leases	(3 545)	(874)	-	-	1 538	(2 881)
Total depreciation	**(68 614)**	**(14 085)**	**-**	**-**	**2 639**	**(80 060)**
Total net book value	**258 609**					**254 281**

The net book value of property, plant and equipment amounted to €254 281K as at 31 December 2017. The gross value of totally depreciated assets amounted to €22 794K, corresponding to fixed assets categories other than land and buildings and building installations.

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

“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.

“Buildings under construction” relates to the project to construct a secondary storage site for the EDQM (€745K) and other works in progress in the different buildings at the Organisation's headquarters in Strasbourg (€1 266K). Additions on the “Land” line (€39K) correspond to the expenditure recorded in 2017 with a view to acquiring land to accommodate the future EDQM secondary site. “Building installations under construction” mainly concern the works to strengthen the building security infrastructure and the renovation of the elevators.

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

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

The Paris Office is included in the Council of Europe's Statement of Financial Position, although it is deemed to belong to those States which were members of the Council at the time of liquidation of the former Pension Fund in accordance with Resolution Res(78)71.

The net book value of the land, buildings and building installations belonging to the Council, determined following the valuation carried out by the expert as at 31 December 2016, increased by improvements capitalised since that date and decreased by cumulative depreciation, was as follows as at 31 December 2017:

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	Land € 000	Buildings € 000	Installations € 000
Palais de l'Europe	28 560	61 348	10 491
Human Rights Building	12 060	22 630	5 720
European Youth Centre	1 440	6 711	1 331
Paris Office	-	6 597	175
Agora Building	12 025	25 966	7 955
New EDQM Building	10 300	18 267	11 030
Other	39	-	347
	64 424	**141 519**	**37 049**

7. INTANGIBLE ASSETS

Changes in intangible assets and related amortisation for the year were as follows. Additions in 2017 mainly concerned developments of IT systems used by the various entities and the purchase of IT software licences. Disposals in 2017 (€350K) mainly concerned the elimination of assets relating to licenses and software systems that had become obsolete.

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

	31 December 2016 € 000	Additions € 000	Value adjustment € 000	Transfers € 000	Disposals € 000	31 December 2017 € 000
Cost/Valuation						
Software	21 936	2 145	-	241	(350)	23 972
Software under development	261	171	-	(241)	-	191
Total cost/valuation	**22 197**	**2 316**	**-**	**-**	**(350)**	**24 163**
	31 December 2016 € 000	Additions € 000	Value adjustment € 000	Transfers € 000	Disposals € 000	31 December 2017 € 000
Amortisation						
Software	(18 196)	(2 336)	-	-	314	(20 218)
		-				
Total amortisation	**(18 196)**	**(2 336)**	**-**	**-**	**314**	**(20 218)**
Total net book value	**4 001**					**3 945**

As at 31 December 2017 the net book value of intangible fixed assets amounted to €3 945K. The gross value of totally amortised items as at that date amounted to €17 347K.

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8. CREDITORS

	31 December 2017 € 000	31 December 2016 € 000
Suppliers	(20 400)	(18 473)
Creditors for "Eurimages" grants:		
- Cinemas support	(676)	(566)
- Distribution	(402)	(280)
- Promotion	(32)	-
- Gender equality	(6)	-
Employees: payable social contributions	(2 112)	(2 117)
Previous year's surplus to be deducted from following year's	(6 878)	(5 222)
Bank loan interest	(525)	(599)
Receipts paid in advance	(4 236)	(4 084)
Provision for employee leave entitlement	(11 730)	(11 558)
Provision in respect of ongoing litigation	(1 044)	-
Sundry creditors	(501)	(506)
	(48 542)	**(43 405)**

"Suppliers" include invoices received and not yet settled as at the end of 2017 and 2016.

The year-end amount of the creditors balance for "Eurimages" grants in respect of support to cinemas, distribution, promotion and gender equality action plan corresponds to commitments on contracts already signed by the Board of Management.

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

At the end of 2017 "Receipts paid in advance" includes contributions to the 2018 budgets paid in advance and member States' credit balances, amounting to €4 236K. This total mainly includes amounts paid by Estonia (€324K), Hungary (€636K), Luxembourg (€344K), Portugal (€250K) and the Slovak Republic (€1 331K) and a credit balance in favour of Italy (€463K). Amounts paid by member States at the end of 2016 for contributions to the 2017 budgets and the remaining balances in their favour amounted to €4 084K, mainly including United States of America (€146K), Russian Federation (€567K) and the Slovak Republic (€1 202K) and credits balances in favour of France (€446K), Italy (€463K) and the Netherlands (€136K). Other receipts paid in advance, primarily corresponding to advance payments by EDQM customers are also included in this line.

The construction of the new general building (Agora) and the implementation of security measures were financed by a bank loan repayable in instalments due on 1 January and 1 July each year. The loan interest payable corresponds to the interest due for the second halves of 2017 and 2016 respectively.

The budget surplus to be deducted from future contributions corresponds to amounts due to member States in respect of the allocation of the 2016 year's surplus in accordance with the resolutions adopted by the Committee of Ministers on approving the accounts.

The provision for employee leave entitlement corresponds to the value of staff's unused leave entitlement at the end of 2017 and 2016.

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The Council of Europe is currently facing a request by a software compay, Opentext, which is claiming license fees for an allegated unauthorised use of their software “Documentum” from 1 October 2015 to 31 January 2018.This claim will be challenged by the Council of Europe, and, considering the amount of money claimed and the complexity of the issues at stake, will have recourse to a law firm specialised in IT law. It was considered necessary, in accordance with the principle of prudence, to set aside a litigation provision corresponding to the expenditure incurred at the end of 2017 for this case in the event of an unfavorable decision for the Council of Europe.

“Sundry creditors” principally include unspent amounts of voluntary contributions to be reimbursed to the donors, in accordance with the final financial reports submitted to the donors. These sums; to be reimbursed, totalled €320K at the end of 2017 (€220K at the end of 2016). Sundry creditors also include employee benefits awaiting payment.

9. DEFERRED INCOME

	31 December 2017 € 000	31 December 2016 € 000
Deferred income	(96 640)	*(84 151)*
	(96 640)	***(84 151)***

Deferred income relates to funds received before the reporting date, but for which the corresponding expenditure will be incurred in future reporting periods. It mainly includes voluntary contributions received from the European Union, member States and various international organisations as well as allocations from the annual budgets to the special accounts. Special accounts are multi-annual in nature.

At the 1297th meeting on 17 October 2017, the Ministers' Deputies decided to put in place special measures following the decision of the Russian Federation at the end of June to suspend the payment of the balance of its contribution due for 2017. An amount of €3 250K taken from the annual budgets has been transferred to a special account where the appropriations will be frozen pending the settlement of the balance of the contribution of the Russian Federation (CM/Del/Dec(2017)1297/11.2).
In addition, certain expenses related to buildings and investments planned for the year 2017 within the special accounts were also deferred for a total amount of €6 949K.

These measures, which led to an increase in the funds available for expenditure in future years, were partially offset by the increase in 2017 in the level of expenditure under extrabudgetary-funded activities.

The annual adjustment (€12 489K) recognised in deferred income is detailed below :

	Balance as at 01/01/2017 € 000	Voluntary contributions received € 000	Reimbursements to donors € 000	Budgetary allocations € 000	Frozen appropriations (a) € 000	Sundry receipts (b) € 000	Expenditure € 000	Balance as at 31/12/2017 € 000
Deferred income	(84 151)	(59 420)	1 760	(30 239)	(3 250)	(5 577)	84 237	(96 640)

(a) According to the Committee of Minister’s decision CM/Del/Dec(2017)1297/11.2
(b) Other receipts include the appropriations received through to the special account “Administrative support” (€4 965K), re-invoicing of meeting room hire and other services (€292K), registration fees for conferences (€128K), amounts carried forward from previous year (€39K) and other sundry receipts (€153K).

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10. EMPLOYEE BENEFITS

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

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

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

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

b) Under the new and the third pension schemes benefits are indexed to inflation and not to the adjustment of serving staff's salaries.

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

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

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

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

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

The actuarial assumptions applied can be broken down into endogenous and exogenous assumptions. Endogenous assumptions reflect developments internal to the Organisation, both demographic and economic. They include turnover, the probability of retiring or becoming disabled, salary increases and promotions and new entrants' profiles. These actuarial assumptions are subject to regular review and have been reviewed in 2017. The actuarial model has also been reviewed in cooperation with the UK Government Actuary's Department (GAD). The gains or losses associated with these changes in the assumptions and model are recorded as actuarial gains or losses in the equity.

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

The principal external actuarial assumptions as at 31 December 2017 (expressed as weighted averages) were:

	Pension benefits	Post-employment health benefits
Discount rate	1.77%	1.95%
Inflation rate	1.88%	1.88%
Future salary increase	2.15%	-
Future benefit increase for the pension scheme	2.15%	-
Future benefit increase for the new pension scheme	1.88%	-
Future health cost increase	-	3.88%

The discount rate (nominal value of 1.77% for pensions and 1.95% for health benefits) used in the actuarial study, defined as the internal rate of return of the related commitments, corresponds to the yield curve published by the “Institut des actuaires français” as at 31 December 2017.

The inflation rate (1.88%) 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 0.27% 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 2017.

An increase or decrease of 1% in the discount rate would result in a change in the benefit obligation of approximately 23% for pension benefits and 30% for post-employment health benefits as at 31 December 2017.

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

	One percentage point increase € 000	One percentage point decrease € 000
Effect on the aggregate of the sevice cost and interest cost	6 880	(4 563)
Effect on defined benefit obligation	98 080	(69 118)

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Changes in the present value of the employee future benefits obligation are as follows in 2017 and 2016:

	31 December 2017		
	Pension benefits € 000	Post-employment health benefits € 000	Total benefits € 000
Opening employee future benefits obligation	(2 496 604)	(260 458)	(2 757 062)
Current service cost	(123 640)	(12 734)	(136 374)
Interest cost	(41 317)	(4 732)	(46 049)
Benefits paid	47 356	1 862	49 218
Actuarial gains / (losses) for the period	95 947	(1 468)	94 479
Employee future benefits obligation	**(2 518 258)**	**(277 530)**	**(2 795 788)**

	31 December 2016 *(restated)*		
	Pension benefits € 000	Post-employment health benefits € 000	Total benefits € 000
Opening employee future benefits obligation	(2 152 060)	(216 431)	(2 368 491)
Current service cost	(106 327)	(10 025)	(116 352)
Interest cost	(45 386)	(4 938)	(50 324)
Benefits paid	46 440	2 017	48 457
Actuarial gains / (losses) for the period	(239 271)	(31 081)	(270 352)
Employee future benefits obligation	**(2 496 604)**	**(260 458)**	**(2 757 062)**

The actuarial gain for the pension benefits obligation amounted to €95 947K in 2017. It can be explained in the main by the increase in the discount rate from 1.63% in 2016 to 1.77% in 2017, the freeze of salaries in 2018, the change in demographic assumptions and the adoption of a new actuarial model. This actuarial gain is in addition to the positive effect on the obligation of the benefits paid, and is offset by the increase in the obligation related to the costs of services rendered and the financial cost, resulting in a total increase of the obligation related to pension benefits of €21 654K.

With regard to post-employment health benefits, the actuarial loss of €1 468K is also mainly attributable to the adoption of the new actuarial model and in addition to the slight increase in medical inflation (3.85% in 2016 compared with 3.88% in 2017) both are partially offset by the impact of the increase in the discount rate (from 1.78% in 2016 to 1.95% in 2017). The cost of services rendered and the financial cost also have a negative impact on the obligation, which is slightly offset by the benefits paid during the year, resulting in a total increase of the obligation for post-employment health benefits of €17 072K.

The Organisation estimates contributions to the defined benefit pension schemes at €68 261K for 2018.

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The liabilities recognised in the Statement of Financial Position for the defined benefits obligation are as follows:

	31 December 2017		
	Pension benefits € 000	Post-employment health benefits € 000	Total benefits € 000
Employee benefits - current	(49 270)	(2 106)	(51 376)
Employee benefits - non-current	(2 468 988)	(275 424)	(2 744 412)
Total employee benefits	**(2 518 258)**	**(277 530)**	**(2 795 788)**

	31 December 2016 *(restated)*		
	Pension benefits € 000	Post-employment health benefits € 000	Total benefits € 000
Employee benefits - current	(45 527)	(1 880)	(47 407)
Employee benefits - non-current	(2 451 077)	(258 578)	(2 709 655)
Total employee benefits	**(2 496 604)**	**(260 458)**	**(2 757 062)**

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

	2017			2016 *(restated)*		
	Pension benefits € 000	Post-employment health benefits € 000	Total benefits € 000	Pension benefits € 000	Post-employment health benefits *(restated)* € 000	Total benefits € 000
Member States' contributions	26 191	-	26 191	25 063	-	25 063
Budgetary allocations	24 741	-	24 741	24 487	-	24 487
Contributions from staff members	15 560	-	15 560	14 547	-	14 547
Unrealised capital gains/(losses)	24 354	-	24 354	31 369	-	31 369
Realised capital gains/(losses)	-	-	-	(8 340)	-	(8 340)
Interest and other income	566	-	566	455	-	455
	91 412	**-**	**91 412**	**87 581**	**-**	**87 581**
Current service cost	(123 640)	(12 734)	(136 374)	(106 327)	(10 025)	(116 352)
Interest cost	(41 317)	(4 732)	(46 049)	(45 386)	(4 938)	(50 324)
	(164 957)	**(17 466)**	**(182 423)**	**(151 713)**	**(14 963)**	**(166 676)**

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

	31 December 2017 € 000	31 December 2016 *(restated)* € 000
Pension benefits	95 947	*(239 271)*
Post-employment health benefits	(1 468)	*(31 081)*
Total actuarial gains/(losses)	**94 479**	***(270 352)***

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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 (see note 5) for the period 2013-2017:

	2017 € 000	2016 *(restated)* € 000	2015 *(restated)* € 000	2014 € 000	2013 € 000
Employee future benefits obligation	(2 795 788)	(2 757 062)	(2 368 490)	(2 323 134)	(1 696 453)
Net assets held by the Pension Reserve Fund	362 217	320 420	281 335	249 016	217 179

11. BORROWINGS

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

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

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

	31 December 2017 € 000	31 December 2016 € 000
Short-term loan	(4 086)	(3 938)
Long-term loan	(23 899)	(27 985)
	(27 985)	***(31 923)***

12. OPERATING REVENUE

	2017 € 000	2016 € 000
Obligatory contributions	299 304	*301 917*
Contributions to special accounts	48 554	*33 249*
Pension contributions	41 583	*39 797*
Accession contributions	953	*164*
EDQM receipts	57 809	*52 304*
“Eurimages” reimbursements of advances on receipts	1 990	*2 184*
Net movement in inventories	1 260	*1 455*
Sundry receipts	3 009	*3 889*
	454 462	***434 959***

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The explanations for the main variances between 2017 and 2016 are as follows:

a) Obligatory contributions are consistent with the annual budget approved by the Committee of Ministers and depend on the budget growth allowed and on any accessions to or withdrawals from Partial Agreements. These contributions are either intended to finance the annual activities of the Organisation or allocated to Special Accounts.
At the 1297th meeting on 17 October 2017, the Ministers' Deputies decided to transfer an amount of €3 250K to a special account where the appropriations would be frozen pending the payment of the outstanding balance of the Russian Federation’s contribution (CM/Del/Dec(2017)1297/11.2). This amount has been deducted from the obligatory contributions line and transferred to the “Deferred income” line in the Statement of Financial Position at the end of 2017.

b) The Contributions to special accounts are mostly financed by voluntary contributions and allocations from the annual budgets. The main voluntary contributor to the Council of Europe is the European Union, the contributions paid amounted to €38 623K and €43 211K respectively in 2017 and 2016. Voluntary contributions paid by member States and other donors amounted to €20 903K in 2017 and €18 045K in 2016.
Voluntary contributions and allocations from the annual budgets (€30 239K in 2017 and €28 661K in 2016) credited to special accounts during the year but unspent at year-end are adjusted and recorded as “deferred income” in the Statement of Financial Position and recognised in the Statement of Financial Performance when they are spent. Budget allocations are eliminated for accounting purposes with a view to preparing the consolidated financial statements.

c) Pension contributions represent the contributions to the Pensions Reserve Fund from member States (€26 191K in 2017 and €25 064K in 2016), staff members (€15 204K in 2017 and €14 547K in 2016) and the European Audiovisual Observatory (€188K in 2017 and €186K in 2016).

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 2017 and 2016:

	2017 € 000	2016 € 000
Member States of the Council of Europe		
Armenia	-	*117*
Austria	20	-
Belgium	-	*20*
Bosnia and Herzegoniva	10	*3*
Bulgaria	-	*10*
Croatia	-	*3*
Georgia	-	*2*
Republic of Moldova	5	-
Poland	7	-
Romania	-	*8*
San Marino	1	-
	43	***163***
Non-member States of the Council of Europe		
Algeria	18	-
Costa Rica	-	*1*
Canada	757	-
Mexico	125	-
Tunisia	10	-
	910	***1***
	953	***164***

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e) EDQM receipts are those from the sale of reference substances, publications and samples, and from certification activities. The increase of €5 505K in 2017, as compared with 2016, mainly concerns a €4 580K increase in receipts from the sale of reference substances. Increases were also recorded for less significant amounts relating to biological reference preparations,certification procedures, and publications produced by the EDQM.

f) Repayments of “Eurimages” advances on receipts decreased by €194K in 2017 as compared with 2016. Reimbursements of advances on receipts are recognised in the Statement of Financial Performance as the payments are received. The annual variance in the amount of repayments received mainly depends on the films' commercial success. In 2017, four films went over the threshold of €100K of reimbursements, representing 28.5% of the total reimbursements. In 2016, five films represented 35% of the total reimbursements.
In total, 5.77% of advances on receipts for production projects paid by “Eurimages” have been reimbursed since the Fund's creation.

g) Sundry receipts include registration fees for seminars, board and lodging receipts from the European Youth Centres, receipts to be allocated to the reserve for health cover, interpretation fees, general publications receipts, withholding tax reimbursements linked to the Pension Reserve Fund, rebates received on travel expenses and other minor receipts.

13. SERVICES IN KIND

The Council of Europe receives services in kind, which help the Organisation to run its annual activities. The main services in kind, with an estimated total value of €2 548K in 2017 (€3 116K in 2016), are set out below:

a) European Youth Centre in Budapest

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

In 2017 the maintenance costs for the building are estimated at €348K. The Hungarian authorities also provide an engineer who oversees maintenance and investment works at the Centre.

b) European Centre for Modern Languages (Graz)

The Austrian authorities provide the local infrastructure in Graz necessary to run the activities connected with the European Centre for Modern Languages. The contribution in kind can be estimated at €384K. These funds are managed by the Austrian Association “Verein EFSZ”, which maintains the premises, provides assistance with day-to-day logistics and acts as intermediary between the Centre and the national, regional and local bodies.

c) North-South Centre (Lisbon)

The North-South Centre receives services in kind from various organisations that co-operate with the Centre in the organisation of activities. The amount of such contributions in kind received by the Centre is estimated at €34K. In addition, since 2012 the Centre occupies premises made available by the Portuguese Ministry of Foreign Affairs and the rental value is estimated at €183K. Total contributions in kind received by the Centre in 2017 are estimated to amount to €217K.

d) European Commission for Democracy through Law (Venice Commission)

Concerning the activities of this Enlarged Agreement, the main items of logistical expenditure (rental of interpreting booths and equipment) for the four plenary sessions held each year in Venice are borne by the Italian authorities (the Region of Veneto) and the Ministry of Foreign Affairs. For 2017 this amount can be estimated at €60K.

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e) External offices

The premises of the external offices in Geneva, Vienna, Venice, and Bucharest are provided by the local authorities. Overall, these contributions in kind can be estimated to amount to €178K for 2017.

f) Other

- The contribution in kind by the Grand Duchy of Luxembourg under the co-operation agreement concerning the European Institute of Cultural Routes is estimated at €75K, corresponding to the provision of premises and meeting rooms.
- The Turkish authorities have covered the translation of the European Court of Human Rights case law with a cost estimated at €186K.
- In addition, the Organisation also benefits from the services of staff seconded by member States, which ensure most of the financing. Seconded staff, a significant proportion of whom have been assigned to the European Court of Human Rights, are estimated to number 114 during the year.

14. OPERATING EXPENSES

	2017 € 000	2016 € 000
Purchase of goods and services	(55 425)	*(51 636)*
Fees and travel expenses	(53 750)	*(50 013)*
Staff expenses	(397 000)	*(373 709)*
Judges' emoluments	(11 137)	*(10 942)*
“Eurimages” advances on receipts and grants	(24 670)	*(22 521)*
Property, plant and equipment depreciation and amortisation	(16 421)	*(16 242)*
Other expenses	(1 056)	*(34)*
	(559 459)	***(525 097)***

“Purchases of goods and services” increased by 7.34% and included purchases of non-capitalised items of equipment, purchases of non-storable supplies and other consumables, rents, maintenance, upkeep and repair expenses and sub-contracting of services.

Fees and travel expenses increased by 7.47%, principally corresponding to an increase in fees charged to the Organisation (15.42%) whereas travel expenses remained fairly stable (+1.66%). The variance in travel expenses depends on the number of activities and the target regions chosen for their organisation and implementation.

“Eurimages” advances on receipts and grants remained stable in 2017 as compared with 2016. This item shows payments made to co-producers during the year, which increase the Fund's financial assets. In view of the uncertainty of their recovery, a doubtful debt provision is recorded for the full amount of these advances, impacting the Statement of Financial Performance. This item also includes other grants recorded in respect of the programme of activities of “Eurimages” (distribution, promotion, theatres and gender equality).

The line “Other expense” includes a litigation provision (€1 044K) for a dispute between the Council of Europe and a software company, Opentext, who are claiming a license fee for an alleged unauthorised use of its software. It was considered necessary to include a provision, the calculation of which is detailed in Note 8.

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The breakdown of staff expenses was as follows:

	2017 € 000	2016 *restated* € 000
Expenditure		
Permanent staff	(182 709)	*(176 684)*
Temporary staff	(31 403)	*(29 503)*
Post-employment employee benefits paid	(49 218)	*(48 111)*
Other	(293)	*(574)*
	(263 623)	*(254 872)*
Accruals		
Provisioned post-employment employee benefits	(133 205)	*(118 220)*
Provisioned leave entitlement	(172)	*(617)*
	(133 377)	*(118 837)*
	(397 000)	***(373 709)***

Staff expenses increased overall by 6.23% in 2017, and 3.43% excluding expenses for employee benefits. Expenses for permanent staff remained relatively stable (3.41%), while there was a more significant increase (6.44%) for temporary staff. The increase can be explained by the salary increase of 1.6% applied in 2017, which was additional to the impact of the seniority of the Organisation's staff and a slight increase in full-time equivalents during the year.

The variation in the provision related to pensions and post-employment benefits can be explained by the changes in the actuarial assumptions, the additional cost related to services rendered and the annual financial cost less benefits paid during the year. In accordance with IPSAS 39, the actuarial gains and losses 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 corresponds to the benefits paid during the financial and to the net impact of the provision for post-employment benefits, excluding actuarial gains and losses. Detailed information is presented in Note 10.

As at 31 December 2017 permanent staff numbered 2 218, compared with 2 193 as at 31 December 2016, and temporary staff respectively 525 and 546.

15. FINANCIAL REVENUE AND EXPENSES

	2017 € 000	2016 € 000
Interest on short-term deposits and savings accounts	1 135	*1 306*
Late payment interest on contributions	711	*74*
Interest on current bank accounts	-	*3*
Net foreign currency conversion gains	39	-
Unrealised gains on investments	24 354	*31 369*
Fees on portfolio	370	*238*
Other financial revenue	21	*50*
Total financial revenue	**26 630**	***33 040***

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 € 000	2016 € 000
Bank charges	(263)	*(244)*
Net foreign currency conversion losses	-	*(4)*
Realised losses on sales of investments	-	*(8 339)*
Financial charges on finance lease contracts	(99)	*(136)*
Dexia loan interest	(1 078)	*(1 227)*
Other financial charge	(11)	-
Total financial expenses	**(1 451)**	***(9 950)***

The change in financial revenue and expenses primarily reflects the performance of the Pension Reserve Fund's investments in 2017 and 2016. The items “Unrealised gains on investments”, “Fees on portfolio” and ”Realised losses on sales of investments” relate entirely to the Fund's performance.

The Pension Reserve Fund's investment transactions generated a net gain of €24 766K in 2017, compared with €23 296K in 2016.

Interest earned on short-term deposits and savings accounts remained stable against the general background of a historically low interest rate environment in the euro zone. Despite the continuing decline in interest rates in 2017, the decrease was offset by the positive trend in the return on investments in short-term step-up deposits with automatic renewal every six months, initiated at the end of 2014 and 2017.

The significant increase in “late interest on contributions” is in line with the increase in outstanding receivables for obligatory contributions at the end of 2017 (note 4.1).

16. SEGMENT INFORMATION

Segment information relating to the Statement of Financial Performance is based on the sources of financing for operating revenue and on the budgetary structure as set out in the Organisation's budgets for 2017 and 2016 for operating expenditure.

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

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

a) Segment information – Operating revenue

	2017 Operating revenue						
	Ordinary Budget € 000	Subsidiary and services budgets € 000	Partial agreements € 000	Special accounts € 000	Pension Reserve Fund € 000	IPSAS adjustments € 000	Total € 000
Obligatory contributions	253 234	8 951	40 169	-	-	(3 050)	299 304
Contributions to special accounts	-	10	323	57 660	-	(9 439)	48 554
Pensions contributions	-	-	-	-	41 583	-	41 583
Accession contributions	-	-	953	-	-	-	953
Allocation of previous year's result	-	369	47 980	39	-	(48 389)	-
EDQM receipts	-	-	57 704	104	-	-	57 809
“Eurimages” reimbursement of advances on receipts	-	-	2 325	-	-	(335)	1 990
Net movement in inventories	-	-	-	-	-	1 260	1 260
Sundry receipts	826	1 652	323	432	58	(282)	3 009
Total operating revenue	**254 060**	**10 982**	**149 778**	**58 236**	**41 641**	**(60 234)**	**454 462**

	2016 Operating revenue						
	Ordinary Budget € 000	Subsidiary and services budgets € 000	Partial agreements € 000	Special accounts € 000	Pension Reserve Fund € 000	IPSAS adjustments € 000	Total € 000
Obligatory contributions	253 158	8 951	39 968	-	-	(160)	301 917
Contributions to special accounts	-	3	837	59 195	-	(26 786)	33 249
Pensions contributions	-	-	-	-	39 797	-	39 797
Accession contributions	-	-	164	-	-	-	164
Allocation of previous year's result	-	502	41 617	56	-	(42 175)	-
EDQM receipts	-	-	52 219	85	-	-	52 304
“Eurimages” reimbursement of advances on receipts	-	-	2 184	-	-	-	2 184
Net movement in inventories	-	-	-	-	-	1 455	1 455
Sundry receipts	712	1 920	403	391	156	307	3 889
Total operating revenue	**253 870**	**11 376**	**137 392**	**59 727**	**39 953**	**(67 359)**	**434 959**

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b) Segment information – Operating expenses

	2017 Operating expenses							
	Pillar				Adjustments			
	Human Rights	Rule of law	Democracy	Governing bodies, General Services and other	Special accounts	Pension Reserve Fund	IPSAS adjustments	Total
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Purchase of goods and services	(14 379)	(685)	(7 651)	(17 682)	(25 229)	-	10 201	(55 425)
Fees and travel expenses	(8 623)	(4 793)	(8 474)	(6 623)	(25 719)	(366)	848	(53 750)
Staff expenses	(93 273)	(13 294)	(29 837)	(53 684)	(24 650)	(49 218)	(133 044)	(397 000)
Judges' emoluments	(11 137)	-	-	-	-	-	-	(11 137)
“Eurimages” advances on receipts and grants	-	-	(24 143)	-	-	-	(527)	(24 670)
Property, plant and equipment depreciation and amortisation	-	-	-	-	-	-	(16 421)	(16 421)
Other expenses	(1)	-	-	(1 055)	-	-	-	(1 056)
Total operating expenses	**(127 413)**	**(18 771)**	**(70 105)**	**(79 044)**	**(75 598)**	**(49 584)**	**(138 943)**	**(559 459)**

	2016 Operating expenses *(restated)*							
	Pillar				Adjustments			
	Human Rights	Rule of law	Democracy	Governing bodies, General Services and other	Special accounts	Pension Reserve Fund	IPSAS adjustments	Total
	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000	€ 000
Purchase of goods and services	(15 215)	(562)	(8 145)	(18 828)	(18 327)	-	9 441	(51 636)
Fees and travel expenses	(8 845)	(4 880)	(8 932)	(7 324)	(20 489)	(357)	814	(50 013)
Staff expenses	(91 059)	(12 912)	(29 221)	(54 180)	(19 659)	(48 111)	(118 567)	(373 709)
Judges' emoluments	(10 942)	-	-	-	-	-	-	(10 942)
“Eurimages” advances on receipts and grants	-	-	(1 926)	-	-	-	(20 595)	(22 521)
Property, plant and equipment depreciation and amortisation	-	-	-	-	-	-	(16 242)	(16 242)
Other expenses	(7)	-	-	(27)	-	-	-	(34)
Total operating expenses	**(126 068)**	**(18 354)**	**(48 224)**	**(80 359)**	**(58 475)**	**(48 468)**	**(145 149)**	**(525 097)**

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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

Three appeals lodged by staff members during the year 2017 were still pending as at 31 December 2017.

Administrative complaints

Two administrative complaints lodged in 2017 remained pending as at 31 December 2017, but at this stage the costs that could potentially be incurred by the Organisation are not significant.

Audit of programmes funded by the European Union

Verification procedures were carried out by independent auditors commissioned by the European Union on the use of funds allocated to the “Strengthening the Courts Management System” and “Democratic Citizenship and Human Rights Education” projects. The findings in their reports dated 7 March 2017 and 7 August 2017 establish the amount of non-eligible expenditure for the projects at €197K and €99K respectively. Concerning the first project, the auditors have also identified an amount of €22K for which a more detailed examination must be conducted by the European Union to determine the eligibility of the expenses concerned. The European Union has not yet submitted a claim for reimbursement in the light of these findings.

“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 2017 € 000	31 December 2016 € 000
“Eurimages” advances on receipts for film co-production	15 783	*16 594*

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 €24 132K in 2017 and €24 446K in 2016.

Amounts allocated but still awaiting contract signature affect the funds available for future projects.

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b) CONTINGENT ASSETS

Extrabudgetary resources

The European Union partly finances activities run by the Council of Europe. In most cases the grant to finance these activities is paid to the Council of Europe in three instalments, which correspond to 40%, 40% and 20% of the full amount.

The first instalment is payable by the European Union upon signature of the contract, and is normally paid within 45 days of signature. The second and the third instalments are payable only if the activities have been carried out and the financial report has been approved by the European Union.
When contracts are signed with the European Union, the second and the third instalments are not recognised in the financial statements, since this may result in the recognition of revenue that may never be realised.

The second and the third instalments of EU funding and of contracts signed with other donors are therefore considered as a contingent asset, which is recognised in the financial statements only when the payment is approved by the donor. The contingent asset for contracts signed with the European Union and other donors has been estimated at €51 009K as at 31 December 2017.

c) CAPITAL COMMITMENTS

Rental expenses

Rental expenses for operating leases were €2 361K for 2017 and €2 247K for 2016, including property leases of €1 553K in 2017 and €1 534K in 2016.

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

	31 December 2017 € 000	31 December 2016 € 000
No later than one year	754	*735*
Later than one year and no later than five years	300	*184*
Later than five years	-	-
	1 054	***919***

Operating lease payments represent the following:

a) rents paid by the Council in respect of external offices, “D” building and the Secretary General's official residence;
(b) rents paid by the Council for the use of computer hardware and other equipment.

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Finance leases

The annual study conducted on all lease contracts in force at the time resulted in the reclassification of certain operating lease contracts as finance leases, in accordance with IPSAS 13. These contracts are classified as finance leases on account of the substance of the transaction; in all cases these are contracts where the lease term covers the major part of the asset's economic life.
In accordance with IPSAS 13 the classification of leases as finance leases led to the recognition of property, plant and equipment for the fair value of the leased assets and of a liability corresponding to the future payments under the contracts.

The finance lease contracts principally concern long-term leases for computer hardware, printers and copiers.

The future minimum payments under the finance leases can be analysed as follows as at 31 December 2017.

	2017 € 000	2017 € 000
Year	Gross Value	Present Value
0 - 1	618	545
1 - 2	499	454
2 - 3	443	421
3 - 4	21	20
Total minimum lease payments	1 581	1 440
Less amount representing interest	141	-
Obligation under finance leases	**1 440**	**1 440**

18. NOTE TO THE CASH FLOW STATEMENT

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

	31 December 2017 € 000	31 December 2016 *(restated)* € 000
Deficit from operating activities	(104 997)	*(90 138)*
Non-cash movements		
Depreciation and amortisation	16 421	*16 242*
(Increase) in net movement in inventories	(1 260)	*(1 455)*
(Increase) in contributions receivable	(28 412)	*(7 197)*
(Increase)/Decrease in VAT receivables	(1 859)	*319*
Decrease /(Increase) in other current assets	702	*306*
Increase in employee benefits costs	133 359	*118 846*
Increase / (Decrease) in accounts payable	2 274	*369*
Increase in deferred income	12 591	*26 724*
Other	539	*162*
Net cash flow from operating activities	**29 358**	***64 178***

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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.

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Pension Reserve Fund

The Management Board examines the risk framework of the Fund, i.e. the risks the Fund is exposed to. In parallel, the Board studies both the best way to reduce the risk and, if any risk needs to be borne, how to monitor and control them. The latter implies how to get the best information about such risks and when and how to undertake the necessary corrections in case they deviate from the target (risk budget).
As regard the timing, the Management Board has two occasions to undertake the measures aimed at reducing the risk of the PRF or to keep it at a reasonable level: at the time of the design of the investment strategy or Strategic Asset Allocation (SAA) and during its quarterly meetings, where the most relevant risk measures are presented and analysed in the performance reports.

The risk allowance of the Fund is approved by the Committee of Ministers when approving the SAA. Concerning the risk framework, the PRF portfolio is exposed to a variety of financial risks, as outlined below together with the measures available to monitor and reduce them. All these risks lead to the risk of a loss or the risk of not achieving the target return needed to meet the objectives of the Council of Europe for the Fund.

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 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 to the sector it belongs.
  - 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 regulation impacting the sector it belongs or to the company itself.
  - o Economy/growth risk - risk of decrease in value of equity and bonds due to general economic conditions (economic cycle).

- ✓ Credit risk - is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. It affects bonds (mostly corporate bonds).

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Market risk is monitored through different risk measures. In the quarterly performance reports, the following measures are analysed for the PRF portfolio and for each asset class:

	1 year	3 years	5 years	Since inception
ABSOLUTE PRICE or MARKET RISK				
Annualized standard deviation of periodic returns PRF				
Annualized standard deviation of periodic returns Benchmark				
Graph with moving sliding 1-year standard deviation of PRF and of Benchmark since inception				

Relative risk: probability of deviation from the benchmark's performance – which represents the target of return - due to the portfolio's mechanical drift as asset classes have different growth patterns, to tactical decisions related to the SAA or to active management within asset classes. This risk stemming from the first two factors can be controlled with the rebalancing strategy described in the Investment Procedures and by keeping the investment portfolio close to the long-term strategic asset allocation. With regards to the latter factor, it can be limited by investing in index-linked products, by imposing certain limits of deviation to active asset managers and by following them up closely. Relative risk is monitored through different risk measures in the quarterly performance reports, for the Fund portfolio, for each asset class and for each investment/fund (if relevant):

<table>
<tr><th></th><th>1 year</th><th>3 years</th><th>5 years</th><th>Since inception</th></tr>
<tr><td colspan="5">RELATIVE RISK</td></tr>
<tr><td>Correlation (1)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Tracking error (2)</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Beta (3)</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="5">RISK-ADJUSTED RETURN</td></tr>
<tr><td>Sharpe ratio PRF (4)</td><td rowspan="4">Not Relevant</td><td></td><td></td><td></td></tr>
<tr><td>Sharpe ratio Benchmark</td><td></td><td></td><td></td></tr>
<tr><td>Information ratio (5)</td><td></td><td></td><td></td></tr>
<tr><td>Alpha (6)</td><td></td><td></td><td></td></tr>
</table>

[1] Extent to which investments vary together. Figures close to +1 indicate low relative risk.
[2] Volatility of the performance difference between an investment and its benchmark index.
[3] Measure of the Fund's volatility relative to the benchmark. Should be approximately +1 for the Fund.
[4] Excess return compared to that of the risk-free rate per unit of risk taken. Should be higher than the benchmark's.
[5] Benchmark-relative return gained for taking on benchmark-relative risk. Should be above zero.
[6] Measure of excess return relative to benchmark [after accounting for market risk]. Should be above zero when active management is involved.

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 at the time of the design of the investment strategy. In the current investment structure all asset classes are very liquid and the selected investment vehicles (mutual funds) are straight forward to redeem.

Currency risk (in Fund's cash) arises from the change in foreign exchange rates. The Fund bears currency risk as it pays some pensions in foreign currency.

Interest rate risk (in Fund's treasury, outside the investment portfolio) is the risk of getting a lower return due to unfavourable movements in interest rates. The Fund is exposed primarily to variations in interest rates on the saving accounts used to manage treasury.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The interest rate risk arising in exceptional market conditions, where banks offer negative interest rates, is actively managed by the Treasurer of the Organisation and by the Fund Administrator - the International Service for Remunerations and Pensions (ISRP) - through the Fund's Treasury Management Plan and the Investment Procedures, where treasury guidelines are set out to obtain competitive interest rates.

Credit risk (in Fund's treasury, outside the investment portfolio): 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. This risk is mainly concentrated on the operations needed to manage the treasury of the Fund. It is closely controlled by ISRP as manager of the Fund's treasury, through the Fund's Treasury Management Plan and in accordance with some risk guidelines approved by the Management Board. The nature of the Fund's portfolio investment vehicles – mutual funds – does not entail a direct credit or counterparty risk as the assets are under the ownership of the Organisation so that, by definition, the Fund's ownership of investments cannot be affected in the event of an asset manager failing to discharge their obligations.

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

Of all the risks noted above, the market risk is the most significant to the Fund, notwithstanding that some market risk is expressly allowed by the investment strategy of the Fund approved by the Committee of Ministers. Market risk is monitored through the performance reports. The interpretation of the risk measures provided by these reports and the actions taken in response are the most crucial steps for the risk management of the Fund. The operational risk and most of the credit or counterparty risk in treasury are directly managed by the ISRP that provides regular reports to the Organisation. Liquidity risk is mostly reduced by selecting appropriate asset classes and investment vehicles.

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 / TRESURY	TOTAL PRF
	Global Equity	Euro area equity	Emerging markets equiy	EMU government bonds	Euro corporate bonds		
MARKET RISK	High	High	Very high	Medium	Medium	Low	High
Interest rate risk	NS	NS	NS	Very high	High	Low (income coponent only)	Medium
Currency risk	High	NE	Very high	NE	NS	NE (in treasury) / Low (for cash managed directly by COE)	High
Credit risk	NA	NA	NA	Medium	High	Medium (direct counterparty risk)	Medium
Price risk	High	High	Very high	Medium	Medium	Very low	High
Compagny or business risk	High	High	Very high	NS	High	Very low	High
Political/regulatory risk	NS	NS	Medium	Very low	NS	NS	Low
Economy/Growth risk	High	High	High	Medium	Medium	Very low	High
RELATIVE RISK	Very low	Medium	Very low	Very low	Medium	Low	Low
LIQUIDITY RISK	Very low	Very low	Low	Very low	Very low	Very low	Very low
OPERATIONAL RISK	Very low						

NS : No Significant
NE : No Existent
NA : No Applicable

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

20. POST-BALANCE SHEET EVENTS

Since 31 December 2017, two new appeals have been lodged by staff members before the Administrative Tribunal. In addition, twenty-one administrative complaints, eighteen of which are related to the annual salary adjustment, have also been lodged. The estimated cost to the Organisation would be the retroactive application of the salary adjustment for 2018 from 1 January 2018.

New accessions

In January 2018, Turkey and Finland, and the Holy See in March 2018, joined the Enlarged Partial Agreement on Cultural Routes. In addition, the Slovak Republic acceded on 1 January 2018 to the Partial Agreement on the Co-operation Group for the prevention of, protection against, and organisation of relief in major natural and technological disasters.

EDQM secondary site

The EDQM continues the project to construct a secondary site at the “Pôle Santé-Innovation” of Mercy near Metz. The purchase of the land is scheduled for April 2018.
This construction project is part of the EDQM’s business continuity and contingency plan for the creation and storage of a contingency stock of reference standards to ensure their availability and distribution, should the EDQM building be impaired by a disaster. The construction of this site will be financed from EDQM funds at no additional cost to member States.

D Building

Negotiations with the City of Strasbourg concerning the future of the currently rented D building to envisage a possible transfer of ownership to the Organisation are continuing. The procedure of sale by the City requires specific procedures “internal to the City” which must continue during 2018.

Obligatory contributions

By a letter dated 3 July 2017, the Russian Federation informed the Chair of the Committee of Ministers of its decision to suspend payment of its contribution to the budgets of the Council of Europe for 2017. Since then no payments have been received for the outstanding balance for 2017, nor the first part of its 2018 contribution. The political process aimed at solving this situation is continuing.

Turkey’s status as a major contributor to the budgets of the Council of Europe was discontinued as from the 2018 financial year, leading to a reduction in its 2018 contributions of a total of €19.6M. The Deputies approved, at their 1312th meeting (4 April 2018), the Secretary General’s proposals for sustainable measures and adjustments to the Programme and Budget 2018-2019, as set out in document CM(2018)42.

Provision in respect of ongoing litigation

The Council of Europe is currently in the process of settling the dispute with the software company Opentext, which claimed an amount of €1 048K for license fees and maintenance costs for the alleged unauthorised use of its “Documentum” software from 1 October 2015 to 31 January 2018. A friendly settlement agreement is being negotiated between the two parties and could, if concluded, result in the payment of a lump sum which the Organisation estimates at €400K to settle this dispute.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

21. RECONCILIATION OF BUDGETARY AND NET ACCOUNTING RESULTS

The financial statements drawn up in conformity with IPSAS show the following variations compared with the results reported in the budgetary management accounts:

	2017 € 000	2016 *(restated)* € 000
Ordinary Budget	1 189	*3 060*
Subsidiary and services budgets	352	*369*
Partial agreements	59 646	*52 448*
Special accounts	96 609	*77 242*
Net budgetary result	**157 796**	***133 119***
IPSAS adjustments		
Employee benefits	(133 205)	*(118 220)*
Pension Reserve Fund investments	41 797	*39 085*
Fixed assets capitalisation, depreciation and amortisation	(4 660)	*(6 272)*
Net movement in inventories	1 260	*1 455*
Allocation of previous year's result to reserves	(125 631)	*(91 958)*
Adjustment concerning the closing of the special accounts related to the construction of new buildings	3 109	*2 994*
Adjustment concerning the closing of the special accounts related to security measures	(5 891)	-
Surplus on special accounts	(12 689)	*(26 786)*
Adjustments for “Eurimages” signed contracts	(862)	*(404)*
Provision for employee leave entitlement	(173)	*(617)*
Adjustments for finance leases	688	*734*
Adjustments for health cover	(276)	*166*
Other	(1 081)	*(344)*
Total reconciliation items	**(237 614)**	***(200 167)***
Net IPSAS result	**(79 818)**	***(67 048)***

The explanations for the above reconciliation items are as follows:

Employee benefits
Employee benefits are considered as budgetary expenditure during the year in which the benefits are paid, whereas under IPSAS the charge reflects the pension and post-employment health benefits accrued to employees during the year.

Pension Reserve Fund investments
Under IPSAS the gain or loss resulting from Pension Reserve Fund investments is recognised in the Statement of Financial Performance, but for budgetary reporting purposes it is not taken into account.

Capitalisation and depreciation of property, plant and equipment
For budgetary reporting purposes capital expenditure is recorded as current year expenditure. Under IPSAS reporting this expenditure is capitalised and recorded as an asset in the Statement of Financial Position and the related depreciation is recorded in the Statement of Financial Performance.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Net movement in inventories
For budgetary reporting purposes inventory items are considered as expenditure as they are purchased or produced, whereas under IPSAS they are capitalised and only the change in inventories is recorded in the Statement of Financial Performance.

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, when the resolution adopted by the Committee of Ministers authorises its carry forward to the reporting period, it is considered as income for that period.

Adjustment concerning the closing of the special accounts related to the construction of new buildings and security measures
Under IPSAS the obligatory contributions intended for repayment of the loan from Dexia for construction of the new buildings are recognised as revenue when they are received, whereas for budgetary reporting purposes the full amount of the loan itself is included in receipts.

Surplus on special accounts
The surplus on the special accounts is adjusted and recorded as deferred income for IPSAS reporting purposes, whereas for budgetary reporting purposes the surplus constitutes the result for the financial year.

Adjustments for finance leases
For budgetary reporting purposes rentals are considered as an expense for the period, whereas under IPSAS the expenses relating to finance leases are adjusted so as to reduce the finance lease obligation.

Adjustments for health cover
The increase in the health cover reserve is recognised as revenue under IPSAS, whereas it has no impact on the budgetary management accounts.

22. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

The Committee of Ministers approves the annual budget of expenditure and receipts of the Council of Europe comprising the General Budget (Ordinary Budget, Subsidiary Budgets, Extraordinary Budget, Budget of the European Youth Foundation and Pension Reserve Fund) and the Partial Agreement budgets. The Organisation's programme and budget is made up of pillars, sectors and programme lines, as stipulated in Article 17 of the Financial Regulations. Where authorised by the resolution adopted at the time of their approval, these budgets can be adjusted in the course of the financial year in line with actual receipts. The annual budget does not include the special accounts, which are multi-annual in nature and are primarily financed by means of voluntary contributions.

The “Transfers” column in the Statement of Comparison of Budget and Actual Amounts covers transfers of a technical nature and non-technical transfers. Transfers of a technical nature mainly concern the allocation of provisions (joint programmes, secondments and staff expenses).
Article 28 of the Financial Regulations determines the conditions for authorising non-technical transfers between programme lines of the operational pillars and between programme lines within the support pillar.

The “Budget adjustments” column shows adjustments of receipts and expenditure authorisations in relation to the original budget and in line with actual receipts.

The Statement of Comparison of Budget and Actual Amounts follows the same structure as the Programme and Budget. Receipts include member States' contributions and Other receipts. Expenditure is presented by pillar and by sector. In both cases a distinction is drawn between Ordinary Budget receipts and expenditure and receipts and expenditure under the other budgets.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Budget adjustments

The adjustments to “Other receipts”, amounting to €36 136K, mainly relate to the “Eurimages” Fund for a sum of €27 585K. The other significant adjustments concerned the European Youth Foundation (€149K), the EDQM (€8 485K), Pompidou Group (€125K) and the North-South Centre (-€237K).

The adjustment in respect of the “Eurimages” Fund concerns the allocation of the credit balance for the previous financial year (€26 123K), Canada’s, non member of the Council of Europe, accession contribution (€757K), receipts in excess of the initial budget projections for programme activities (€178K), grant cancellations (€335K) and sundry receipts (€213K), offset by a shortfall in financial revenue (€21K).
The European Youth Foundation recorded receipts in excess of the initial budget projections as regards the allocation of the 2016 credit balance (€159K), and a shortfall in voluntary contributions (-€10K).
In the case of the EDQM the adjustment corresponds to additional sales revenue (€5 102K), higher than expected voluntary contributions from the European Union (€102K), receipts in excess on the line “Allocation of the 2016 credit balance” (€3 387K), sundry receipts not foreseen in the initial budget projections (€27K) and financial revenues higher than expected (€85K). The overall adjustment was nonetheless impacted by the net doubtful debts provision net of write-offs (€218K).

The adjustments concerning receipts led to corresponding increases in the initial appropriations to the expenditure lines for the budgets concerned.

Transfers

The transfer’s column mainly includes transfers relating to savings in the personnel expenditure line, transfers of a technical nature (allocations to joint programs and allocations linked to the program ofseconded officials) and other transfers, of which the Committee of Ministers is informed when their amount exceeds €100K.

Balance compared to the adjusted original budget/final budget

The EDQM's unused expenditure appropriations at the end of 2017 amounted to €33 730K. This balance can principally be attributed to the fact that the budgeted reserve for future activities was not utilised during the year (€22 528K), to the higher than expected sales revenues (€4 884K), receipts in excess on the line “Allocation of the 2016 credit balance” (€3 387K) and a balance on staff expenditure of €1 903K.

The “Eurimages” Fund's credit balance at the end of 2017 stood at €25 624K. This balance is recurring in nature, since contracts approved by the Board of Management at the year-end are recognised as expenditure only at the time of signature the following year. The balance has been reduced to €1 492K after deduction of projects approved by the Board but awaiting signature at the financial year-end.

For the budget as a whole, the credit balance of €61 187K results from underspending of appropriations in an amount of €61 289K and surplus receipts in an amount of €102K.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

BUDGETARY SURPLUS	2017 € 000
Ordinary Budget	1 189
Subsidiary Budget for Publications	106
Budget of the European Youth Foundation	246
Partial Agreement of the European Pharmacopoeia	33 730
Partial Agreement on the Council of Europe Development Bank	85
Enlarged Partial Agreement on the Co-operation Group to combat drug abuse and illicit trafficking in drugs (Pompidou Group)	3
Partial Agreement on the Co-operation Group for the prevention of, protection against, and organisation of relief in major natural and technological disasters	33
Enlarged Agreement on the European Commission for Democracy through Law	17
Partial Agreement on Youth Mobility through the Youth Card	1
Enlarged Partial Agreement establishing the European Centre for Modern Languages (Graz)	40
Enlarged Agreement on the "Group of States against corruption - GRECO"	60
Enlarged Partial Agreement on Sport (EPAS)	6
Enlarged Partial Agreement on Cultural Routes	4
Enlarged Partial Agreement "Eurimages"	25 624
Enlarged Partial Agreement on the North-South Centre	43
TOTAL	**61 187**

More detailed explanations concerning variances between the adjusted original budget or the final budget and actual amounts, on a comparable basis, can be found in the budgetary management accounts (CM(2018)100-add).

The Statement of Financial Position, Statement of Financial Performance, Cash Flow Statement and Statement of Changes in Net Assets are presented on an accrual basis using a classification based on the nature of expenses. The Statement of Comparison of Budget and Actual Amounts is presented on a modified cash basis.

As required by IPSAS 24 a reconciliation between the actual amounts on a comparable basis as presented in the Statement of Comparison of Budget and Actual Amounts and the actual amounts in the Statement of Cash Flows is presented below.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

	Operating activities € 000	Investing activities € 000	Financing activities € 000
Actual amount on a comparable basis to the budget presentation	61 187	-	-
Basis differences	(128 438)	(10 838)	(15 657)
Timing differences	-	-	-
Entity differences	96 609	-	-
Actual amount in the cash flow statement	**29 358**	**(10 838)**	**(15 657)**

The financial statements and budget documents are prepared for the same period. There is therefore no reconciliation timing difference. There is however an entity difference: the financial statements include the special accounts, which are not taken into account in the budget schedules approved by the Committee of Ministers.
There is also a basis difference, in that the financial statements are prepared on an accrual basis and the budget on a modified cash basis.
The modified cash basis of accounting entails recognising collection orders or payment authorisations issued and commitments entered into in respect of the current financial year as receipts or expenditure of that year regardless of the resulting cash flows.

23. RELATED PARTIES

The Council of Europe is governed by a Committee of Ministers composed of representatives of all the member States. They do not receive any remuneration from the Council, but the member States should nonetheless be considered related parties. Information concerning transactions with member States is provided in Note 4.1, Note 8 and Note 12 in the budgetary management accounts (CM(2018)100-add).

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

In 1992, the Committee of Ministers, together with the European Union and the Eureka Committee, approved the creation of the European Audiovisual Observatory. This Partial Agreement does not comply with the requirements in IPSAS 6 for consolidation purposes, but is nevertheless considered a related party.
Transactions incurred with the European Audiovisual Observatory were as follows:
These transactions correspond to the contribution paid by the Audiovisual Observatory to the Pension Reserve Fund and the Ordinary Budget, as well as to services provided by the Council of Europe, mainly in respect of interpretation and the production of documents.
Transactions with the European Audiovisual Observatory are shown in the table below.

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Bank is not included in the scope of the consolidated financial statements under IPSAS 6 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 2017 € 000	31 December 2016 € 000	31 December 2017 € 000	31 December 2016 € 000
Income	320	335	486	511
Debtors	14	24	7	6
Creditors	(146)	(133)	-	-

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 on remuneration is provided under the key management remuneration section in this note.

Benefits in kind

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

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

The Secretary General benefits from an official residence in Strasbourg. The running cost of this residence was €273K in 2017 and €370K in 2016.

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 €386K in 2017 and €421K in 2016.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

	2017		2016	
	Number of key managers	Aggregated remuneration €000	Number of key managers	Aggregated remuneration €000
Secretary General	1	321	1	318
Deputy Secretary General	1	317	1	318
Secretary General of Parliamentary Assembly	1	295	1	291
Other key managers	7	1 708	7	1 863
		2 641		**2 790**

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

Under Resolution 67(6), adopted by the Committee of Ministers on 7 April 1967, “on the first day of the month following the termination of his duties, and for a period of three years, a specially appointed official shall receive a temporary monthly allowance equal to 50% of his last monthly salary”. No such payment took place in 2017 or 2016.

24. NET LIABILITIES

	31 December 2017 € 000	31 December 2016 *(restated)* € 000
Working capital fund reserve	3 476	*3 476*
Pension Reserve Fund	320 420	*281 335*
Fixed assets reserve	261 161	*266 492*
Inventories reserve	19 410	*17 955*
Employee benefits reserve	(2 662 583)	*(2 638 842)*
Other reserves	23 203	*14 728*
Deficit for the period	(79 818)	*(67 048)*
	(2 114 731)	***(2 121 904)***

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

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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017 € 000	31 December 2016 € 000
Reserve for the North-South Centre working capital fund	91	*91*
Budgetary result on the “Security Measures” special account	(6 678)	*(7 352)*
Reserve for health cover	2 806	*2 640*
Reserve for accounting adjustments	26 984	*19 349*
	23 203	***14 728***

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

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

Budgetary result on the “Security Measures” special account
The special account was set up to meet the cost of fire safety and recabling work carried out under the Organisation's investment programme. The main source of funds for this work, which is now mostly completed, was a loan obtained from Dexia. Actual budgetary receipts are recognised in pace with the reimbursement of the loan.

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

Reserve for accounting adjustments
Reserve containing the amounts resulting from the adjustment of the budgetary management and IPSAS accounts other than those mentioned above (property, plant and equipment reserve; inventories reserve; employee benefits reserve).
The main components of the reserve for accounting adjustments as at 31 December 2017 are listed below:

- Allocation of prior year's results €48 389K
- Provision for employee leave entitlement €(11 558)K
- Adjustment of “Eurimages” advances on receipts €16 594K
- Outstanding capital on the Dexia loan for the construction of the Agora building €(25 203)K

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Article 68 of the Financial Regulations provides “A surplus in the budgetary management accounts of a financial year shall be returned to the member States unless the Committee of Ministers decides otherwise. Changes in the Organisation's equity, apart from those of a technical nature resulting from the application of accounting standards defined in Article 62 or of decisions already taken by the Committee of Ministers, shall be approved by the latter.”

At their 1292nd meeting on 6 September 2017 the Deputies decided to distribute among the member States the credit balances on the budgets at the end of 2016 in an amount of €7 488K.

Other appropriations from the 2016 annual result are technical in nature or correspond to earlier decisions of the Committee of Ministers.

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Part II

Report of the External Auditor on the consolidated financial statements of the Council of Europe for the financial year 2017

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I. EXECUTIVE SUMMARY

1. As stated in the unqualified *Opinion of the External Auditor on the Consolidated Financial Statements of the Council of Europe for the Financial Year 2017*, the statements give true and fair view of the financial position, results of operations and cash flows of the Council of Europe[3] as at 31 December 2017. The *Opinion* contains *Emphasis of Matter Paragraph* referring to the pension fund and the financial emergency situation experienced by the Council in 2017.

2. This report also presents the results of three performance audits conducted by NIK in the domains of: *administrative levies on extrabudgetary resources* [page 87], *IT systems of records and documents management* [page 90] and *Programme Line: Education for Democratic Citizenship – European Centre for Modern Languages – North-South Centre* [page 96].

3. We draw the reader's attention to the following key findings and recommendations resulting from the audits presented in this *Report*:

- preparedness for financial emergency [page 86],
- need for additional information regarding financial perspectives for the CoE pension schemes and remuneration policies [page 79],
- need to improve the internal control system of the Organisation, including practices related to segregation of duties [page 103],
- expected improvements in reporting quality [page 98],
- influence of the IT Strategy on the records and documents management in the Organisation [page 94],
- further required improvements in assets management [page 106],
- possible improvements in the existing 7% administrative levies system [page 87].

[3] Also referred to as *the Council*, *the Organisation* or *CoE*.

II. LIST OF RECOMMENDATIONS

Recommendation 1. Elaboration of alternative proposals for supplementing the Pension Reserve Fund, with a view to ensuring its liquidity in case of suspension of payments by the Member States, should be considered. [page 80]

Recommendation 2. The Management Board should consider providing a simulation of long term consequences for PRF related to smoothing of the increase in the Member States' contributions over a four-year period. [page 81]

Recommendation 3. The accounting policy should include a description of the procedures applied in case the level of unpaid obligatory contributions affects the statutory and planned activities of the Council. To meet IPSAS requirements, the accounting policy should include the procedure for annual analysis of unpaid obligatory contributions to determine the probability of payment. Depending on the results of the analysis, the establishment of an adequate provision should be considered. [page 86]

Recommendation 4. In search of a financial buffer for emergency situations, increasing the Working Capital Fund could be considered. It would help to safeguard the financial liquidity of CoE's statutory activity in the first months of its operation, and to maintain its activity – without the need to reduce or abandon additional activities/programmes – until a new action plan has been established, including new sources of financing. [page 86]

Recommendation 5. The definition of indirect costs to be financed through the LS special account should be developed, to provide for a sufficient level of clarity and precision. To this end, the experience gained from the EU PAGODA could be considered. [page 88]

Recommendation 6. The entities' declarations of tasks and costs related to extrabudgetary resources should be verified with the use of independent estimates. Analyses should be repeated every several years, so as to encompass all significant changes in the entities' involvement in the support for extrabudgetary resources. [page 89]

Recommendation 7. It is advisable to simplify the management of the 7% levy distribution process by including the planning of the administrative levy appropriations in the planning process of the overall Programme and Budget by the Directorate of Programme and Budget. The change in the planning process should create a link between tasks carried out through budgetary appropriations and those carried out through extrabudgetary resources. [page 90]

Recommendation 8. The recommendation made with regard to paper documents should be applied to electronic documents as well, namely: the expertise of a qualified historian-archivist is indispensable in the archiving process. The opinion of the author entity has an advisory role, while the final decision on which documents to store permanently should be taken by a qualified expert. If permanent employment of a historian-archivist is not possible for financial reasons, a temporary solution could be to prepare clear guidelines on selection of historical documents with the assistance of such an expert. [page 92]

Recommendation 9. Methods for automatic generation of an appropriate metadata set should be applied, in accordance with the needs of the Council's records and documents management. Positive results could be obtained by applying artificial intelligence technologies, including natural language processing (NLP) tools. [page 93]

Recommendation 10. The concept of a new approach to records and documents management as the key part of the Council's IT Strategy requires support by the Organisation, provided that it will, at reasonable cost, prove its usability for key groups of users, and that it will simplify the architecture of data management. [page 94]

Recommendation 11. The implementation of the IT Strategy should be accompanied by comprehensive risk management mechanisms. Taking into account the problems with Documents Managements Systems development in the past, special attention needs to be paid to two aspects: (1) Major Administrative Entities' diverse needs, and (2) expectations of individual users. [page 94]

Recommendation 12. Despite the financial difficulties which can be encountered by the Council, the safety of the data should not be compromised in any regard. This concerns, in particular, the backup and recovery mechanisms of CoE's documents and records. [page 95]

Recommendation 13. Financial reports should be certified by the Treasurer on the basis of the Organisation's current financial position set out in the books of accounts, including regularisation. The Treasurer's signature on the financial report confirming the accounts data on the date of signature will facilitate verification and will be in full accordance with the principles reflected in the Organisation's Manuel des procédures comptables. [page 99]

Recommendation 14. We encourage the Council of Europe to unify data architecture, and to ensure that financial reports covering projects financed from the Ordinary Budget are of the same quality as those developed for the projects financed from extrabudgetary resources. [page 99]

Recommendation 15. Every purchase order (PO) created after an invoice or contract should be regarded as an exception in the CoE financial management. Therefore, this practice should be avoided, and whenever occurs, it should be substantiated and analysed. The Organisation should make every effort to reduce the share of exceptional POs. [page 100]

Recommendation 16. The staff responsible for the tender procedures should be aware of the strict nature of the provisions, whose role is to reduce the risk of corruption. Rule 1333 of 29 June 2011 regulating the procurement processes of the Council of Europe shall not be compromised. Especially the project team should not take any actions which might infringe the obligation to treat all bidders equally during the tender procedure. If such a case occurs nevertheless, cost centre managers should not accept it. [page 101]

Recommendation 17. The practice of using the templates related to public procurement should be reviewed across the Organisation. The obligation to provide all necessary information should be emphasised in consultation with both the responsible staff and the entities' management. [page 102]

Recommendation 18. A formal agreement on financial cooperation between the European Centre for Modern Languages and the Austrian Association of the European Centre for Foreign Languages is necessary to support transparency and accountability in their mutual relations. [page 102]

Recommendation 19. It is advisable that the Secretary General decides about the rules for proceeding with sub-grants in the Council of Europe. The rules could be based on the experience gained to date during cooperation with the European Union. [page 103]

Recommendation 20. Internal control over payments authorisation should be improved: payments should be approved in line with the financial delegation framework. Records of this authorisation should be retained for verification purposes. [page 104]

Recommendation 21. Proper segregation of duties should be ensured at all stages of financial procedure, including acceptance of work and request of payment. The experience in guidance and good practices should be exchanged between Major Administrative Entities to find the most effective solutions. [page 105]

Recommendation 22. Project documentation should be processed in line with the Council's archiving rules. The obligation to properly handover paper and electronic documents by project managers should be formal, and should embrace responsibility for personal data. [page 105]

Recommendation 23. Distribution of new guidelines addressed to the whole Organisation should be accompanied by effective communication and training, so as to make sure that all entities, including those located outside Strasbourg, receive them and implement them into their daily practice. [page 106]

Recommendation 24. The Council should decide, in close contact with the Austrian Verein Europäisches Fremdsprachenzentrum, who is the owner of the John Trim Collection. The archival care, valuation of the collection and its presentation in the Council's financial statements should follow accordingly. [page 107]

Recommendation 25. More strict rules are needed concerning attractive items, including portable and common use items such as, e.g. tablets, cameras, printers, laptops, smartphones, software, etc. They should be registered so as to allow for their identification. If such items are lost or stolen, persons responsible for them should be obliged to provide documented explanations. [page 107]

Recommendation 26. Regular verification of assets used by entities is a good practice, which can be applied as an example across the Council with a view to strengthening the system of assets control, especially in the offices outside Strasbourg. It cannot replace formal physical inventories by responsible Major Administrative Entities (MAE), but it can reduce frequency of such inventories and it can help to regularly update the central registers of the assets administered by MAEs. [page 108]

III. AUDIT OBSERVATIONS

Previous recommendations

4. We analysed the follow up of the recommendations from the previous report. Out of 22 recommendations, 10 were already implemented. The implementation of the 11 remaining recommendations was in progress. The implementation of one recommendation, which concerned an opinion of a qualified historian-archivist in the archiving process, was not yet started due to budgetary restrictions.

5. Together, out of 63 recommendations presented in our reports[4] and management letters issued in 2017, 43 were already implemented, while the implementation of the remaining ones was in progress.

1. Financial Statements of the Council of Europe

Overview

6. The audited consolidated financial statements were prepared as at 31 December 2017 and comprised: 855.7 million EUR of *Total assets*, 2 114.7 million EUR of *Total net liabilities*, 79.8 million EUR of *Deficit for the period*, and *Net increase in cash and cash equivalents* amounting to 2.9 million EUR.

7. The structure of assets, liabilities, revenues and expenses affecting the result was presented in the consolidated financial statements. All parts of the statements, including notes to the consolidated financial statements, the statement of accounting policies and other relevant information were covered by this audit. We would like to focus the readers' attention on the data presented below.

ASSETS

Cash and cash equivalents

8. The cash and cash equivalents were recognised as current accounts in the amount of 38.8 million EUR in 2017, which made a 2.3 million EUR decrease (5.6%) in relation to the previous year. The deposits amounted to 153.1 million EUR and they increased by 5.2 million EUR (3.5%) in comparison with the previous year. Some accounts were denominated in currencies other than EUR, which was related to the activities of some external offices.

9. The current expenses were managed in 2017 with the current bank accounts and short-term deposits that offered a high level of liquidity. The surplus funds were located as deposits and saving accounts in accordance with the Treasury Management Policy and Procedures.

[4] Excluding the Report by the External Auditor of the Council of Europe: *Budgetary Management Accounts of the Council of Europe for the Financial Year 2016*, May 2017. The follow up of the BMA-related recommendations is presented in the External Auditor of the Council of Europe: *Budgetary Management Accounts of the Council of Europe for the Financial Year 2017*, May 2018.

Property, plant and equipment

10. In 2017, the Council of Europe's property, plant and equipment amounted to 254.3 million EUR (42.1% of total assets). This group of assets was composed mainly of buildings, buildings in progress (56.5%) and lands (25.3%), comprising the Organisation's headquarters located in Strasbourg. The installations in these buildings (with installations in progress) amounted to 14.9% of the total net value of the property. The remaining fixed assets in the amount of 8 401 thousand EUR constituted 3.3% of the carrying amount of the property, plant and equipment.

11. Land, buildings and building installations were recognised at fair value, based on valuations carried out by independent experts, less depreciation on buildings and installations. All buildings were valued by an expert at the end of 2016.

Intangible assets

12. The intangible assets held by the Council of Europe as at 31 December 2017 had the carrying amount of 3.9 million EUR. This amount refers to the software only. The additions of 2017 (2.3 million EUR) mainly concerned the developments in the IT systems and the purchase of software licenses.

Obligations under finance leases

13. The obligations under finance leases as at 31 December 2017 amounted to 1.4 million EUR. This position includes outstanding liabilities resulting from finance leases. CoE's lease contracts principally concern long-term leases for computer hardware, printers and copiers.

Inventory

14. CoE's inventory comprises finished products, work in progress, raw materials, publications and other stock. The first three categories are held only by the European Directorate for the Quality of Medicines and Health Care. The total gross value of CoE's inventory as at 31 December 2017 amounted to 25.6 million EUR, including finished products (11.9 million EUR), work in progress (3.2 million EUR), raw materials (4.5 million EUR), publications (4.5 million EUR) and other inventory (1.5 million EUR). The net overall value of the inventory, as at 31 December 2017, stood at 20.7 million EUR (an increase of 6.1% in comparison with 2016).

Debtors

Short-term debtors

15. Short-term debtors presented on 31 December 2017 represent the amount of 38.9 million EUR, which makes a significant increase in relation to the previous year by 23 million EUR (144.79%). This value consists of three main titles:

1) Debts due from members and non-members of the Council of Europe: 23.1 million EUR – an increase by as much as 22.7 million EUR (4 833%) in relation to the previous year; this is due to the unsettled payment from the Russian Federation, which in the obligatory contributions and others is stated in the amount of 22.9 million EUR – 99.2% of all debts from this title, and 99.7% of the total increase in short-term debts;
2) Other short-term debtors: 17.7 million EUR – an insignificant increase of 0.5%;
3) Provision for doubtful debts: -0.3 million EUR – a decrease of 12.6%.

Long-term debtors

16. Long-term debtors include receivables due after more than one year from the permanent staff who opted to purchase pension rights for the periods in which they were employed under temporary contracts, in the amount of 0.5 million EUR; it decreased by 0.1 million EUR – 16% in relation to the previous year.

LIABILITIES

Creditors

17. Creditors presented on 31 December 2017 represent the amount of 48.5 million EUR – it increased, in relation to the previous year, by 5.1 million EUR (11.8%). The value mainly comprises:

1) Suppliers – 20.4 million EUR, which is 42.0% of all Creditors titles;
2) Provision for employee leave entitlement – 11.7 million EUR (24.2%);
3) Previous year's surplus to be deducted from the next year's contributions – 6.9 million EUR (14.2%).

Financial Investments

18. The investments of the Pension Reserve Fund comprised financial assets, and the total value of the financial non-current assets as at 31 December 2017 amounted to 345.4 million EUR, compared with 308.9 million EUR as at 31 December 2016.

19. The financial investments at the end of the years 2014 – 2017 developed as follows:

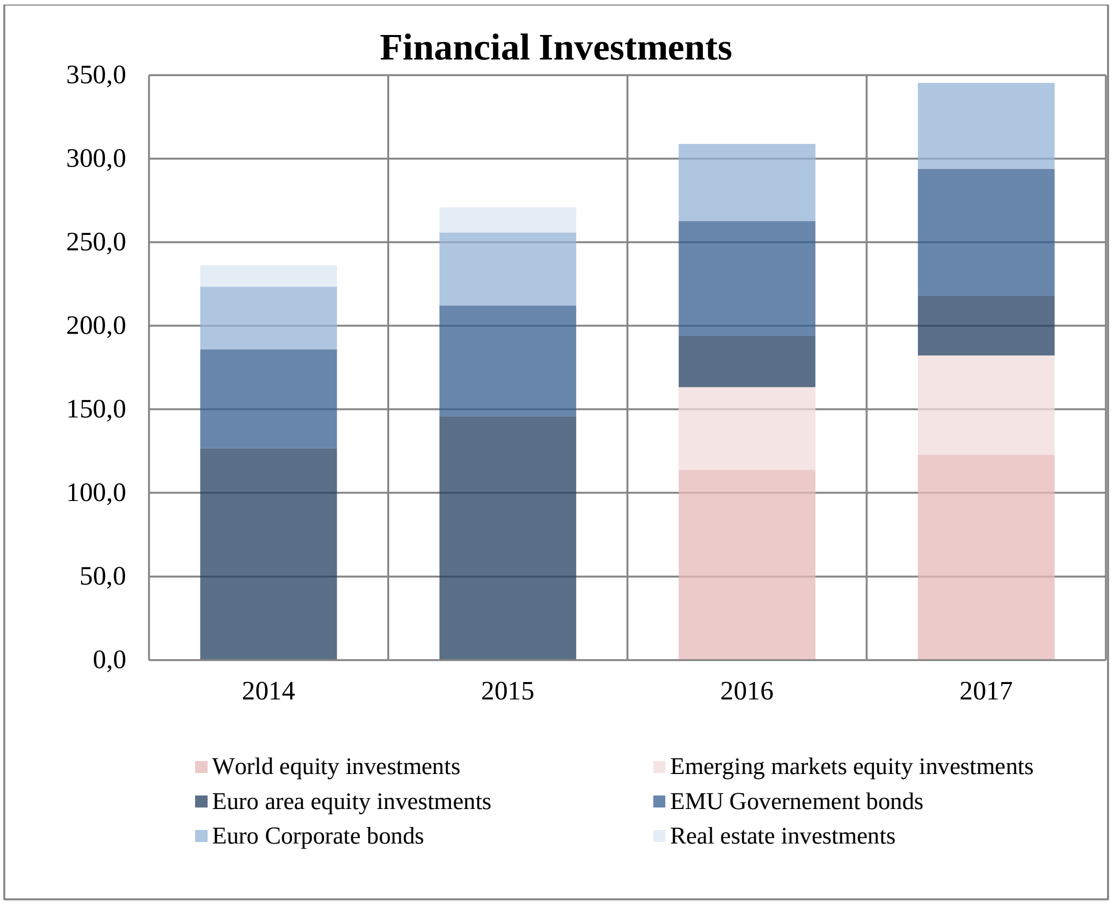

Figure 1. Financial investments at the end of the years 2014-2017 (in million EUR)

20. The allocation of the financial investments as at 31 December 2017 was as follows:
1) Equity investment funds – 63.1%, including:
   a) World equity – 35.5%,
   b) Emerging markets equity – 17.3%,
   c) Euro area equity – 10.3%,
2) Fixed income investment funds – 36.9%, including:
   a) *European Monetary Union (EMU)* Government bonds – 22.0%,
   b) Euro Corporate bonds – 14.9%.

21. The composition of the portfolio was matched to the strategic asset allocation defined by the CoE Management Board in the current investment strategy, and it was approved by the Committee of Ministers.

22. Under the current investment strategy launched by the Management Board on 29 January 2016, the strategic asset allocation was set as follows:

Asset class	*Strategic Weight rebalancing limits*
World equity	35% +/- 5%
Emerging Markets equity	15% +/- 3%
Euro area equity	10% +/- 2%
Total equity	**60% +/- 5%**
EMU Government bonds	24% +/- 5%
Euro Corporate bonds	16% +/- 3%
Total bonds	**40% +/- 5%**
TOTAL	**100%**

23. The value of financial assets in the *Statement of Financial Position* was confirmed by the custodian bank. The investments of the *Pension Reserve Fund* listed above were classified as financial assets at fair value through surplus or deficit, and subsequently measured at fair value. Changes (gains or losses) in these assets' value were properly recognised (in surplus or deficit) in the *Statement of Financial Performance*.

Deferred income

24. The *deferred income* amounted to 96.6 million EUR, i.e. 48% of the *Total current liabilities*. This means an increase of 12.5 million EUR in comparison with the previous year. It includes voluntary contributions from the European Union, various international organisations and the Member States. They are recorded on the special accounts and concern the activity not realised on the closing date. If credits allocated to the special accounts are not spent at the end of the reporting period, they are recorded as *deferred income*.

Employee benefits

25. The *employee benefits* represent the estimated actuarial liability in respect of the defined benefit pension schemes, including post-employment health cover.

26. The *employee benefits* are disclosed in the *Consolidated Financial Statements* of the Council of Europe for the year ended on 31 December 2017 under both *non-current liabilities* and *current liabilities* in the total amount of 2 795.8 million EUR, showing an increase of 1.4% compared with their value as at 31 December 2016 (2 757.1 million EUR)[5]. The *employee benefits* recognised as liabilities in the *Statement of Financial Position* as at 31 December 2017 exceeded the total assets of the Council of Europe by 1 940.1 million EUR, and the net assets of the *Pension Reserve Fund* of the Council of Europe – by 2 433.6 million EUR. In accordance with article 40, paragraph 2 of Appendixes V, V bis and V ter to the *Staff Regulations*, the Member States jointly guarantee the payment of the benefits.

[5] In the *Statement of Financial Position* for the year 2017, the *employee benefits* as at 31 December 2016 were restated (described later in this report).

27. The pension benefits and the post-employment health benefits (including actuarial gains and losses) at the end of the consecutive years between 2012 and 2017 developed as follows:

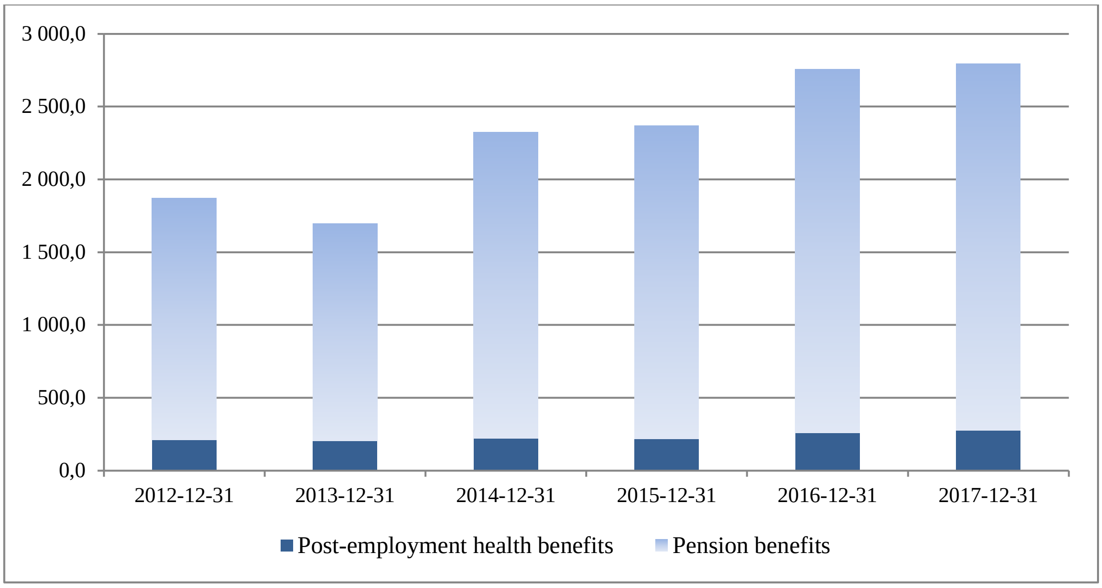

Figure 2. Employee future benefits obligation at the end of the consecutive years between 2012 and 2017 (in million EUR)

28. The estimation of the *employee benefits* was prepared by the International Service for Remunerations and Pensions (ISRP), in the report *2017 Year End Accounting of the Pension and Medical Coverage Obligations*.

29. The employee future benefits obligation as at 31 December 2017 was calculated by ISRP using an updated actuarial model – *Projection of Pension and Staff Costs* (the *ProPeSC* model).

30. The new actuarial model was reviewed, at the request of ISRP, by the Government Actuary's Department (GAD)[6]. The GAD's review of the *ProPeSC* concluded that this model appeared to provide a reasonable way to assess the value of the liabilities within the Co-ordinated Organisation's schemes[7].

31. ISRP in the report entitled *2016 Year-end accounting reconciliation with ProPeSC* undertook a detailed exercise to review and reconcile the 2016 data that were provided to CoE last year[8]. The objective of this report was to provide an analysis of the differences between the data on the *employee benefits* as at 31 December 2016, provided by ISRP, and the data calculated using the *ProPeSC* model.

[6] Actuaries and advisers for the public sector in the United Kingdom.
[7] Assurance review of the International Service for Remunerations and Pensions ProPeSC model, Government Actuary's Department, 25 October 2017.
[8] SIRP/E(2018)9, Paris, 30 January 2018.

32. To measure the liability of the Council of Europe in respect of its pension obligations, the actuarial study was carried out on a yearly basis using the Projected Unit Credit Method, as required by *IPSAS 39*.

33. *IPSAS 39 Employee Benefits* was published on 28 July 2016 and replaced *IPSAS 25* on 1 January 2018. One of the main differences between *IPSAS 39* and *IPSAS 25* is the removal of the option that allowed an entity to defer the recognition of changes in the net defined benefit liability (the “corridor approach”).

34. Although the new requirements included in *IPSAS 39* have been in force since 1 January 2018, the International Public Sector Accounting Standard Board (IPSASB) encouraged their earlier implementation. The Council of Europe decided to apply *IPSAS 39* in the *Financial Statements* for the year ended 31 December 2016.

35. According to *IPSAS 39* the actuarial gains and losses are recognised in the net equity in the period in which they occur. The *employee benefits* disclosed in the *Statement of Financial Position* as at 31 December 2017 include the actuarial gain incurred in the year 2017 in the total amount of 94.5 million EUR.

36. The employee future benefits obligation (in million EUR), valued by ISRP in the actuarial reports prepared for the years 2012 – 2017, was as follows:

	2012	2013	2014	2015	2016	2017
Employee future benefits obligation (total amount), including:	1 870.0	1 696.5	2 323.1	2 368.5	2 757.1	2 795.8
Actuarial losses (gains) for the period	205.9	-285.8	526.9	-62.9	270.4	-94.5

Table 1. Employee future benefits obligation (EFBO) at the end of the consecutive years between 2012 and 2017, including actuarial losses or gains (in million EUR)

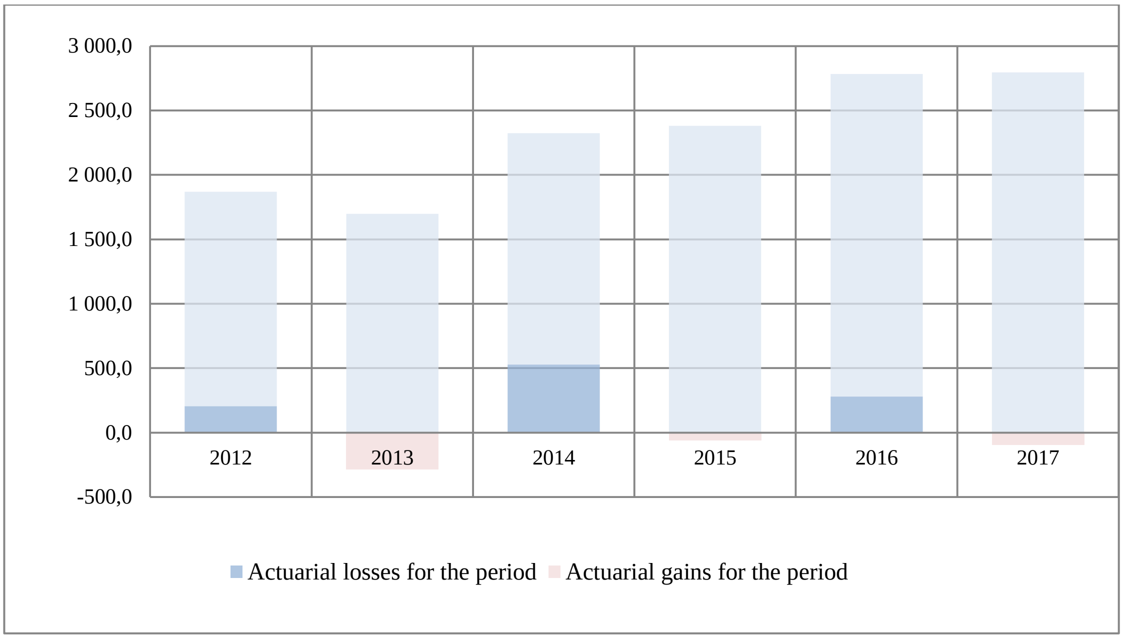

Figure 3. Actuarial gains and losses in 2012-2017

37. In the *Statement of Financial Position* for the year 2017, due to revision of the post-employment health benefits obligation (following a change in the calculation method used by the actuary), the *employee benefits* as at 31 December 2016 were restated and disclosed in the amount of 2 757.1 million EUR. Whereas in the *Statement of Financial Position* for the year 2016, the employee benefits as at 31 December 2016 were disclosed in the amount of 2 782.6 million EUR.

Loans

38. The only loan being repaid in 2017 was the Dexia loan, contracted mainly to finance the construction of the Agora CoE Building and the implementation of new security measures. The audit procedures proved that the loan liability (in the total amount of 28 million EUR) was correctly recorded and presented as short- and long-term in accordance with the repayment schedule. The short-term liability (4.1 million EUR) was recognised for those capital repayments that fall due less than 12 months from the end of the reporting period, and a long-term liability (23.9 million EUR) for those capital repayments that fall due more than 12 months beyond the end of the period. The interests cost amounted to 1.1 million EUR and was recorded as financial expense on an accrual basis.

NET LIABILITIES/EQUITIES

Working capital fund

39. The *working capital fund (WCF)* is at the disposal of the Council to ensure the availability of the funds necessary for its operations. The fund increases when there are accessions of new Member States during the reporting periods. As at 31 December 2017, WCF stood at 3.5 million EUR, and this amount has not changed since 31 December 2016.

Pension Reserve Fund

40. The *Pension Reserve Fund (PRF)* was set up on 1 January 2003 according to *Resolution (2002)53*. The main purpose of this Fund is to stabilise the Member States' contributions in the medium and long term, in order to meet their obligations under the pension schemes of the Council of Europe.

41. The net increase in reserve in the *Statement of Financial Performance of PRF* for the year 2017 amounted to 41.8 million EUR and included, in particular, the direct contributions paid by the Member States (26.2 million EUR), the contributions of the Ordinary Budget, Service and Subsidiary Budgets (19.5 million EUR), the contributions on Partial Agreements and special accounts (5.2 million EUR), the contributions paid by staff members (14.5 million EUR) and the net unrealised gains on investments of the Fund assets (24.4 million EUR), less expenses for the payment of pensions (47.1 million EUR) and leaving allowances (2.1 million EUR).

42. As at 31 December 2017, the PRF total assets amounted to 362.2 million EUR. This amount increased by 13.0% as compared to the value as at 31 December 2016 (320.4 million EUR).

43. The PRF accounts are consolidated with the accounts of the Council of Europe based on the *Financial Statements of PRF* as at 31 December 2017 prepared by the International Service for Remunerations and Pensions (ISRP), the Organisation’s actuary.

Member States’ contributions

44. According to the statutes of the *Fund*, the Member States’ contributions are based on the results of actuarial studies carried out every four years. The actuarial study conducted in April 2013 serves as the basis for calculating contributions for the years 2014 to 2017. In line with the actuarial assumptions, the contribution rate of the Member States was calculated as 30.1% of total staff expenses.

45. In accordance with *Resolution CM/Res(2016)25*, the Member States' contributions for the year 2017, paid directly to the *Pension Reserve Fund*, amounted to 26.2 million EUR. This amount was split among the Member States based on *Resolution* CM/Res(2016)24 *on the adjustment of the scale of contributions to the Pension Reserve Fund with effect from 1 January 2017*, adopted by the Committee of Ministers on 26 October 2016.

46. As at 31 December 2017, 90.3% of Member States' direct contributions to the Fund were paid. Only the Russian Federation did not pay its contribution in the amount of 2.5 million EUR.

Recommendation 1. Elaboration of alternative proposals for supplementing the *Pension Reserve Fund*, with a view to ensuring its liquidity in case of suspension of payments by the Member States, should be considered.

Member States’ contributions in the 2018-2021 period

47. In 2017 ISRP carried out the *actuarial study*[9] serving as the basis for calculating Member States' contributions for the period from 2018 to 2021.

48. The *Global Contribution Rate (GCR)* that the Member States have to pay to balance the expenditures in pensions in the long term, assessed as a percentage of the projected CoE's salary mass, was calculated in the above study with a different *Expected Return on Assets (EROA)*[10]: the previous actuary study anticipated *EROA* of 5%, whereas various *EROAs* between the rate of 5% and 3.1% were analysed in the new report.

49. According to the new study, for *EROA* of 3.4% (presented as a reasonable target return) the *GCR* required from the Member States should increase from 30.1%[11] to 37.85%, and the total contributions required should be[12]: 58.3 million EUR in 2018 and 58.6 million EUR in 2019 (compared to 50.8 million EUR in 2017).

[9] CM(2017)48-add.
[10] EROA indicates the return that PRF is expected to receive from various investments in which the assets are allocated.
[11] The GCR in 2017, based on the EROA of 5%.
[12] Before salary adjustments.

50. Taking the results of the *actuarial study* into account, the Management Board in the *Third Three-Year Review*[13] provided a recommendation on the reasonable target return of 3.4% to be achieved by the investments of *PRF*.

51. In their study, the Management Board noted that with this target return and without any substantial upward revision of *GCR*, the overall value of *PRF* would be depleted by 2048, and they concluded that, in order to keep the objective of sustainability of *PRF, GCR* needs to increase from 30.1% to 37.85%.

52. However, the Budget Committee considered in their report[14] that it would be possible to smooth the increase in the Member States' contributions over a number of years to alleviate the burden for the Member States.

53. The following three options for increasing the level of the Member States' contributions were considered by GR-PBA[15]:
- to adjust the total Member States' contributions to *PRF* in line with the results of the *actuarial study* (Option 1),
- to smooth the adjustment over the biennium (Option 2),
- to smooth the increase in the Member States' contributions over two biennia (Option 3)[16].

54. In line with the third option, the Member States' total contributions to *PRF* would increase by 2.2 million each year. This gradual increase would be continued over a four-year period to bring the total level to 59.6 million EUR in 2021.

55. In the opinion of GR-PBA, if the third option is chosen, *PRF* will receive lower amounts to invest, and consequently a lower investment income over the life of the Fund should be expected. By smoothing the increase in the Member States' contributions over four years, approximately 12 million EUR less in funds would be available for investments.

56. The three options were discussed with ISRP, however this analysis has not been described in a separate document. The study on the evolution of *PRF*, relating to its sustainability for *EROA* of 3.4% and the third option, has not been performed.

Recommendation 2. The Management Board should consider providing a simulation of long term consequences for *PRF* related to smoothing of the increase in the Member States' contributions over a four-year period.

57. The Committee of Ministers[17] agreed to smooth the increase in the Member States' total contributions over a four-year period and stressed the importance of having a holistic review of the coordinated pension scheme, including the possibility of increasing the employees' share of the cost and raising the pensionable age.

58. The Deputies also agreed that an *actuarial study* would be presented at the end of the third quarter of 2019, so as to indicate the level of contributions needed, in the light of the market conditions and the Fund's performance, as well as any changes in the pension parameters.

[13] CM(2017)91.
[14] CM(2017)119.
[15] Rapporteur Group on Programme, Budget and Administration.
[16] CM(2017)130-corr.
[17] CM/Del/dec(2017)1300/11/1-Part3.

Deficit

59. The deficit for the reported period, i.e. the financial year 2017, amounts to 79 818 thousand EUR, which is 12.8 million EUR more than in the previous year. We observe an increase in the total operating revenue amounting to 19.5 million EUR in 2017 – an increase in the contribution to special accounts, as well as in the receipts of the European Directorate for the Quality of Medicines and Health Care (EDQM). The increase in operating expenses amounts to 34.4 million EUR – mainly an increase of 23.3 million EUR in staff expenses, including the provisioned post-employment benefits of 15.0 million EUR and purchase of goods and services, while the deficit from operating activities stands at 105.0 million EUR. The total non-operating profit amounts to 25.2 million EUR (an increase of 2.1 million EUR). It is important to analyse the deficit for the period with regard to the cash flow statement that presents a 2.9 million EUR net increase in cash and cash equivalents (the increase in the previous year amounted to 34.3 million EUR as compared to 2015). This is the effect of the increase in the unpaid obligatory contributions.

60. The data concerning the year 2016 were restated in the *Statement of Financial Performance for the year 2017*. Therefore the deficit for the year 2016 was disclosed in the amount of 67.0 million EUR, while the deficit included in the *Statement of Financial Performance for the year 2016* amounted to 72.2 million EUR.

61. The above difference resulted from the recalculation of the post-employment health benefits obligation as at 31 December 2016 due to a change in the calculation method used by the actuary.

FINANCIAL PERFORMANCE

Operating revenue

Contributions

62. The *operating revenue* consisted mainly of *obligatory contributions* from the Member States to the general budget and the pension budget (75.0%), and was at the same level as in the previous year (78.6%). *Contribution to special accounts* constituted almost 10.7% of the revenue, the EDQM receipts – 12.7%, and other sundry receipts – the remaining less than 2% (1.6%).

63. *Obligatory contributions* are spent on annual ordinary activities of the Council of Europe and in the part allocated to special accounts they totalled 299.3 million EUR in 2017, and 301.9 million EUR in 2016. The audit procedures regarding obligatory contributions confirmed that their recognition was made on an accrual basis, in consistency with the annual budget approved by the Committee of Ministers. Unpaid obligatory contributions amounted to 22.3 million EUR, and included mainly the contributions from the Russian Federation (99.8%).

64. The *contribution for special account* amounting to 48.6 million EUR is an income financed by *voluntary contributions* and it is recognised when the corresponding expenses are incurred.

65. *Voluntary contributions* are an additional source of funding of the Organisation's activities. In 2017 they amounted to 59.5 million EUR (in 2016 they amounted to 61.2 million EUR), and mainly consisted of:
- the European Union contributions – 38.6 million EUR (43.2 million EUR in 2016),
- the contributions paid by the Member States and other donors – 20.9 million EUR (18.0 million EUR in 2016).

The voluntary contributions credited to special accounts during the year but unspent at the year-end were adjusted by a transfer to the *deferred income*.

EDQM receipts, Eurimages reimbursement and sundry receipts

66. Other titles in the *Operating revenue* include the EDQM receipts in the amount of 57.8 million EUR and they increased by 10.5% as compared to the previous year (EDQM receipts principally reflected the sale of reference substances, certification procedures and the sale of publications), reimbursement of "Eurimages" advances on receipts received in the amount of 2.0 million EUR, net movement in inventories of 1.3 million EUR, and sundry receipts amounting to 3.0 million EUR. The main items – the EDQM receipts and sundry receipts – were both recognised on an accrual basis in accordance with the *Financial Regulations*.

Operating expenses

67. The operating expenses were presented by classes of expenditure in the *Statement of Financial Performance*. For the year 2017 they amounted to 559.4 million EUR (an increase of 6.54% as compared with 2016). This amount was composed mainly of staff expenses (72.95%, including *judges' emoluments*). Other significant expenditures reflected *purchase of goods and services* (9.91%), as well as fees and travel expenses (9.61%). Attention should be paid to a significant growth in *other expenses* which rose from 34 thousand EUR in 2016 to 1.06 million EUR in 2017. The explanation was that this line of expenditure includes a *litigation provision* (1.04 million EUR) for a dispute between CoE and a software company (Opentext) that is claiming a licence fee for an alleged unauthorised use of its software. In accordance with the Financial Regulations, operating expenses were recognised on an accrual basis.

Staff expenses

68. The Organisation's total staff expenses, as revealed in the CoE *Consolidated Financial Statements*, raised overall by 6.23% in 2017 (excluding expenses for employee benefits – by 3.43%). Expenses for permanent staff remained relatively stable (3.41 %), while a more significant growth was observed for temporary staff (6.44 %). The increase was explained with the salary raise by 1.6% applied in 2017, which coincided with the impact of the seniority of the Organisation's staff and a slight increase in full-time equivalents during the year.

69. The total number of CoE's permanent staff as at 31 December 2017 amounted to 2 218 employees and it slightly raised in comparison with the previous year (2 193 as at 31 December 2016, i.e. by 1.01%). In the same period, the number of CoE's temporary staff decreased to 525 in 2017, as compared with 546 in 2016 (i.e. by 0.96%).

Financial revenues and expenses

70. The financial income in 2017 amounted to 26.6 million EUR and was primarily related to financial investments belonging to the *Pension Reserve Fund*. It included mainly unrealised gains on financial investments (91% of the financial income). The remaining 9% of the financial revenue regarded interests on short-term deposits and savings accounts, other interests and fees on portfolio.

71. The financial expenses amounted to 1.4 million EUR and were related mainly to loan interests (74%) and bank charges (18%). The remaining 8% of financial expenses reflected financial charges on finance lease contracts and other financial charges.

72. The surplus from financial activity amounted to 25.2 million EUR. The External Auditor paid attention to the fact that the valuation of financial investments (unrealised gains), which did not generate any inflow of cash to the Organisation, reflected 97% of the above surplus.

OTHER SIGNIFICANT INFORMATION

Post-balance sheet events

73. Since the beginning of the financial year 2018, the budget of the Council of Europe will be reduced by 19.6 million EUR due to Turkey's resignation from the status of a major contributor (which is 6.5% of the obligatory contribution in 2017). The Secretary General's proposals for sustainable measures and adjustments to the *Programme and Budget 2018-2019* were approved by the Ministers' Deputies at the 1312nd meeting on 4 April 2018[18].

Financial statements of Eurimages

Reimbursable advances

74. The financial statements of the *Partial Agreement of the European Support Fund for the co-production and distribution of creative cinematographic and audio-visual works "Eurimages"*, which are subject of a separate document, are also consolidated in these financial statements.

75. Reimbursable advances were related to the financial support provided to film producers, which is the core activity of *Eurimages*. They amounted to 159.9 million EUR and the provision for irrecoverable co-production stood at the same amount. The net value of reimbursable advances vs connected provisions totals 0 in the *Consolidated Statement of Financial Position* in 2017, as well as in the previous years.

Provision

76. We conclude as follows:
- All paid advances were recognised as debts and provisioned for their full amounts.
- Reimbursable advances as at 31 December 2017 included advances granted for the ten-year period from 2008 to 2017. During the year 2017, 22.8 million EUR were paid as advances (20.9 million EUR in 2016).
- Advances older than ten years were written off in compliance with the accounting policy; in 2017 they amounted to 20.1 million EUR, and in 2016 – to 16.5 million EUR.

[18] CM(2018)42.

77. The amount of the *Reimbursements received during the year*[19] totalled 1.8 million EUR and decreased by 14.7% in comparison with the previous year. The reimbursements received in 2017 amounted to 11.1% of the reimbursement advances at the end of the year (159.9 million EUR) made to co-producers over the ten-year period (2008-2017).

Financial statements of the North-South Centre

78. The financial statements of the *European Centre for Global Interdependence and Solidarity (North-South Centre, NCS)*, which are the subject of a separate document, are also consolidated in these financial statements.

79. The audited period is characterised by a decrease in the Statement of Financial Position total assets, which amounted to 479 thousand EUR in 2017 and 670 thousand EUR in 2016 (a decrease of 28.5%). The decrease in total assets resulted from the decrease in the cash at bank position.

80. The main position of assets (84.8%) is cash at bank (406 thousand EUR), comprised of current accounts (24.4%) and short-term money market deposits (75.6%). The remaining position of assets are debtors (12.7% of the assets value), which increased by 221% from 19 thousand EUR in 2016 to 61 thousand EUR in 2017.

81. The total amount of liabilities decreased from 548 thousand EUR in 2016 to 341 thousand EUR in 2017. Liabilities consist of two positions: creditors and deferred income. Creditors constitute 21.7% of the liabilities value (74 thousand EUR). This position decreased by 45.2% (61 thousand EUR), which was caused mainly by a decrease of the suppliers position (from 80 thousand EUR in 2016 to 40 thousand EUR in 2017). The deferred income decreased from 413 thousand EUR in 2016 to 267 thousand EUR as at 31 December 2017. The deferred income corresponds to the funds received from contributors in 2017 or earlier, for which the corresponding expenditure will be incurred after the reporting date. The deferred income balance includes the year-end surplus on the special accounts.

82. The change of net assets (equity) from 122 thousand EUR in 2016 to 138 thousand EUR in 2017 resulted mainly from the change of the surplus, which increased from 20 thousand EUR in 2016 to 38 thousand EUR for the year 2017.

83. The operating revenue increased by 31.2% from 682 thousand EUR in 2016 to 895 thousand EUR in 2017. This change resulted from an increase in contributions to the special accounts (from 282 thousand EUR to 439 thousand EUR). These contributions are recognised as income when they are spent.

84. The operating expenses in 2017 are higher than in 2016. An increase of 29.3% was caused mainly by a change in the staff expenses position, which increased from 272 thousand EUR in 2016 to 337 thousand EUR in 2017 (by 23.9%). This increase resulted from the changes in temporary staff expenses.

[19] Note 5 in the *Consolidated Financial Statements*, Note 3.2 in the *Financial Statements of Eurimages*.

IPSAS 29

85. According to paragraph 48(a) of *IPSAS 29 Financial instruments: recognition and measurement*, after initial recognition an entity shall measure the financial assets classified into the category *loans and receivables* at amortised cost, with the use of the effective interest method. For the financial assets carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset is derecognised or impaired, and through the amortisation process[20].

86. According to paragraph 67 of *IPSAS 29*, at the end of each reporting period, an entity assesses whether there is any objective evidence that a financial asset is impaired. If it is so, paragraph 72 should be applied in order to determine the amount of any impairment loss, which should be later recognised in surplus or in deficit.

87. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment due to an event or events that occurred after the initial recognition of the asset (a *loss event*), and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. A single event that caused the impairment may be hard to identify, as it may be due to a combination of several events.

88. Paragraph 68 of *IPSAS 29* includes the examples of loss events, such as:
- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments.

Accounting policy

89. At the time of preparing the financial statements, the situation related to the receivables from the Member States' contributions needs a careful analysis and recognition in accordance with its current status. We think that the current accounting policy lacks solutions relevant to the emergency situation that the Council experienced in 2017.

Recommendation 3. The accounting policy should include a description of the procedures applied in case the level of unpaid obligatory contributions affects the statutory and planned activities of the Council. To meet IPSAS requirements, the accounting policy should include the procedure for annual analysis of unpaid obligatory contributions to determine the probability of payment. Depending on the results of the analysis, the establishment of an adequate provision should be considered.

Financial buffer

90. The amount of the *Working Capital Fund* has not changed since (at least) 2009 and has been at the level of 3.5 million EUR, while the activity has raised (the revenue increased from 354 million EUR in 2009 to 431 million EUR in 2016, and the expenses grew from 431 million EUR to 530 million EUR respectively). In accordance with article 12 of the *Financial Regulations*: “In order to ensure that the Organisation shall at all times have available the funds necessary for its operation, a *Working Capital Fund* constituted by payments from the member states shall be placed at its disposal. Each member state shall be credited with the sums it pays into this fund.”

Recommendation 4. In search of a financial buffer for emergency situations, increasing the *Working Capital Fund* could be considered. It would help to safeguard the financial liquidity of CoE’s statutory activity in the first months of its operation, and to maintain its activity – without the need to reduce or abandon additional activities/programmes – until a new action plan has been established, including new sources of financing.

[20] IPSAS 29, paragraph 65.

Article 49

91. Article 49 of the *Financial Regulations* states:

> 1. Should the Treasurer note an irregularity in the payment order, he or she shall refer the matter to the commitments officer before any payment is made.
> 2. Where the commitments officer upholds the payment order despite a converse opinion by the Treasurer, the Treasurer shall refer the matter to the Secretary General for decision. Should the Secretary General confirm the payment order, it shall become executable by the Treasurer and shall be brought to the attention of the External Auditor.

92. We were informed by the Treasurer that no cases of exception in payment orders occurred in 2017.

2. Performance and Organisational Audits

93. In accordance with the *Agreement – concerning the Council of Europe's External Audit signed on 22 October 2014* (paragraph 1.h), "in addition to audits of the annual accounts, the External Auditor will prepare organisational or performance audits". In 2017 we conducted audits of the following topics:
1) Distribution and use of administrative levies on extrabudgetary resources,
2) IT systems for records and documents management in the Council of Europe,
3) Programme line: Education for democratic citizenship – European Centre for Modern Languages – North South Centre.

94. Apart from the above, we performed two additional audits of extrabudgetary funded programmes. Their results are presented in the *Report by the External Auditor of the Council of Europe: Budgetary Management Accounts of the Council of Europe for the Financial Year 2017.*

DISTRIBUTION AND USE OF ADMINISTRATIVE LEVIES ON EXTRABUDGETARY RESOURCES

95. An important part of the Council of Europe's activities relates to projects funded from extrabudgetary resources. The 7% levy is aimed to finance the administrative support provided by the Council to these projects. The efficiency and effectiveness of the distribution and use of the funds received through the levy were the centre of interest of this audit.

96. We find the need to finance the Organisation's additional effort natural and understandable. However, the funds collected through the 7% levy do not cover all additional costs incurred by the entities involved in the implementation of the programmes financed from extrabudgetary funds. To the extent in which the issue is agreed on between the Council and the donors, it is not discussed in this report. Still, whenever it may involve a risk to work processes, we have taken it into account.

97. In our opinion, the weaknesses of the system of the distribution and use of administrative levies on extrabudgetary resources are as follows:

- Indirect costs that can be covered from the *Logistical Support Special Account (LS)* are not specified in a sufficiently clear and detailed way, which undermines the basis for formal funding application by the CoE entities.
- The lack of unambiguous criteria for the distribution of funds, combined with insufficient amount of LS funds, may compromise the performance of some critical tasks.
- The annual application procedure for the LS funds may cause problems with financing of some employees' salaries, and managers may experience problems with planning their entities' works.

98. Our recommendations focus on the need for clearer defining of the levies, on simplifying the procedure for distribution of the levy funds, and on the need to develop a more mature methodology for cost estimation in the case of the critical tasks performed in support of extrabudgetary projects.

99. The rules of distribution are set out in the document of 20 February 2014 entitled the *Internal Rules regarding the administrative levy on extrabudgetary contributions – LS special account*. According to this document, the *LS special account* should be used to finance indirect costs of extrabudgetary activities undertaken by the Council of Europe. Thus, there should be a close link between these activities and indirect costs.

100. After the European Union's new contractual arrangement (*Pillar Assessment Grant or Delegation Agreement – PAGODA*) entered into force, a new clause was added to the *Framework Administrative Agreement between the European Commission and the Council of Europe*. This clause allows the Organisation to treat some costs that were previously considered indirect costs, as direct costs of a project, i.e.:

- rent and related charges: electricity, heating, water and sewage, cleaning, insurance of premises, security of premises, fixed telephone lines and internet access;
- IT costs: IT equipment and infrastructure, local infrastructure required in the field and telecommunication, IT support;
- security and medical costs.

101. Apart from the above Framework, no other definitions were applied, which can be considered one of the main problems related to the system of distribution and use of administrative levies on extrabudgetary resources. The problem of insufficiently precise identification of indirect costs related to the management of extrabudgetary resources was found by the CoE Internal Auditor (DIO) in 2015, and presented in the *Final report on the distribution and use of administrative levies on extrabudgetary resources*.

Recommendation 5. The definition of indirect costs to be financed through the *LS special account* should be developed, to provide for a sufficient level of clarity and precision. To this end, the experience gained from the EU PAGODA could be considered.

102. We also confirm the observation made by DIO[21] that there is a considerable disparity between the funds requested and the funds allocated. For example in the case of some entities, the funds allocated for 2017 were from 16% to 33% lower than those requested, with one case when the amount allocated was lower by even 56% than the amount requested. The Committee of Ministers may be to some extent unaware of the problem because they receive general information on the volume of the *LS special account* in the *Budgetary Management Accounts* only, while they do not receive any information about the use of these funds. DPB occasionally monitors the rate of the use of the LS account by MAEs.

103. The amounts allocated to the *LS special account* cannot be precisely planned. They depend on the amount of extrabudgetary resources that can only be estimated during the planning process. The receipts on this account increased from 3.6 million EUR to 4.7 million EUR[22] in the years 2014-2016. During that period, the total expenditure on the account was by 1.1 million EUR lower than the total receipts.

104. The methods for estimating the costs incurred in relation to the extrabudgetary programmes vary from entity to entity. Some entities indicate specific tasks and resources they spend on their implementation, while others refer to general tasks assigned to them.

105. The volume of costs changes from year to year. The indirect costs declared by the entities during our audit of 2017 were in four cases higher (by from 12% to 43%) than the costs estimated in the DIO report of 2015. One entity estimated these costs at the level by 19% lower than those estimated by DIO in 2015.

106. The methodology that is currently used implies a risk that, in the absence of sufficient measures, the resources provided to individual entities do not reflect the actual needs. This risk can also apply to critical tasks, such as certification of financial reports on voluntary contributions.

Recommendation 6. The entities' declarations of tasks and costs related to extrabudgetary resources should be verified with the use of independent estimates. Analyses should be repeated every several years, so as to encompass all significant changes in the entities' involvement in the support for extrabudgetary resources.

107. In accordance with the *Internal Rules,* DPB initiates the process of distribution of the funds from the *LS special account*. In the middle of the year, they ask the Heads of MAEs to submit their LS funding related requests for the following year. At this stage no limits are set by DPB, and entities themselves estimate how much they will need to cover additional expenses related to the performance of tasks financed with extrabudgetary funds.

[21] In 2015, the CoE Internal Auditor presented the Final report on the distribution and use of administrative levies on extrabudgetary resources.
[22] Data based on BMA reports.

108. There is no uniform way of reporting by MAEs on how levy resources are used:
- the Directorate of Information Technology (DIT) communicates details on how they use the allocated funds on request once a year to the Directorate General of Administration (DGA) and to DPB;
- the Directorate of Human Resources reports to the Deputy Secretary General via DGA on an annual basis;
- the Directorate of General Services (DGS) declares that the routine reporting goes through the regular channels within the overall reporting to CM;
- the Directorate of Legal Advice and Public International Law, similarly as with all its tasks, reports within the framework of quarterly progress reviews;
- the Directorate of Internal Oversight uses timesheets of individual staff to justify the time stated as spent on extrabudgetary resources.

109. It seems that the procedure lacks coherence in terms of the data provided, the use of the data, various ways of reporting, as well as formal and practical roles. In fact, it is DPB that decides about the distribution of the levy. Decisions must be mainly based on modifications to the previous year's data, since DPB has no instruments for more detailed analyses, such as, e.g. on-the-spot checking. In the next part of this audit report we discuss the problem of data assessment and analysis in more detail.

> **Recommendation 7.** It is advisable to simplify the management of the 7% levy distribution process by including the planning of the administrative levy appropriations in the planning process of the overall *Programme and Budget* by the Directorate of Programme and Budget. The change in the planning process should create a link between tasks carried out through budgetary appropriations and those carried out through extrabudgetary resources.

IT SYSTEMS FOR RECORDS AND DOCUMENTS MANAGEMENT IN THE COUNCIL OF EUROPE

110. The IT systems for records and documents management in the Council of Europe are one of the main areas threatened with progressing fragmentation.

111. When reviewing the area of IT systems for records and documents management in the Council of Europe, we found the records system safe and stable, but costly in terms of the users' effort needed to maintain an appropriate quality of stored information. What is more, the system is not used across the Council of Europe in a consistent way, since in some Major Administrative Entities it is partially substituted with various documents management solutions. As a result, the quality of basic functionalities, such as search or backup, as well as that of the safety of documents is not under sufficient control of the Organisation.

112. Our first insight into the concept of the new IT Strategy confirms that the Organisation is aware of the above problems and is determined to explore realistic, yet effective solutions. With our recommendations, we would like to contribute to CoE's efforts to find an optimal result. They mostly refer to the following areas:

- electronic documents of historical value
- perception of both records and documents management across the Organisation
- metadata
- search functionality
- data security
- correlation with the IT Strategy.

Documents and records

113. At present, it is a common practice worldwide for organisations to use IT to manage their documents and records. The IT systems for records and documents management in the Council of Europe are characterised by their basic features. The main objective of the *Document Management Systems (DMS)* is to support preparation of documents by facilitating the users' access, providing them with collaborative features, including version control, easy search and review. The *Record Management Systems (RMS)* provide repositories for storing, safeguarding and managing essential information (including documents).

Role of RMS

114. For records management, the Council uses the *Documentum* software (OpenText Corp.), which is a content management platform. Its predecessor in the Council was *ArchivalWare* that contained scanned documents and audio/video files. It is being migrated to *Documentum*, which is planned to be completed at the end of 2018.
The system provides all the users with a web interface for searching and reading. Access rights of trained staff (about 600) and *archive correspondents*[23] allow them to add and modify RMS documents. Only selected users – about 50 records correspondents – are authorised to delete RMS items and to perform administrative duties, such as creation, modification or deletion of RMS user accounts. As we were informed, a possible review of the present RMS is foreseen in 2020 "for potential replacement".

115. The basic rules regarding storage of documents are comprised in the *Archival policy of the Council of Europe*. As we found out during our audit of the Organisation's archiving: "The Council of Europe's Archive Policy was issued in 2009. An update should take place each five years, but it was neither done in 2014 nor afterwards."[24] As we were informed in December 2017, works on the update were at an advanced stage.

[23] For the advantages and challenges related to the archive correspondents' network, see the management letter by the External Auditor of the Council of Europe: *Archiving of Documents and Data by the Council of Europe*, February 2017, page 11.
[24] See: Audit Report by the External Auditor of the Council of Europe: *Consolidated Financial Statements of the Council of Europe for the Financial Year 2016*, May 2017, page 98.

116. As we also recommended during the audit *Archiving of Documents and Data by the Council of Europe*, the selection process of paper documents for archiving purposes should be improved. At present, no qualified historian-archivist expert participates in the process, which may lead to inappropriate decisions on which documents should be stored permanently[25]. Similarly, electronic records can be affected.

> **Recommendation 8.** The recommendation made with regard to paper documents should be applied to electronic documents as well, namely: the expertise of a qualified historian-archivist is indispensable in the archiving process. The opinion of the author entity has an advisory role, while the final decision on which documents to store permanently should be taken by a qualified expert. If permanent employment of a historian-archivist is not possible for financial reasons, a temporary solution could be to prepare clear guidelines on selection of historical documents with the assistance of such an expert.

117. As we were informed by the Directorate of Information Technology (DIT): “Depending on 2018 and 2019 budget priorities, availability and overall costs” they would seek a qualified expert opinion for preparing evaluation guidelines for historical archives.

Nine DMS solutions

118. In the past, the Organisation encouraged its staff to use Microsoft Company *Public Folders* of *MS Exchange* as a DMS solution. This allowed the users to have common access to folders through email client software (*MS Outlook*).
After Microsoft ceased supporting *Public Folders*, CoE tried to develop and implement another solution to assist MAEs in the area of collaborative document preparation. *Public Folders* have not been abandoned, however, and together with other solutions coexist in various parts of the Organisation. As a result, as many as nine solutions can be found, with various functionalities and security levels.

119. Only DMS based on the *SharePoint* platform and RMS based on *Documentum* are standard tools. They are not necessarily optimal, but they can provide a sufficient set of functionalities typical for DMS and RMS respectively.

120. We agree with the DIT Director that when so many solutions are used simultaneously, a number of issues may arise:
- documents can be stored in multiple repositories,
- many different versions of documents can coexist without controlling the forking effect,
- logging or auditing of documents is not conducted,
- documents are difficult to find,
- documents sharing may be difficult, as well as collaboration on their edition,
- documents leave CoE and get in an uncontrolled environment,
- security risks increase,
- centralised backup of documents is complicated, if at all possible.

[25] Ibidem, page 101.

Imperfect system of access to documents

121. One of the crucial functionalities of computerised documents and records management systems is to quickly retrieve a proper file or information. The search function is one of the basic tests for the quality of RMS-DMS. At present, the users at CoE can use this functionality in a limited way only.

122. We found out that the employees do not have problems with access to the documents from their domain, i.e. to the documents on which they work on a daily basis. We also observed that the documents and records related to the Committee of Ministers' proceedings are managed with special attention, and are provided with an effective search functionality.

123. On the other hand, during our audits of the projects financed from extrabudgetary sources, we found out that the Council was not able to provide the auditors with an online access to the audited projects' documentation, nor to the complete set of memoranda on financial responsibility[26]. During some of our other audits, we frequently experienced problems with finding documents in the CoE internet and intranet websites, or in MAEs' digital resources. In the case of documents which were not available for the public, the process of providing us with access rights was multistep, time consuming and not always effective.

124. *Metadata* are the basis for indexing and easier controlling of recorded documents, including their search and preservation. In line with the CoE *Metadata Policy* (2012), all documents have seven elements at the minimum, i.e.: document identifier, language, author, title, access classification level, subject and date. These very basic elements often do not allow for an easy search, so there are some other optional elements available, too.

125. The users are requested by the system to select metadata when they finish editing. When we discussed this issue with them during our audit, they claimed it was cumbersome and time consuming. As a result, the ways in which metadata are added to CoE documents vary and are inconsistent.

126. When discussing the potential for automatic generation of metadata, we were informed: "We will also in the coming years look at Artificial Intelligence (AI) to auto-classify documents further to a proof of concept carried out in 2017. However, please note that this is a long term project and will depend on budget, the new DMS AI features and priorities."

> **Recommendation 9.** Methods for automatic generation of an appropriate metadata set should be applied, in accordance with the needs of the Council's records and documents management. Positive results could be obtained by applying *artificial intelligence* technologies, including *natural language processing (NLP)* tools.

[26] See: Report by the External Auditor of the Council of Europe: *Budgetary Management Accounts of the Council of Europe for the Financial Year 2016*, May 2017, pages 94 and 118.

127. As it was commented by DIT: “This is part of the new DMS project if this project is deemed feasible.”

IT strategy – ambitious plans

128. Since the first audit reports of NIK as the External Auditor of the Council of Europe, we have recommended the Council develop an IT Strategy to provide a pragmatic vision on how to solve the problems related to:

- IT governance *vis-à-vis* business goals of the Organisation,
- IT security, and
- efficient use of the data across the whole organisation.

129. We also emphasised that the adopted IT Strategy should be a condition *sine qua non* for further IT investments.

130. Unfortunately, our recommendation was not followed, and the Organisation did not have the DIT Director from August 2015 for more than two years. The new IT Director started his job in September 2017 with the development of a new IT Strategy as one of the primary tasks. As we were informed, the draft IT Strategy was approved by the IT Steering Board at the beginning of 2018.

131. Efficient records and documents management is by definition one of the IT strategy domains in organisations like the Council of Europe. Regarding the concept of the DIT Director, a new Documents Management System – mobile, using state-of-the-art technology and cloud oriented – will be one of the main engines of the CoE IT Strategy. The following benefits are expected:

- one access point to documents,
- acceleration of group working on documents,
- easy identification of latest versions,
- reduction of document search time,
- automation of well-defined work processes,
- parallel work on documents – possibility for several users to work on the same document simultaneously,
- overtaking of key RMS functions.

Recommendation 10. The concept of a new approach to records and documents management as the key part of the Council’s *IT Strategy* requires support by the Organisation, provided that it will, at reasonable cost, prove its usability for key groups of users, and that it will simplify the architecture of data management.

132. Having analysed the promising concept and the activities of the Directorate of Information Technology under the new management, we would like, at the same time, to turn the Organisation’s attention to some risks that should be mitigated. Some of them can be easily deduced from the survey conducted in 2015, others may require an additional analysis.

Recommendation 11. The implementation of the *IT Strategy* should be accompanied by comprehensive risk management mechanisms. Taking into account the problems with Documents Managements Systems development in the past, special attention needs to be paid to two aspects: (1) Major Administrative Entities’ diverse needs, and (2) expectations of individual users.

Plans for Business Continuity and Disaster Recovery (BCP-DRP) to be reconsidered

133. The security of four IT systems was audited by the CoE's Directorate of Internal Oversight (DIO)[27]. The audit comprised penetration tests of the Records Management System. The main recommendations developed after the audit include:

- ensure security of administrator passwords,
- determine security procedures,
- perform a security risk assessment,
- monitor regularly the effectiveness of security controls.

134. The IT security programme of CoE that was available during our audit was established in 2013. Its general objectives were set that included governance, improvement of security, risk analysis, and user training. In the investment plan for 2016, four activities were foreseen with the total budget of 550 thousand EUR. One of them was to secure recovery of data in the event of a major incident. The remaining activities were related to cyber-security, data integrity and secure wide-area network. CoE also has a backup centre outside Strasbourg at its disposal.

135. The structural security problem of the present records and documents management is, in our opinion, due to the variety of RMS-DMS solutions and storage places, as stated earlier in this report[28]. As a result, a variety of access control methods are employed and centralised and, at the same time, complete backup of all files is impossible in practice. In our opinion, this is the most significant risk. The software, parameters and configuration can possibly be restored with an acceptable loss, but losses of the data and files may be irreversible.

136. Since significant changes are planned in the CoE IT infrastructure – with new DMS, a new backup system, new cloud solutions, etc. – DRP were planned to be modified in 2017 and 2018.

137. Among the most common causes of data loss in the cloud, cybercrime, if continues to grow, is only one of possibilities. The other reasons are very basic, e.g. the lack of backup (despite the providers' obligation to ensure it), untested backup and ineffective recovery procedures.

> **Recommendation 12.** Despite the financial difficulties which can be encountered by the Council, the safety of the data should not be compromised in any regard. This concerns, in particular, the backup and recovery mechanisms of CoE's documents and records.

[27] *Summary of four it security audits on Records Management System, Badges system, PeopleSoft and Liferay*, December 2017.
[28] Page 92.

PROGRAMME LINE: EDUCATION FOR DEMOCRATIC CITIZENSHIP – EUROPEAN CENTRE FOR MODERN LANGUAGES – NORTH-SOUTH CENTRE

138. The reports on the activities covering the *Programme line: Education for democratic citizenship – European Centre for Modern Languages – North-South Centre*[29] are complete and give a picture of the programme's results. These are mostly successful, however it would be recommended to refine the existing procedures and develop guidance in the following areas*:*
- *financial management,*
- *contracting,*
- *assets registers and inventories,*
- *archives.*

139. In our audit of the financial information management, we noticed that experience and good practices of some Major Administrative Entities were not used by others. In our report developed after that audit, we recommended that "Good practices that facilitate the work of financial officers and other financial staff of the Council should be periodically gathered and shared across the Organisation."[30]

140. During this audit we found this advice still valid. In particular, the practices and guidelines of the Office of the Directorate General of Programmes (ODGP) could be used by other MAEs that – as the Directorate General of Democracy (DGII) – supervise the work of the entities outside Strasbourg. Many of the improvements, clarifications and practical solutions applied now by ODGP result from the recommendations of the previous audits. It seems that other MAEs would be able to easily refine their practices using the work of their colleagues.

141. In this audit report we would like to especially point at the need to:
- apply segregation of duties in a more consistent way [see page 103],
- reduce the number of *purchase orders* created after contracts were signed or after invoices were issued [see page 100].

142. Taking into account the discussion on the draft of this audit report, we would like to underline that providing necessary rules and advice in internal guidance must be accompanied with adequate controls, effective training, monitoring and, if needed, exercise of responsibility.

Overview

143. The *Programme line: Education for democratic citizenship – European Centre for Modern Languages – North-South Centre* was part of the Council's biennial *Programme and Budget 2016-2017*. The total adjusted budget for FY 2016-2017 was 18.2 million EUR.[31]

[29] Also referred to as the *Education for democratic citizenship*.
[30] Report by the External Auditor of the Council of Europe: *Consolidated Financial Statements of the Council of Europe for the Financial Year 2015*, May 2016, Recommendation 10, page 83.
[31] BO: 10 053.1 thousand EUR, other: 4 390.2 thousand EUR, JP: 3 480.5 thousand EUR, and VC: 272.4 thousand EUR.

144. The aim of the *Education for democratic citizenship* programme is to increase the capacity of the policy makers and other education actors to prepare students and learners to be active democratic citizens. This would allow the Member States to improve the effectiveness of their education policies, curricula and training programmes with regard to democratic culture and citizenship, intercultural learning, quality and inclusive education.

145. The programme line is managed by the Directorate of Democratic Citizenship and Participation and it contains, apart from the *Education for democratic citizenship* part, the European Centre for Modern Languages (ECML) and the European Centre for Global Interdependence and Solidarity ("North-South Centre", NCS). Both ECML and NCS are enlarged partial agreements with *specific tasks* assigned to them.

Role of CDPPE

146. When discussing the practical influence of the Steering Committee for Educational Policy and Practice (CDPPE) on the audited activities, we were informed by the Education Department: "The Steering Committee takes note of expected results of the program but it neither adopts it nor comments on the organizational details of it, such as the organization of specific events within the program." We were also explained that "the CDPPE does not authorize or decide on the holding of specific individual activities. It can, as a part of its oversight and advice on the Education program, give advice on main events but this advice is not a decision and is not binding." And next: "The CDPPE would mainly comment on the broad lines and the Director General would then consider to what extent (s)he would adjust her/his budget proposal accordingly. The role of the CDPPE is advisory rather than decision making."

147. In line with the *Resolution* CM/Res(2011)24 *on intergovernmental committees and subordinate bodies, their terms of reference and working methods*, the Steering Committee for Educational Policy and Practice should have planning and steering functions[32]. It should be composed of representatives of the highest possible rank in the relevant field and should be answerable to the Committee of Ministers[33]. All directives relating to the activities of the Committee should be covered by its *Terms of Reference*.

148. The role of MAEs is crucial when budgeting and organisational matters are under consideration, but from the very concept expressed in *Resolution* CM/Res(2011)24 it seems that the Committee is a partner to the Secretary General and a subordinate of the Committee of Ministers. Reducing its role to providing advice only raises also a performance question on the number of experts involved and on the adequacy of the name: *Steering Committee*. A body with a strictly advisory role would be rather referred to as *Advisory Committee*.

[32] Paragraph 4.a.
[33] Paragraph 5.

Reporting

149. Apart from all available reports concerning project activities, we examined the financial reports for bilateral/regional projects. In the case of the financial report related to *budget head (BH)* 4603, we found out that the administrative costs registered in *FIMS* amounted to 44.5 thousand EUR. However, the financial interim report presented the amount of 31.5 thousand EUR. We were explained that the difference derived from the fact that the total eligible direct costs were 450 thousand EUR, and the administrative costs were limited to 7% of the direct eligible costs. TPA explained that they always recorded the administrative costs (7% of the direct eligible costs) for each voluntary contribution credited on the bank account during the implementation of the project immediately after the funds were allocated to a given project.

Limited certification by Treasurer

150. Similarly as in our previous audits[34], we found out that the CoE Treasurer certified only the total sum of expenditure presented in each of the financial reports. This means that the certification does not cover the value of particular reporting lines of the reports. In our audit report we recommended that "the Council of Europe should look for a practical solution that would allow the Treasurer not only to certify that the financial statement matches the expenditure accounted for in the Council's financial records. This certification should be extended to the breakdown by reporting line. Until this is feasible, the limitations of the certification should be clearly stated."

151. As an instant solution – in response to the last part of the recommendation – the following sentence was added before the Treasurer's signature: "The total eligible costs presented in this financial report match expenditure accounted for in the Council of Europe financial records." The procedure of adding this sentence for certification of financial reports has been in force since July 2017. The first part of the recommendation, i.e. a solution to extend the certification to the breakdown by reporting lines, is still under consideration of the Organisation.

Regularisation after the date of certification by the Treasurer

152. We verified the final financial report for *BH 8371*. The report was certified by the CoE Treasurer on 10 May 2017. The total amount of the eligible costs registered in *FIMS* as at 10 May 2017 was 104 185.15 EUR, but according to the financial report the total eligible costs stood at 103 796.39 EUR. The difference derived from the regularisation of 388.76 EUR registered on 12 May 2017 (with effective date 11 May 2017). We were explained that the difference was related to the regularisation of the administrative costs related to the unspent balance and recorded after the certification of the final financial report, at the same time as the reimbursement of that unspent balance on the project to the donor.

153. It is clear that situations like a delayed final payment or a justified reimbursement can happen. However in this case the regularisation concerned a situation related to the way the 7% levy was accounted[35]. More importantly, in our opinion, the principle of prudence, which is rightly applied to the recording of financial operations in FIMS, should also be applied to financial reporting.

[34] Audits of *Action plan for Ukraine 2015-2017* and *Action Plan for Georgia 2016-2019*.
[35] See page 87.

154. We found our view in line with the Council's *Manuel des procédures comptables*, which in part: *Contrôle des rapports financiers établis sur l'utilisation des fonds versés*, regarding *Etablissement des rapports financiers*, states: "Le Trésorier certifie que le rapport financier est établi conformément aux données comptabilisées."

155. As we were explained by TPA, they "systematically prepare a statement of reconciliation of the amounts recorded in FIMS and those presented in the financial reports. This statement of reconciliation is part of our verification process when a financial report is submitted to the Treasurer for certification." We also discussed other rules of the *Manuel des procédures comptables* that were pointed by TPA as the basis for the present practice. In our opinion, however, interpretations in these cases can vary.

> **Recommendation 13.** Financial reports should be certified by the Treasurer on the basis of the Organisation's current financial position set out in the books of accounts, including regularisation. The Treasurer's signature on the financial report confirming the accounts data on the date of signature will facilitate verification and will be in full accordance with the principles reflected in the Organisation's *Manuel des procédures comptables*.

Difference between Ordinary Budget and extrabudgetary projects

156. We observed two ways of presenting financial data regarding expenditures. For projects financed from the Ordinary Budget there are no separate financial reports. The accrued expenditures are presented in the *Interim Progress Review Report* and in *BMA*. For projects financed from extrabudgetary resources, separate financial reports were prepared, as an obligation deriving from agreements with the donors.

157. It is not possible to verify the correctness of the expenditures related to the projects financed through the Ordinary Budget with the *Financial Management System* data in the same way as that used for projects financed from extrabudgetary resources. The structure of the project budget covers the project code, activity number and expenditure type. In *FIMS*, only the total amounts related to particular projects (article column) and activities (element column) can be found. We were informed that the expenditure type for each particular project could not be verified in *FIMS* but only in the *Budget Tool*, after conversion of the *FIMS* data.

> **Recommendation 14.** We encourage the Council of Europe to unify data architecture, and to ensure that financial reports covering projects financed from the *Ordinary Budget* are of the same quality as those developed for the projects financed from extrabudgetary resources.

Financial management

158. During the audit of two entities of the Directorate General of Democracy (DGII) – namely the European Centre for Global Interdependence and Solidarity (North-South Centre or NSC) and the European Centre for Modern Languages (ECML) – we noticed that some practices related to financial management need a refinement.

Delayed POs

159. We found in the two audited DGII entities 188 cases of *purchase orders (PO)* created after contracts or after invoices. As we were informed by DGII: “The obligation to raise a PO before any commitment towards a third party is explicitly mentioned in DGII manual (para 6.2) and is recalled in the training that is given to all DGII staff members with financial responsibilities. (…) The PO prior to each commitment is also recalled in the delegation letter from CO to CCMs.”

160. In our opinion, the numbers of POs raised after commitment in the DGII entities – in such a volume – show that the measures taken by the DGII were insufficient. It is true that the processing of *purchase orders* is mentioned several times in the *DGII manual*, but the necessity of the appropriate order: PO – contractual document – service delivery, is not emphasised. For instance the *Office of the Directorate General of Programmes Financial Management System Manual*[36] underlines: “Care should be taken to ensure that contractual document is signed and dated after the creation of the relevant Purchase Order (PO). The date of signature of the contract should be prior to the start date of the service delivery”.

161. Experience of previous audits shows that the basics regarding POs need to be periodically reminded to the responsible staff. This includes emphasising the practice of explaining all deviations.

> **Recommendation 15.** Every *purchase order (PO)* created after an invoice or contract should be regarded as an exception in the CoE financial management. Therefore, this practice should be avoided, and whenever occurs, it should be substantiated and analysed. The Organisation should make every effort to reduce the share of exceptional POs.

162. The other findings in DGII relating to a similar category of problems include:
- invoices corrected by an entity’s employee instead of the service provider who issued the invoices (three cases);
- invoices issued before completion of the contracted task (10 cases);
- tasks of consultants not clearly defined (six cases);
- improper use of the contract letter or invitation letter formula (nine cases);
- contracts without dates (three cases);
- insufficient documentation of participation (three events);
- lack of translations into official languages of the Council, despite of the obligation provided for in grant agreements (29 cases).

Procurement

163. According to article 2, paragraph 1 of *Rule No. 1333*, procurement procedures in the Council of Europe shall be based on the principles of objectivity, transparency, non-exclusivity, equal treatment and non-discrimination. In accordance with article 17, paragraph 2 of *Rule No. 1333*, if the total expenditure foreseen with regard to the contract is between 2 thousand EUR and 25 thousand EUR, excluding VAT, the buyer administrative entity shall take care to obtain the best terms by consulting at least three potential suppliers, when possible. They shall keep written records of the steps taken. Where it proves impossible to consult at least three suppliers, the reasons shall be recorded.

[36] See also: the *ODGP Manual*.

ECML: three main local suppliers

164. We found out that three suppliers of ECML in Graz, Austria, cyclically issued invoices for total amounts exceeding 2 thousand EUR, although the buyer had not consulted at least three potential suppliers. The suppliers were paid by the Council the annual total amounts between 18.2 and 35.8 thousand EUR[37].

165. Only in the case of one supplier we were submitted with a copy of the contract, however its party was not the Council of Europe, but the Verein Europäisches Fremdsprachenzentrum – the Austrian Association that supports the activities of ECML[38]. In the other two cases no agreements or contracts were available.

166. Due to the amounts paid, a restricted-consultation procedure in line with article 17, paragraph 3 of *Rule No. 1333* should have been conducted. We were explained that ECML's decision to choose the above suppliers was advantageous from the Office's point of view, but no written records nor explanations were delivered explaining why the procedure of consulting at least three suppliers had not been applied.

ECML:other suppliers

167. In the other three cases in ECML and one in NSC, the service contracts were also signed without consulting at least three potential suppliers (involving amounts from 7.2 to 16 thousand EUR). In none of the above cases we were provided with documents explaining why *Rule No. 1333* had not been applied. In their explanations, the entities pointed at their needs and at the good quality of the work provided. Without denying that, we would like to emphasise that the procedures imposed by *Rule No. 1333* aim to support the principles of objectivity, transparency, non-exclusivity, equal treatment and non-discrimination in public procurement. After finding a problem of a similar nature in one of our previous audits, we recommended[39] to raise awareness of the CoE staff regarding the nature of the public procurement procedures.

Recommendation 16. The staff responsible for the tender procedures should be aware of the strict nature of the provisions, whose role is to reduce the risk of corruption. *Rule 1333 of 29 June 2011* regulating the procurement processes of the Council of Europe shall not be compromised. Especially the project team should not take any actions which might infringe the obligation to treat all bidders equally during the tender procedure. If such a case occurs nevertheless, cost centre managers should not accept it.

[37] Data for the year 2016 and 11 months of 2017.
[38] See page 102.
[39] Report by the External Auditor of the Council of Europe: *Budgetary Management Accounts of the Council of Europe for the Financial Year 2016*, May 2017, Recommendation 11, page 120.

168. In five other cases found in NSC, at least three potential suppliers were consulted but the obligatory documentation was incomplete. The NSC templates of *request for payment* require explanatory notes if three suppliers' offers have not been consulted, but these were not provided. The decision about entering into commitments is the responsibility of CCM[40], who, in order to take a decision, needs clear information.

> **Recommendation 17.** The practice of using the templates related to public procurement should be reviewed across the Organisation. The obligation to provide all necessary information should be emphasised in consultation with both the responsible staff and the entities' management.

Cooperation between ECML and VEFSZ

169. The cooperation between ECML and the Austrian partner is based on the *Agreement of 7 September 1998*[41]. According to article 1 of the *Agreement*, the Centre is established in the Republic of Austria to carry out the functions assigned to it by the Committee of Ministers and the other competent bodies of the Council of Europe. According to article 2 of the *Agreement,* the Centre, as an establishment of the Council of Europe, is a legal person and enjoys legal capacity to exercise its functions and achieve its objectives and, in particular, to contract and acquire property.

170. The Austrian party is represented by the Austrian Association of the European Centre for Foreign Languages (Verein Europäisches Fremdsprachenzentrum – VEFSZ) that is the owner of the most of assets utilised by ECML, including the ECML premises. In legal terms, both ECML and the Austrian Association are separate organisations, and it is not clear what precisely are their mutual obligations and responsibilities.

171. As we found out, the largest part of the Centre's operational expenses is financed by VEFSZ, but some costs are financed or reimbursed by the Council of Europe. For example, in the request for reimbursement of March 2016 the Austrian Association indicated: "As the agreed ceilings in the areas of Communication and Photocopying have been surpassed and expenditure in 2015 has exceeded the agreed amount by a total of €7 474 in 2015 the Austrian Association therefore requests to be reimbursed and the amount transferred to its account". Similarly, in the request for reimbursement of 2 December 2016 the Austrian Association indicated: "As the agreed ceilings in the areas of Communication and Photocopying have been surpassed and expenditure in 2016 has exceeded the agreed amount by a total of €4 800 in 2016 the Austrian Association therefore requests to be reimbursed and the amount transferred to its account". ECML reimbursed the requested amounts, but – as stated above – no information was available on who and when agreed on the above ceilings on the Council's side.

> **Recommendation 18.** A formal agreement on financial cooperation between the European Centre for Modern Languages and the Austrian Association of the European Centre for Foreign Languages is necessary to support transparency and accountability in their mutual relations.

[40] According to article 36, paragraph 1 of the *Financial Regulations and Supplementary provisions of the Council of Europe*.

[41] *Supplementary Agreement to the General Agreement on Privileges and Immunities of the Council of Europe signed in Paris on 2 September 1949 concluded between the Government of the Republic of Austria and the Council of Europe regarding the European Centre for Modern languages of 7 September 1998.*

172. When discussing the draft of this audit report we were informed by ECML that "The Centre is currently preparing a draft memorandum defining the respective cost areas covered by the ECML and the Association. When ready, the memorandum will be discussed by the Board of the Association as well as by the statutory bodies of the ECML."

Sub-granting

173. We found out that in one of the projects[42] described in *Part II – Regional and Bilateral Co-operation* of the document *Education programme 2016-2017*, the largest expenditures in the whole project concerned "Sub-Grants for implementation of Pilot Projects", according to the final financial report covering the period from 1 May 2015 to 30 April 2016. This amount constituted 55% of the sub-total direct eligible costs of the action (i.e. 175 203.73 EUR out of 318 641.45 EUR).

174. The sub-granting, as a type of expenditure, was regulated in the *Description of Action (DoA)* attached to the above-mentioned project, which included the procedure developed in close cooperation with the CoE legal services and with the European Commission.

175. According to article 2 of the *Financial Regulations and Supplementary provisions of the Council of Europe*, the Secretary General shall ensure the efficient administration of the Organisation and economic use of the resources entrusted. To this end, the Secretary General puts in place a governance system, including notably: risk management, internal control, internal audit, performance indicators and evaluation of results.

> **Recommendation 19.** It is advisable that the Secretary General decides about the rules for proceeding with sub-grants in the Council of Europe. The rules could be based on the experience gained to date during cooperation with the European Union.

Segregation of duties

Authorisation of expenses

176. We found out that in ECML payments were not formally authorised by CCM. There were only handwritten notes "bon à payer" on the invoices submitted for payment by the ECML employee responsible for administration. We were explained that CCM and the employee discussed particular expenditures, but no support documentation was available.

177. Article 46, paragraph 1 of the *Financial Regulations and Supplementary Provisions of the Council of Europe* provides that verification and certification is included in the preparation of a payment order by the "commitments officer, or the cost centre manager by delegated authority". Paragraph 2 adds that, with a view to the settlement of any expenditure, the payment order must include, among others, "the authorisation of the commitments officer or, by delegated authority, the cost centre manager or the person authorised by him or her to approve expenditure".

[42] Human Rights and Democracy in Action - EU/CoE Pilot Projects Scheme.

178. It should be observed that in *FIMS* there is no evidence that CCM approved the invoice. The paper system is still used by the Council: copies of all invoices are analysed and stored in TPA.

179. In our audit of 2015-2016 that focused on the management of the CoE financial information[43], we recommended that the procedures for collecting information on MAEs' financial management structure and documentation on their internal controls in place should be improved. Our audits show that the quality of internal control may still vary seriously not only from MAE to MAE, but also between their individual entities.

> **Recommendation 20.** Internal control over payments authorisation should be improved: payments should be approved in line with the financial delegation framework. Records of this authorisation should be retained for verification purposes.

Commitments and acceptance of work

180. In the entities of DGII we found also three cases of incomplete signatures on *request for payment* and *commitments of expenditure*, as well as four cases of *Certificate of acceptance of work* signed only by the Executive Director of ECML. In the case of *Certificate of acceptance of work*, a signature of the competent project manager or another employee responsible for supervision of the task completion seems to be necessary[44].

MAEs' Guidance

181. It should be noted that the problem of segregation of duties is already clearly defined, e.g. in the ODGP *Financial Management System Manual*. In the part related to internal control procedures it states: "The necessary level of internal control and risk mitigation is ensured through a proper segregation of duties: commitments are initiated by the Project Manager (PM) and authorised by the CCM; recording and reporting on financial transactions is performed by the ACCM; creation of suppliers and payments is carried out by the Treasurer of the Organisation".

182. In the *DGII Administrative and Financial Manual* (version of December 2017) the issue of segregation of duties is addressed as follows: "Within DGII, the main financial management tasks are shared between departments and the Central Division, thus ensuring separation of tasks. Moreover, suppliers are created and third parties are paid by TPA, thus further reducing the risks"[45]. Thus, it does not cover the issue that we have described above.

183. DGII commented that the segregation of duties was also reminded in a more elaborated way in chapter 2 of their manual that regards the role and responsibilities of each actor of the financial chain. While chapter 2 contains the descriptions of the tasks of COs, Special Coordinators, CCMs, Financial Officers and ACCMs, with *Arrangements in case of absence*, we did not, however, find any clear reference to how the segregation of duties should be applied.

[43] Management Letter by the External Auditor of the Council of Europe: *Management of Financial Information in the Council of Europe*, April 2016, page 15.
[44] Risks related to certification of work were presented also in the Report by the External Auditor of the Council of Europe: *Budgetary Management Accounts of the Council of Europe for the Financial Year 2016*, May 2017, page 121.
[45] DGII Manual, chapter 10.2.

184. We were also explained that segregation of duties is mentioned in the DGII internal control self-assessment questionnaire, and that: “There is a segregation of duties in place within DGII. When considering the segregation of duties, a number of issues could be examined such as the size of the Partial Agreement and the cost of adding additional administrative layers compared to the expected benefits.”

185. Proper segregation of duties is one of the key instruments of internal control aimed to mitigate the risk of inappropriate expense proceedings, including fraud. This is why we pay attention to all, even minor, exceptions in this respect. Problems of similar nature related to the acceptance of a work at a given stage were already noticed during our previous audits[46] at the Council of Europe. Findings in DGII show again that problems may appear in spite of written guidance or even self-assessment. There is no visible need to add “additional administrative layers” in these cases, and it seems that it would suffice to amend the manual, raise awareness of the importance of segregation of duties, and to improve the day-to-day practice.

> **Recommendation 21.** Proper segregation of duties should be ensured at all stages of financial procedure, including acceptance of work and request of payment. The experience in guidance and good practices should be exchanged between Major Administrative Entities to find the most effective solutions.

Archives

Lack of training and guidance

186. As we were informed, none of the NSC or ECML staff members were provided with training concerning archives and personal data protection. Chapter 9 of the *DGII manual* covered archiving, but its brief provisions in this regard did not seem to provide the entities like NSC or ECML with sufficient guidance. No written procedures or guidance were available on how to select the documents to be retained or disposed of. Neither NSC nor ECML provided input to the *Disposal and retention schedule* of DGII. We suggested some improvements regarding physical conditions of storage in both offices.[47]

Project documentation and HOTO rules

187. None of the two offices had particular procedures for storage or *handover/takeover (HOTO)* of project documentation. In Graz we were told that paper documents did not play any significant role, and that most of the activities were accompanied by electronic documentation. It was added by ECML: “The ECML is not convinced that work relating to paper archives requires prioritisation.” In our opinion, however, the awareness of the appropriate archiving requirements – covering both paper and electronic records – is one of the recurrent issues to be solved by the Organisation[48]. Problems with internal regulations were noticed for the first time by the NIK auditors in the Kyiv Office[49] – therefore we reiterate the following recommendation:

> **Recommendation 22.** Project documentation should be processed in line with the Council’s archiving rules. The obligation to properly handover paper and electronic documents by project managers should be formal, and should embrace responsibility for personal data.

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[46] Audit Report by the External Auditor of the Council of Europe: *Action Plan for Ukraine 2015-2017* (second interim report), June 2017, page 9, Report by the External Auditor of the Council of Europe: *Budgetary Management Accounts of the Council of Europe for the Financial Year 2016*, May 2017, page 121.
[47] More about archiving in the Council of Europe in: Audit Report by the External Auditor of the Council of Europe*: Consolidated Financial Statements of the Council of Europe for the Financial Year 2016*, May 2017, page 97.
[48] See chapter *IT systems for records and documents management in the Council of Europe*, page 90.
[49] Audit Report by the External Auditor of the Council of Europe: *Consolidated Financial Statements of the Council of Europe for the Financial Year 2016*, May 2017, page 104.

Assets management

Training and guidelines

188. Representatives of NSC were provided with a standard training presentation by the Financial Officer of DGII in 2016. However, in the Lisbon Office we did not find any employee trained by the CoE Headquarters in taking care of the assets or in performing physical inventories.

189. The layout of the NSC assets register changed between 2015 and 2016 (register completed in March 2017), due to the introduction of the new *Guidelines for accounting for tangible and intangible fixed assets*. The *Guidelines* were sent to the persons responsible by TPA. During our mission in Lisbon we could not, however, find the *Guidelines for the management of fixed asset inventories at the Council of Europe* in the NSC Office.

190. As we were informed by the DGII Financial Officer, the two *Guidelines* were redistributed among DGII Directors, which is the level superior to the entities like the Lisbon or Graz Offices. Subsequently, they were provided to the management of the NSC Office, but not to the staff responsible, and without sufficient emphasis on the importance of the new rules. Consequently, no sufficient attention was attached by NSC to the *Guidelines for the management of fixed asset inventories.*

191. The two *Guidelines* were elaborated as a result of our audit focused on assets management issues[50]. They establish new procedures and clarify the practices necessary to make the assets of the Organisation safe and under satisfactory control.

> **Recommendation 23.** Distribution of new guidelines addressed to the whole Organisation should be accompanied by effective communication and training, so as to make sure that all entities, including those located outside Strasbourg, receive them and implement them into their daily practice.

John Trim Collection

192. The poster presented in the ECML resource space reads that the John Trim collection of books and documents – built up over his lifetime and dedicated to language **education – was donated to ECML. John Trim was director of the Council of Europe's** modern languages projects from 1971 to 1997 and co-author of the *Common European Framework of Reference for Languages (CEFR)*. We were explained that: "The John Trim collection was donated in 2005 and covers the history of the Council of Europe's work in language education. The collection has historical value to the ECML and the Council of Europe and is of interest primarily to researchers in the area of language education. However, it is unlikely to have a market value. Comprehensive lists of the individual items contained in the collection are available from the Centre's website."

[50] Report by the External Auditor of the Council of Europe: *Consolidated Financial Statements of the Council of Europe for the Financial Year 2015*, May 2016, page 87.

193. We were not presented with any documents related to the donation, it is then difficult to prove to whom the collection was donated, and consequently, who is the owner of the collection. As we were told during the interview with the ECML management, it was not entirely clear whether the *John Trim Collection* belonged to the Council or to the Austrian VEFSZ. Such an unclear situation should not continue, as it may involve reputation risks. Besides, without the owner, the collection is at risk of not being maintained properly, including decision about valuation of the collection for presentation in financial statements or about application of exclusion[51] in line with *IPSAS 17*.

Recommendation 24. The Council should decide, in close contact with the Austrian Verein Europäisches Fremdsprachenzentrum, who is the owner of the *John Trim Collection*. The archival care, valuation of the collection and its presentation in the Council's financial statements should follow accordingly.

Physical inventories

194. The NSC employees dealing with inventories were not aware of any particular policy concerning physical inventories across the entities of the Directorate General of Democracy.

NSC lost or stolen assets

195. Two cameras (of total value over 650 EUR) were stolen from NSC experts during their mission abroad in 2014. The loss has never been documented, however, and we were informed about it by the NSC employee responsible for assets custody. We were told that the experts did not contact the Police nor did they provide any written report on the loss to NSC.

196. The issue of lost and stolen items was addressed in our report on assets management[52]. The *Guidelines for the management of fixed asset inventories at the Council of Europe* follow up Recommendation 19 of the report in the context of fixed assets[53]. The above case turns our attention to the items which cannot necessarily be considered fixed assets (i.e. whose value is below 500 EUR). The *Guidelines* advise: "Departments may also include items with a value of less than EUR 500 when they need to keep track of them (e.g. mobile phones)."[54]

Recommendation 25. More strict rules are needed concerning attractive items, including portable and common use items such as, e.g. tablets, cameras, printers, laptops, smartphones, software, etc. They should be registered so as to allow for their identification. If such items are lost or stolen, persons responsible for them should be obliged to provide documented explanations.

[51] *Ibidem*, page 93.
[52] Report by the External Auditor of the Council of Europe: *Consolidated Financial Statements of the Council of Europe for the Financial Year 2015*, May 2016, Recommendation 19, pages 92-93.
[53] *10. Disposal of Inventoried Fixed Assets.*
[54] *2. Definition and Types of Fixed Asset Inventories.*

197. The data on physical inventories conducted at CoE show that 55 IT items in the Lisbon Office, out of which five are of the value over 500 EUR, have never been subject to a physical inventory. In the case of four other items, the latest check took place in 2010, and in the case of ten others: in 2011. There is no regularity with regard to the dates of the checks. Therefore, it appears that IT related assets of CoE have never been reviewed in compliance with article 54 of the *Financial Regulations and Supplementary Provisions of the Council of Europe*, which reads that inventory checks should take place at least once a year at the end of the financial year. It is not compliant even with a more liberal rule of the *Guidelines for the management of fixed asset inventories at the Council of Europe, i.e. rule* 9.b.i: "checks [should be] performed every 3 to 4 years on all assets in the financial inventory (around 2000 items of equipment per year)".

198. The Executive Director of NSC informed us that after the audit mission a team was appointed, including a person who was not responsible for assets custody, to verify physical presence of the items listed in the assets registers. The check also covered the items which were not under direct responsibility of the Lisbon Office – mostly the equipment of the Directorate of Information Technology. As we were also informed, a quarterly mechanism of verification was set in the NSC Office.

Recommendation 26. Regular verification of assets used by entities is a good practice, which can be applied as an example across the Council with a view to strengthening the system of assets control, especially in the offices outside Strasbourg. It cannot replace formal physical inventories by responsible Major Administrative Entities (MAE), but it can reduce frequency of such inventories and it can help to regularly update the central registers of the assets administered by MAEs.

IV. AUDIT APPROACH

Basis

199. Najwyższa Izba Kontroli (NIK)[55], the External Auditor of the Council of Europe, audited the *Financial Statements of the Council of Europe for the Financial Year 2017*.in accordance with article 71 and article 72 of the Financial Regulations and Supplementary Provisions of the Council of Europe, followed by paragraph 1.h of the Agreement of 22 October 2014 concerning the Council of Europe's External Audit.

200. The audit was conducted in accordance with the *International Standards of Supreme Audit Institutions (ISSAI)*.

Objectives

201. The objective of the audit was, in accordance with article 71 of the *Financial Regulations*: "to obtain assurance that the financial statements present fairly in all material respects the financial position and the results of operations and cash flows of the Organisation and have been prepared in accordance with IPSAS". The external audit team also verified whether the related accounts for the financial year 2017 presented fairly, in all material respects, the financial records and transactions of the Organisation, and whether they were prepared in accordance with the *Financial Regulations* and any other rules or applicable instructions issued by the Committee of Ministers. Where necessary, observations with respect to the economy, efficiency and effectiveness of the financial procedures were made, as well as those regarding the Organisation's accounting system, administration and management practice.

Audit team

202. The team members were NIK auditors:
- Mr Paweł Banaś - Department of Strategy,
- Mr Michał Dudkiewicz - Accounts Department,
- Ms Małgorzata Duraj - Department of Economy, State Assets and Privatisation,
- Ms Marta Florczykiewicz-Cymara - NIK Regional Office in Katowice,
- Ms Monika Gruszeczka-Jasińska - NIK Regional Office in Kraków,
- Mr Michał Pindel - Department of Budget and Public Finance,
- Ms Agnieszka Rejmer-Kopania - Department of Economy, State Assets and Privatisation,
- Mr Łukasz Róg - Department of Science, Education and National Heritage,
- Mr Wiesław Sawicki - Department of Strategy,
- Mr Marek Sikorski - Department of Budget and Public Finance.

Timeframe

203. The audit covered the year 2017. The data from the previous years were also taken into account if it was necessary to understand the organisation and management system applied to the *Financial Statements of the Council of Europe for the Financial Year 2017*.or to assess the quality of the data.

204. Najwyższa Izba Kontroli started preparations for the audit in March 2018. The draft audit report on the *Financial Statements of the Council of Europe for the Financial Year 2017* was prepared on 30 April 2018, comments of the audited MAEs were received on 4 May 2018, and the final version of this audit report was completed on 15 May 2018.

[55] Supreme Audit Office of Poland.

Audit works

205. To collect the information presented in this report the team visited:

- Strasbourg: from 30 to 31 May 2017 (to collect initial information), from 3 to 7 July 2017, from 4 to 15 September 2017, from 26 November to 1 December 2017, from 5 to 9 March 2018, and from 9 to 27 April 2018;
- Lisbon from 9 October to 20 October 2017;
- Graz from 4 December to 8 December 2017.

206. A significant part of the work was performed in the NIK premises in Poland. It included online communication: collection of data, explanations and comments, as well as information analysis and report drafting. The auditors' online autonomous access to the data of the *Financial Information Management System (FIMS)* was very helpful.

207. As the starting point to understand the audited area we used the experience gained during the financial audits of the Council of Europe's accounts for the financial years 2014-2016. We also used the experience we gathered during our other audits of the Council's activities, in particular:

- *Management of Financial Information in the Council of Europe* (2015),
- *Fixed Assets Management* (2015),
- *Organisation of Pension Fund of the Council of Europe* (2016),
- *Archiving of Documents and Data of the Council of Europe* (2016),
- *Programme line: Education for democratic citizenship – European Centre for Modern Languages – North South Centre* (2017),
- *Distribution and use of administrative levies on extrabudgetary resources* (2017),
- *Usability and Application Controls of WebFOCUS* (2015),
- *Upgrade of Payroll IT System* (2016),
- *IT systems for records and documents management in the Council of Europe* (2017).

208. The findings of those audits were the main source of ideas used in risk assessment that preceded the examination of the *Financial Statements of the Council of Europe for the Financial Year 2017*.

209. We analysed all available memoranda which delegated financial, organisational and managerial powers to the entities and persons involved in the *Financial Statements of the Council of Europe for the Financial Year 2017*. The figures presented in the annual financial report prepared by the Treasury, Payments and Accounting were verified. We performed sample tests of staff contracts and the documentation of expenses *vis-à-vis* the reported data with regard to their completeness, reliability and compliance with the relevant regulations of the Council of Europe. We also contacted relevant staff of other MAEs and retrieved necessary data from the IT *Financial Management System (FIMS)*, the Council's IT System to Manage Human Resources (*PeopleSoft*) and the *Budget Tool* of the Council of Europe.

210. The preparation of the draft audit report was preceded by the exit meeting with the Directorate of Programme and Budget (DPB), Directorate General of Administration (DGA), including the Treasury, Payments and Accounting Department (TPA), the Directorate of Internal Oversight (DIO) and the Office of the Directorate General of Programmes (ODGP) on 26 April 2018. The Organisation's comments on the draft audit report were taken into account in the final version of this document. In the case of uncertainties regarding particular comments, we discussed them with their authors, looking for the best ways to identify problems and to outline recommendations.

Performance examination

211. Apart from the financial audit results, which are the core part of this report, three performance or organisational audits are presented in its second part[56].

Compliance assessment

212. Relevant regulations and standards were taken into account by the audit team, starting with those of key significance:

- *Financial Regulations and Supplementary Provisions of the Council of Europe*;
- *Statute of the Council of Europe*;
- other regulations of various levels applicable to the *Financial Statements of the Council of Europe for the Financial Year 2017*, including *Rule No. 1333 of 29 June 2011 on the procurement procedures of the Council of Europe*, as well as the internal guidance of the relevant MAEs.

Cooperation with the Auditee

213. The audit team would like to express their gratitude to the management and staff of the Council of Europe for their cooperation at all stages of the audit. Appreciation should be addressed in particular to the Directorate General of Administration, including the Treasury, Payments and Accounting Department, and the Directorate of Information Technology, to the Directorate of Programme and Budget, as well as to the Directorate General of Democracy, including Education Department, the European Centre for Global Interdependence and Solidarity, and the European Centre for Modern Languages. Their support given to the reported audits and their cooperation over the course of this assignment helped us to perform our task and to prepare this audit report. The credit is also given to the Directorate of Internal Oversight that provided us with internal audit reports and cooperation, in line with the *Agreement of 22 October 2014 between NIK and the Council, concerning the Council of Europe's External Audit*.

[56] See page 87.