



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 24.7.2002  
COM(2002) 426 final

**COMMUNICATION FROM THE COMMISSION  
TO THE EUROPEAN PARLIAMENT AND THE COUNCIL**

**Synthesis of the Annual Activity Reports and declarations of the Directors-  
General and Heads of Service**

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## 1. INTRODUCTION

The White Paper on Reform<sup>1</sup> identified the need for better accountability and responsibility regarding the effectiveness of Commission activities. For this reason, in the framework of the introduction of Activity-Based Management (ABM)<sup>2</sup> and the charter of the Authorising Officer by Delegation (AOD), Directors-General and Heads of Service were required to produce an Annual Activity Report including a declaration of assurance and annual accounts.

Activity-Based Management is translated in the Commission's organisation by a policy-driven, integrated cycle with 4 components:

- At the beginning of the strategic planning and programming cycle, the Annual Policy Strategy identifies priorities and related initiatives and establishes the global framework for resources.
- Based on this framework, the Preliminary Draft Budget specifies the detailed resource needs, while the Commission's Legislative and Work programme translates the political priorities into concrete action.
- The Commission's services establish their operational programming in their Annual Management Plans, which link the resources available to the activities and actions foreseen in the policy domain concerned.
- To close the cycle, each Director-General or Head of Service produces a report on the work carried out, the use of resources and the results achieved by his/her service, accompanied by a declaration expressing his/her responsibility<sup>3</sup>.

The year 2001 is the first year for which complete Annual Activity Reports (hereinafter called Annual Reports) were produced by all Directors-General and Heads of Service by 1 May 2002. These Annual Reports should therefore be considered as a first step towards a totally consistent cycle for several reasons. First of all, Activity-Based Management is being introduced progressively (in particular, in 2001 only few services had a management plan in place, and the first Annual Policy Strategy was adopted for 2002). Secondly, the internal control standards have still to be further implemented in the coming years. Thirdly, declarations of assurance were subscribed by Directors-General for the first time.

For these reasons the first delivery of Annual Reports cannot be homogeneous. They are somewhat disparate, but it would be unrealistic to expect this first exercise to be perfect. Notwithstanding these understandable imperfections, this first exercise is a positive result of the Reform: the introduction of Annual Reports does improve transparency and accountability, because for the first time the Commission brings out in the open positive and negative issues regarding its functioning.

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<sup>1</sup> COM(2000)200, 1<sup>st</sup> March 2000

<sup>2</sup> See Communication (SEC(2001)1197/6&7) of 25 July 2001

<sup>3</sup> White Paper on Reform, Action 82

This Synthesis aims at presenting the main achievements (and shortcomings) of the Commission with respect to its five years' strategic objectives<sup>4</sup>. It will then analyse the state of implementation of the Reform in general and of the internal control standards in particular. Reservations and observations made by services are summarised in terms of the main issues arising and overall significance for the Commission as a whole.

In this Synthesis the most important cross-cutting elements drawn from the Annual Reports are highlighted and specific actions to tackle them are announced. **The Commission endorses these actions and will report on their progress in next year's Synthesis of Annual Reports.** The Commission also takes note of the action plans linked to the remaining reservations and requests the responsible Directors-General and Heads of Service to report on their progress in the Annual Report for 2002. It should be noted that this Synthesis is also based on work carried out by the Internal Audit Service, the findings of which have been taken into account in establishing the action plan enclosed.

The Synthesis will be transmitted to the European Parliament, the Council and the European Court of Auditors. It will be accompanied by all Annual Reports from the Directors-General and Heads of Service.

## **2. GLOBAL ASSESSMENT OF THE COMMISSION'S ACTION IN 2001**

On the basis of the Annual Reports for 2001, this Commission can report that during its second year in office it was broadly on target towards meeting the strategic objectives defined for the period 2000-2005<sup>5</sup>, even though some areas experienced specific difficulties.

The following paragraphs will:

- 1) recall the main political achievements of the Commission in 2001 in the framework of its five-year strategic objectives and
- 2) focus on the most important cross-cutting elements drawn from the Annual Reports.

### **2.1. Main political achievements in 2001**

#### **Promoting new forms of governance**

This objective comprises four main aspects: a greater participation of institutional actors at national, regional and local level in the conception and implementation of Community policies, better regulation, the contribution of the Commission to the preparation of the next inter-governmental conference

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<sup>4</sup> The Commission's Strategic Objectives for 2000-2005: "Shaping the New Europe" (COM(2000)154)

<sup>5</sup>COM(2000)154 final of 9.2.2000, available on [http://europa.eu.int/comm/index\\_en.htm](http://europa.eu.int/comm/index_en.htm)

and the success of the internal reform process (the state of play of the internal reform in 2001 is detailed separately under point 3).

The Commission adopted in July a **White Paper on European governance** advocating the need for joint reform by all institutions within the boundaries of the present Treaties, then launched a broad consultation process with other European Union institutions, national governments, regions, cities and civil society. The wish expressed by the European Parliament to take position before the Commission took steps on actions with legislative implications led the Commission to intensify the dialogue with the Parliament and to postpone actions on "Better Regulation" by 6 months. In the light of comments received, the Commission presented in November 2001 a consultation document on "Better Regulation" to the Laeken European Council.

Another important concrete step in this field was the adoption of a regulation (n° 1049/2001) on access to documents produced by the European Parliament, the Council and the Commission. This new regulation ensures a greater degree of transparency on documents, laying a fundamental basis for improved governance in the Union.

2001 also saw agreement on the establishment of the Convention, which began its work on 28 February 2002 and is intended to prepare the 2004 inter-governmental conference that will shape a new Europe.

### **The new economic and social agenda**

In its strategic objectives for 2000-2005, the Commission identified the creation of a new economic and social dynamism in the Union as a major priority. Optimising the potential of the Internal Market should benefit all citizens and enterprises, through the creation of new employment opportunities, and reinforcing companies' competitiveness.

The Commission thoroughly prepared and co-ordinated the introduction of the Euro on 1 January 2002. This is now largely recognised as a major success.

Positive steps were taken in 2001 in creating the European Company Statute, supported by measures encouraging and facilitating entrepreneurship. Significant progress has also been made in delivering the numerous actions announced in the Financial Services Action Plan. Significant initiatives to modernise competition policy were launched, in particular a reform of anti-trust policy leading to shared enforcement responsibilities.

A Green Paper on the reform of the Common Fisheries Policy was published and intensive exchanges took place with the various stakeholders in order to prepare the Commission's proposals adopted in 2002.

In the context of the creation of the European Research Area, the Commission adopted proposals on the Framework Programme for Research and Technological Development 2002-2006 and launched the debate and initiatives concerning mobility of researchers, research infrastructures,

international and regional dimensions in order to improve effectiveness and coherence of research in Europe.

The new Regulatory Framework for electronic communications was adopted in December 2001.

At the end of 2001 all Structural Funds interventions were adopted, thus providing a new impetus for cohesion policy.

As a result of significant efforts deployed by the Commission, the sustainable development strategy for the European Union was adopted at the Göteborg European Council introducing the environmental dimension into the economic and social chapters of the Lisbon process. In this framework, major progress was registered in the internal market of gas and electricity, the single sky, Galileo and the development of trans-European networks. The Commission took also initiatives to facilitate accessibility to the e-learning and development of life-long learning in order to promote the knowledge society and support the unemployed in their efforts to re-integrate active life. Sustainable development was further identified as a priority by the Commission for 2002 and 2003.

The Commission began implementing the Union's **social policy agenda**, endorsed by the Nice European Council. The European Employment Strategy has been further pursued and the open method of co-ordination in the field of social inclusion has been launched. The Council and the European Parliament have been pursuing negotiations on a number of Commission legislative proposals in fields including health and safety at the workplace, the involvement of workers and equal treatment between women and men.

### **Stabilising our continent and boosting Europe's voice in the world**

This objective stems from three major challenges: geopolitical shifts, globalisation and the weaknesses of the international system. On these three lines, the action of the Commission in 2001 was quite successful.

On the enlargement side, the Union made substantial progress on the 18 chapters of the enlargement negotiations that were foreseen in the "road map" for 2001. This enabled the Union to be on target for completing the negotiations with up to ten candidate countries by the end of 2002. Monitoring of the implementation of the *acquis communautaire* was also actively pursued by the Commission's services. This activity will need to continue and be reinforced in 2002 and 2003, at the same time as the actual membership of candidate countries is being prepared. This twin task will require a greater investment in human resources from the Commission, as it has already been pointed out in the Annual Policy Strategy and in the Preliminary Draft Budget for 2003.

In the area of trade policy, the Commission contributed actively to the successful launch of a new multilateral trade round (the Doha Development Agenda) at the World Trade Organisation's Ministerial Conference at Doha in November 2001. Together with continuing progress in other bilateral and

regional negotiations, notably the **EU-Mercosur talks**, this has helped to restore confidence in the prospects for the global economy and address legitimate public concerns about its relationship with sustainable development, another priority identified by the Commission for 2002 and 2003.

On the development co-operation side, in February 2001 the Council adopted the Commission's "Everything but Arms" initiative, granting duty-free and quota-free access to imports from least developed countries. United Nations members signed up to the objective of providing similar access at the 3rd United Nations Conference for the least developed countries in May 2001.

In the aftermath of the events of 11 September, the Commission reacted swiftly in contributing to the fight against terrorism and in co-ordinating a political and financial package for the reconstruction of Afghanistan, even though existing procedures need to be reviewed to ensure a prompt and efficient response to major international crises. These events also demonstrated the limits of the resources available under Heading 4 of the Financial Perspectives and underlined the need for a specific and efficient flexibility instrument that would enable the Commission to respond quickly to unforeseen international crises and play a global role on the international scene.

### **A better quality of life for all**

The main objective of the Union in this field is to fulfil the expectations of the European citizens and make choices that improve effectively their day-to-day life.

Maritime, air and road safety and safe energy supplies were strengthened through the Commission action. In the areas of consumer protection, public health and food safety, the Commission presented proposals for a regulation on traceability and labelling of genetically modified organisms, issued a green paper on consumer protection, proposed a regulation on sales promotion within the Internal Market and continued preparatory work for the launch of the new European Food Authority.

As far as the environment is concerned, the Commission adopted a proposal for a sixth Community environment action programme for the period 2001-2010. The Commission contributed effectively to the European Union's success in rescuing the Kyoto Protocol on climate change and adopted in October proposals to ratify the Protocol and to implement the Union's commitments.

The terrorist attack of 11 September placed the security issue at the top of the political agenda. The **EU** agreement on European Arrest Warrant and the Framework Decision on definition of terrorism acts illustrate the way the Union can **respond rapidly** to major events that concern all citizens. The Commission also adopted a communication on preventive alert in case of emergency. It also developed initiatives to counter the health threats due to bio-terrorism, as requested by the European Council meeting at Gent. However, progress in the implementation of the Tampere agenda **for the**

**establishment of an area of freedom, security and justice** has been slow in the Council and this is a concern for 2002 and beyond.

## 2.2. Cross-cutting elements drawn from the Annual Reports

A certain number of cross-cutting elements emerges from the Annual Reports of Directors-General:

### Implementation of the shared cost Research programmes

Several Directors-General dealing with these programmes identify the complexity of the financial management of indirect actions, resulting from the legislative framework, which creates a risk of overpayment, as an important issue and ask for a common approach by the different services dealing with the Research framework programmes. The main problems are linked to:

- the existence of complex and multiple systems for cost reimbursement and their related implementing rules;
- the lack of penalties in the standard contracts in case of exaggerated declarations by the beneficiaries.

Several audits in different services and Court of Auditors audit findings highlighted the necessity to take additional action in this domain.

*Action 1: the Commission will adopt before end of 2002 a detailed action plan addressing the complexity of financial management of indirect actions through simplification and enhanced consistency between the different systems currently in place and through improved contract management. To address existing risks the effectiveness of controls exercised by the relevant services will be increased, and work intensified on the protection of the financial interests of the Community.*

### External relations:

In the framework of the improvement of external aid management and its impact, the Commission put in place a wide-ranging **reform of the management of EU external assistance programmes** notably through the creation of the EuropeAid co-operation office. Good progress was made in implementing the reform, including the launch of a new approach to programming to boost quality, a new evaluation strategy and greater clarity in the respective responsibilities of Relex DGs. The first positive results were seen in an improved profile of budget execution in 2001 and progress with reducing the backlog of old and dormant commitments. However, several Annual Reports underline that, as 2001 was the first year of implementation of this reform, further efforts are necessary to reach its objectives. Moreover, 2001 saw also the launch of the devolution exercise, which aims at giving much more management and financial responsibility to EU delegations as far as external assistance programmes are concerned. This exercise continues in 2002 and 2003, so that its full benefits will only be visible after its completion.



External relations require specific attention on two sides. On the political side, reservations raise the question of the real responsibility of the Authorising Officer by Delegation for joint actions undertaken under the Common Foreign Security Policy, as they are decided solely by the Council. These reservations have important political implications that the Commission will discuss in its inter-institutional relations. On the managerial side, reservations stress the risks linked to direct budgetary assistance to third countries, which have to be specifically taken into account when evaluating the impact of this type of assistance. Other reservations stress the general risks attached to the management of external aid.

*Action 2: While confirming the substance of the Relex reform, on several occasions, and following the Internal Auditor's Annual Report, the Commission has noted the necessity to examine the scope for synergies between the services involved in External Relations. Relex Commissioners, in agreement with the President and Vice-President Kinnock, should reexamine how the resources and structures of DGs Relex, Development and EuropeAid can best be organised in the longer term in order to serve Relex Commissioners in the conduct of their portfolios, which remain unchanged. The Commission will examine proposals to this effect before the end of the year. The Commission's assessment is that, taking into account that 2001 was still a start-up phase, further efforts are needed to consolidate the reform to make it fully effective. In this context the Commission will also assess and make transparent the risks linked to external aid and in particular to direct budgetary assistance as a form of development aid and communicate any major conclusions to the other institutions; it will also carry out an evaluation of the operation of the devolution exercise next year, in order to draw lessons on the effectiveness and efficiency of the introduction of changes after implementation of the external aid reform.*

### **Nuclear safety:**

In the complex domain of nuclear safety, including both the security of nuclear installations and of the global environment, important issues have been highlighted in several Annual Reports: the question of the technical expertise available in the Commission to supervise effectively assistance activities in the nuclear area, the problems connected to the level of verifications of environmental radioactivity in the framework of art. 35 of the Euratom Treaty, the decommissioning funds for the Commission's nuclear facilities and the question of EC legal competence in the field of nuclear safety.

All these qualifications may be read against a political background where the Commission's legal competence in the field is questioned by a number of Member States, whilst being called upon for example to furnish technical assistance to improve nuclear safety in the candidate countries. The Annual Reports concerned point to an insufficient capability of the Commission in the nuclear field. It is necessary to clarify the Commission's competence in the field of nuclear safety, to answer citizens' expectations on this point and to ensure that the highest safety standards are met in all (current and future) Member States.

*Action 3: The specific reservations will be addressed before the end of the year through, on the one hand, a package of proposals to create an operational legislative framework for the identification of EU safety standards and the preservation of decommissioning funds, and on the other hand, by looking carefully at the way in which nuclear expertise is shared among the competent services in order to improve its effectiveness.*

**Structural (regional, employment, agricultural and fisheries) funds:**

On these aspects, some Annual Reports reflect the difficulties that the Commission encounters in having to cope with decentralising management of Community funds to Member States while retaining the full responsibility for the execution of the Community Budget. The Commission considers that the current provisions on accountability and sharing of responsibility with Member States are not satisfactory and should be reviewed to reflect better the actual situation. In this respect, it should be noted that the subsidiarity rule means that the Commission has to operate without full political authority whilst retaining under the Treaty full responsibility for the funds disbursed. The management aspects of these issues are specifically dealt with under action 12.

*Action 4: the Commission will seek to clarify with the Council its share of responsibility in meeting the objectives established for the shared management of the Structural Funds. The Commission will also make proposals in order to align its monitoring and control powers to its responsibilities.*

**Enlargement:**

In order to assure a smooth integration of the Candidate Countries the Commission's services need to guarantee the extension of a number of activities to the new Member States and are willing to assure their full participation to the EU policies from the first day of accession. Moreover, several Annual Reports of the Directors-General express concerns both on the actual monitoring of the implementation of the *acquis communautaire* in the candidate countries and on the real capacity of a number of services to guarantee, with current staff levels, the extension of their activities to the new Member States in an effective way. For this reason, after a careful screening of all services' needs, the Commission has presented a Communication to the Budgetary Authority on the impact of enlargement on its activities and human resources dealing with the global needs from 2003 up to 2008. For 2003, the Commission has identified an absolute minimum of 500 extra staff.

*The Commission stresses the absolute necessity to ensure the appropriate financing in 2003 of the expenses for 500 staff for preparations of enlargement. To this end, the Budgetary Authority should explore together with the Commission all possibilities to anticipate in 2002 certain administrative expenditures (frontloading) and wherever possible to make supplementary appropriations available via transfers between institutions. Sufficient appropriations for the recruitment of staff for enlargement are essential for the Commission to be in a position to guarantee adequate*

*preparation of enlargement and full application of the 'acquis communautaire' as from the first day of accession. The Commission draws the attention of the other Institutions, the Member States and the candidate states about the importance of these preparations.*

### **Governance:**

The Commission is proceeding with implementation of the actions announced in the White Paper on European Governance and will present a package of measures in autumn, together with the final report on the consultation process.

On the basis of the positive response by the Laeken European Council in December 2001 to its consultation document, the Commission proposed on 5 June 2002 an Action Plan on "Better Regulation" for simplifying and improving the quality of the regulatory environment without changing the Treaty. Alongside the Action Plan, the Commission adopted 2 communications on *minimum standards of consultation* (subject to a separate public consultation running until the end of July 2002) and *impact assessment*.

The Commission has stressed that implementing the "Better Regulation" Action Plan, proposed in June 2002, requires joint efforts by the three institutions as well as Member States. The Commission has therefore proposed that implementation of the Action Plan should be supported by an inter-institutional agreement between Parliament, Council and the Commission for those actions that depend on all three institutions. The European Council in Seville endorsed this approach and called upon the institutions to complete such an agreement by the end of 2002.

*The Commission will implement the measures listed in the Action Plan for Better Regulation of 5 June 2002, and will work towards an inter-institutional agreement for the measures which fall within Parliament, Council and Commission competences. The Commission will also present in the Autumn a second package of measures in follow-up to the White Paper on European Governance, which will include proposals on the treatment of infringements, comitology, regulatory agencies and tripartite contracts.*

### **3. THE IMPLEMENTATION OF THE REFORM IN 2001**

After a comprehensive internal consultation process, the Commission presented its White Paper on Reform in the beginning of 2000. Its aim is to modernise the Commission's administration. The strategy indicated in the White Paper focuses on three main objectives:

- improving the effectiveness of the whole organisation through better priority setting and matching of tasks with resources;
- maximising staff performance through considerable changes in human resource management and staff policy;

- an overhaul of financial management, on the basis of a precise definition of the responsibilities of each actor. This will ensure that taxpayers' money is used in the best way through the improvement of financial management, efficiency and accountability.

The White Paper included an ambitious action plan to translate the above-mentioned global objectives into concrete actions, following a challenging timetable. Considering that the initial calendar foresaw a complete implementation of the Reform by end 2002, the year 2001 was crucial for the rooting of the Reform in the Commission. It should be recalled that the Annual Reports are one important result of the implementation of the Reform, in particular of the principles of transparency and accountability.

### **3.1. Priority setting, allocation and efficient use of resources**

To guarantee effectiveness in all its activities, the Commission wanted to concentrate on core policy objectives, translating them into priority actions matched with the appropriate resources, thus reaffirming the primacy of political priorities. This implies that at the beginning of the year the Commission first establishes its own priorities and then initiates the budgetary procedure for the following year: this led in 2001 to the creation of a strategic planning and programming (SPP) cycle, meant to guide all Commission activities related to priority identification, budgetary procedure and Legislative and Work Programme preparation on the basis of a thorough matching of activities and resources (Activity-Based Management).

It should be noted that one of the aspects to which the Commission has now given a higher profile in the Annual Policy Strategy process is inter-institutional dialogue. It has been decided that each year, after adopting the Annual Policy Strategy for the coming year, the Commission will initiate a dialogue with the European Parliament and the Council on the priorities identified in the Annual Policy Strategy. On this basis it will present a Stocktaking document that reflects the dialogue with the institutions before adopting its Legislative and Work Programme. For this, the Commission and the European Parliament have agreed on an understanding that set up the timeframe and operational details for this dialogue.

As most Annual Reports show, the progress made in this area in 2001 as far as implementation is concerned is considerable: the milestones of the cycle (see introduction) were identified and introduced by services. In particular, the preparation of annual management plans by all services was a major step forward. Certain reports express the view that the introduction of ABM has helped them to focus their activities on clear priorities with clear objectives. It can therefore be concluded that the Commission delivered in 2001 what had been announced in the White Paper, and that this represented a significant achievement given the considerable time and resource constraints under which services had to work and the fact that such a major change can only be implemented on a progressive basis.

On a more long-term perspective, it is clear that the introduction of the strategic planning and programming cycle and of Activity-Based Management is a "cultural change". However, it is very positive that the

implementation has followed the original pattern without major delays or problems and has revealed important aspects that had not been stressed as such in the White Paper.

It is important to recall also the different experiences previously developed by the various services in this area of the Reform: a few services already had some advanced management instruments, most services only had day-to-day programming tools, very few did not dispose of any significant instrument. This is why Activity-Based Management, although successfully introduced at Commission level in 2001, could not present a homogeneous level of ownership across the different Commission's services.

Concerning externalisation, the Commission adopted in December 2001 a revised draft proposal for a Council Regulation introducing the concept of "executive agencies" to manage Community programmes in the framework of the "delegation" form of externalisation, integrating the suggestions and amendments made by the Court of Auditors and the Parliament. The Commission also adopted in November 2001 a communication on the "decentralised" form of externalisation, defining the terms and conditions for using networks of national bodies. Finally, an internal guide was developed to define the tasks that may be "subcontracted", containing a standard form of contract.

### **3.2. Changes to human resource policy**

This second pillar of the Reform aimed at an overall modernisation of human resource policy in the Commission. Firstly the Commission initiated a series of actions to fully exploit the potential for reform under the existing Staff Regulations. A large number of decisions on aspects of the new staff policy were taken in 2001. Secondly, the Commission prepared a proposal for a Regulation amending the Staff regulations on some aspects. Because of its very nature this required a certain period of internal consultations with staff and "concertations" with the trade unions, in order to enable the Commission to present a balanced package of proposals of changes to the Staff Regulations to the Council. The most important objectives are:

- strengthening the principle of merit in the European Civil Service through a better link between performance and career development;
- modernising the policy on equal opportunities, social facilities for staff and working conditions. Such modernisation is essential in order to be able to continue to recruit and retain the best staff in an ever more competitive environment for highly qualified multilingual staff;
- maintaining budgetary rigour in carrying out the reform. The proposed costs are modest in the context of a major reform and are in accordance with the Commission's commitment to respect the expenditure ceiling of Heading V of the Financial Perspectives. In addition, the measures will lead to durable cost control in the medium term.

Delays occurred in 2001 with respect to the initial timetable for the preparation of a wide set of orientation documents. Nevertheless, the

discussions in the framework of a high level body chaired by the former Secretary-General of the Council, Mr Ersboell, brought a very positive outcome: the agreement reached between the Commission and trade unions representing the majority of staff in electoral terms on the global package of personnel policy reform. This agreement includes a commitment of the Commission to withdraw the package proposal on the basis of an agreement with OSPs in case the Council proposes by unanimous vote to deviate from any of the guarantees listed in it. This agreement provides a solid basis for the continuation of the process.

The process of consultation with the staff and “concertations” with the trade unions led to the following results:

- The October 2001 “Global Package for the reform of personnel policy”, which comprised 15 chapters. The first nine were for final decision of the Commission: the social strand, covering measures on family-related leave and flexible working arrangements; equal opportunities; social policy and infrastructure for staff; moral harassment; training; mobility; reporting wrongdoing; discipline; maintaining professional standards; recruitment; middle management; pay and pensions. The last six issues were discussed for final orientation of the Commission: appraisal and promotion; career structure; non-permanent staff; mediation service; flexible retirement and general review of the Staff Regulations.
- On 20 December the Commission approved a draft Regulation on modifications to the Staff Regulations and implementing rules for appraisal and promotion with a view to submit them to the inter-institutional Staff Regulations Committee for an opinion. The draft Regulation incorporates all changes to the basic rules governing the European Public Service that the Commission deems necessary.

The work carried out in 2001 enabled the Commission to adopt the remaining decisions during the first quarter of 2002 (guidelines on Job Descriptions; guidelines on mobility; the conduct of administrative enquiries and disciplinary proceedings; the rules applicable to national experts on detachment to the Commission; reporting wrongdoing, social policy, the mediation service, training guidelines and maintaining professional standards, appraisal and promotion) and to submit the draft Regulation to the Council with a view to finalise the legislative process by mid-2003.

### **3.3. Audit, financial management and control**

This chapter of the Reform was dictated by the need to modernise financial management and restore public confidence in the management of the European Union's budget and the control of expenditure. The Reform aims to make procedures simpler, faster and more accountable by decentralising management responsibility to those closer to the decision-making process and improving transparency. Key features of the Reform in this field are:

- Increased accountability for authorising expenditure: rules must be simplified and made easier to understand and, as far as possible, those responsible for the management process should also be responsible for

authorising expenditure. In 2001, based on an assessment of the associated risks, organisational structure and cost effectiveness, services implemented new financial management circuits outlining the key stages involved in the authorisation of financial transactions and respecting the basic principle that the initiation and verification functions of a transaction should be kept separate. Each Commission service also appointed an internal audit capability to assist the Director-General or Head of Service in verifying the effectiveness of internal controls.

- Separating financial control from auditing: until 2000, both the ex-ante control of expenditure and part of its auditing after the event were carried out by the same central service, suggesting a potential for conflict of interest. Mid 2001, the Internal Audit Service became independent of the Financial Control. Its role is crucial for giving assurance to the Commission through its independent opinion on the quality of management and control systems.
- The Central Financial Service, created mid 2000, focused in 2001 on the proposal for the recast of the Financial Regulation, on the definition and guidance on internal control standards and risk management for the Commission services, on the reinforcement of contract management and public procurement in the Commission services. In addition, special attention was given to the requested support through a help-desk, training and information. Finally, the necessity to enhance the central financial information systems led to focus action on the overall quality of the existing system and the development of new functionalities set out in the White Paper (contract database, central invoice register, recovery management).
- The requirement for all Directors-General and Heads of Service to provide an annual declaration assuring the legality and regularity of underlying transactions and on the use of resources in accordance with the principles of sound financial management.

This chapter of the Reform is the most advanced in terms of implementation since it was given the highest priority on the basis of the fairly detailed recommendations of the Committee of Independent Experts. The overhaul of financial management and control procedures required a significant number of actions to be implemented at service level. However, as is indicated from the Annual Reports, whilst significant progress has been made in these areas, there remains much to be done to make the financial management improvements long-lasting. A number of services highlighted in their Annual Reports the problems involved in responding to such fundamental changes, given limited numbers of appropriately qualified resources, training and internal organisational difficulties. In recognition of the problems faced by services, specialist needs in the financial domain will be addressed in future recruitment plans (see action 14).

The issue of internal control and financial management has been given new impetus by the new Financial Regulation, which mirrors the key principles of the financial reform, and which takes effect from 1 January 2003. The transfer of the centralised prior approval function means that services will

need to focus on their state of readiness for assuming full decentralised responsibilities (see action 12). In addition, the supporting central financial and accounting information systems, which are still characterised by some weaknesses, will need to be improved accordingly (see actions 16 and 17).

### **3.4. Cross-cutting elements on the Reform stemming from the Annual Reports**

#### **Lack of human resources:**

A considerable number of Annual Reports point out that the human resource needs for the implementation of the Reform were under-estimated. It should be recalled that the normal place for the Commission to examine all human resource needs and make decisions in this context is the Annual Policy Strategy (APS) cycle leading to the adoption of the Preliminary Draft Budget and to the decision on allocation of resources.

The Commission has already undertaken some actions in this context. In July 2000, 230 posts were allocated to Commission departments to facilitate the implementation of the Reform. In 2000, a Peer Group of Commissioners acknowledged needs for 1254 posts, of which 580 were devoted to the reinforcement of programme management and control for external aid and structural actions. It should be recalled that the Commission decided already in its APS 2003 to reallocate across services a third of the posts that should become available through early retirement to implement the Reform. However, it is recognised that some of these actions take time to become fully effective. More generally, a more systematic effort at identifying the resources needs related to activities is necessary, particularly in view of the new roles played by different services and actors in the Commission flowing from the Reform process.

*Action 5: Regarding the lack of human resources with respect to the implementation of the Reform, the Commission will pay attention to the needs expressed by Directors-General in their Annual Reports in the context of the next strategic planning and programming cycle which starts end 2002. In this context, the Secretariat-General will draw up a new methodology for assessing the resources needs of both existing and new activities.*

#### **Lack of guidance:**

In several Annual Reports, Directors-General complain about the lack of guidance given by central services on various aspects of the Reform. It should be recalled that the Commission is already giving special attention to internal communication and training and methodology for essential aspects of the Reform. However, to address concerns about the completeness and adequacy of guidance the Commission will strengthen its efforts in this field, notably regarding Activity-Based Management. It is noted that the preparation of the Annual Management Plans for 2003 represent a crucial step for services to ensure a more performance-oriented management.

*Action 6: The Secretariat-General will, in close cooperation with the DG for Budget and the DG for Personnel and Administration, review the*



*coordination mechanisms between the central services with a view to improving the service and advice provided to operational services. In addition, the Secretariat-General will prepare a detailed ABM Guide by October 2002 and will assist services in the preparations of their Annual Management Plan for 2003.*

**Information systems:**

Another point for concrete action emerging from several Annual Reports is the need to solve the interoperability problems between information systems. Currently users are hindered from exploiting the full potential of existing systems. Building on the e-Commission initiative, the Commission will actively pursue the objective of establishing seamless systems, enabling all services to improve their efficiency and performance.

*Action 7: An inter-service working group will be mandated to coordinate the interoperability of existing management information systems. This group will establish an action plan by November 2002 and supervise its execution.*

**4. THE IMPLEMENTATION OF INTERNAL CONTROL STANDARDS IN 2001**

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, the quality of accounting records and the timely production of reliable financial and management information.

On 13 December 2000, the Commission approved, together with the charters for authorising officers by delegation and sub-delegation, a set of Internal Control Standards designed to reflect this wide definition of internal control (SEC (2000) 2203). These standards should be seen as a set of basic conditions which should be met by all the Commission's internal services in all aspects of the Commission's management, not just financial matters. In this context it is important to note that control systems should seek to strike a reasonable balance between the risks to be addressed and the costs incurred in minimising these risks. No system can provide, at an acceptable cost level, an absolute guarantee that all errors will be detected or deliberate fraud prevented.

Each of the Directors-General and Heads of Services produced on 30 June 2001 an intermediate report on the degree of implementation of the reform in financial management, taking particular account of the level of implementation of the standards. The Commission on 7 November 2001 approved a document summarising these intermediate reports (SEC(2001)1723/6). This document demonstrated that significant progress had been made in achieving a set of intermediate, baseline requirements as at the end of June 2001, but that progress was still to be made in a number of key areas in order to implement the control standards in full. Furthermore, the communication on Activity-Based Management, which underpinned a

number of the control standards, clearly stated that certain key measures were expected to be implemented on a progressive basis over a period beyond 31 December 2001.

Reflecting the progressive nature of the implementation of the control standards and the associated timescales, and in order to help services chart their progress in this first year of Annual Reports, the Commission specified a further set of intermediate baseline requirements to be met by 31 December 2001 and adopted an updated calendar in this respect (SEC(2001) 2037/4). This allowed the Directors-General and Heads of Services to gauge what would need to be implemented by that date, noting of course that certain measures would depend on the date of Commission decisions and availability of central guidelines or would need to be implemented on a progressive basis.

#### **4.1. Overview of the implementation of the key components of internal control**

The responsibility for establishing and maintaining effective internal control lies with the Directors-General and Heads of Services. In Chapter 3 "Management and Control issues - Internal Control standards" of the Annual Reports, Directors-General and Heads of Services were invited to set out the progress made on all management related issues and to provide further details of any major weaknesses or risks which might affect their annual declaration. As a way of charting the progress made, they were expected to report on the extent to which the 31 December baseline requirements for the internal control standards have been met. The individual reports varied considerably in terms of the depth of analysis given to management and control issues and the extent to which these might impact on the overall declaration, but all attempted to provide some key pointers as to the progress made and some even included developments that occurred in the first quarter of 2002. It should also be noted that, for this first exercise, the assurances provided by the Directors-General were largely based on judgements of the situation as at the end of 2001, rather than covering the year as a whole.

The progress made by the Commission services is examined in relation to each of the five key components under which the internal control standards in use within Commission services are grouped, namely: Control environment, performance and risk management, information and communication, control activities and audit and evaluation.

##### **4.1.1. *Control environment***

Control environment refers to the basic conditions in which the service functions including organisational and administrative structure and the management of human resources. Specifically, the control standards cover the following: ethics and integrity; defining the mission, role and tasks; ensuring staff competence; staff performance; delegation and managing sensitive functions.

For the control standards covered under this heading 75% of Directors-General estimated that they had been able to meet *at least* the baseline requirements of 31 December 2001.

A number of requirements, such as the need for more frequent staff performance and job descriptions, can only realistically be implemented in line with a range of new initiatives, which have yet to take full effect. Certain other key areas, such as the identification and management of sensitive functions, require further work. Almost half of the Commission services have yet to undertake the detailed analysis required to identify such posts and any associated mitigating controls. For sensitive posts for which mitigating controls are considered inadequate, mandatory mobility should be used. Given the difficulties faced by services in implementing this standard, there will need to be a concerted effort on the part of the Commission central services to assist them through the provision of practical advice and guidance.

#### *4.1.2. Performance and risk management*

Performance and risk management includes key management issues connected to planning, programming and monitoring performance and underpins the principles of the ABM approach. Specifically, the control standards cover the objective-setting process, multi-annual programming, the production of annual management plan, monitoring performance against objectives and indicators and risk analysis and risk management.

Some 75% of Directors-General estimated that they had meet *at least* the baseline requirements of 31 December 2001 for these control standards. However, it should be noted that many of these standards, particularly those concerned with planning and monitoring, underpin ongoing initiatives in the field of ABM and are expected to be implemented progressively over a longer time period.

On risk assessment and risk management, most services undertook in 2001 a high level review of their risk priorities, which for the Commission as a whole represented an important first step in the move towards embracing a culture of risk management. It should be emphasised that for many Directors-General this was the first time in which they considered risks on quite such a formal basis and the first time risks of a non-financial nature had been considered so explicitly. Whilst this constitutes in itself a significant move forward, it is clear that these are early stages in the process. Information provided in the Annual Reports on risks is of a very varied nature and suggests that there is some uncertainty about how to assess and manage risks and indeed how to consider them in relation to the overall declaration. As yet, risk management is not an embedded part of the Commissions' working practices and a sustained effort will be required both on the part of main services and that of the central services to ensure that this is achieved.

#### *4.1.3. Information and communication*

Information and communication covers the setting up of adequate processes to manage internal information and report on issues such as budget and

management plan execution and use of resources. Specifically, the control standards cover the adequacy of management information, mail registration and filing system and the reporting of improprieties.

Some 70% of Directors-General estimated they had been able to meet *at least* the baseline requirements of 31 December 2001. As for a number of the control standards, gradual implementation is foreseen in these areas, particularly regarding adequate management information and mail registration.

#### 4.1.4. *Control activities*

Control activities focus on the key, everyday control functions exercised as part of services' normal business. Specifically, the control standards cover the documentation of procedures, ensuring proper segregation of duties, supervision functions, recording exceptions and ensuring the continuity of operations.

Some 70% of Directors-General estimated that they had met *at least* the baseline requirements of 31 December 2001. Significant progress has been made in a number of areas, notably in the segregation of duties and continuity of operations, but other key areas still need to be developed by most services. In practice the documentation of procedures is something which requires continual review and update. However, the immediate priority has been to ensure that financial procedures have been documented. Whilst considerable effort has been devoted to this, some 15 services indicate that they have yet to finalise their work in this area. It should be recognised that this can be a complicated and very time consuming process. In addition services will also need to ensure that operational procedures are also documented.

The effective supervision of others is key to the development of a strong internal control framework and most services are currently in the process of defining and implementing what is appropriate for their circumstances. Some basic guidance has been developed centrally to help them, but central services will need to ensure that this is further enhanced and accompanied by practical support.

#### 4.1.5. *Audit and evaluation*

Audit and evaluation covers the proper management of internal and external audit issues, the evaluation function and the processes for management's own self review. Specifically, the control standards cover the recording and correction of internal control weaknesses; the proper follow up of audit reports (external and internal); the setting up and functioning of an internal audit capability; the setting up of or access to a proper evaluation function and the annual review by management of its own internal control procedures.

Some 75% of Directors-General estimated that they had met *at least* the baseline requirements of 31 December 2001.

This steady progress reflects the fact that many of the very specific baseline requirements were largely achieved, for example the setting up of internal audit capabilities and the annual review of internal control procedures. However, it should be noted that, due to recruitment difficulties in 2001, many internal audit capabilities, although established in 2001, will carry out a full programme of audit work only after new competent staff will be made available (from 2002 onwards).

Progress has been made by services in implementing procedures to deal with the recording and correction of internal control weaknesses in respect of financial procedures, but will need to be extended in 2002 to cover operational procedures.

Some services still have to set up a dedicated evaluation function able to provide effective support to policy making. Furthermore, evaluation findings will be used in underpinning the selection of objectives and priorities in the framework of Annual Management Plans.

#### **4.2. Overall conclusions and actions to support further the development of the implementation of internal control**

The overall conclusions, to be drawn from the reports, are generally positive and encouraging in terms of how services judge their own progress against specific requirements in the field of internal control. Nevertheless progress needs to be maintained to ensure that internal control standards are fully implemented and that the Commission services move steadily towards a position of a sound and mature framework of internal control.

2001 was a transitional year in which services faced a number of significant changes and were required to deal with numerous challenging new initiatives. The impact of these factors should not be underestimated. Developing a sound framework of internal controls is an evolving process which needs to be maintained through the ongoing commitment of management.

The information presented in the Annual Reports on these areas reflects an increased understanding of internal control issues. However, it should also be remembered that this is management's first formal requirement to report on such a basis and, to an extent, this was reflected in the varied way services reported their own specific management and control issues. As was noted above, for most services the internal audit structures were not fully operational for the duration of the year in question. In future, one would expect there to be more explicit reference to audit findings, the implications for the state of internal control and indeed the implications for the annual declaration. The role of the central support services should not be underestimated either. Services have been required to manage numerous initiatives and, whilst the ultimate responsibility for internal control rests squarely with them, they need to be guided and supported throughout. This will be particularly the case with the new Financial Regulation.

Based upon the evaluation of the implementation of the standards in 2001 as described above:

*Action 8: DG for Budget, in collaboration with the Secretariat-General and DG for Personnel and Administration, will provide enhanced support and practical guidance for the standards covering sensitive functions and supervision, which are considered as very important for a smooth functioning of the Commission services, before the end of 2002.*

*Action 9: All Commission services will give particular attention in 2002 to the design and documentation of internal control procedures, in particular those financial procedures aimed at preventing errors and detecting irregularities and the recording of exceptions.*

## **5. THE RESERVATIONS EXPRESSED BY THE AUTHORISING OFFICERS BY DELEGATION**

The Charter for Authorising Officers by Delegation requires each Director General or Head of Service to sign a declaration in which he or she will express *reasonable* assurance on whether the resources assigned to the activities described in the accompanying Annual Report have been used for their intended purpose and in accordance with the principles of sound financial management and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. On this point, it should be noted that the guidelines for the declarations were not interpreted in absolutely the same way by all services. It could have been envisaged to ask Directors-General and Heads of Service to reconsider the declarations in order to get a more homogeneous interpretation, but this iterative process would have been complex and time-consuming. Moreover, this problem could be addressed adequately in the context of this exercise by requiring the services to address both reservations and observations, whether they are in the declaration or in the report.

The Charter foresees that the declaration may contain reservations aimed at highlighting risks associated with the operations and actions managed by the Directorate-General or Service. Such reservations should point to malfunctioning in the design or application of management and internal control systems. They should also refer to the remedial measures taken or planned. It has, however, to be clear that the use of reservations do not intend to make the declaration meaningless, but on the contrary to propose additional actions for reducing identified risks.

The guidance provided to services prior to making the declarations set out the specific criteria in this regard. In summary, reservations were expected to cover material problems or deficiencies that could limit the ability of the Authorising Officer by Delegation to provide the reasonable assurance required under the declaration. In the preparation process, it was also agreed that Directors-General could make observations in the “conclusions” section of the report in order to highlight important issues related to the good functioning of their services or the Commission as a whole, but which were not considered as reservations in the scope of the declarations.

This section of the Synthesis:

- summarises, for all services, the types of observations and reservations made;
- concentrates on the areas of management internal control systems;
- draws out the main themes and common issues arising, assesses the implications and significance for the Commission as a whole and concludes on the necessary actions to be taken.

## 5.1. Types of reservation

The reservations contained in the declarations vary considerably in terms of scope and content. Nine Directors-General made neither reservations nor observations in the declarations themselves. Others included ‘reservations’ and/or ‘observations’ in their declaration, or did not clearly distinguish between the two. Given that this is the first year of this Commission-wide exercise, for the purposes of the Synthesis no distinction will be made between reservations and observations. For convenience the term “qualifications” will be deemed to cover both reservations and observations.

Twenty-seven services qualified their declarations of assurance in the declaration itself, or by direct reference to material elsewhere in their reports. In total, and taking into account reservations and observations made in both the declaration itself and the main part of the reports, 135 qualifications were made by 31 services.

The guidance required Directors-General, for each reservation, to provide an analysis of the problem, an assessment of the impact (quantifiable if possible) and conclusions (including necessary actions and timetables). Directors-General were also recommended to define the framework used to assess the level of materiality<sup>6</sup>. The presumption is that any reservation included in the declaration is, by definition, of a material nature, whether this be in quantitative or qualitative terms, or by nature or context. About one half of the total number of qualifications made by all Directors-General were in fact accompanied by clearly defined action plans or details of measures already launched to address the issue concerned. Even then, there were few instances of clearly identified and quantified potential impacts and very little if any mention of materiality. In general, there were very few specific references to materiality either in the wording of the declarations themselves or in the supporting text in the body of the report.

However, it should be noted that not all qualifications were judged to require a specific action plan, either because of their nature or their limited materiality, or because they were of a temporary nature or the costs to improve the current situation would outweigh the expected benefits. For many of these cases the action plan is provided by one of the overall actions foreseen in this Synthesis. For others the qualification might be more of a general remark on the political environment and therefore does not require *per se* an action plan.

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<sup>6</sup> The exact definition of the concept of materiality can be found in SEC(2002)401 on page 14

It should be recognised that this was the first time that Directors-General were required to make such declarations. However, a more consistent approach to the process and to ensuring that the declarations reflect as accurately as possible the real situation will be necessary. Much will depend on the increased understanding that will come through experience of this process. There are clearly a number of issues which caused particular problems. For many Directors-General materiality proved a difficult concept to define and there will clearly need to be an attempt to deal with this issue in good time for the next year's exercise, as this is a fundamental judgement which is key to ensuring the credibility of the annual declaration exercise as a whole: in plain language, materiality means importance. Nevertheless, as they develop a greater understanding of the annual reporting process and, in particular, the need to limit reservations to genuinely material issues, one would expect services to be more consistent in how they deal with these matters in future years.

Given the varied way in which reservations and observations have been expressed further consideration will need to be given to the guidance provided to Directors-General on what to include as reservations. Some issues may only be transitional in nature, such as that of cross delegations, on which 9 Directors-General made qualifications. These issues will nevertheless need to be considered for future treatment. A number of services experienced changes of Authorising Officers by Delegation (AOD) during the year 2001 and noted this in the declaration or in the report itself, without specifically concluding on the impact or otherwise of this on the declaration. This issue was foreseen in the guidance provided to Directors-General and has been further considered in a new guidance designed to clarify arrangements in future years (SEC (2002) 657).

*Action 10: the Secretariat-General, in collaboration with DG for Budget, DG for Personnel and Administration and the Internal Audit Service, will review and enhance before end of 2002 the methodology and guidance for producing the Annual Reports for 2002, paying particular attention to the question of materiality, to the definition of the scope of potential reservations to be included in the accompanying declarations and to the handling of cross delegations.*

## **5.2. Main themes/trends**

Issues common to many services are analysed in more detail below, together with their potential significance for the Commission as a whole.

### **5.2.1. Financial systems and decentralisation of financial responsibilities**

Almost half the Directors-General who made qualifications pointed to concerns about financial management systems and the adequacy of internal controls (21 qualifications). Issues raised included specific financial circuit design matters, the documentation of procedures, controls executed over contract management procedures, supervision arrangements and whether services will be properly equipped to cope with fully decentralised financial responsibilities. This issue has of course been given added impetus by the



revised Financial Regulation which is now due to take effect from 1 January 2003 and which no longer foresees the centralised ex-ante visa function.

*Action 11: In advance of the new Financial Regulation, Directors-General and Heads of Service have already begun to put in place adequate internal control systems. They will evaluate by November 2002 the degree of assurance on the readiness of the internal control systems in place, notably the adequacy of financial circuits, and the Commission central services will undertake the necessary measures to support them in this regard. Specifically, the new or modified elements of the new Financial Regulation and its implementing rules will be integrated into the present internal control framework by October 2002. Tools will be continued to be developed by DG for Budget, in collaboration with the Secretariat-General and DG for Personnel and Administration, to assist Commission services in adapting their existing controls systems to meet the new requirements and an extensive training programme will be developed to support the process.*

#### 5.2.2. Shared management/Director-General's lack of power to influence

Of the total number of qualifications made, 23 were clearly perceived to be outside the direct control of the Director-General. However, a number of qualifications which might have a significant dependency on the actions of outside bodies, nevertheless fall to the Commission or the service to manage in part, or in some cases completely. The issue of shared or decentralised management arrangements, in relation with Member States, was a clear concern for a number of Directors-General. Some of them also cited the problems of decentralised agencies, where although the Director-General may be the appointed Authorising Officer by Delegation, he or she has no clear mandate for carrying out effective control.

*Action 12: DG for Budget, in collaboration with DG for Personnel and Administration and the concerned services, will analyse this problem by March 2003. It will make a proposal to the Commission on the scope of the responsibilities of the Authorising Officer in each domain where shared management applies. This should enable the Directors-General to take the appropriate measures in case of uncertainties or identified problems.*

#### 5.2.3. Audit and control

Almost half the Directors-General referred either directly or indirectly to audit-related issues, including difficulties in undertaking on-the-spot checks required as part of management's own control activities and the work and role of their own internal audit capabilities. Ability to perform expected levels of on-the-spot checks was often constrained by resourcing problems or by difficulties in obtaining the necessary systems information from Member States. Regarding the functioning of internal audit capabilities, several Directors-General pointed to their relative newness and acknowledged that the assurances provided so far have been limited, particularly in supporting the annual declarations. The issue of audit and control is an evolving one which has been subject to much debate throughout the Commission, including the annual reports of both the Internal Audit Service and of Financial Control. In this context, adequate control structures will need to be

operational by the end of 2002 in each service and coherent central monitoring arrangements defined. A clear distinction between audit and control will be made in line with internationally accepted principles of good governance.

*Action 13: the Commission will ensure that, before 1 December 2002, the responsibilities of the key actors in audit and control, including on the spot checks, are clarified in accordance with the stated principles of the Reform White Paper and the new Financial Regulation, best practice and internationally accepted principles of good governance.*

#### 5.2.4. Recruitment and training

Issues connected with the lack of human resources were raised by approximately half the Directors-General (32 qualifications). A wide range of specific issues were raised, including deficiencies in the recruitment process itself, a lack of suitably qualified people on reserve lists and the ensuing need to train inexperienced staff. In order to tackle these recurring requests, the Commission will put in place the following action:

*Action 14: DG for Personnel and Administration will review as soon as possible in 2002 profiles for new recruitments needed by services in financial management and related issues, compare these with the current competitions programme in this area and launch additional open competitions as appropriate. In this respect, DG for Personnel and Administration will draw up a plan to be executed by the new European Personnel Selection Office, EPSO, as from early 2003. As an interim measure, the recruitment of temporary agents on vacant permanent posts will be extended up to the point at which sufficiently long reserve lists for the related competitions will be exploitable.*

*Action 15: DG for Budget will provide the necessary training for staff on financial management as well as training specifically geared to the implementation of the new Financial Regulation. Together with the services, DG for Personnel and Administration and DG for Budget will organise the necessary training sessions for the different actors in the expenses cycle. Actions in this context are ongoing, and will be reinforced.*

#### 5.2.5. Modernisation of the Commission's accounting framework and systems

Several Directors-General made qualifications in this respect and DG for Budget itself had 2 major reservations in this domain. When referring to modernisation in the Commission's accounting area there are three key issues: modernisation of the accounting framework and associated procedures; problems related to the central supporting information system (Sincom); and problems concerning local information systems and in particular their links with the central system.

- The modernisation requirements related to the Commission's accounting framework concern the extent to which the financial reporting information derived from outside the central accounting system is reliable and to what extent this framework complies with internationally accepted accounting

principles and standards. While maintaining an ongoing priority on the quality of the current operational system, a modernisation of the accounting system through the implementation of accrual accounting, as foreseen by the recast Financial Regulation, is expected to address this concern.

- In Sincom the redundancy of some data inside the information systems architecture, and especially the risk of lack of coherence of information presented to the Authorising Officers, on one hand, and the central services, on the other hand, constitute a genuine source of concern. DG for Budget has launched already end 2001 a “coherence” project in this regard. Coherence will also benefit from the decentralisation of control functions by the recast Financial Regulation. In addition, DG for Budget has also undertaken actions for strengthening the security controls and audit trail to be carried out in the system. The Commission intends to deal with these issues urgently on the basis of a coherent and feasible project plan.
- Finally, some qualifications refer to limitations in local systems and the need to enhance the quality of their interfaces with the central information system. In this context, the Commission accepts the different action plans mentioned in the respective Annual Reports. The services are also invited to identify, where possible, common solutions and to collaborate closely with the Central Financial Service in order to optimise the overall project plan referred to above, notably concerning the functionality which could be provided in the central systems and effective project management.

*Action 16: the Commission will, by the end of 2002, adopt and communicate to the other Institutions a coherent implementation plan for the modernisation of the accounting framework, including the progressive evolution towards an accrual accounting basis.*

*Action 17: the Commission will adopt by the end of 2002 a communication with the strategic orientations for the future core financial information systems. When fixing the project plan, absolute priority will be given to three aspects : avoiding inconsistencies through redundancy of data and applications, enhancing further the security controls and audit trail provisions in the system and implementing the new Financial Regulation by 1 January 2003.*

## **6. GENERAL CONCLUSIONS**

The general conclusions that can be drawn from the reports and declarations are generally positive, considering that it is a first experience for the Commission.

### **6.1. Situation of the Commission**

The Annual Reports and declaration exercise has been introduced and designed as a crucial Reform and structural management accountability tool. Its novelty lays in its simplicity and effectiveness in enhancing accountability

and transparency, in combination with its fundamental features of self assessment and ownership of the exceptions noted by management itself. Which in turn gives it an extra impetus for management ownership for remedial action in those areas which are under the Commission's control.

The overall picture emerging from this Synthesis may not be comforting in that it gives a much sharper and challenging picture of the present state of the art of controls in the Commission than ever before. But that revelation in and of itself signifies Reform in action; which is to be seen in addition to the actions presently undertaken in the context of Reform, which show that progress has been made towards the implementation of a more efficient organisation, although more work is clearly needed to redress over time many of the risks exposed.

There are also structural issues emerging from this procedure that will cause the Commission to make an extra effort even, possibly, beyond that foreseen in Reform, such as progressing on intra-governance issues, institutional accounting and information systems control weaknesses, human resource constraints as well as on the structural question of how to reconcile the delegation risks - inherent to all operating structures predicated on the subsidiarity principle - on the one hand, whilst the Commission maintaining budget responsibility on the other.

Moving forward, the Commission also takes note of the learning curve that goes with a first time introduction of new management instruments, almost unprecedented for many Member States, as the Annual Reports and declaration exercise. And much welcomes the lessons drawn and recommendations for improvement made as to process, for the years coming. In spite of these improvements, it is not excluded that other observations and reservations will be raised in the years ahead. The Commission is not aware of anything that, on the whole, may materially effect the picture emerging from this commendable first year's effort. This picture is clearly based on the information available to the Commission. Elements like shared management may limit this information.

The timing of the whole Annual Report exercise will also need to be reviewed. On basis of articles 60§7 and 181§4 of the new Financial Regulation, the Synthesis will need to be made available to the other Institutions before the 15 June from 2004 onwards. Consequently, the Commission may bring partially forward already in 2003 the timetable of the Annual Reports and Synthesis. Any proposals in this regard will be taken into account in the revised guidelines foreseen in action 9.

It is also necessary to point out that the problems or weaknesses brought out by the introduction of declaration of assurance in the Commission should not be read as a worsening of the Commission management. All the problems pinpointed pre-existed the Reform, but their recognition and ownership by the Commission now ensures that effective action will be taken, action which will be monitored and followed up.

## 6.2. Actions planned to resolve problems

In this context, the Commission notes that the range of issues raised by Directors General in their reservations is such, that it is clear all problems may not be solved at once. Indeed, the Commission is facing resource constraints, both financial and human. It also has to maintain an appropriate balance between investing more resources in improving administration and management and/or in reinforcing its capacity to develop and deliver policy. This may imply that choices have to be made between different priorities, which may require some adjustments in the timeframe for the actions set out in the synthesis.

The Commission takes note of all the qualifications made and any ensuing actions planned by the Directors-General. For any qualifications not covered by the general actions indicated above, the Commission urges services to ensure that proper action plans and accompanying timetables are drawn up by September 2002.

Finally, the Commission notes that Directors-General should submit the details of the action plans to the responsible Commissioner who should, on the basis of the Annual Report and any other relevant information at his/her disposal, agree the final version of the detailed action plan. Individual Commissioners will then be responsible for supervising the implementation by the Directors-General concerned of the agreed measures.

In line with the principle of collective political accountability of the College and within the framework agreement on relations between the European Parliament and the Commission, the Members responsible for the Budget and for administrative Reform will present the Synthesis to the competent bodies of the European Parliament, in particular the Committee on Budgets and the Committee on Budgetary Control.

The other Commissioners will present their political appreciation for their area of responsibility according to arrangements agreed with the Parliamentary Committees. They can ask the Director-General to present his/her Annual Report to the Parliamentary Committee concerned.

*Action 18: AAR action plans will, by September 2002, be included in the Annual Management Plans for 2002. These action plans will be translated into the Annual Management Plans for 2003 as appropriate. Progress will be monitored by the Commissioner responsible and will be reviewed in the next Annual Report exercises.*

## Action Plan

*The order of the actions only reflects their position in the document and is not a priority order.*

### A) Cross cutting political issues

**Action 1:** As far as research programmes are concerned, the Commission will adopt before end of 2002 a detailed action plan addressing the complexity of financial management of indirect actions through simplification and enhanced consistency between the different systems currently in place and through improved contract management. To address existing risks the effectiveness of controls exercised by the relevant services will be increased, and work intensified on the protection of the financial interests of the Community.**Action 2:** While confirming the substance of the Relex reform, on several occasions, and following the Internal Auditor's Annual Report, the Commission has noted the necessity to examine the scope for synergies between the services involved in External Relations. Relex Commissioners, in agreement with the President and Vice-President Kinnock, should reexamine how the resources and structures of DGs Relex, Development and EuropeAid can best be organised in the longer term in order to serve Relex Commissioners in the conduct of their portfolios, which remain unchanged. The Commission will examine proposals to this effect before the end of the year. The Commission's assessment is that, taking into account that 2001 was still a start-up phase, further efforts are needed to consolidate the reform to make it fully effective. In this context the Commission will also assess and make transparent the risks linked to external aid and in particular to direct budgetary assistance as a form of development aid and communicate any major conclusions to the other institutions; it will also carry out an evaluation of the operation of the devolution exercise next year, in order to draw lessons on the effectiveness and efficiency of the introduction of changes after implementation of the external aid reform.

**Action 3:** The reservations in the field of nuclear safety will be addressed before the end of the year through, on the one hand, a package of proposals to create an operational legislative framework for the identification of EU safety standards and the preservation of decommissioning funds, and on the other hand, by looking carefully at the way in which nuclear expertise is shared among the competent services in order to improve its effectiveness.

**Action 4:** the Commission will seek to clarify with the Council its share of responsibility in meeting the objectives established for the shared management of the Structural Funds. The Commission will also make proposals in order to align its monitoring and control powers to its responsibilities.

### B) Implementation of the Reform

**Action 5:** Regarding the lack of human resources with respect to the implementation of the Reform, the Commission will pay attention to the needs expressed by Directors-General in their Annual Reports in the context of the next strategic planning and programming cycle which starts end 2002. In this context, the Secretariat-General will draw up a new methodology for assessing the resources needs of both existing and new activities.

**Action 6:** Regarding the continued implementation of the Reform, the Secretariat General will, in close cooperation with the DG for Budget and the DG for Administration, review the coordination mechanisms between the central services with a view to improving the guidance and advice provided to operational services. In addition, the Secretariat-General will prepare a detailed ABM Guide by October 2002 and will assist services in the preparations of their Annual Management Plan for 2003.

**Action 7:** An inter-service working group will be mandated to coordinate the interoperability of existing management information systems. This group will establish by November 2002 an action plan and supervise its execution.

**Action 8:** DG for Budget, in collaboration with the Secretariat-General, will provide enhanced support and practical guidance for the standards covering sensitive functions and supervision, which are considered as very important for a smooth functioning of the Commission services, before the end of 2002.

**Action 9:** All Commission services will give particular attention in 2002 to the design and documentation of internal control procedures, in particular those financial procedures aimed at preventing errors and detecting irregularities and the recording of exceptions.

**Action 10:** the Secretariat-General, in collaboration with DG for Budget, DG for Personnel and Administration and the Internal Audit Service, will review and enhance before end of 2002 the methodology and guidance for producing the Annual Activity Reports for 2002, paying particular attention to the question of materiality, to the definition of the scope of potential reservations to be included in the accompanying declarations and to the handling of cross delegations.

**Action 11:** In advance of the new Financial Regulation, Directors-General and Heads of Service have already begun to put in place adequate internal control systems. They will evaluate by November 2002 the degree of assurance on the readiness of the internal control systems in place, notably the adequacy of financial circuits, and the Commission central services will undertake the necessary measures to support them in this regard. Specifically, the new or modified elements of the new Financial Regulation and its implementing rules will be integrated into the present internal control framework by October 2002. Tools will be continued to be developed by DG for Budget, in collaboration with the Secretariat-General and DG for Personnel and Administration, to assist Commission services in adapting their existing controls systems to meet the new requirements and an extensive training programme will be developed to support the process.

### **C) Horizontal management themes**

**Action 12:** DG for Budget, in collaboration with DG for Personnel and Administration and the concerned services, will analyse the problems arising from shared management by March 2003. It will make a proposal to the Commission on the scope of the responsibilities of the Authorising Officer in each domain where shared management applies. This should enable the Directors-General to take the appropriate measures in case of uncertainties or identified problems.

**Action 13:** the Commission will ensure that, before 1 December 2002, the responsibilities of the key actors in audit and control, including on the spot checks, are clarified in accordance with the stated principles of the Reform White Paper and the new Financial Regulation, best practice and internationally accepted principles of good governance.

**Action 14:** DG for Personnel and Administration will review as soon as possible in 2002 profiles for new recruitments needed by services in financial management and related issues, compare these with the current competitions programme in this area and launch additional open competitions as appropriate. In this respect, DG for Personnel and Administration will draw up a plan to be executed by the new personnel selection office, EPSO, as from early 2003. As an interim measure, the recruitment of temporary agents on vacant permanent posts will be extended up to the point at which sufficiently long reserve lists for the related competitions will be exploitable.

**Action 15:** DG for Budget will provide the necessary training for staff on financial management as well as training specifically geared to the implementation of the new Financial Regulation. Together with the services, DG for Personnel and Administration and DG for Budget will organise the necessary training sessions for the different actors in the expenses cycle. Actions in this context are ongoing, and will be reinforced.

**Action 16:** the Commission will, by the end of 2002, adopt and communicate to the other Institutions a coherent implementation plan for the modernisation of the accounting framework, including the progressive evolution towards an accrual accounting basis.

**Action 17:** the Commission will adopt by the end of 2002 a communication with the strategic orientations for the future core financial information systems. When fixing the project plan, absolute priority will be given to three aspects: avoiding inconsistencies through redundancy of data and applications, enhancing further the security controls and audit trail provisions in the system and implementing the new Financial Regulation by 1 January 2003.

**Action 18:** the missing or inadequate action plans will, by September 2002, be included in the Annual Management Plans for 2002. These action plans, like the other action plans, will be translated into the Annual Management Plans for 2003 as appropriate. Progress will be monitored by the Commissioner responsible and will be reviewed in the next Annual Report exercises.