

Communication to the Commission on the reorganisation of financial control and internal audit in the Commission (25 June 2001)

Caption: Communication from Neil Kinnock and Michaela Schreyer to the Commission on the reorganisation of financial control and internal audit in the Commission following the changes to the Financial Regulation made in 2001 concerning the separation of the internal audit function from the 'ex ante' financial control function.

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Reorganisation of financial control and internal audit in the Commission

Establishment of two independent services

Communication to the Commission by Mr Kinnock and Ms Schreyer, in agreement with the President

1. On 11 April 2000 the Commission decided on a number of measures concerning the reform of financial management and control within the Commission (SEC(2000)560/5 - PV 1474, point 16), as provided for in the White Paper (COM(2000)200) adopted on 1 March 2000.

2. One of the main objectives of the reform was the creation of the Internal Audit Service (IAS).

In its decision of 11 April 2000 the Commission defined the role, mission, organisation and structure of the Internal Audit Service (see Chapter 3 of document SEC(2000)560/5, page 2).

At the same time, the Commission adopted the organisation chart of the Internal Audit Service (see Annex II to the above document), making the Head of Service an A1 post and thus giving the service the status of a Directorate-General.

3. Because of the constraints imposed by Article 24 of the Financial Regulation (which state that internal audit is the responsibility of the Financial Controller), applicable at the time the Commission adopted its decision, the separation of the Internal Audit Service from the Directorate-General for Financial Control and its organisation chart, as provided for by the Commission, could not be established straight away.

Pending the amendment of Article 24, and to speed up the completion of the actions set out in the White Paper, the Commission chose to set up the Internal Audit Service within the Directorate-General for Financial Control (DG AUDIT). A certain de facto separation was, however, achieved in the meantime, partly by the decision to place the Commission's internal audit function under the direct authority of the Vice-President of the Commission (financial control being under the authority of the Member of the Commission in charge of the Budget), and partly by the delegation granted by the Financial Controller to the Head of the Internal Audit Service with regard to internal audit.

This, therefore, allowed the Internal Audit Service to organise itself both from an administrative⁽¹⁾ and an operational point of view, to draw up its independent programme, put in place the necessary resources, etc. in line with the Commission's decision of 11 April 2000.

The operation and organisation of the "ex ante" aspects of financial control were laid down by Commission decision of 12 July 2000 (see PV(2000)1487, point 20.2. and documents SEC(2000) 1146/2 and SEC(2000)1196). This activity has also been well structured, in an independent manner, as part of the reform and developed in detail by Commission decision of 25 April 2001 (document SEC(2001)618/3; PV(2001)1520, point 9).

4. At the same time, the procedures initiated by the competent authorities to amend Article 24 of the Financial Regulation went ahead.

These procedures have just been completed: on 9 April 2001 the Council adopted Regulation No 762/2001 (OJ L 111, 20.04.2001, p. 1), amending the Financial Regulation as regards **separating the internal audit function from the ex ante financial control function**.

All obstacles to the establishment of the Commission's internal audit function as an independent service have thus been removed: its separation from the Financial Control DG may thus be established in accordance with the decisions already taken.

5. This is to be done by:

5.1. creating two separate Directorates-General, one responsible for ex ante financial control, the other for internal audit, by separating the two services which currently make up the Directorate-General for Financial Control and drawing up a new organisation chart for each;

5.2. appointing the Financial Controller of the Commission (by confirming in her post the present Financial Controller, Director-General for Financial Control), and also the Internal Auditor of the Commission (by confirming in his post the present Head of the Internal Audit Service, who already carries out the tasks of internal auditor by delegation).

Thanks to the structures put in place by the Commission's decisions of 11 April and 12 July 2000, these two steps involve no more than minor adjustments. Apart from the changes to be made in the present Unit AUDIT.01⁽²⁾, currently responsible for administrative and IT support both for the part of the DG responsible for ex ante financial control and the part responsible for the Internal Audit Service, the effect on staff will be almost exclusively a matter of form. Apart from supplying the appropriate information, no special procedures will therefore be necessary.

The proposal does not involve any change to the number of staff in this area, which will remain the same, as provided for in the budget estimates (Annex I).

This decision will be adapted at the date of the adoption of the recasted Financial Regulation.

⁽¹⁾ In accordance with the Commission's decision of 12 July 2000 (PV(2000)1487), the management of staff, the budget and information technology and other horizontal administrative support for the Internal Audit Service were undertaken by a single administrative unit, i.e. the present Unit AUDIT.01 of the Directorate-General for Financial Control.

⁽²⁾ See footnote page 2.

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6. In view of the above, it is proposed that the Commission decide to:

6.1. create two separate Directorates-General by splitting the present DG for Financial Control, one responsible for financial control, specifically ex ante control, and the other responsible for the Commission's internal audit,

6.2. adopt the organisation charts for the two new Directorates-General and post the management staff included therein, as shown in Annex II (Financial Control) and Annex III (Internal Audit);

6.3. instruct the Internal Audit Service, due to the need for the creation of an "internal audit capability", to ensure in the most appropriate way, in accordance with the internal audit standards, and in the same way as provided for other DG/services of the Commission, that its performance and the effective functioning of its internal controls are evaluated on a regular and independent basis.

6.4. appoint the Financial Controller of the Commission and the Internal Auditor of the Commission, by confirming Mrs Edith Kitzmantel as Director General of Financial Control and Financial Controller of the Commission, and Mr Jules Muis as Director-General of the Internal Audit Service and Internal Auditor of the Commission;

6.5. instruct the Secretariat-General to forward, for information, to the European Parliament, the Council and the Court of Auditors **reasoned decisions** appointing the Financial Controller and the Internal Auditor, as provided for in Article 24 of the Financial Regulation;

6.6. instruct the competent appointing authorities to supply the appropriate information and to take the necessary decisions with regard to the posting of the staff concerned who are not included in the organisation charts annexed hereto, and any other measure within the framework of the provisions in force and in compliance with administrative reform;

6.7. instruct the Directorates-General for the Budget and for Personnel and Administration to take steps, in agreement with the two new Directorates-General, to establish separate budgetary allocations (see Annex I), according to what has already been granted and/or needs already ascertained, for the Internal Audit Service and for Financial Control, in order to ensure independent management of resources following the separation of the two Services.

The decisions set out in points 6.1. to 6.3. above shall come into effect on the day following the adoption of the present Decision by the Commission.

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Annexes: 3

ANNEX I (page 1/2)

Concerning the administrative credits and human resources, as was foreseen in the decisions already adopted by the Commission on the subject, and by the agreements which took place between the services (DGAUDIT/IAS/DGBUDG):

I. Administrative credits (staff not included):

The Internal Audit Service should receive, following the breakdown foreseen in the allocation of DG AUDIT, the credits shown below: [...]

II. Staff (posts and external personnel):

[...]