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COMMUNICATION TO THE COMMISSION

Standards for internal control within the Commission's services and the baseline for implementation by the 31st December 2001

1. INTRODUCTION

1.1. The context

Several initiatives and communications have been undertaken in the domain of the reform of financial management in the Commission services in line with the White Paper on reform:

- the Internal Control Standards and the charters for authorising officers by delegation and sub-delegation were approved by the Commission on 13 December 2000 (SEC (2000) 2203),
- the scope of the Annual Activity Reports (AAR) was specified by the Commission on 26 June 2001 (SEC (2001) 875/6)
- the methodological tools for implementing Activity Based Management within the Commission were developed on 25 July 2001 (SEC(2001) 1197)

In addition, the DGs have established an intermediate report on the 30th June 2001 on the degree of implementation of the reform in financial management. The Commission on 7 November 2001 has approved a summary document of these intermediate reports (SEC(2001)1723/6).

Director Generals need a common and realistic baseline for their annual activity report and, in order to facilitate a coherent reading of the different declarations, a commonly agreed interpretation of the different tools and requirements is necessary.

The internal control standards set out standards for a variety of matters, including specific required actions and impacts, design features for systems, organisation structures etc.

In some cases they identify new control features which the Commission has decided need to be put in place (e.g. standard 22 on implementation of IACs in all DGs). However, in many cases they cover control matters for which managers have always been responsible (e.g. standard 17 ‘supervisory procedures’). In the latter cases, any ‘implementation dates’ set out for specific actions cannot be understood to imply that managers did not have the related control responsibilities in the past.

The Commission does, however, accept that there has been a lack of guidance for managers in the past on some of these control matters and that managers are entitled to some assistance in further developing their thinking as to how controls can be tested and what kinds of controls should be expected in a DG. It is also for this reason that these standards have been introduced. Below, an indicative translation of those standards is often provided into a number of practical actions which DGs will need to ensure have been carried out in a first phase – together with dates by which those actions could reasonably be implemented. DGs will be expected to carefully monitor and report their implementation of these actions against those dates.

However, the essential point of the standards is not just that a given list of actions are implemented but rather that they should inspire the implementation of controls which are genuinely integral to the management of the DG – thereby providing assistance to managers in achieving the DG’s objectives. The actual RUF subgroup on internal control standards will continue to be an interservice forum for exchanging best practices and enhancing a common understanding for implementation of these standards. Anyhow, managers are responsible for achieving the control impacts which are the purpose of the standards and not just the listed

actions and will it be necessary to continue reviewing the impact of the actions and controls on an ongoing basis. In this context, the Commission recognises that a full assessment of this full effective implementation of the standards may take a considerable time.

This communication specifies the minimum internal control requirements to be met by the DG.s and Services by 31 December 2001. Compliance with these baseline requirements should be reported in the internal control section of the Annual Activity Report and should be taken into account, among other elements, for the purposes of the declaration to be included in those reports.

1.2. The revision of the baseline for implementation of the internal control standards at the 31st December 2001

Since the internal control standards cover the overall organisation and are not just limited to financial management, their effective implementation cannot be reached in a short period of time. For this reason, when the standards were originally approved, it was already envisaged to set up their progressive implementation over an extended period of time, aiming at implementing them in full by 31 December 2001.

However, even though significant progress has been made in the implementation of the standards, it is clear that the timing initially envisaged needs to be revised to allow for a more realistic assessment of what is achievable by 31 December 2001.

The main reasons for this are as follows:

- The 30 June Progress reports illustrate that the baseline activities for 30th June 2001, which covered merely the financial procedures, had not yet been fully implemented. Additionally, the scope of the baseline activities for December 2001 is significantly wider than for those to be implemented by 30 June 2001, which could result in a regression in the level of implementation due to this change of the level of expectation. Accordingly, the outstanding work necessary to ensure that certain standards are fully implemented by 31 December 2001 is not realistic in practice. Consequently, DGs should expect to be guided on exactly what they will be required to have implemented by this date.
- In the domain of the reform of personnel policy, some difficult Commission decisions have taken longer to be finalised than originally envisaged. Moreover, the full implementing guidelines to support these initiatives have yet to be developed and made available to DGs and Services.
- The communication on Activity Based Management outlined a number of measures to be implemented on a progressive basis over a period beyond 31 December 2001.

Therefore, this communication intends to specify the new calendar for the internal control standards adopted on 13 December 2000 (SEC(2000)2203) and, after recalling the definition and basic concepts, will for each standard:

- a) remind the text of the full standard;
- b) define the proposed baseline requirements to be met by 31 December 2001 and fix the timing for the implementation of the full standard;
- c) indicate the main references and available guidance notes.

In cases where the deadline for the implementation of the full standards is dependent on the adoption by the Commission of a new policy document, the Commission bases the deadline proposed on the current expectation about the date of adoption. If the expected date of adoption by the Commission is not achieved, the deadline for the implementation of the relevant standard will be adjusted accordingly.

2. DEFINITION AND BASIC CONCEPTS

2.1. Definition of internal control

The Reform White Paper defines internal control as follows: ‘Internal control covers the globality of the policies and procedures conceived and put in place by an entity’s management to ensure the economic, efficient and effective achievement of the entity’s objectives; the adherence to external rules and to management policies and regulations; the safeguarding of assets and information; the prevention and detection of fraud and error, and the quality of accounting records and the timely production of reliable financial and management information.

It follows that internal control is the responsibility of all officials. Internal control systems should be integrated with operating activities, so that prompt reaction to changing situations is possible and the quality of decision making and delegation can be improved. The key financial control issue is to define the tasks and responsibilities of each official involved in the decision making process since all tasks carry financial implications at some level.’

Director’s General responsibilities cover the entire management process, from the definition of objectives to delivering results. This includes ensuring the legality, regularity and effectiveness of the decisions taken. In simple terms, internal control can be said to help the Director General to achieve his objectives while respecting all relevant rules and procedures.

Once management has defined the internal control system, its effective implementation is the responsibility of all officials.

The standards defined below are intended to be achieved by all the Commission’s services and thereby to provide a reasonable assurance to the Commission that a consistent level of control is achieved throughout its services. The standards have to be considered as the minimum level of tools and procedures designed for helping the management with the definition of the DG.s internal control system.

Thus, it can be recalled that internal control:

- is integrated into the management systems of every service,
- concerns staff at all levels,
- provides a reasonable (not absolute) assurance.

Responsibility for effective internal control lies with the Director General or Head of Service (who acts as delegated authorising officer). However, each official or agent contributes to achieving effective controls. For this reason one of the priorities of the standards is to create the necessary conditions to allow staff to carry out their tasks.

Control systems should seek to achieve a reasonable balance between the risks to be addressed and the costs incurred in minimising these risks. No system can provide an absolute guarantee that all errors will be detected or deliberate fraud prevented.

2.2. Key control components for internal control components

The standards for internal control define the minimum management rules that all services must follow in their management of resources. They are intended to achieve a consistent level of internal control throughout the Commission. The Director General or Head of Service (as delegated authorising officer) is responsible for ensuring that his management systems for each of his main activities comply at least with these standards.

The standards are structured around the following five key control components:

- **control environment:** covers major organisational issues and in particular on administrative structure and the management of human resources. It regroups six standards: ethics and integrity; the definition of mission, role and tasks; staff performance; staff competence; delegation and sensitive functions.
- **performance and risk management,** which intends to support the declaration of the DG/Head of Service in particular as regards the “assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management”. This includes all the management issues relating to introducing planning, programming and performance measures, their degree of implementation and points for future action e.g., objective setting, pluriannual programming, annual management plan, monitoring performance against objectives and risk analysis.
- **information and communication:** intend to set up an adequate process to manage internal information and report on issues such as budget and management plan execution and use of resources, mail registration and filing system, and reporting improprieties.
- **control activities:** focuses on issues relating to the documentation of procedures, segregation of duties, supervision, recording of exceptions and the continuity of operations.
- **audit and evaluation:** focuses on the setting up and the functioning of the proper audit capabilities and evaluation function, It covers the recording and correction of internal control weaknesses; planning of audit reports; availability of an internal audit capability and evaluation function; and the annual review of internal control.

The internal control standards were foreseen to be effective from 1 January 2002. However, in view of the present context, Directorates-General must be allowed to transpose them gradually. Priority must be given to the financial field.

Below, for each key control component, the operational definitions of the related Control Standards are recalled. The guidelines following each standard identify the actions to be taken by 31 December 2001. Finally, each standard is accompanied by the main references intended to aid understanding and implementation of the corresponding standard. These references will be revised and improved progressively as the Commission adopts policy documents relevant to the standards. An updated version will be maintained on the part of the CFS-website covering the internal control standards.

3. CONTROL ENVIRONMENT

3.1. Standard 1: Ethics and Integrity:

3.1.1. Description of the full standard:

Each DG shall ensure that staff are fully aware of the rules governing staff conduct and prevention and reporting of fraud and irregularities.

3.1.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

The deadline of 31 December 2001 should be achievable by all DG.s for items in respect of the Staff Regulation, the Commission's Internal Rules and the Code of good administrative behaviour. The deadline for the other items (OLAF guide and guidelines on project management-Action 92) should be moved to March 2002, provided that the new communications, or revisions thereto, are adopted on time. Each DG should also have set up by 31 December 2001 the necessary procedures for a yearly update of their Staff on these rules in order to raise their awareness in this area.

It is recommended that the DG organise regularly information sessions to ensure that staff properly understand the requirements that are relevant to their work. In addition, each DG should prepare on its intranet a document highlighting those rules which are particularly relevant to the work of the DG.

3.1.3. Main references:

- Staff Regulations.
- Rules of procedure of the Commission (C(2000)3614)
- Code of Good Administrative Behaviour COM(2000) 2675, 17.10.2000.
- Guide to testing for vulnerability to fraud, Uclaf, 18.04.1997.
- Commission Decision (1999/396/EC, ECSC, Euratom:) of 2 June 1999 concerning the terms and conditions for internal investigations in relation to the prevention of fraud, corruption and any illegal activity detrimental to the Communities' interests (SEC(1999) 802) OJ L149, 16.6.1999, pp. 57-59.
- Communication from the Commission: Protection of the Communities' financial interests. The fight against fraud - For an overall strategic approach, COM(2000) 358, 28 June 2000.
- Communication on fraud proofing of legislation and contract management (SEC(2001)2029), 07 November 2001.

3.2. Standard 2: Mission, role and tasks

3.2.1. Description of the full standard:

Each DG shall communicate to all staff on an up-to-date and written basis:

- *the mission statement of their department (unit, directorate and directorate general);*

- *their role in their department (job description);*
- *their tasks assignment (individual objective) and expected results.*

3.2.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

After having completed the interservice consultation on its final guidance on job descriptions in early November, DG ADMIN now expects its adoption by the Commission in January 2002. In May 2002 a new Job Information System (JIS) should be available permitting the introduction of the data by the services according to the new rules. The guidance on individual objectives (task assignments) for use in the context of the new staff appraisal system will probably not be adopted before 2002. Given the need for training in the application of the new system the deadline for the implementation of the part of the standard may need to be put back until the end of the first semester of 2002 for the job description.

The communication of mission statements should have been achieved by December 2001, as originally foreseen.

3.2.3. Main references:

- DG ADMIN Draft guidelines for Job Descriptions, SEC (2000) 852, 24.05.2000):
<http://www.cc.cec/home/admref/en/pdf/jobdescrip.pdf>
- Practical steps in the establishment of job descriptions - June 2000:
http://www.cc.cec/home/admref/en/pdf/praste_en.pdf
- DG ADMIN draft guidelines on task assignments:
<http://www.cc.cec/home/admref/en/pdf/taskassignm.pdf>

3.3. Standard 3: Staff competence (recruitment, training and mobility)

3.3.1. Description of the full standard:

Each DG shall ensure on a permanent basis the adequacy between staff competence and their tasks by means of:

- *defining the knowledge and skills required by each job;*
- *conducting recruitment interviews on the basis of an evaluation sheet defined by the Human Resources Unit;*
- *keeping a record of all interviews to identify potential future candidates;*
- *identifying during the recruitment process the basic immediate training plan to be followed by the new official;*
- *reviewing training needs in the context of the annual staff appraisal;*
- *ensuring that identified training needs are met as soon as possible;*
- *developing an internal training capacity in order to respond to specific needs not covered by Commission-wide training courses;*
- *defining a training and mobility policy aiming at enriching staff background and experience.*

3.3.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

Specific requirements for June 2001 were:

- that each Director or Head of Unit with responsibility for authorising expenditure should attend the “expenditure cycle” training run by DG BUDG (action 91c);
- that in the light of the financial circuits chosen, DG.s should determine the number of staff (subdelegated authorising officers, technical and financial officers involved in the financial circuits, and members of horizontal finance units) requiring more specialised financial training and discuss with the CFS the preparation of an appropriate training plan, drawing on courses run centrally by the CFS and/or internal courses in the DG.

This has to be implemented by December 2001.

After the adoption by the Commission of the package for Reform of Human Resources policy in October 2001, which included the policy on training and guidelines on mobility, the papers containing specific guidelines on their implementation are expected to be approved by the Commission in December 2001. Therefore, the deadline for defining a training and mobility policy at Commission-level should be moved to three months after the approval of the guidelines by the Commission. The deadline for the definition on DG-level of these policies and for the implementation of the other elements of this standard should be moved to September 2002.

3.3.3. Main references:

- Consultative documents on recruitment, training and mobility, prepared by DG ADMIN, 28 February 2001.
- Catalogue of financial and budgetary training integrated in the overall Admin-training catalogue.
- Commission decision on human resources policy of 30 October 2001 (SEC(2001)1697/final).

3.4. **Standard 4: Staff performance**

3.4.1. Description of the full standard:

Each DG shall review the performance of all of its staff at least annually. All staff shall have the opportunity to discuss their individual performance with their reporting officer at least once a year. Where specific performance issues are identified these shall be addressed by managers as early as possible.

3.4.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

The Staff performance assessment under the existing regime currently underway should be completed by the end of 2001. Regarding the new staff appraisal system, DG ADMIN now expects its communication to be adopted by the Commission in December 2001. With the need for training in its implementation thereafter the deadline for full implementation of the standard should be put back until end 2002. A computer application supporting the new staff appraisal system will be available in the beginning of 2003.

3.4.3. Main references:

- DG ADMIN Issue note: Career, promotion and appraisal (14 July 2000): http://www.cc.cec/home/admref/en/dgadmin/pdf/career_en.pdf
- Consultative documents on “Performance and development review and Promotion” and “Middle-management” adopted by the Commission on 28 February 2001.

3.5. Standard 5: Sensitive functions

3.5.1. Description of the full standard:

Each DG shall draw up an inventory of sensitive functions in its service and define an appropriate rotation policy. A person holding a function classified as sensitive should move to another function after a maximum period of 5 years.

3.5.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

DG.s are required to draw up an inventory of sensitive functions, a list of the persons currently occupying them and their seniority in the post, in order to develop a plan for ensuring a regular rotation of such functions every 5 years. This inventory should include only those functions which remain sensitive after all possible mitigating controls have been put into effect. In order to enhance a common understanding between the services, the RUF subgroup on internal control standards will also handle this subject.

The requirement for 30 June 2001 was effectively limited to staff involved in financial transactions and should be met by 31 December 2001. The full standard applies to all posts and not just those in the financial area.

After the adoption by the Commission of the decision on mobility in October 2001 and of the specific guidelines on its implementation in December 2001, the deadline for drawing up a full inventory and devising an appropriate rotation policy is changed to three months after the adoption of these specific guidelines (i.e. actually March 2002). The timing of actual rotations of individuals may need to be determined in the light of the numbers involved and taking into account the availability of replacing resources.

3.5.3. Main reference:

- Guidelines on sensitive functions of 14 May 2001 (BUDG/D3/RB/ec D(2001)72141).
- Commission decision on human resources policy of 30 October 2001 (SEC(2001)1697/final).

3.6. Standard 6: Delegation

3.6.1. Description of the full standard:

Responsibilities and authority limits shall be clearly defined, assigned and communicated in writing. Delegation shall be appropriate to the importance of the decisions to be taken and the risks involved.

3.6.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

DG.s are required to apply the rules on subdelegation in the Charter for delegated authorising officers. All delegated and subdelegated authorising officers should have received and acknowledged the Charters and specific delegation instruments by 31 December, at the latest.

The detailed rules on financial delegation established in the Charter for Authorising Officers, by delegation and by subdelegation, precise that:

- The authorising officer by delegation may delegate powers to authorising officers by subdelegation, except where the Commission decides otherwise in the internal rules.
- The hierarchical level to which powers may be subdelegated must be proportionate to the corresponding risks.
- An authorising officer by subdelegation may not, without the express written agreement of the authorising officer by delegation, further subdelegate the powers received from this authorising officer by delegation (with the exception of cases of "cross delegation", where the subdelegation is to an authorising officer by delegation, Director-General or Head of Service). Authorising officers by delegation may, for operations of the same type, give or accept subdelegations at different hierarchical levels according to criteria they have set. Each instrument of subdelegation must specify the purpose and the amount involved; each subdelegation must comply with the limits set in the internal rules; in principle, an authorising officer by subdelegation who has received powers by subdelegation made up of a number of components may not further subdelegate these powers in full to a single official.

The full standard refers to all delegation of responsibility, not only to financial delegations. This should be fully implemented by 30 April 2002.

3.6.3. Main references:

- Charters for authorising officers by delegation and by subdelegation adopted by the Commission on 13 December 2000 and annexed to the Internal Rules for implementation of the budget (SEC(2000)2203).

4. PERFORMANCE AND RISK MANAGEMENT

The four standards on performance management are integral to the ABM process on which the Commission adopted a communication on 25 July 2001. In the financial area, however, the Commission has already for some time set requirements (e.g. in the Financial Regulation, its implementing rules, legislative and budgetary financial statements and the various communications on evaluation). The following paragraphs suggest what DG.s should be in a position to report in relation to these standards.

Standard 9 focus on the annual management plan process, while standard 7 deals with what is to be achieved (objectives); standard 10 focus on the information required to measure or reliable assess progress; and standard 8 deals with the multiannual financial programming.

Standard 11 deals with all aspects of risk management.

4.1. Standard 7: Objective setting

4.1.1. Description of the full standard:

Each DG shall communicate to its staff general objectives and expected results established by the Commission by policy area and activity.

Each DG shall translate general objectives into specific objectives and expected results for each activity and communicate them to its staff.

Specific objectives shall be verifiable and include meaningful and practical measurement criteria.

Objectives may be of different types: general objectives, specific objectives and operational objectives:

- The **general objectives** are the goals set for a policy area or activity, expressed in terms of its long term effect (impact). They are mid/long-term objectives.
- The **specific objectives** are the intermediate objectives of an activity, which need to be reached if we expect the general objectives to be achieved. They are expressed in terms of results, i.e. the direct and short-term effects of the policy or programme.
- The **operational objectives** refer to deliverables, which the activity is expected to produce for its beneficiaries and they are expressed in terms of outputs, i.e. products or services generated by the activity.

This standard concerns all the objectives, as they have to be set up by the authorising department. The political priorities are external variables imposed on the Director General/Head of Service under the delegation of powers that he must incorporate in the management system. As a rule, although the political priorities are not decided on directly by the Director General/Head of Service, he has been involved in the process of defining them and is therefore already quite familiar with them.

In all these cases, a useful mnemonic to apply to the identification and revision of objectives is to check that they are "**S.M.A.R.T.**": Specific (whatever category they fall into, specific here meaning detailed and precise); Measurable and verifiable (clear, and where appropriate

quantitative, indicators should be assigned to them); Appropriate (which are part of the core-businesses); Realistic (ambitious but meaningful); Time-dependent (given deadlines).

4.1.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

The full standard requires objectives to be set for all policy areas and activities whether or not they involve expenditure. This requirement is confirmed in the ABM communication adopted on 25 July 2001 and is supported by more specific guidance in the context of the SG's circular on annual management plans (AMP.s) (see standard 9 below). From the 2003 AMP.s onwards, DG.s, following approval of their AMP, will be asked to deploy them internally, setting operational objectives at the level of actions and developing overall monitoring systems.

The standard should be achieved on policy area and activity level in the context of the AMP.s for 2002, of which first drafts were to be submitted by October 2001 and which are to be finalised in January 2002.

4.1.3. Main references:

- Ex-ante evaluation and programme planning, 26 March 1999, Evaluation Unit, DG Budget. (Guide to ex ante evaluation in preparation).
- ABM communication adopted on 25 July 2001 (SEC(2001)1197).
- SG circular on annual management plan (SEC(2001)1330 of 30 July 2001).

4.2. Standard 8: Multiannual programming

4.2.1. Description of the full standard:

(Standard applicable only to activities with multiannual budget requirements)

At the time of the adoption of a decision or legal base establishing an activity and its multiannual financial programming, the DG shall establish a "road-map" of measures to be set in hand to achieve this programming.

4.2.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

Draw up, where appropriate, the road-map of ongoing multiannual activities (many of the multiannual programmes already have such a tool, as it is required by the legal basis). The main objective is to check that the road-map serves as a genuine management tool for the authorising department.

To this end, the road-map should set out a critical path for the actions that need to be taken before the budget appropriations can be implemented for the whole period of the activity. These actions may include, for example, publication of invitations to tender, assessment of bids, selection, drawing up contracts, consultation of committees, etc.

The road-map should seek to highlight the critical dates, which, if not respected, would result in slippage in implementation from one year to the next. These critical dates should be

integrated in the relevant annual work programmes for the activity and communicated to the relevant staff.

4.2.3. Main references

- The legal basis for the activity: multiannual schedule and, where necessary, committee procedures for drawing up the multiannual work programme.
- Multiannual financial programming adopted each year by the Commission at the same time as the preliminary draft budget.

4.3. Standard 9: Annual management plan

4.3.1. Description of the full standard:

Each DG shall prepare an annual management plan which incorporates appropriate objectives and indicators and the resources (financial and human) necessary to achieve them.

4.3.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

The full standard relates to all activities and not just activities involving expenditure. The ABM communication adopted on 25 July introduces a requirement for annual management plans (AMP.s). The AMP should incorporate the DG's Mission, overall objectives for its Policy Area and objectives for its Activities and the resources (financial and human) necessary to achieve them.

The ABM communication stipulates that the first drafts of the AMP.s for 2002 should be submitted by October 2001 and that they should be finalised by January 2002. The whole implementation process should be progressive and the complete coverage of the standard (full harmonised content of the AMP) would be reached with the implementation of AMP.s for 2004 (to be finalised in January 2004).

4.3.3. Main references:

Further guidance on their contents has been issued in a circular (SEC(2001)1330 of 30 July 2001).

4.4. Standard 10: Monitoring performance against objectives and indicators

4.4.1. Description of the full standard:

Key performance indicators, including indicators for economy, efficiency and effectiveness, shall be established and monitored for each Policy Area and Activity.

Management should regularly receive reports on each Activity which compare the output and impact achieved with the objectives set. Management shall take action to address any identified shortfall against objectives.

4.4.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

The ABM communication adopted on 25 July 2001 requires services to define in their Management Plans for 2002 objectives for their Policy Areas and Activities and to report on

the progress made on these objectives in the Annual Activity Reports. For this purpose it recommends defining progress indicators corresponding to each objective. For the AMP 2003, the communication requires defining objectives together with corresponding output indicators and, where possible, impact indicators. For the AMP 2004 onwards, output and where possible impact indicators may be adjusted with a view to be fully operational at all levels.

4.4.3. Main references:

- Circular SG and DG BUDG on Annual Activity Report, to be established in December 2001.
- ABM communication 25 July 2001 (SEC(2001)1197)

4.5. Standard 11: Risk analysis and management

4.5.1. Description of the full standard:

Each DG shall systematically analyse risks in relation to its main activities at least once a year, develop appropriate action plans to address them and assign staff responsible for implementing those plans.

4.5.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

An internal control system can be considered as being effective to the extent that it provides reasonable assurance that the objectives set up will be achieved. In order to set up a sound internal control system able to provide such reasonable assurance, management must:

- Identify the main risks faced in the following four categories: Effectiveness and efficiency of operations; Compliance with existing rules and regulations; Reliability of internal and external financial and management information; Safeguarding of assets and prevention and detection of fraud;
- Define the acceptable level of exposure to those risks;
- Assess the impact and likelihood of the risks materialising;
- Set up the required controls to manage the exposure to an acceptable level on a cost efficient basis;
- Monitor and evaluate risks and assess the adequacy of internal controls set up on a regular basis;

The common methodology proposed is based on conducting an annual Internal Control and Risk Self-Assessment (ICRSA) exercise, this consists of a two stage process:

- a high level stage during which senior management is asked to a) assess their DG's degree of compliance with the internal control standards approved by the Commission and identify DG-wide risks or areas for improvement (using the Internal Control Self-Assessment questionnaire) and b) identify a limited number of specific priority activities (using the Risk Diagnostic questionnaire) where the risk for the

achievement of the DG's objectives is considered to be high, that therefore should be subject to further detailed analysis; and

- a detailed risk assessment stage during which middle management will be invited to carry out more detailed assessments of risks and offsetting controls in the priority areas identified in the Risk Diagnostic stage.

DG.s should complete their high level risk assessments between September 2001 and March 2002. The detailed risk assessment for the priority areas identified should be completed by September 2002.

4.5.3. Main references:

Risk management methodology note proposed by DG BUDG of 23 July 2001 (BUDG/D3/RB/ec D(2001)72201) issuing detailed guidelines on this standard.

5. INFORMATION AND COMMUNICATION

5.1. Standard 12: Adequate management information

5.1.1. Description of the full standard:

Managers and other staff shall receive regular, reliable and easily accessible management information on budget execution, use of resources and progress of their management plan.

5.1.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

Each authorising department shall establish a “scoreboard” (tableau de bord) for regularly monitoring financial management. Key indicators in the financial area which could be incorporated into regular management information reports include:

- the level of implementation of budget appropriations;
- payment delays;
- evolution of outstanding commitments (reste à liquider) and, in particular, “dormant commitments”;
- number of files sent back by the Financial Controller (“renvois”) or by the internal ex-ante control service in the DG, if available;
- negative opinions of the ACPC (CCAM);
- number of recovery orders issued.

Various tools (e.g. the SINCOM DataWarehouse) already exist to facilitate this process. In the medium term, the introduction of IRMS in all services should make a major contribution in this respect.

There is no reason to change the original deadline of December 2001 for a first scoreboard covering at least key financial indicators. This first scoreboard should be further enhanced by June 2002 in order to cover also indicators on use of resources and implementation of the management plan and to integrate experience based on the use of the first version of the scoreboard.

5.1.3. Main references:

- SG circular on Annual Management Plan (SEC(2001)1330 of 30 July 2001)

5.2. Standard 13: Mail registration and filing systems

5.2.1. Description of the full standard:

Each DG shall systematically register incoming and outgoing mail to enable efficient monitoring of deadlines and maintain a comprehensive and up to date filing system which is accessible to all appropriate staff.

5.2.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

Each authorising department will produce a filing plan and will ensure that all supporting documents for individual financing operations in progress (contracts, grants, transfer of funds to decentralised bodies, etc.) are kept in such a way that it is possible at any time and as

quickly as possible to put together the full file showing all the stages. Supporting documents comprise everything from the legal basis of the financing programme to the final payment, and cover calls for proposals, the record of the evaluation, the reasons for the selection or the award of the contract, the contract itself, all correspondence with third parties (letter, fax or e-mail), records of meetings with third parties, cost statements, etc.

The full standard refers to mail and documents whether or not they relate to financial transactions. Actually, the document handling is based upon the Commission decision of 1986(SEC(86)388). This decision specifies the rules for registering, archiving and preserving incoming and outgoing mail. The Secretariat General expects to submit a new proposal for decision on document handling to the Commission before February 2002. This will specify the requirements to be met by all services in this area.

The DG.s will receive the accompanying implementing rules and the adequate support and training in order to obtain an homogeneous implementation of the decision. On base of these instructions, each DG should have nine months after the adoption of the decision by the Commission a proper filing plan for every unit in the DG and should properly register relevant incoming and outgoing mail according to the defined principles.

5.2.3. Main references:

- [Commission decision on document handling \(SEC\(1986\)388\);](#)
- Filing systems: Interim work programme - simplification of procedures and working methods

5.3. Standard 14: Reporting improprieties

5.3.1. Description of the full standard:

Appropriate procedures, in addition to reporting to the direct superior, shall be established and communicated to staff covering the reporting of suspected improprieties. Persons complying with the above obligations must not suffer inequitable or discriminatory treatment as a result of communicating such information.

5.3.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

Members of staff must inform the Head of Service or Director General, the Secretary General or OLAF if they come across evidence of the existence of possible fraud, corruption or any other illegal activity detrimental to the interests of the Communities. The same obligation applies in relation to evidence of serious breaches of professional duties liable to result in disciplinary or criminal proceedings.

Dependent on the finalisation on the consultative document on 'whistleblowing' (SEC(2000)2078), which DG ADMIN expect to be formally adopted before the end of 2001, this standard should be implemented by 31 March 2002.

5.3.3. Main references:

Consultative document by Mr Kinnoek raising concerns about serious wrongdoing, SEC(2000) 2078 à /5 – SEC(2000) 2098, 29.11.2000.

6. CONTROL ACTIVITIES

6.1. Standard 15: Documentation of procedures

6.1.1. Description of the full standard:

The procedures used in the DG for its main processes shall be fully documented, kept up to date and available to all relevant staff and shall be compliant with the Financial Regulation and all relevant Commission decisions.

6.1.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

The June 2001 requirement for expenditure activities specified that DG.s should have

- fully documented all their financial procedures (e.g. calls for tender, award of contracts, selection of beneficiaries, authorisation of transactions – commitments, payments, recoveries, etc.), and
- provided up to date manuals with clear operational instructions for each of the operations to be carried out.

The June standard related only to procedures relating to financial transactions. The full standard relates to all procedures. Where appropriate, local manuals and systems descriptions should include checklists summarising the key controls to be performed and/or flowcharts illustrating the process flow.

By December 2001 all DG.s should have an inventory of all procedures, both financial and operational, and have documented the financial ones. Other operational procedures should be documented by September 2002.

6.1.3. Main references:

- Key rules to be applied to certain important financial procedures (procurement, grants, commitments, payments and recoveries), annex 2 of Commission decision (SEC(2000)2203 of 13 December 2000).
- Friendplus intranet site: check-list for financial managers, manual of budget procedures, standard contracts, ACPC vade-mecum, vade-mecum on grant management, etc.

6.2. Standard 16: Segregation of duties

6.2.1. Description of the full standard:

The operational and financial aspects of each transaction shall be checked by two people who are independent of each other [i.e. not subordinate to each other]. The functions of initiation and verification of each transaction shall be kept separate.

6.2.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

Authorising departments must ensure that present or future financial circuits comply with this standard.

6.2.3. Main references:

- Guidance note by the Central Financial Service on segregation of duties and financial circuits, SEC(2000)2203 doc.4, 13.12.2000.

6.3. Standard 17: Supervision

6.3.1. Description of the full standard:

Each DG shall establish appropriate supervision arrangements including, where appropriate, ex post control of a sample of transactions to ensure that the procedures set up by management are carried out effectively.

6.3.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

This standard shall be addressed by authorising departments simultaneously with Standard No 15, documentation of procedures, in particular when defining the role of management in the codification of decision-making processes.

Management should carry out supervisory controls intended to ensure that the procedures implemented by the staff are effectively and continuously carried out. Supervisory controls include regular reviews by Management of the work conducted by staff reporting to them through checklists, exception reports, sample tests, indicators or whichever means are most appropriate to obtain such assurance.

The full standard applies in principle to all activities, not just those involving financial transactions.

Supervisory procedures concerning financial management processes should be implemented three months after the distribution of the guidelines. Those for operational processes should be implemented by September 2002.

6.3.3. Main references:

The Central Financial Service plans to issue additional guidance on the implementation of this standard by December 2001.

6.4. Standard 18: Recording exceptions

6.4.1. Description of the full standard:

Each DG shall establish appropriate arrangements to ensure that all instances of overriding of controls or deviations from established policies and procedures under exceptional circumstances are documented, justified and approved at an appropriate level before action is taken.

6.4.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

Management intervention involving potential deviations from established policies, procedures or controls may be necessary to deal with exceptional circumstances or events that otherwise may not be handled appropriately by the standard procedures set up. Provision for proper management intervention is necessary in all internal control systems because no system can be designed to anticipate every circumstance. When such exceptional circumstances arise, management intervention must be properly documented and disclosed to the appropriate level in order to get approval.

Authorising departments will determine, when acting on Standard No 15 (documentation of procedures) the internal action to be taken when one of the actors provided for in the financial circuits issues a negative opinion on a transaction. If it is decided to override this negative opinion, the grounds for the decision must be given and it must be registered.

The full standard applies to all deviations from established procedures, not just those involving financial transactions.

Timing should be the same as for the documentation of the corresponding procedures set up under standard 15, i.e.: 31 December 2001 for the recording of exceptions for all financial management procedures and September 2002 for all other operational procedures.

6.5. Standard 19: Continuity of operations

6.5.1. Description of the full standard:

Each DG shall establish appropriate arrangements to ensure the continuity of operations at any moment [i.e. absence of an official, substitution of an official, migration to new information systems, change of procedures, mobility, retirement, etc.]

6.5.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

The authorising department will determine, when organising subdelegations, (see Standard No 6, delegation), who is to replace an authorising officer by subdelegation who is absent (leave, mission, etc.) in compliance with the rules on deputising.

The full standard applies to assuring the continuity of all operations, not just financial operations. This covers, for example, the case of one official handing over to another, where a handover file in which information is contained to enable the continuity of operations (e.g. job description, delegations/subdelegations, sensitive cases, principal contracts) should be available.

The December 2001 deadline originally envisaged is maintained for the financial operations. The full standard should be in place by September 2002.

6.5.3. Main reference:

- Staff Regulations
- Rules of procedure of the Commission (C(2000)3614, art. 13 and 24) and the related implementation rules

7. AUDIT AND EVALUATION

7.1. **Standard 20: Recording and correction of internal control weaknesses**

7.1.1. Description of the full standard:

A clearly defined procedure shall be established for the proper reporting and subsequent correction of internal control weaknesses and for any related updating of procedures.

7.1.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

The codification of the decision-making circuits and the operational manuals (see Standard No 15, documentation of procedures) must give the name of the person in the authorising department who can be contacted to point out inappropriate procedures or other changes required.

Timing should be the same as for the documentation of the corresponding procedure, i.e. 31 December 2001 for all financial management procedures and September 2002 for all other operational procedures.

7.2. **Standard 21: Audit reports**

7.2.1. Description of the full standard:

Each DG shall review annually the recommendations made and action taken in response to audit reports by the Internal Audit Service, its own internal audit capability and the European Court of Auditors, define appropriate action plans to remedy weaknesses and monitor the implementation of those plans.

7.2.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

Authorising departments will take whatever measures they consider necessary to act on the conclusions of the audits of Internal Audit Service and its own internal audit capability.

Account will also have to be taken of the follow up that the DG proposed on observations of the Court of Auditors.

7.3. **Standard 22: Internal audit capability**

7.3.1. Description of the full standard:

Each DG shall establish or have access to a competent and properly staffed internal audit capability with an annual work programme based on risk assessment.

7.3.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

DG.s should report on action taken to implement the provisions of SEC(2000)1803 of 31.10.2000, notably in regard to the dates of the establishment of the IAC, the appointment of its head and other staff, the approval of its Charter and its annual work programme.

In view of the recruiting problems experienced by some DG.s to fill the open posts in their IAC, as mentioned in the 30 June 2001 Progress Report: Summary Document for the Commission, the deadline to effectively implement this standard should be extended to the expected date of completion of the competitions currently underway for qualified internal auditors (i.e.: by the end of 2002).

7.3.3. Main reference:

- Communication on the conditions for the creation of an internal audit capability in each of the Commission's services, SEC(2000) 1803, 31.10.2000
- Charter of the Internal Auditor of the DG/Service

7.4. Standard 23: Evaluation

7.4.1. Description of the full standard:

Each DG shall establish or have access to a properly staffed evaluation function responsible for carrying out or commissioning ex ante and ex post evaluation of all its activities. It shall prepare an evaluation plan which sets out the timing of the planned evaluations and against which progress is regularly reviewed. It shall ensure the systematic follow up of the conclusions of evaluation reports.

7.4.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

DG.s should report the arrangements they have adopted for the establishment of their evaluation function, annual evaluation plans and follow up to evaluation reports (cf. SEC(2000)1051 of 26 July 2000).

More detailed guidance is set out in a practical guide on ex ante evaluation to be circulated by the end of 2001 and in the communication on standards for programme and policy evaluation expected to be approved by the Commission by March 2002.

There is no reason at this stage to change the deadline of July 2002 originally foreseen (by which time the principle of regular evaluation and recourse to evaluation in decision taking should be effective).

7.4.3. Main reference:

- Communication on evaluation, SEC (2000) 1051 of 26 July 2000, 26.07.2000

7.5. Standard 24: Annual review of internal control

7.5.1. Description of the full standard:

Each DG shall conduct an annual review of its internal control arrangements to act as a basis for the DG's statement on internal control in the annual activity report.

7.5.2. Actions to be taken by Directors General before 31 December 2001 and timing for full implementation of the standard:

It is proposed that all services should complete, for the year 2001, standard 24 in the period September 2001 to March 2002.

7.5.3. Main reference:

- Internal Control Self-assessment questionnaire and Financial Procedures Checklist by the Central Financial Service.