SUPPORTING THE REFORM OF FINANCIAL MANAGEMENT
- A NEW FRAMEWORK FOR AUTHORISING OFFICERS -

COMMUNICATION FROM Ms SCHREYER AND Mr KINNOCK
MEMORANDUM FROM Ms SCHREYER AND VICE-PRESIDENT KINNOCK TO THE COMMISSION

SUPPORTING THE REFORM OF FINANCIAL MANAGEMENT

A new framework for authorising officers

The financial reform process is designed to enhance the financial management and control capacity of Commission departments. For this purpose the Commission has already implemented a series of measures, beginning with the proposal for a new Financial Regulation adopted on 26 July last. At the same time departments have undertaken a great deal of analysis and have come up with the management and control systems best suited to their activities and management environment.

A package of measures is now being proposed to accompany and consolidate this process:

– Action 63 : Charter for authorising officers
– Action 78 : Standards for internal control
– Action 79 : Segregation of duties and financial circuits
– Action 80 : Evolution of the role of finance units in the DGs

1. A NEW REGULATORY FRAMEWORK FOR FINANCIAL MATTERS

On 26 July the Commission adopted a proposal for recasting the Financial Regulation\(^1\) which includes a new approach to the role of the actors in charge of budget implementation.

Fully in line with the reform, the proposal advocates improving and modernising financial management, the focus being placed on the results obtained from the use of Community funds. Thus the management, audit and financial control system is to be entirely reformed. Instilling a genuine sense of responsibility in the minds of authorising officers means defining the tasks to be accomplished and integrating quality controls into the management process. Management results must also be measured against the risks involved in the operations concerned.

In practical terms, the proposal provides for:

– Giving authorising officers the entire responsibility for the internal controls in their departments and for the financial decisions they take in the performance of their duties, but without establishing a particular responsibility in the financial field. The responsibility of authorising officers continues to be governed by the ordinary provisions of the Staff Regulations, which stipulate that disciplinary action will be taken against staff in cases of negligence and that they may be required to pay compensation in cases of serious misconduct.

– Dropping ex ante controls by the Financial Controller.

– Dispensing with centralised examination by the Advisory Committee on Procurement and Contracts before public contracts are awarded.

– Dispensing with control by the accounting officer that payments actually discharge the Commission from its obligations, meaning that the right amounts are paid to the right recipient.

– Appointing an internal auditor to take charge of the internal audit service and ensure that the internal control systems operate properly.

2. NECESSARY ACCOMPANYING MEASURES

To back up the proposal for recasting the Financial Regulation with regard to the role of actors in charge of implementing the budget, it is essential to demonstrate to the other institutions, in particular the Council, Parliament and the Court of Auditors, that the Commission is losing no time in introducing the measures necessary to provide a framework for the new definition of the mission of authorising officers, to take effect from the transition period onward. This is without doubt the purpose of the Actions provided for in the White Paper which are now before the Commission for its approval and which follow up Action 84 under which Directorates-General described their existing financial circuits in June 2000 and have embarked on a self-assessment of all their internal control systems, to be completed in December.

These Actions are:

Action 63 on the Charter for authorising officers by delegation (Directors-General and Heads of Service)

Action 78 on standards for internal control

Action 79 organising the segregation of duties and financial circuits

Action 80 defining the evolution of the role of finance units in the DGs

2.1 Charter for authorising officers by delegation and subdelegation - Action 63

The Charter defines the tasks and responsibilities deriving from the delegation of the powers of authorising officer by the Commission to officials in the institution. It will be an integral part of the internal rules for the implementation of the budget which lays down these delegations. It does not create new responsibilities but clarifies them. It is therefore proposed that it should enter into force when the internal rules for 2001 are adopted next February.

The Charter must be a modern management tool which defines the rights and duties of authorising officers by delegation (Directors-General and Heads of Service) and by subdelegation (officials to whom powers have been further delegated by their Director-General or Head of Service). It lays down the principle of necessary training of delegated and subdelegated authorising officers to enable them to perform their tasks properly.
Two documents are submitted for the Commission's approval in view of the different scope of duties and responsibilities of authorising officers by delegation and by subdelegation:

– The Charter for authorising officers by delegation
– The Charter for authorising officers by subdelegation

2.1.1 Charter for authorising officers by delegation (Document 1 annexed)

This document defines the rights, duties and obligations of Directors-General and Heads of Service. It is part of a drive towards transparency which will enable authorising officers by delegation to assume their responsibility in compliance with the principles of sound financial management. They will have to set up reliable and effective management and control systems. These will vary depending on whether the authorising officers by delegation are acting in a context of direct expenditure, carried out by their own departments, or within a framework of indirect management (involvement of Member States) or decentralised management (involvement of non-member countries).

The mission of the authorising officers by delegation covers the entire process of managing the operations which the Commission has assigned to them. Authorising officers by delegation will be accountable for the transactions they have personally authorised.

The Charter lays down the principle that budget commitments (reservation of appropriations) and legal commitments towards recipients of budget funds should as far as possible be handled by the same authorising officer, except where management is decentralised and the signing of individual legal commitments is devolved to the national administrations.

Authorising officers by delegation must inform the Commission of any circumstance which could jeopardise the proper management of appropriations or prevent them from attaining the objectives they have been set by the Commission.

In performing their duties, the authorising officers by delegation will be assisted and advised by the Central Financial Service. Such assistance and advice does not constitute prior agreement to the decisions of the authorising officer.

Every year, in accordance with Action 82 of the White Paper, each authorising officer by delegation will draw up an annual report, preceded by a Declaration (Annex 2 to Document 1 on the Charter). The purpose of the Declaration is, on the basis of the information available to the Director-General or Head of Service, to confirm that the annual activity report gives a true and fair view and to provide a reasonable assurance that the resources allocated to the activities have been used in accordance with the principles of legality, regularity and sound financial management.

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2 The June 2001 Declaration will describe the measures taken by DGs to implement the actions relating to the financial aspects of the reform.
2.1.2 Charter for authorising officers by subdelegation (Document 2 annexed)

Authorising officers by subdelegation hold their powers by virtue of a delegation from their Director-General or Head of Service. They are therefore essentially responsible for validating individual budget implementation operations (commitments, payments, recovery orders).

Their responsibilities and tasks must therefore be measured in a different way, i.e. not in terms of establishing general management of control systems but in terms of the legality and regularity of the operations they authorise.

In view of the guidelines laid down for new financial circuits as outlined during the hearings of the DGs before the PCG on Financial Circuits, it appears that future authorising officers by subdelegation for commitments will mostly be Directors or Unit Heads. For payment operations they may be of a lower grade. Officials holding a subdelegation for payment operations cannot then be held liable for any failing in the organisation of circuits or in the control procedure where these aspects lie outside their responsibility. However, authorising officers by subdelegation must take responsibility for the choice of managers in charge of preparing the transactions submitted for their authorisation.

2.2 Internal control standards - Action 78 (Document 3 annexed)

By the end of the year the DGs will have completed the self-assessment exercise (Action 84 of the White Paper). The purpose of this is to enable Directors-General and Heads of Service to assess the strong points and any weaknesses in their organisation, in terms of management in the broad sense, but also in terms of financial circuits and internal control procedures. The self-assessment exercise is structured according to a methodology which covers the following areas:

- control environment
- risk management and performance
- information and communication
- control activities
- audit and evaluation.

It is proposed that this structure should also be used to establish internal control standards, as requested by Directorates-General in the interdepartmental consultation on Action 78.

24 internal control standards are proposed for adoption by the Commission.

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3 Methodology developed by the “Committee of Sponsoring Organisations” (COSO) of the Treadway Commission comprising professional bodies of accountants and auditors which set up an integrated control framework in the US from 1992, which is adapted periodically. The definition of internal control given by COSO is also used by the Court of Auditors.
The standards cover the general organisation of DGs and provide a framework which should be reviewed annually. It is essential that the standards take account of the constantly changing real management situations which the DGs are faced with.

Thus Document 3, which outlines the standards and their implementation phase, in some cases simply allows Directors-General to identify the measures to be taken to approach the standards in a realistic way.

It is above all advisable to establish a gradual approach to the implementation of these internal control standards. Although the date of validity is 1 January 2001, a deadline for transposal by the DGs is proposed.

Initially, precedence must be given to standards with financial implications which could be put into practice by 30 June 2001 at the latest and which will enable Directors-General to sign their first declaration in spring 2002, covering their annual activity report for the 2001 budget year. Most of the other standards will be transposed by the end of the year at the latest (see table in Document 3). However, the sooner the standards are applied by the DGs the sooner Directors-General will have a sound basis for their declaration.

2.3 Segregation of duties and financial circuits - Action 79 (Document 4 annexed)

One of the key principles of the financial management pillar of the reform is that, in future, the delegation to authorise expenditure needs to be consistent with the responsibility for the management process, namely that the person responsible for the operational decision for an action involving expenditure should also be, as far as possible, the person who authorises the expenditure.

As part of the reform process, each Director-General and Head of Service will become responsible for ensuring the legality/regularity and the effectiveness/efficiency of financial decisions. This requires that sound internal control systems be put in place.

Each Director-General and Head of Service will have to review and, where necessary, adapt his organisational structure.

2.3.1 The principal function of segregation of duties

One of the prime means of internal control is the separation of those responsibilities or duties which would, if combined, enable one individual to record and process a complete operation. Segregation of duties reduces the risk of intentional manipulation or error and increases the element of checking.

Directors-General and Heads of Service will need to keep this principle in mind when designing or re-designing their financial circuits. An appropriate verification needs to be present in the decision-making process for both the operational and financial components. They need to be checked by trained and competent officials. The necessary segregation of duties (i.e. allocation of roles to member of staff) will depend on the nature and number of transactions to be processed.
2.3.2 The basic financial circuit

In basic terms, there are at least three principal functions in any financial circuit:

- **Authorising Officer** (ordonnateur)
- **Operational Function**
- **Financial Function**

2.3.3 Description of these functions

The operational function is responsible for preparing the operational characteristics of the dossier: initiation of the spending operation, estimation of costs, procedures to be followed for evaluation, selection, approval and subsequent execution until termination of the operation.

The financial function is responsible for preparing the financial characteristics of the dossier: legal and budgetary implications of the spending operation (appropriate budget line, tendering procedures, choice of the type of contract, check on beneficiary, compliance with the Financial Regulation and the Internal Rules).

Both the technical and financial characteristics need to be checked by different qualified officials.

It is recommended that separate checklists be used to establish the reality of the controls performed; they will be signed by the officials responsible for verification before being submitted to the authorising officer.

The authorising officer must first satisfy himself that all the necessary checks have been carried out, or be given explanations where this is not the case, before giving his approval of the operation.

2.3.4 The division of these roles: separation of initiation from verification

Both the operational function and the financial function can be exercised by several officials or by just one official.

The decision on the number of officials, and thus the degree of segregation, will reflect the need to balance the minimum internal control requirements against the cost-efficiency of processing the operations.

In all cases there needs to be a separation between the person initiating a transaction and the person verifying it. Where the number of transactions is small and they are not considered to be of high risk or complexity, the verification function may be undertaken by the authorising officer himself. In some DGs, however, the
operational and financial functions are each likely to be split between at least two individuals. This should be the case for all transactions of higher complexity or risk.

2.3.5 Financial circuit

For DGs and services, the definition of their financial circuit may include commitment of expenditure, contract award procedures, authorisation and payment of expenditures, recovery of debts, closure of commitments, re-use of funds, etc.

In these circumstances, the roles of the operational function and the financial function must be defined (detailed job specifications) for each type of activity taking place in the financial circuit to avoid any overlap and confusion in responsibilities. Authorising officers by delegation are responsible for both the budgetary and legal commitments related to the operation. This implies that they are not only responsible for the electronic visa in SINCOM but also for the signature of any related contract, on behalf of the Commission.

2.3.6 The choice of financial circuits

The basic characteristics for each of the four models are described in simplified form in Annex II of Document 4.

The guidelines for selecting the financial circuit, in relationship to a number of relevant factors, are shown in Annex III of Document 4.

More than one model can exist within the DG or service, depending on the nature of the different operations and the organisational structure of the DG or service.

Most of the existing circuits are based on model 4 making the finance unit authorising officer and thus will need to be changed. Proposals for changing the circuits will require a period of careful planning and preparation.

2.4 Evolution of the role of finance units in the DGs - Action 80 (Document 5 annexed)

The role of financial units in the DGs is likely to evolve significantly as a result of the reform programme. With the general trend towards decentralisation of responsibility to operational units and Directorates the chief function of the finance units is likely to develop over time from that of processing financial transactions to the role of offering guidance and support to the operational units.

The exact functions of the finance unit(s) in each DG should be determined by the Director-General in the light of his choice of the financial circuits to be operated in the DG.

Each Director-General needs to assure himself that the following functions are carried out effectively in his service:

(i) budget preparation, monitoring and reporting

(ii) financial procedures and operations (guidance and quality control)

(iii) file checks before the approval of transactions (known as ex ante control)
(iv) on-the-spot control checks whether before or after final payment (known as ex post control)

(v) (where appropriate) control of the adequacy of financial systems in the Member States and other beneficiary countries

(vi) internal audit of internal control systems of the DG

(vii) evaluation of policies and programmes.

Large DGs and those with substantial budgetary responsibilities may need to have separate units (or even Directorates) to provide each of these functions. Smaller DGs will need to combine some of them for reasons of efficiency and optimising the use of the available expertise.

The table at Annex I of Document 4 offers some basic guidance about which of these functions are regarded as compatible and which are regarded as incompatible.

3. ASSISTANCE FOR DIRECTORATES-GENERAL

In order to guarantee the success of the actions outlined in point 2 above, the White Paper provides for the following training programmes:

- Action 91A Training in the principles of the Commission's new financial system
- Action 91B Training in "value for money"
- Action 91C Training in budget and financial management

Training in the principles of the Commission's new financial system

This training programme took place from July to November and involved some 1200 officials. The level of satisfaction was high, at around 75%.

Training in "value for money"

This programme is at the preparation stage (call for tender published in the OJ - bids to be submitted by 30 November 2000) and should start at the end of the first quarter of 2001.

Training in budget and financial management

This involves re-launching and pursuing the training programme undertaken in the past for managers and authorising officers. However, it must be designed and implemented in a wider context, taking into account the shifts in the balance of responsibilities of the authorising officer by subdelegation from the financial Directorates/units towards operational Directorates and units.

Initially, the emphasis must therefore be placed as soon as possible on the new target groups made up of Directors and heads of operational units.
Action 91C (some 600 staff) will be structured as follows:

(a) Training course: "Expenditure cycle"

A one-day training course will take place from 15 November 2000 to 31 January 2001. Its purpose is to explain the expenditure cycle from preparation of the legal basis to the follow-up to discharge decisions, including drafting and adoption of the budget, budget implementation (commitments, payments, recoveries, etc.) and the role of the various actors.

Given that many Directors and Unit Heads will be required to act as authorising officers by subdelegation, the aim of the course will be to make them aware, in their capacity as participants in decisions involving expenditure, of the risks inherent in certain stages of the expenditure cycle. This will give them a better understanding of their role and that of their Directorate or unit in the implementation of the budget. The training will draw their attention to the critical stages and identify what specialist training is required for themselves and for their staff.

(b) Special training

This consists of training modules lasting between half a day and several days, covering the specific areas of the chain of financial and budget management, for operational and financial managers. This training will begin in January 2001.

The initial modules will include:

- Awarding public contracts
- Awarding and monitoring grants
- Contract management
- Performing transactions (commitments/payments/recoveries)
- SINCOM 2
- Management and control systems
- Evaluation of programmes

These have been identified as some of the priority and basic modules. Other modules are being prepared to meet the objectives of quality in financial management (definition of objectives, planning, risk analysis, relations with third parties, etc.), and others may gradually be added to meet new needs identified by the operational DGs.

In the special training, the emphasis will be on practical courses which should be presented by trainers identified within the DGs in partnership with the trainers of the Central Financial Service (CFS) so as to gear up the training effort which cannot be produced by the resources of the CFS alone.

The DGs will also have to take charge of the special training required as a result of their specific activities linked for example to indirect management (involvement of
Member States) or decentralised management (involvement of non-member countries), with the assistance of DG BUDG's Central Financial Service.

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The measures described above do not aim to place additional responsibilities on authorising officers, but to assist them to exercise them more effectively. These measures should be accompanied by measures of assistance to be put in place by the central services and by DG BUDG in particular. These will include notably:

- The reinforcement of the user-friendliness of the financial information systems (SINCOM 2, Datawarehouse);
- Training for authorising officers (cf. Point 3 above);
- Assistance during the first half of 2001 with the introduction of internal control standards.

A pre-appraisal study will also be conducted by DG BUDG in close collaboration with DGs DEV and SCR on the scope for integrating the EDF in SINCOM (deadline end March 2001).

Finally, the horizontal services (BUDG, AUDIT, IAS, TFRS) should analyse to what extent it will be possible to simplify the production and the circulation of supporting documents for financial transactions by the DGs, as well as the scope for introducing flat rate costings in certain cases. The feasibility of such an approach should be examined with the Court of Auditors.

The reform foresaw several mechanisms to encourage more attention to be paid than in the past to results: taking account of ex post evaluations in the programming cycle and fixing priorities, annual activity reports, internal control standards concerning reporting of results, assessment of performance against results obtained by comparison with the original objectives, etc. In the context of cost effectiveness the accent should be put on the achievement of objectives and results based on the introduction of performance indicators. These measures will be combined with the respect of the legality and regularity of the implementation of the budget which underlie the Statement of Assurance of the Court of Auditors.

PROPOSED DECISION:

The Commission is invited to approve the documents on the Charters for authorising officers by delegation and subdelegation (Action 63) and the minimum standards for internal control (Action 78) which will be annexed to the Commission's decision on the internal rules for 2001.

The Commission is invited to take note of the guidance notes on the segregation of duties and financial circuits (Action 79) and on the role of financial units (Action 80).
It is proposed that the Commission instruct the Directorates-General concerned to take charge, with the assistance of the Central Financial Service, of the special training supplementary to Action 91C of the White Paper, which is to be set up by the Budget Directorate-General.