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Internal Control Systems in Directorate-General Research

2009 Accountability Workshop in Lisbon,
Portugal, 16-18 June 2009

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DG Research - A4



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Internal Control Systems in DG RTD

Summary



1 Commission Internal Control Framework: Definition, Objectives and Standards



2 Overview of the Internal Control Framework in DG RTD



3 Internal Control accountability schema in DG RTD



4 Annual Risk Assessment exercise



5 Conclusions

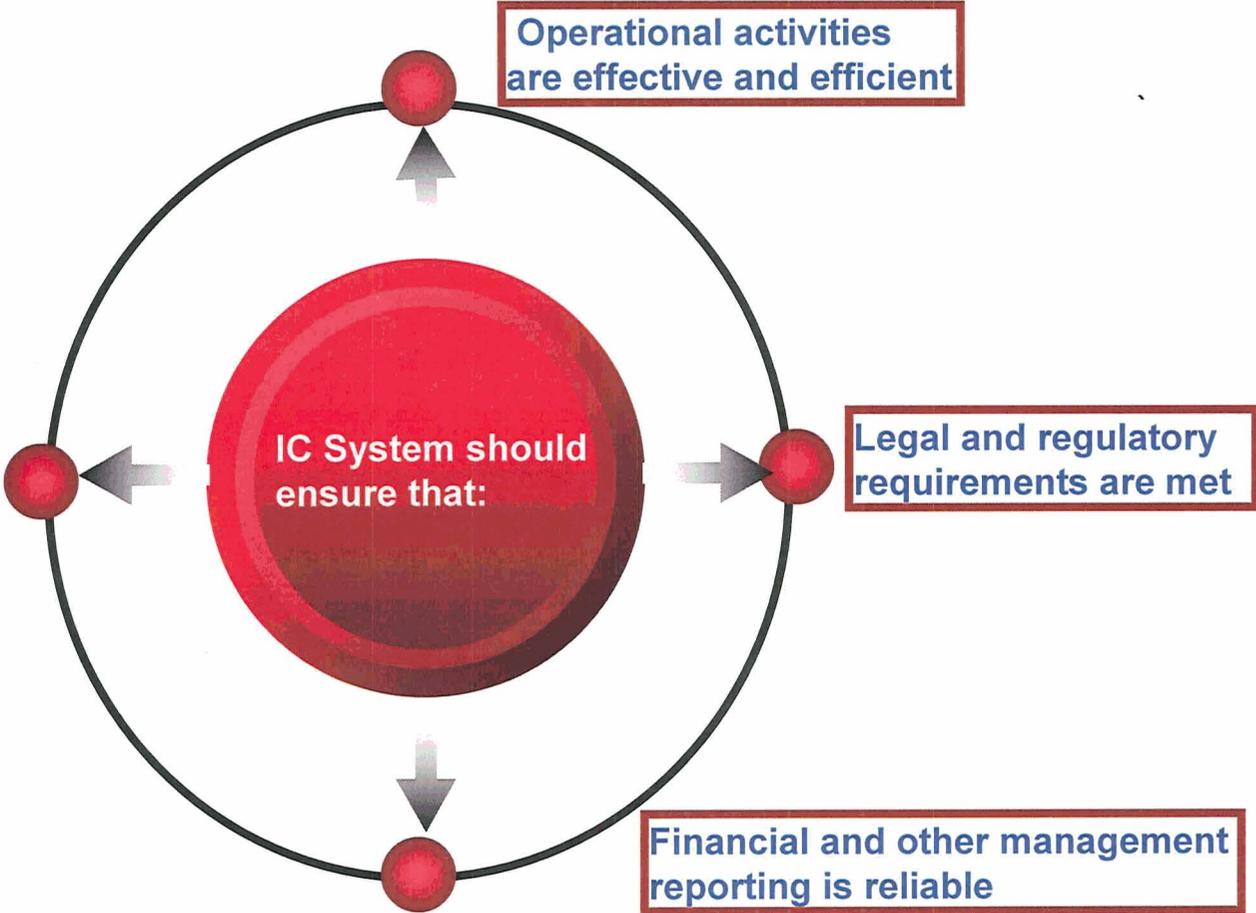
Internal Control: Definition, Objectives and Standards

Definition

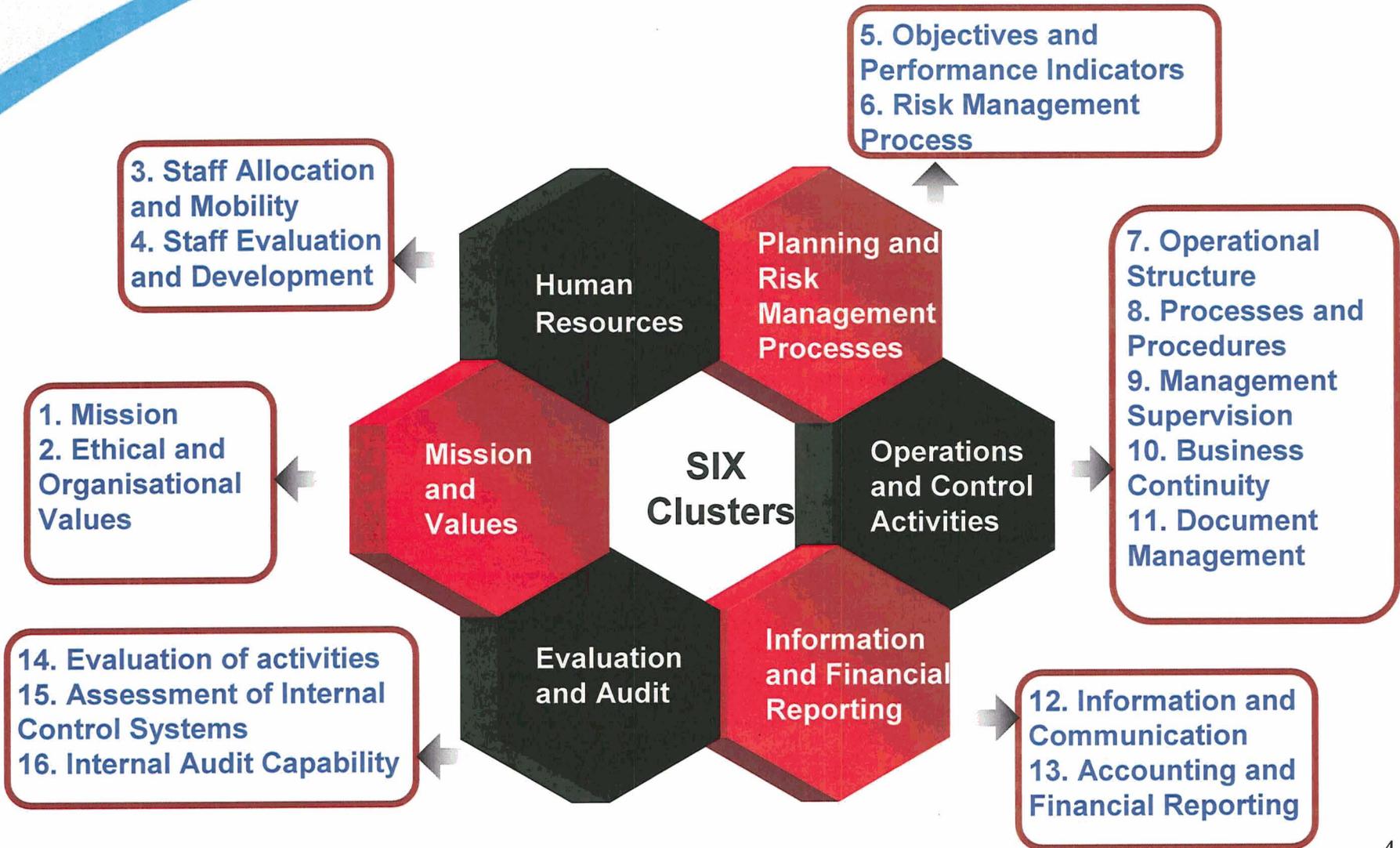
Internal Control is broadly defined as a process intended to provide reasonable assurance to the management on the achievement of the DG's objectives.

Objectives

Assets and information are safeguarded



Internal Control Standards for Effective Management



Internal Control Standard n° 6: Risk Management Process

Commission general approach

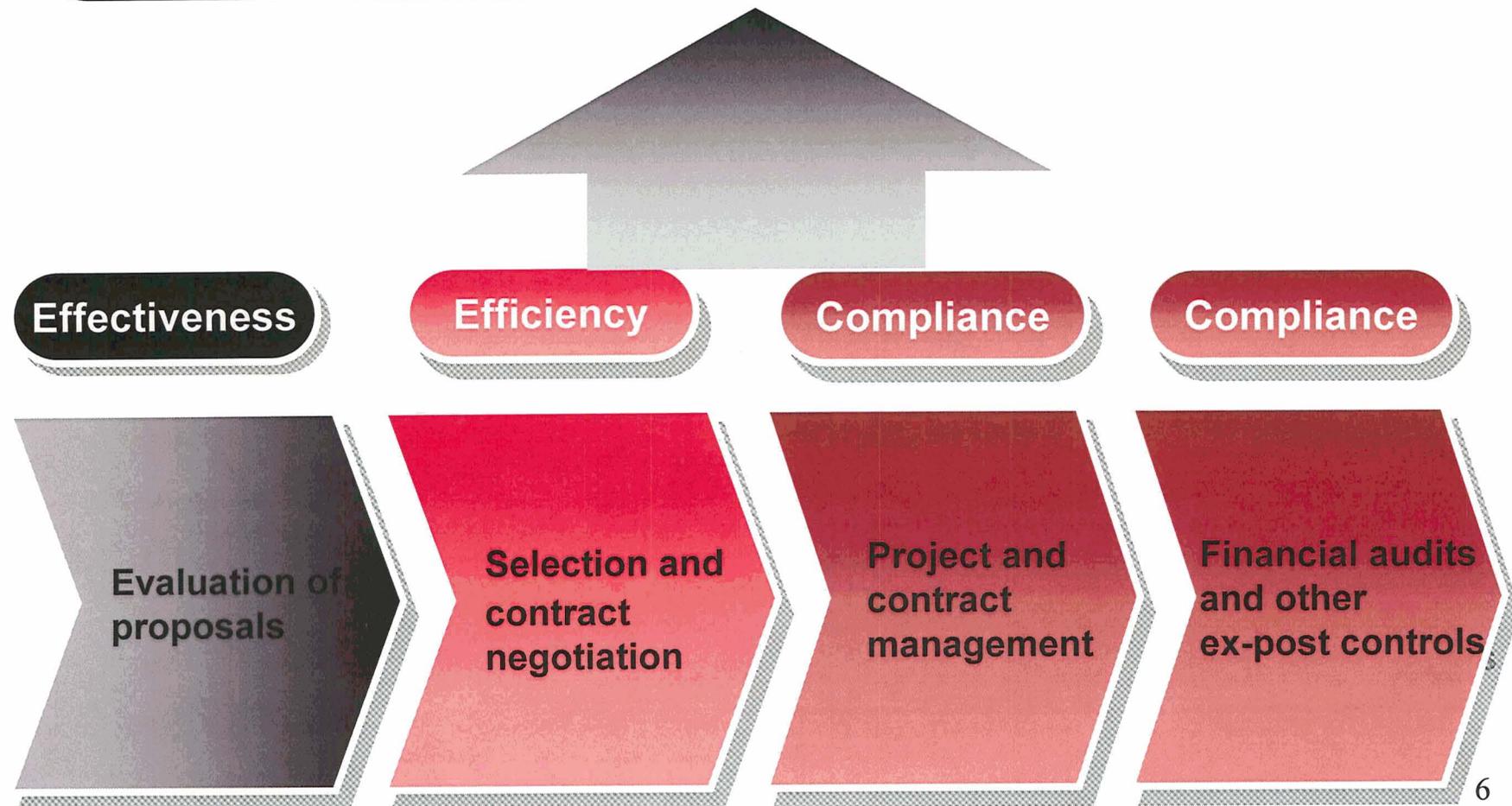
- A risk management exercise at DG level is conducted at least once a year;
- Risk management action plans are realistic and take into account cost/benefit aspects in order to avoid disproportionate control measures.
- Risks considered "critical" from an overall DG perspective are indicated in the DG's Annual Management Plan.

DG RTD

- We perform an annual risk assessment exercise at DG level to identify the critical risks that could jeopardize the achievement of our objectives;
- We report critical risks in the Annual Management Plan;
- We address the critical risks by defining and implementing mitigating action plans;

DG RTD Internal Control System for FP management

Efficiency and Effectiveness / Compliance / Reporting / Safeguarding of assets



Key Internal Controls in the RTD business process

Evaluation of proposals

Selection and contract negotiation

Project and contract management

Financial audits and other ex-post controls

Key Controls

- Work programmes
- External experts
- Evaluation panels / ranking of proposals
- Redress procedure

Objectives

- Ensure optimal evaluation: efficiency, effectiveness and economy principles;
- Build/consolidate the reputation of a fair, unbiased, transparent, equitable and ethical evaluation process.

Key Internal Controls in the RTD business process

Evaluation of proposals

Selection and contract negotiation

Project and contract management

Financial audits and other ex-post controls

Key Controls

- List of accepted proposals, ISC
- Formal information to the beneficiaries
- Global commitment
- Technical, legal and financial verification of the beneficiary

Objectives

- Ensure optimal selection of projects
- Ensure the best value for money
- Achieve the operational and financial objectives
- Build/consolidate the reputation of a fair, unbiased, transparent, equitable and ethical selection process

Key Internal Controls in the RTD business process

Evaluation of
proposals

Selection and
contract
negotiation

Project and
contract
management

Financial audits
and other
ex-post controls

Key Controls

- Financial and legal commitments
- Pre-financing & intermediate payments
- 4 eyes principle (OI, FI, OV, FV)
- CAF – “Bon à payer”
- Audit certificates

Objectives

- Ensure the compliance of the contractual and legal requirements from the financial and operational points of view.



Key Internal Controls in the RTD business process

Evaluation of
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Selection and
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Project and
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Financial audits
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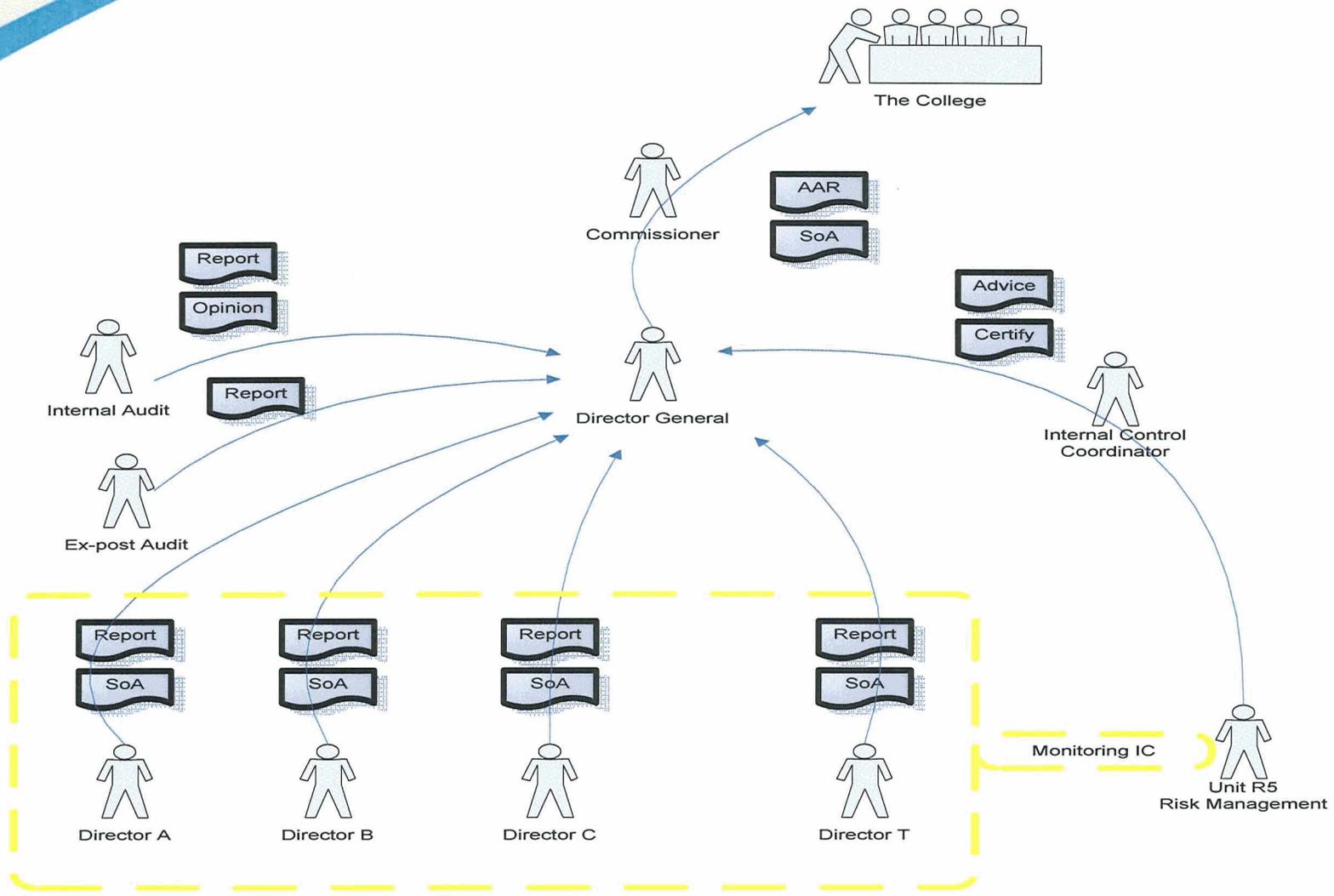
Key Controls

- Sample of beneficiaries on a multiannual basis
- Execution of audits
- Extrapolation
- Implementation and monitoring of audits results

Objectives

- Ensure the legality and regularity of the transactions
- Keep the residual error rate below the materiality threshold
- The detection and correction of errors not identified ex-ante

Internal Control accountability schema



A three dimensional model

The approach

- One common basis for assessment for the whole DG – the processes.
- Obtaining the list of critical risks at DG level by aggregating the risks identified at lower levels.
- Common agreement on critical risks affecting the DG – one filter done by the middle management and one done by the senior management.

The model

- the vertical dimension = DIRECTORATES
- the horizontal dimension = PROCESSES
- the hierarchical dimension = BOTTOM-UP (for risk identification) and TOP-DOWN (for risk decisions)

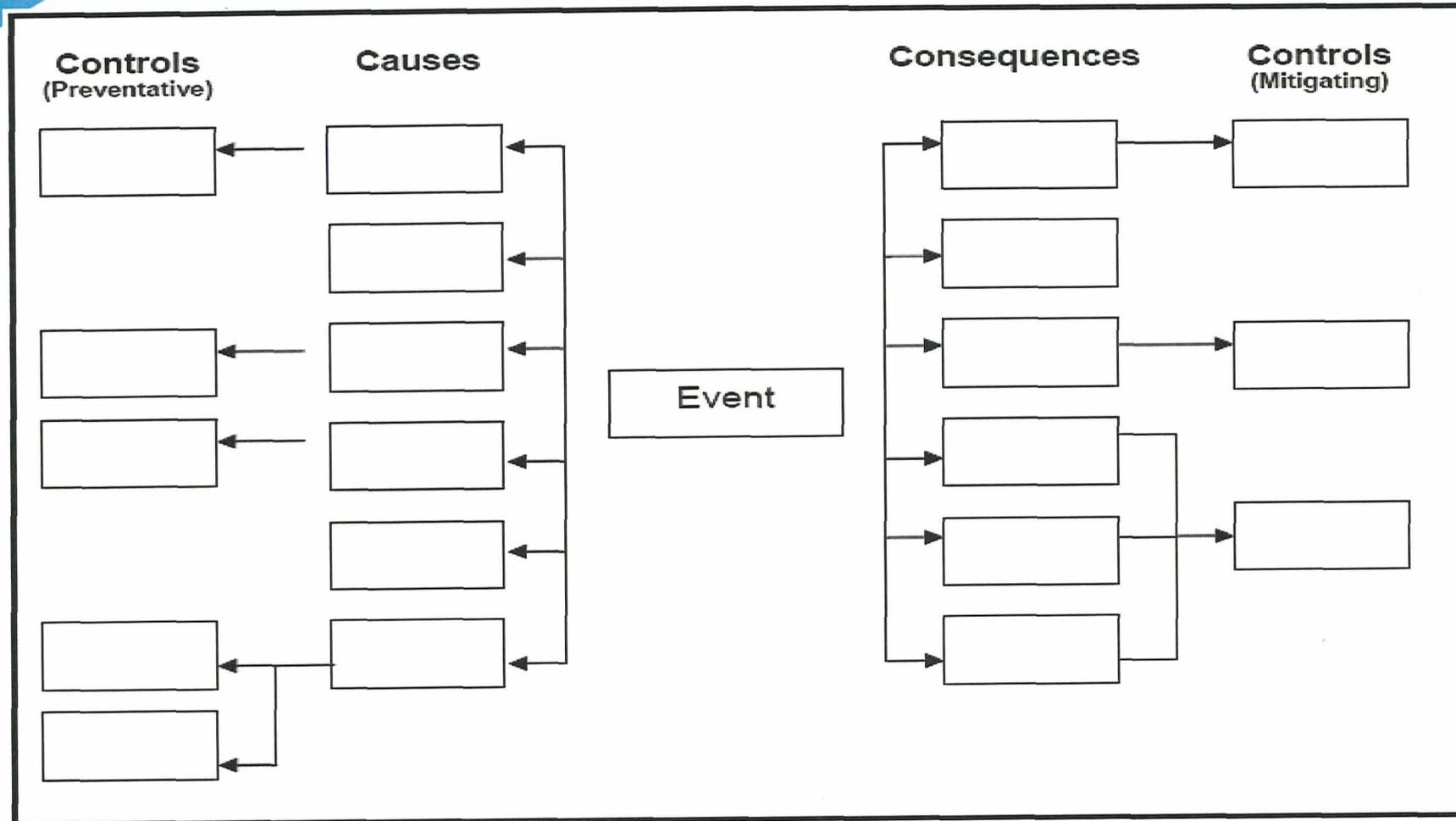
Scope

- Processes scope – 4 processes assessed - the FP management – covering the major part of our activity

Three phases exercise

- **The contribution phase:** risk identification & collection
- **The “ranking seminars” phase:** for each given process risks were ranked by middle management
- **The “decision meeting” phase:** all Directors discussed and selected critical risks

The contribution phase – the “bow tie” model



Annual Risk Assessment exercise

It could happen (again) that.....



This model of presentation was used during the “ranking seminars” phase.

Annual Risk Assessment exercise

It could happen (again) that.....

Insufficient awareness
that this risk exists

Insufficient data
management information
in the RTD-systems

Insufficient
communication with the
operational Directorates

**A number of risks
are not sufficiently
covered in the
scope of the audit
(plagiarism, double
funding..)**

Double-funding not
identified

Launching series of risk-
based audits of doubtful
use

Plagiarism not discovered

Annual Risk Assessment exercise

Risk Management tools

- **The Risk Register** at Directorate level – a follow-up risk management tool. Helps managers see the current general situation and to compare risks from one year to another.
- **The Control Matrix** - helps identify risks that have no controls, those that have only preventive or recovery controls, risks that are over controlled and those that are insufficiently controlled. Helps management to identify their priorities in terms of control activities.

Critical control:
ensure perfect functioning

Possible a useless control:
to be eliminated

Risk description	Existing risk controls by process				
	Preventive Control 1	Preventive Control 2	Preventive Control 3	Detective Control 1	Detective Control 2
Risk 1		x			
Risk 2	x	x	x		x
Risk 3		x			
Risk 4		x	x		
Risk 5					

Immediate action needed



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Conclusions

- The Internal Control System – broader than finance
- Ownership required of all staff and management
- Move from compliance to EFFECTIVENESS

My question to you:

- Who wants to collaborate with us on the two risks mentioned before?

Thank You!