



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 16 July 2008**

**10668/08**

**COSDP 533**

**"I/A" ITEM NOTE**

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From: Secretariat  
To: COREPER/Council  
Subject : Financial Rules of the EU Institute for Security Studies

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Article 14 of Council Joint Action 2001/554/CFSP of 20 July 2001 as amended by Council Joint Action 2006/1002/CFSP of 21 December 2006 on the establishment of a European Union Institute for Security Studies (EUISS)<sup>1</sup> provides that "the Board, with the assent of the Council, shall draw up, on a proposal from the Director, detailed financial rules specifying in particular the procedure to be followed for establishing and implementing the budget of the Centre."

On the proposal of the EUISS Director, the Board agreed at its meeting on 30 April 2008 on a revised version of the Institute's current financial rules that were drawn up by the Board with the assent of the Council in 2005<sup>2</sup>. The amended financial rules take account in particular of the changes introduced to the budgetary procedure by Council Joint Action 2006/1002/CFSP, clarify the rules for the preparation, submission, approval, implementation and control of the budget and, in particular provide for the possibility to delegate the management of the Institute's pension funds to an external body.

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<sup>1</sup> OJ L 200, 20.7.2001, page 1, L 409, 30.12.2006, p. 181.

<sup>2</sup> 5232/05

The text of the Financial Rules was examined by The Working Party of Foreign Relations Counsellors and approved on 3 July 2008 as set out in the annex.

Subject to confirmation by the Permanent Representatives Committee, the Council is therefore requested to give its assent to the Financial Rules as drawn up by the Board.

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**FINANCIAL RULES OF THE EU INSTITUTE FOR SECURITY STUDIES**

Article 1

These Regulations shall cover the financial administration of the European Institute for Security Studies, hereinafter referred to as "the Institute", in accordance with the provisions of Council Joint Action 2001/554/CFSP.

Article 2

The Financial Year of the Institute shall be the period 1 January to 31 December.

**Chapter I – Preparation and Submission of the Budget**

Article 3

By 30 September each year, the Director shall submit to the Board a draft budget covering all income and expenditure of the Institute for the following financial year, including expected income, administrative and operating expenditure. Income and expenditure shall be in balance. They shall be denominated in EUR.

Article 4

1. The budget shall consist of two parts, an operational budget and a pensions budget. The annual estimates shall be drawn up in accordance with a format approved by the Board on a proposal of the Director.

2. The estimates for the operational budget shall be accompanied by general explanations of proposed expenditure, distinguishing permanent, renewable expenditure from expenditure in respect of new measures to be adopted in the following year. Detailed explanatory information by chapter and article, together with a list of the staff, shall be annexed.
3. The estimates for the pensions budget shall be drawn up in accordance with the same rules as those set out under paragraph 2. The Board may ask for such additional explanations or information as it deems necessary.
4. A separate explanation shall be given for expenditure to be incurred over more than one financial year and involving credits of several successive budgets. When these commitments are approved by the Board, the credits concerned shall be approved when adopting the related budgets.

## **Chapter II – Approval of the Budget**

### Article 5

1. After examination of the draft budget in accordance with the arrangements set out in Chapter I, the Board shall approve the annual budget by unanimity of the representatives of the Members States by 30 November at the latest. If additional explanations are deemed necessary, the Director or the Director's representative may be invited to present these to the Board, either at meetings or in writing, and in any event before 30 November.

2. In the case of unavoidable, exceptional or unforeseen circumstances, the Director may propose a draft amending budget to the Board. The draft amending budget shall be drawn up, proposed and approved in accordance with the same procedure as the annual budget. The Board shall act taking due account of the urgency.

## Article 6

### Late approval

1. If the budget has not been approved by the Board before 1 January, the Director shall be authorised, unless the Board decides otherwise, to enter into commitments and make payments not exceeding one-twelfth of the credits approved for the previous year for each month.
2. The provisions of the paragraph 1 shall not apply to items of mandatory expenditure such as salaries, pensions, leaving allowances, rents, taxes, etc. For such expenditure, the Director or the Director's representative shall be authorised to make payments up to an amount of three-twelfths of the total mandatory expenditure.
3. If the cash position of the Institute does not allow for the payment of the amounts referred to in paragraphs 1 and 2, the Director shall be entitled to request from Member States an amount up to the maximum referred to in paragraphs 1 and 2.

## Article 7

Approval of the budget by the Board shall constitute the necessary authority for the Director:

- (a) to enter into commitments and make payments for the purposes for which the budget credits have been approved and within the limits of those credits;

- (b) where approval is given to incur expenditure over more than one financial year, to enter into commitments which are for the approved purposes and which do not exceed the total sum so approved.

#### Article 8

##### Credits carried forward

1. Credits shall be available for commitment only during the financial year to which they relate. The uncommitted balance of such credits shall be cancelled automatically at the end of each financial year.
2. However, payments made before 15 March to discharge commitments properly incurred before the end of the preceding financial year shall be charged against the budget for the financial year in which the commitment was incurred.
3. If payment in respect of a legal commitment incurred in the preceding year has not been made before 15 March, the related budgetary credits shall be cancelled automatically and corresponding credits shall be taken up in the budget of the current financial year. Such action shall be regularised by notification to the Board.

#### Article 9

##### Provision of funds

1. Funds shall be constituted through:
  - a) contributions from Member States;

- b) additional contributions from individual Member States;
  - c) additional contributions from other sources for specific activities.
2. The contributions from Member States for the budgetary period in question shall be assessed in Euros according to the gross national product scale as referred to in Article 28 (3) of the Treaty on European Union and in accordance with the Council Decision 2007/436/EC, Euratom of 7 June 2007 on the system of the European Communities' own resources<sup>3</sup>.
  3. The data for the calculation of contributions shall be those set out in the "GNI own resources" column in the table entitled "Summary of financing of the general budget by type of own resource and by Member State" appended to the budget of the European Union. The contribution of each Member State from which a contribution is due shall be proportional to the share of Gross National Income (GNI) of that Member State in the total GNI aggregate of the Member States from which a contribution is due.
  4. Approval of the budgets by the Board shall constitute the authority for the Director to request contributions from Member States. The Institute shall call up funds at the same time from the relevant department in each Member State, at the latest four weeks before the due dates.
  5. All payments of contributions in respect of the approved budget of the Institute shall be due in two instalments on the following dates:

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<sup>3</sup> (OJ L 163, 23.6.2007, p.17).

- a) 50 per cent of the approved budget on 1 January or within two weeks following the late approval of the budget as referred to in Article 6;
  - b) the remaining 50 per cent before 1 July.
6. Contributions resulting from an amending budget in accordance with Article 5 (2) and additional contributions in accordance with Article 9 (1), b) and c) granted to the Institute in the course of the year, shall be payable within eight weeks after the issue of the letters calling up the contributions.
7. Any amount which is receivable but not paid on the due date shall bear interest. The interest rate for such shall be the rate applied by the European Central Bank to its principal refinancing operations, as published in the C series of the Official Journal of the European Union, in force on the first calendar date of the month in which the due date falls, increased by three percentage points.

Interest shall be calculated from the thirty-first day following the due date specified in the call for funds up to the calendar day on which the debt is paid in full. Any partial payments shall first cover the interest determined in accordance with the above.

8. Contributions by Member States which exceed the total sum of commitments incurred by the end of the financial year shall be credited to Member States in the following year in accordance with the scale of contributions in force during the financial year in which the contributions were called.

The same procedure shall apply to the amount corresponding to credits carried forward which have been cancelled pursuant to Article 8 (3).

9. Additional contributions in accordance with Article 9 (1), b) and c) shall constitute additional credits to be added to the contributions by Member States; they correspond to complementary activities added to the Institute's work programme and shall be entered in the budgets as a commitment of the same amount. At the end of the financial year, any unexpended balance shall be carried forward to the next financial year.

### **Chapter III – Implementation of the Budget**

#### Article 10

##### Management principles

1. Generally accepted accounting principles in the European Union shall be applied in the day-to-day financial management of the Institute. In particular, the implementation and management of the budget shall be in accordance with the following specific principles:
  - a) Separate bank accounts shall be kept for the Operational Budget and the Pensions Budget. The Institute shall enter all income and settle all payments in the respective bank accounts.
  - b) Expenditure shall be made in four separate phases: commitment, settlement, order to pay, payment.
  - c) Separation of authorisation for expenditure and accountancy; agents authorised to commit and in charge of expenditure shall be distinct from those responsible for settlement and payment.

- d) Payment documents (cheques or transfer orders, and authorisation forms for electronic payments) shall be signed by an agent designated by the Director as provided for in paragraph 2 and by the Financial Controller.
2. The Director is the principal authorising officer for budgetary transactions. On the first day of the financial year, he shall designate in writing the agents who are authorised to sign orders to commit budgetary funds, those authorised to sign orders to pay and those authorised to sign payment documents.

### Article 11

#### Day-to-day management

1. The Director may authorise transfers of funds between articles within chapters of the budget. The Director shall inform the Board accordingly.
2. With the prior agreement of the Board, the Director may make transfers of credits from one chapter of the budget to another; the Board shall give its approval following examination of a detailed report from the Director setting out the urgent reasons or other circumstances that justify such transfers.
3. After transfers have been entered in the Institute's accounts, they shall be included in the Closing Budget Report.
4. Entries in the accounts shall show, by chapter and article:
  - a) budget allocations (or credits authorised);
  - b) commitments;
  - c) income received during the financial year;
  - d) payments made;
  - e) remaining credits.

5. Cash and bank entries shall show:
- a) contributions due from Member States;
  - b) payments made by them and amounts still due;
  - c) income from other sources;
  - d) commitments still to be settled;
  - e) debts being recovered;
  - f) all other assets and liabilities.

## Article 12

### Responsibilities of the Director

1. The Director shall be responsible for the Institute's funds and property, he shall ensure that they are properly accounted for, and he shall be answerable to the Board for the proper conduct of financial affairs.
2. The Director shall designate the banks in which the Institute's funds are to be deposited. He may arrange for all transactions necessary for the running of the Institute.
3. The Director shall designate agents who are to be responsible for the day-to-day management of the funds made available to the Institute. He shall make the necessary arrangements to ensure that the Institute's Financial Regulations are correctly implemented.
4. The Director, with the approval of the Board, shall be authorised to delegate the management of the Institute's pension funds to a specialised authority, organisation or financial institution.

5. The Director shall designate agents who are authorised to disburse and receive funds on his behalf. Such appointment shall be made in a document signed by all concerned as the first administrative document of the new budgetary period.
6. The Director shall make such internal arrangements as may be necessary to maintain a continuous check on all financial transactions in order to prevent any abuse or irregularity in the use of the Institute's funds; he shall endeavour to make the greatest economies possible compatible with the proper functioning of the Institute.
7. To that end the Director shall establish rules and procedures to implement of these Financial Regulations, in particular the provisions of Article 10. A copy of these rules and procedures shall be sent to the Board for information.

### Article 13

#### Financial Controller

1. The Board shall appoint an independent financial controller within the administration of the Institute.
2. The financial controller shall sign all commitments and payments of all expenditure and monthly cash statements and shall record and collect all revenue. No transaction or procedure with financial or budgetary implications may be carried out without his signature.

Article 14  
Financial Control

1. The financial controller shall have no authority to question the appropriateness of any operation decided by the Director, and therefore may not refuse to sign such operations.
  
2. The financial controller shall refuse to give his approval when:
  - a) the expenditure exceeds the credits allocated;
  - b) expenditure is not covered by funds available in the banks;
  - c) expenditure has not been charged to the appropriate budget chapter and article;
  - d) payments are not accompanied by supporting vouchers duly validated by the responsible agents of the Institute;
  - e) the transaction has been carried out in breach of a provision of these Regulations.

Such refusal shall be notified to the Director or agents who have delegated powers by virtue of the provisions in Articles 10 and 12.

When approval is withheld, the Director may overrule such refusal, by decision stating full reasons and on his own responsibility.. This decision shall be final and binding; it shall be communicated for information to the financial controller. The Director shall inform the College of Auditors of all such decisions within one month.

Article 15  
**Accounting System**

1. Accounts shall be kept to show:
  - a) For each item in the budget, amounts authorised, commitments undertaken, made, and available balances of authorisations;
  - b) Contributions and additional contributions from Member States, together with the payments received from them, and the balances remaining due.
  - c) Miscellaneous income.
  - d) Cash balances and balances at banks.
  - e) Other assets and liabilities of the Institute.
2. Accounting records shall be kept for ten years. All invoices, vouchers and any kind of other supporting documents relating to the aforementioned records shall be kept for five years.

## Chapter IV – Closure of the Budget

### Article 16

#### Closing budget

1. Following settlement of the final transactions in a financial year, and by 31 March at the latest, the Director shall arrange for a closing budget to be drawn up showing, in the same format as the full budget, by chapter and article:
  - a) the budget initially approved;
  - b) transfers made during the course of the year between articles and balanced within chapters;
  - c) income received during the financial year;
  - d) expenditure actually settled;
  - e) unexpended credits.
  
2. The Director shall arrange in addition for the following documents to be included as annexes:
  - a) a summary annual statement of contributions received and outstanding at the end of the year;
  - b) a separate annual statement of additional contributions;
  - c) a balance sheet of transactions showing income and expenditure, amounts owed to the Institute and commitments not yet settled.

3. The Director shall have a closing pensions account drawn up under the same conditions as those listed in paragraph 1.

The Director shall include with these documents any comments and explanations that are deemed necessary. All these documents shall be forwarded on 31 March to the College of Auditors for examination prior to discharge procedure by the Board.

## **Chapter V – Control of the Budget**

### Article 17

#### Auditors

1. Following the end of each financial year, an external financial audit of the expenditure and revenue administered by the Institute shall be carried out by the College of Auditors.
2. The College of Auditors shall be composed of one to three Auditors appointed by the Board for a period of three successive years. The period of appointment of each Auditor shall begin on different dates. The Auditors shall be appointed from candidates proposed by the Member States, in such a way that a fair rotation amongst Member States wishing to nominate Auditors is ensured. The Board should seek the appointment of at least two Auditors if possible. The candidates shall be members of a public audit institution of a Member State and offer sufficient guarantees of security and independence.
3. The members of the College of Auditors shall be available to carry out tasks on behalf of the Institute as needed. In carrying out these tasks, the members of the College shall

- a) continue to be paid by their audit body of origin and shall only receive from the Institute reimbursement of their mission expenses on the same basis as provided for in the rules applicable to the Institute's agents;
  - b) neither request nor receive instructions other than from the Board; within its audit mandate, the College of Auditors and its members shall be completely independent and solely responsible for the conduct of the external audit.
5. The Senior auditor shall act as Chairman of the College of Auditors, and shall solely report on their task to the Board on behalf of the College.
  6. No person who has been a permanent agent of the Institute may be appointed auditor until an interval of three years has elapsed from the end of the previous appointment.

#### Article 18

#### Audit procedure

1. The College of Auditors shall carry out such examination and make such enquiries as it considers necessary to make a report and in particular to express an opinion whether:
  - a) the accounts and supporting vouchers are in accordance with the documents mentioned in Article 15 above;
  - b) the financial transactions were made in accordance with the Regulations, budgetary provisions and other applicable directives;

- c) there was regular reconciliation and verification of financial statements and funds on deposit in finance organisations.
2. The Director shall provide the College of Auditors with every facility it may require to accomplish the audit.
3. The College of Auditors shall prepare its report not later than six months after the end of the financial year to which it relates. This report may make such observations as are considered necessary on:
  - a) the regularity of transactions and their conformity with the regulations in force;
  - b) the accounting methods and practices in use.
4. The College of Auditors shall examine whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound.
5. Without prejudice to paragraph 4, the College of Auditors shall not make any observation on the appropriateness of expenditure decided by the Director.
6. Before writing its final report, the College of Auditors shall afford the Director and the agent responsible for administration and finances an opportunity to comment and provide any additional explanations regarding its observations. These observations shall either be included in the audit report, in a manner in which they are clearly distinguishable as such from the report itself, or attached to it.

7. The College of Auditors shall submit its final report to the Director, who shall forward it to the Board.

Article 19

Discharge

After examining the auditors' final report and any observations made thereon by the Director of the Institute, the Board shall examine the closing budget mentioned in Article 16.

It may call for any additional explanation on the financial transactions listed that it deems necessary.

It shall grant discharge in respect of the implementation of the budget for the financial year in question to the Director, in accordance with the provisions of Article 13 paragraph 3 of the Joint Action; that discharge shall be communicated in writing.

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