

## **CONTROL AND MANAGEMENT SYSTEM BASELINES FOR EUROPEAN UNION MEMBERSHIP**

SIGMA has developed a set of baselines for six key areas of public management: Civil Service, External Audit, Financial Control, Public Expenditure Management Systems, Policy-Making and Co-ordination Machinery and Public Procurement Management Systems. In each of these areas, the baseline reflects standards of good practice in the EU Member States.

The baselines cover both the formal (legal basis, institutional framework) and dynamic aspects of such a framework (performance in practice, capacity for future upgrading). They incorporate EU Regulations and Directives where these exist, such as in the field of financial control and public procurement. The baselines are a working tool developed by SIGMA to provide a basis for conducting assessments of central management and control systems. The baselines and the work related to them support efforts by the European Commission in the area of EU enlargement.

The baselines were prepared by the SIGMA Secretariat upon the request of the European Commission in close co-operation with various Directorate Generals of the Commission, and the European Court of Audit (in the area of external audit). SIGMA will revise the baselines at regular intervals to keep pace with new EU legislation and developments.

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**TABLE OF CONTENTS**

CONTROL AND MANAGEMENT SYSTEM BASELINES FOR EUROPEAN UNION MEMBERSHIP 1	
PUBLIC SECTOR FINANCIAL CONTROL BASELINE .....	3
PUBLIC PROCUREMENT MANAGEMENT SYSTEMS BASELINE .....	13
PUBLIC EXPENDITURE MANAGEMENT SYSTEMS BASELINE.....	17
PUBLIC SECTOR EXTERNAL AUDIT BASELINE .....	21
CIVIL SERVICE BASELINE.....	23
POLICY-MAKING AND CO-ORDINATION MACHINERY BASELINE .....	25

## **PUBLIC SECTOR FINANCIAL CONTROL BASELINE**

### **Introduction**

The baseline has been prepared by SIGMA on request from the DG1A and in close co-operation with the Financial Controller of DGXX. Other Directorates have also contributed. The paper and the work related to it is meant to be complementary to and support all efforts carried out by DGXX in the area of Enlargement.

The Treaty does not specify any predetermined model of financial control to be applied by Member Countries but it establishes the general obligations of the Member States. It sets out the responsibilities of the Commission and establishes provisions for budget and financial management and for the European Court of Auditors. In particular Article 280 of the Treaty provides for the fight against fraud. Many other detailed requirements are set out in other regulations and directives, etc. on how the processes of management and control of EU funds and resources should be designed and function. Most of these are specified in the attached Annex I.

These regulations and directives give detailed provisions on how the processes of financial control should function. This is reflected in the baseline, but the baseline is also designed to reflect good or best European practices for the overall architecture of sound financial control.

Any assessment derived from this baseline should also seek to bring out the crucial links that exist to the results of assessments in the other areas (external audit, budget management, procurement and civil service).

The baseline may be used to focus on the parts of the public sector, which are/will be most essential in managing EU resources (mainly customs and agriculture levies) and EU funds (Phare, pre-accession, structural, and agricultural).

The primary focus of the baseline is on central government with an outlook to regional and local administration.

### **1. Introduction**

The following data describe the current situation regarding financial control:

- Laws; basic laws as well as detailed financial and control regulations and directives etc.;
- number of staff;
- other resources;
- organisational charts; government and ministerial levels;
- financial systems used; general descriptions and flowcharts;
- financial reports; examples of annual and other reports.

Basic information about the organisational structures of public administration should be part of the introduction in order to understand the context and position of financial control institutions in the country in question.

## 2. The Baseline

**2.1. A coherent and comprehensive statutory base defining the systems, principles and functioning of financial control (management/internal control) systems, including mechanisms for internal audit/inspectors, has to be in place. (*Nota bene*; different solutions to internal audit such as Inspectorate General of Finances, the “northern” solution as in Netherlands or Sweden or other variants, could be used)**

**2.2. Relevant management control systems and procedures have to be in place. The following systems and procedures are seen as the most basic.**

- Accounting and reporting standards/regulations;
- Accounting systems;
- A defined audit trail (showing the flow of funds from the national budget/the EU and the roles and responsibilities of the different national entities involved, including solutions to National Funds and Paying Agencies);
- Ex ante controls of commitments and payments;
- Procurement control (following Baseline on Public Procurement Management Systems);
- Control of state revenues (including future own resources).

**2.3. A functionally independent internal audit/inspectorate mechanism with relevant remit and scope has to be in place. Could have the form of one or several organisational entities, but should meet the following criteria:**

- be functionally independent;
- have an adequate audit mandate (in terms of scope and types of audit);
- use internationally recognised auditing standards.

It should also be considered if there is in place appropriate co-ordination and supervision of the applied audit standards and methodologies.

**2.4. Systems must be in place to prevent and take action against irregularities and to recover any amounts lost as a result of irregularity or negligence. The criteria used here reflects:**

- to what extent existing systems functions preventive; and
- make sure actions are taken; and
- if the existing laws/regulations make it possible to recover amounts lost following irregularities or negligence (as defined by regulation No 2988/95).

It should also be considered if there is in place appropriate structures for fighting fraud and corruption whether this is handled via the normal institutions of financial control or by a separate entity(s).

### **3. General Criteria for Assessing the Capacity for Upgrading Financial Control and Over-all Indicators of Effectiveness**

In addition to the criteria described above, the capacity of a country to bring financial control into line with European standards and international best practice, and to maintain those standards, will depend on a number of factors of which three should be judged when possible:

- A capability and capacity to develop and make change.
- The existence of a strategy for development and change.
- The existence of a commitment to change and development.

A country may have all the required authority and powers to carry out its role and functions properly but is still not doing a good enough job on financial control. Where possible subjective and objective indicators should be assessed to sum up the impact and effectiveness of financial control. Objective indicators could be:

- Measures of productivity.
- Measures of effectiveness.
- Measures of quality (e.g. complaint/non-complaint ratio).

## ANNEX 1

The responsibilities of Member States for undertaking controls of Structural Fund and Cohesion actions are set out in for example Regulations 4253/88 (with amendments) and 2064/97. Financial control provisions for the Common Agriculture Policy (the EAGGF Guarantee fund) are set out in several regulations (e.g. 1258/1999, 1663/95, 4045/89, 307/91, 3508/92, 515/97, 723/97), Regulations 2988/95 and 2185/96 sets out provisions on financial control and external audit. Own resources are regulated in 88/376, 1552/89, 1553/89, 89/130 and 94/728. The National Fund framework and the pre-accession funds regulations modeled on the cohesion and agriculture guarantee fund regulations, demands among other things that the financial systems in place shall be audited according to internationally recognised auditing standards.

The controls to be carried out should furthermore be designed to: verify the effectiveness of the management and control system in place; and to verify selectively the expenditure declarations made at the various levels concerned. The configuration of the National Fund and the Special Preparatory Programme for introduction of structural funds develops the criteria further. First, there is a need to be able to demonstrate that there exists an effective internal and external control over the Implementing Agency, including an appropriate audit function and an effective accounting and financial reporting system. Second, the internal audit function must have a “functional” independence in relation to the so-called implementing agency.

Recently the following regulations on financial management and control of Pre-accession funds have been adopted: Council Regulation (EC) No. 1266/1999 of 21 June 1999 on co-ordinating aid to the applicant countries in the framework of the pre-accession strategy and amending regulation (EEC) No. 3906/89, Council Regulation (EC) No. 1267/1999 of 21 June 1999 Establishing an Instrument for Structural policies for Pre-accession (*ISPA*), Council Regulation (EC) No. 1268/1999 of 21 June 1999 on Community Support for pre-accession measures for agriculture and rural development in the applicant countries of Central and Eastern Europe in the pre-accession period (*SAPARD*). In addition the following regulations on the Fight Against Fraud has been adopted: Commission Decision of 28 April 1999 establishing the European Anti-fraud Office (OLAF), regulation (EC) No. 1073/1999 of the European Parliament and the Council of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF), Council regulation (EURATOM) No. 1074/1999 of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF).

## Some EU Regulations Concerning Budgeting, Financial Control and External Audit

### Primary Law

<b>Number</b>	<b>Subject</b>
TEC <sup>1</sup> , Article 10	Establishing general obligations of the Member States
TEC, Article 211	Obligations and responsibilities of the European Commission
TEC, Article 246-248	Provisions for the European Court of Auditors
TEC, articles 268-279	Financial provisions
TEC, Article 280	Fight against fraud

\* New intent and numbering following the Amsterdam Treaty amending the Treaty on European Union, the Treaties establishing the European Communities and certain related acts.

### Secondary Law

#### *Budgeting*

<b>Number</b>	<b>Subject</b>
1231/77	Financial regulation of 21 December 1977 applicable to the general budget of the European Communities. (Implemented by 3418/93)
3418/93	Commission Regulation (Euratom, ECSC, EC) No. 3418/93 of 9 December 1993 laying down detailed rules for the implementation of certain provisions of the Financial Regulation of 21 December 1977
94/729	Council Decision (EC, Euratom) of 31 October 1994 on budgetary discipline
Interinstitutional agreement	Budgetary discipline and improvement of the budgetary procedure

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1. TEC = Treaty of the European Economic Communities also known as the Treaty of Rome.

***Expenditure***

<b>Number</b>	<b>Subject</b>
1258/1999	Council regulation (EC) No 1258/1999 of 17 May 1999 on the financing of the common agricultural policy ( <i>Replacing No. 729/70 as amended by No. 1287/95</i> )

***Own Resources***

<b>Number</b>	<b>Subject</b>
88/376	Council Decision (EEC, Euratom) of 24 June 1988 on the system of the Communities' own resources (Implemented by 1552/89)
1552/89	Council Regulation (EEC, Euratom) No. 1552/89 of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources
1553/89	Council Regulation (EEC, Euratom) No. 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax
89/130	Council Directive (EEC, Euratom) of 13 February 1989 on the harmonisation of the compilation of gross national product at market prices
94/728	Council Decision (EC, Euratom) of 31 October 1994 on the system of the European Communities' own resources System of own resources of the EC

***Financial Control and External Audit***

<b>Number</b>	<b>Subject</b>
2988/95	Council Regulation (EC, Euratom) No. 2988/95 of 18 December 1995 on the protection of the European Communities financial interests
2185/96	Council Regulation (Euratom, EC) No. 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities

*Agriculture*

<b>Number</b>	<b>Subject</b>
1663/95	Commission Regulation (EC) No. 1663/95 of 7 July 1995 laying down detailed rules for the application of Council regulation (EEC) No. 729/70 regarding the procedure for the clearance of the accounts of the EAGGF Guarantee Section
4045/89	Council Regulation (EEC) No. 4045/89 of 21 December 1989 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund
307/91	Council Regulation (EEC) No. 307/91 of 4 February 1991 on reinforcing the monitoring of certain expenditure chargeable to the Guarantee Section of the European Agricultural Guidance and Guarantee Fund
3508/92	Council regulation (EEC) No. 3508/92 of 27 November 1992 establishing an integrated administration and control system (IACS) for certain Community aid schemes (Implemented by 3887/92)
3887/92	Commission regulation (EEC) No. 3887/92 of 23 December 1992 laying down detailed rules for applying the integrated administration and control system for certain Community aid schemes
723/97	Council Regulation (EC) No. 723/97 of 22 April 1997 on the implementation of Member States' action programmes on control of EAGGF Guarantee Section expenditure
515/97	Council Regulation (EC) No. 515/97 concerning mutual assistance between authorities of the Member States and co-operation between these authorities and the Commission to secure the correct application of customs- and agricultural legislation
386/90	Council Regulation (EEC) No. 386/90 of the 12 February 1990 on the monitoring carried out at the time of export of agricultural products receiving refunds or other amounts

*Fishery*

<b>Number</b>	<b>Subject</b>
1263/1999	Council regulation (EC) No 1263/1999 of 21 June 1999 on the Financial Instrument for Fisheries Guidance

*Structural Funds*

<b>Number</b>	<b>Subject</b>
1260/1999	Council regulation (EC) No 1260/1999 of 21 June 1999 laying down general provisions on the Structural Funds
1261/1999	Regulation (EC) No 1261/1999 of the European Parliament and of the Council of 21 June 1999 on the European Regional Development Fund
1262/1999	Regulation (EC) No 1262/1999 of the European Parliament and of the Council of 21 June 1999 on the European Social Fund
2052/88	Council regulation (EEC) No. 2052/88 of 24 June 1988 on the tasks of the Structural Funds and their effectiveness and on co-ordination of their activities between themselves and with the operations of the European Investment Bank and the other existing financial instruments (Implemented by 4253/88)
4253/88	Council Regulation (EEC) No. 4253/88 of 19 December 1988 laying down provisions for implementing Regulation (EEC) No. 2052/88 as regards co-ordination of the activities of the different Structural Funds between themselves and with the operations of the European Investment Bank and the other existing financial instruments

*Customs Co-operation*

<b>Number</b>	<b>Subject</b>
210/97	Decision No. 210/97/EC of the European Parliament and of the Council of 19 December 1996 adopting an action programme for customs in the Community (Customs 2000)

*Reclaiming of Amounts and Sanctions*

<b>Number</b>	<b>Subject</b>
595/91	Council regulation (EEC) No. 595/91 of 4 March 1991 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the common agricultural policy and the organisation of an information system in this field
1681/94	Commission Regulation (EC) No. 1681/94 of 11 July 1994 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the structural policies and the organisation of an information system in this field

1469/95	Council regulation (EC) No. 1469/95 of 22 June 1995 on measures to be taken with regard to certain beneficiaries of operations financed by the Guarantee Section of the EAGGF
745/96	Commission Regulation (EC) No. 745/96 of 24 April 1996 laying down detailed rules for the application of Council Regulation (EC) No. 1469/95 on measures to be taken with regard to certain beneficiaries of operations financed by the Guarantee Section of the EAGGF

***Pre-Accession Funds***

<b>Number</b>	<b>Subject</b>
1266/1999	Council regulation (EC) No 1266/1999 of 21 June 1999 on coordinating aid to the applicant countries in the framework of the pre-accession strategy and amending Regulation (EEC) No 3906/89
1267/1999	Council regulation (EC) No 1267/1999 of 21 June 1999 establishing an Instrument for Structural Policies for Pre-accession
1268/1999	Council regulation (EC) No 1268/1999 of 21 June 1999 on Community support for pre-accession measures for agriculture and rural development in the applicant countries of central and eastern Europe in the pre-accession period

***Fight Against Fraud and Corruption***

<b>Number</b>	<b>Subject</b>
Agreement	Interinstitutional agreement of 25 May 1999 between the European Parliament, the Council of the European Union and the Commission of the European Communities concerning internal investigations by the European Anti-Fraud Office (OLAF)
Decision	Commission decision of 28 April 1999 establishing the European Anti-fraud Office (OLAF) ( <i>notified under document number SEC(1999) 802</i> ) (1999/352/EC, ECSC, Euratom)
1073/1999	Regulation (EC) No 1073/1999 of the European Parliament and of the Council of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF)
1074/1999	Council regulation (EURATOM) No 1074/1999 of 25 May 1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF)



## **PUBLIC PROCUREMENT MANAGEMENT SYSTEMS BASELINE**

### **Introduction**

Achieving a properly functioning single market is one of the priority tasks of the European Commission. One of the key ways of achieving this goal and other related and essential elements of good governance is to have a properly functioning public procurement system whereby open competition is encouraged for contracts awarded by public and private bodies. Contracts awarded by public authorities, semi-public bodies, and utilities sector entities account for approximately 10 per cent of the GDP of the European Union. Sound procurement policies and practices can reduce costs of public expenditure, produce timely results, stimulate the development of the private sector, reduce waste, delays, corruption, and government inefficiency.

Candidate countries need to adhere both to the EC procurement directives and to good practice in EU Member States in order to qualify for admission to the European Union. Thus a “baseline” can be established defining the essential requirements of a well functioning public procurement management system.

The baseline described in this note concentrates on the framework of a system but cannot describe how well or poorly the system works in practice. It is therefore also important to examine the actual performance of the system. This baseline does not deal with issues relating to public expenditure management issues, financial control and audit all of which are indirectly involved in the successful functioning of a public procurement system but which will be dealt with in separate baselines.

### **The “Baseline” Measures**

#### **1. Public Procurement Legislation**

##### *Principles*

There should be clearly defined principles set out in a public procurement law and related laws. These principles should:

- Provide for legislation which does not go into effect the day it is signed but allows sufficient time for a Public Procurement Office (PPO) to be established, personnel to be assigned and trained and secondary legislation and forms to be prepared.
- Provide a clear delineation of decision-making authority at the national, regional and local levels.
- Provide a clear and comprehensive definition of the entities and/or sources of public money to which public procurement is applicable.
- Establish whether similar rules apply to central, regional, and local government entities.
- Propose secondary legislation, rules, procedures and standard forms for public procurement activities.

*Procurement Procedures*

Future EU Member States should have coherent uniform policies and procedures in place and have plans for possible improvements. Issues that arise are as follows. Are goods, supplies and works included in the same procedures? Is there general standard documentation? Are there standard instructions for potential contractors on how to prepare a bid? Are there clearly defined procedures for bid openings, examinations, evaluations as well as for contract administration and record keeping? On how to prepare a financial assessment? Are evaluation criteria and the relative importance of each criterion clearly available? Is a bid security required? Is a performance guarantee required? What are the advertisement procedures? Are the time frames in line with the European Directives? Can there be requests for clarification in writing from bidders?

## **2. Central Public Procurement Organisation**

There should be a clear legal basis for the establishment of a Public Procurement Office with overall responsibility for the design and implementation of public procurement policy. Such an office may be located in one Ministry or may be under the authority of the Prime Minister or the Council of Ministers or the Parliament.

Is the capacity of the PPO in terms of number of employees sufficient in relation to the scope of responsibilities and number contracting entities to serve?

## **3. Procurement Implementation and Training**

Are there effective systems of recruitment and staff development in place? Have procurement staff been trained? Basic training? Sophisticated training? Experienced in international procurement?

Are numbers of staff adequate? Do staff leave as soon as they are trained for higher paying jobs? What are the average salaries for staff? What are job advancement possibilities? What training resources are available inside and outside the country? To what extent is the procurement system in any way computerised?

Are handbooks, standard tender documents and model contract forms made available to contracting entities?

Are sample forms of contract and other documents included in the tender documentation? Are there standard conditions of contract? Are framework contracts allowed? Are standard purchasing order forms allowed?

Is the dissemination of information to contracting entities and the private sector adequate?

The European Commission expects countries in Central and Eastern Europe to eventually develop a market economy capable of taking the contracts offered by public entities. In many countries in the region, however, the private sector remains relatively underdeveloped. Nevertheless, the extent to which existing private sector companies have the necessary capacity to supply the procurement needs of the public sector is an important factor for consideration.

## **4. Control and Complaints Review Procedures**

There should be well defined, and widely understood, procedures for the control and audit of procurement transactions including anti-fraud and anti-corruption measures. In addition, there should be methods of appeal from decisions of award of contract or other complaints arising during the procurement process.

## **5. Capacity for Up-grading the Public Procurement System**

In addition to the criteria described above, the capacity of a country to bring its public procurement law and procedures into line with standards in EU Member States will depend on a number of factors including the existence (or not) of:

- A coherent strategy for change.
- A sustained commitment to change at a high political level in the government.
- Support for changing the system among key actors (parliament, private sector companies, etc.) and the general public.

Specific indicators of the willingness and capacity for change might include:

- The existence of a Public Procurement Office that is adequately resourced and responsible for the preparation, implementation and oversight of a public procurement policy programme.
- The true level of influence of the PPO taking account of its administrative position, e.g. as a department of the Ministry of Finance or another ministry, or as an agency reporting to the Prime Minister, the Council of Ministers or the Parliament.



## **PUBLIC EXPENDITURE MANAGEMENT SYSTEMS BASELINE**

### **Introduction**

The Commission does not prescribe any particular model of public expenditure management for Member States and candidate countries. There are few explicit EC requirements in this area except in the field of the management of EU own resources and budget discipline. However, EC funds have to be allocated and used efficiently and in accordance with internationally accepted budgetary principles and good practice in EU Member States. Thus a baseline can be established defining the essential requirements of a well functioning public expenditure management system covering both EC funds and national money.

This baseline deals with public expenditure management issues only. It does not deal with issues relating to the management of public debt or with tax policy and tax administration. Issues relating to financial control and external audit are dealt with in separate baselines.

### **The Baseline Measures**

#### **1. Budget Legislation**

There should be clearly defined principles set out in the Constitution, an Organic Budget Law (OBL) and/or related laws. These principles should:

- provide a clear and comprehensive definition of public money;
- determine that all public funds are managed within the law;
- establish the relationship between parliament and the executive in budgetary matters;
- define rules and procedures on intergovernmental fiscal relations;
- ensure the comprehensiveness of the budget;
- define the different classes of budgetary institutions, enterprises and agencies and the linkages of these organisations to the budget;
- provide a legal basis for the formulation and execution of the budget and the roles, responsibilities and powers of the Ministry of Finance.

#### **2. Parliament/Executive Relationships**

These relations may be determined by the Constitution, by the OBL and other laws, by rules of procedure of parliament, and by customary practice. One or more of these sources should provide a sound balance between the legislative and executive powers. Parliament's main role is to approve the annual budget and supplementary appropriations that may be voted during the year. In addition, the role of parliament in carrying out reviews of public expenditure policies can be important, e.g. early approval of macroeconomic and fiscal scenarios, investigations of efficiency in government spending programmes, etc.

### **3. Scope of the State Budget**

For good macroeconomic management, controls need to be exercised over all revenues and expenditures. Activities placed outside the official budget (e.g. extra-budgetary funds) are not subject to the discipline of the resource allocation process. Where such funds exist, however, transfers to them should be efficiently managed. A comprehensive budget process promotes allocative efficiency because it forces a trade-off between the different ways a government uses financial resources. EU budget funds, e.g. pre-accession assistance channeled through the National Fund, should be integrated with the state budget.

### **4. Medium-term Expenditure Framework**

Future EU Member States should be able to provide budgetary information within a medium-term framework, and set medium-term fiscal objectives. Once they become EU members, either within or outside the European Monetary Union, they will have to submit either stability or convergence programmes (EU Council Regulation n. 1466/97). Both programmes will have to specify the main elements of a medium-term expenditure framework that complies with certain methodological principles and standards (e.g. ESA 95 on national accounts statistics).

### **5. Budget Process**

There should be a well defined, and widely understood, sequence of steps in the budget process, allowing sufficient time for each step to be implemented efficiently. The Ministry of Finance should provide – through an annual budget circular or regulation – the main budget policy priorities, a clear set of rules for the budget process and the main forms to be used by spending units in making estimates submissions. There should be an effective system through which the Council of Ministers can make policy decisions with budgetary implications, and clear objectives within public expenditure programmes. Also a well defined role for the Ministry of Finance in analysing and assessing estimates submissions, established rules and practices to guide the Ministry's negotiations with the line ministries and other spending units, and mechanisms for arbitration and conflict resolution. Does the Ministry of Finance — and the budget and finance departments of line ministries — have sufficient human resources, skills, training, computer systems, etc. to do this?

The draft budget presented to parliament should specify fiscal policy objectives, the macroeconomic framework and the policy basis for the budget, and identifiable major fiscal risks. It should provide a clear and comprehensive plan for all public spending; the linkages of expenditures to specific organisations, objectives and activities; funding that relates to new activities; the hierarchy of accountability amongst persons and organisations entrusted with public funds; and clearly defined appropriations to be voted by parliament. The language and format of the draft budget should be accessible to citizens and media as well as to legislators.

### **6. Budget Management of Public Investments**

The European Commission expects that countries in central and eastern Europe prepare themselves for managing the assistance from the pre-accession funds (ISPA/SAPARD, etc.) so that, when they join the EU, they have the required budget instruments in place. In order to comply with this requirement, governments should have the capacity to present multi-annual development programmes involving careful co-ordination between partners at different levels of government, well designed co-financing procedures and sound technical and economic appraisal of such programmes. Procedures for preparing and approving budget proposals for capital expenditures should be integrated with those for recurrent expenditure.

## **7. Budget Execution and Monitoring**

The Ministry of Finance should be able to set limits on public expenditure programmes and police those limits. It should monitor and control the flow of expenditures during the year on the basis of a unified system of financial accounts. Spending units (e.g. line ministries) should make regular reports to the Ministry of Finance (or the State Treasury) that compare actual spending with monthly forecasts based on the budget appropriations. Parliament and the Council of Ministers should have appropriate responsibilities for reviewing periodic reports on financial performance relative to the budget and for revising targets and/or policies as required by changed economic or financial circumstances. The cash management or treasury function should be strictly managed preferably through a Treasury Single Account under control of the Ministry of Finance.

## **8. Accounting and Reporting**

Budget and accounting categories at the national level should have a common classification that facilitates policy analysis and promotes accountability. National accounting concepts need to be made compatible with concepts related to the disbursement of EC funds – commitments, payments, eligible expenditures, etc. Fiscal reporting should be timely, comprehensive, reliable, and identify deviations from the budget. Procedures for evaluating the efficiency and effectiveness of expenditure policies and programmes — including those funded from EC sources — should be established.

## **9. Capacity for Upgrading the Public Expenditure Management System**

In addition to the criteria described above, the capacity of a country to bring its budget law and public expenditure management procedures into line with EU Member States standards will depend on a number of factors including:

- The existence (or not) of a coherent strategy for change.
- The existence (or not) of a sustained high level commitment to change.

Specific indicators of the willingness and capacity for change might include:

- Existence of a separately identifiable department or unit responsible for modernising the budget system, and integrating it with EU concepts and procedures.
- The location of any such unit and its potential level of influence.
- The number of professionals working in the areas described in this baseline, their level of skill, motivation and efficiency.



## PUBLIC SECTOR EXTERNAL AUDIT BASELINE

### Introduction

The nature and functioning of external audit is not as such part of the *acquis communautaire*. However, following the criteria laid down by the Copenhagen Summit, the new member states will need to adhere to the additional political and economic conditions which require, amongst others, that the candidate has achieved stability of institutions guaranteeing democracy and the rule of law. This includes the existence of an effective supreme audit institution (SAI). In a more practical manner, the EC Treaty is in fact implying the existence of such institutions and their capacity to co-operate with the European Court of Auditors (art 246-248). Moreover the general financial control standards for the management of EU-funds and own resources in the candidate countries as well as in the member states require an effective external audit of all public sector resources and assets, and that this should be carried out in a continuous and harmonised manner.

The external audit could also have a crucial role in the evaluation of and reporting on how the financial control systems are implemented and function.

### 1. Introduction

Sufficient background information should be provided to adequately describe the arrangements for external audit in the country concerned, covering:

- General arrangements and position in institutional landscape;
- Type and structure of SAI;
- The main legal and constitutional references;
- Size and budget of the SAI, no. of staff (professional, administrative, etc.);
- Annual and other reports made by the SAI;
- History and seniority.

### 2. The Baseline Questions

#### 2.1. Does the SAI have clear authority to satisfactorily audit all public and statutory funds and resources, bodies and entities, including EU resources?

*[If the SAI is not the sole provider of public sector external audit, then any assessment should also refer, as applicable, to the alternative arrangements made and in particular to any gaps in audit coverage.]*

#### 2.2. Does the type of audit work carried out cover the full range of regularity and performance audit set out in INTOSAI auditing standards (38-40)?

**2.3. Does the SAI have the necessary operational and functional independence required to fulfil its tasks?**

- Is the SAI free to decide what work it will carry out?
- Does the SAI have the ability to make the results of its work directly available to the public and the Parliament?
- Does the SAI have the means and capability to perform its mandate effectively?

**2.4. Are the SAIs annual and other reports prepared in a fair, factual and timely manner?**

**2.5. Is the work of the SAI effectively considered by parliament e.g. by a designated committee that also reports on their own findings?**

- Does the government have to formally and publicly respond to the published reports of the SAI?
- Does the SAI follow-up whether its and parliament's recommendations are implemented?

**2.6. Has the SAI adopted internationally and generally recognised auditing standards compatible with EU requirements, and how far have they been implemented?**

- Does the SAI have appropriate arrangements for planning and organising its activities, both at a business and detailed work level?

**2.7. Is the SAI appropriately aware of the requirements of the EU accession process?**

**3. General Criteria for Assessing the Capacity for Upgrading the Public Sector External Audit and Overall Indicators of Effectiveness**

In addition to the criteria described above, the capacity of a country to bring public sector external audit into line with European standards and international best practice, and to maintain those standards, will depend on a number of factors including:

- Is there a capability and capacity to develop and make change?
- Does a strategy for development and change exist? And how is it being implemented?
- Is there a commitment to the change and development process?

An SAI may have all the required authority and powers to carry out its role and functions properly but is still not doing a good enough job. Where possible subjective and objective indicators should be assessed to try sum up the impact and effectiveness of the SAI.

## **CIVIL SERVICE BASELINE**

### **1. Legal Status of Public Servants**

*Does an appropriate legal basis exist defining the status of public servants responsible for advising on and implementing government policy, carrying out administrative actions and ensuring service delivery?*

### **2. Legality; Responsibility and Accountability of Public Servants**

2.1. *Do all actions taken by public servants have a clear basis in law or in appropriate regulations?*

2.2. *Are public servants responsible to their superiors under public law?*

2.3. *Are effective accountability mechanisms in place?*

### **3. Impartiality and Integrity of Public Servants**

3.1. *Are administrative actions taken independently of the personal interests of public servants and without favouring any other illegitimate interest?*

3.2. *Is corruption and are other abuses of power subject to effective disciplinary and penal remedies?*

3.3. *Are salary structures legally defined and salary levels openly disclosed?*

3.4. *Do public servants act independently of party and organised political influence?*

### **4. Efficiency in Management of Public Servants and in Control of Staffing**

4.1. *Is a cross-government structure and are systems for personnel management established?*

4.2. *Do management practices ensure that public servants are motivated to perform well?*

4.3. *Are the numbers of staff and personnel costs controlled and published?*

### **5. Professionalism and Stability of Public Servants**

5.1. *Do legal frameworks and management practices provide for the open and competitive selection of public servants based on merit and on transparent criteria?*

5.2. *Do conditions of service and career opportunities ensure that public servants with appropriate knowledge and skills are recruited, developed and retained?*

**6. Development of Civil Service Capacities in the Area of European Integration**

- 6.1. *Have adequate staff resources been assigned to units charged with co-ordination and management of EU affairs?*
- 6.2. *Do incentive systems and other mechanisms (e.g. staff rotation systems, secondment) ensure that European Integration functions are staffed by sufficiently qualified civil servants and that a high level of stability in staff is achieved?*
- 6.3. *Have special training programmes been put in place to prepare the whole civil service for the implications of EU membership?*

## **POLICY-MAKING AND CO-ORDINATION MACHINERY BASELINE**

### **A. The Premises on which the Baseline is Founded**

1. Preparation for accession and membership need to be underpinned by policy-making arrangements that:

- create policies that are not deficient in law or substance, are economically efficient, and which do not contradict one another;
- create policies that are sustainable in budgetary terms;
- ensure that decisions are implemented;
- lay the foundations for operating effectively within the EU.

2. While candidate countries have set up special mechanisms to handle EU-related issues during their preparation and negotiation for membership, as EU issues are absorbed into the mainstream of government business the distinction between the two will shrink.

3. While it is recognised that much of policy co-ordination depends on the capacity of Ministries to develop policy in the first place, it is not feasible to scrutinise the policy-making capacities of each ministry. But because in Central and Eastern Europe any substantial decision requires approval by the Council of Ministers, the quality of policy-making can be gauged by verifying that the inter-ministerial policy-making system ensures that relevant considerations are taken into account, and allows ministers collectively to appraise the intrinsic merits of proposals.

### **B. The Baseline Measures**

#### **1. Coherence of the Policy-Making Framework**

The overall framework within which policy is made should be coherent, should be clearly set out in writing (e.g. in a law), and should be understood and accepted by all actors in the policy-making process.

#### **2. Inter-Ministerial Consultation on Policy Proposals**

There should be clearly established arrangements for co-ordinating policy between ministries prior to proposals reaching the centre of government. These should ensure particularly that the financial, European Integration and legal implications of any proposal are adequately addressed, and more generally that any Ministry with an interest should be consulted. There should be arrangements to ensure that proposals put to the Council of Ministers are ‘filtered’ both at official and Ministerial level.

### **3. Agenda-Planning**

There should be systems for planning the government's agenda, to combine:

- the immediate agenda of the Council of Ministers;
- the agenda of the Council of Ministers and its satellite bodies in the medium term (i.e. the coming 3 to 4 weeks);
- the government's strategic legislative programme e.g. measures to adopt the *acquis*.

### **4. Dispute Resolution Mechanisms**

There should be effective mechanisms for resolving disagreements between ministers on policy issues.

### **5. Central Co-ordination Capacity**

There should be an effective central administrative body with the capacity and authority:

- to ensure that co-ordination arrangements are enforced;
- to provide adequate logistical support to the centre of decision-making;
- to ensure the recording and circulation of decisions;
- to monitor the implementation of decisions (including the necessary secondary legal instruments).

### **6. Central Strategic Capacity**

There should be a central capacity to provide advice to the Prime Minister, the Council of Ministers and committees of the Council of Ministers on overall strategic issues, and to advise them on the substantive and strategic implications of proposals.

### **7. Co-ordination of European Affairs**

There should be arrangements to co-ordinate European Integration, including a mechanism for collective ministerial strategic supervision; inter-ministerial working arrangements with the capacity and authority to co-ordinate EU integration work internally and externally, and to monitor progress; an administrative unit or units to support those co-ordinating arrangements; and adequate EI capacity in ministries.

The characteristics of these arrangements should be clear allocation of responsibilities, a strategic approach, effective co-ordination, and being an integral part of the work of ministries. and active commitment by all participants to carrying through purposefully the process of European Integration.

### **8. The Involvement of the Council of Ministers in Budget Decisions**

There should be mechanisms at ministerial level to ensure:

- that a collectively acceptable limit is fixed to government spending;
- that discussions take place on the spending needs of each Ministry;
- that disputes between ministers on budgetary matters can be resolved.

## **9. Impact Assessment**

There should be mechanisms when preparing policy options – including secondary legislation and measures to implement the acquis in the local context — to assess:

- budgetary cost;
- economic impact;
- social and environmental impact;
- efficiency and practicability in implementation.

These mechanisms should include consultation with outside interests where appropriate, and should ensure that these assessments inform the final political decision.