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24 September 1998

Dear Sirs

A STUDY ON THE EUROPEAN COMMISSION'S PAYMENT TIMES

1 INTRODUCTION

1.1 Terms of Reference

1.1.1 In accordance with your terms of reference which were confirmed in your contract dated 29 June 1998 reproduced at Appendix I, we have carried out a study on the European Commission's payment times.

1.2 Sources of Information

1.2.1 The information contained in this report is based on:

- discussions with Mr J Edsberg, Director, Accounting Officer of the Commission and certain other staff representing several Directorates General ("DG"s) of the Commission (detailed in Appendix V)
- walk-through tests and inspection of documentation at several DGs
- replies to a questionnaire circulated to all DGs, which was developed by Grant Thornton following initial discussions with the above individuals
- various reports and articles written on the payment culture within the European Commission, Europe, and specifically, the UK

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1.3 Scope of Work and Limitations

1.3.1 We have carried out a review of the Commission's procedures and working methods at each stage of the payment process.

1.3.2 This review has been conducted at a high level and subsequently our findings and recommendations will not necessarily cover all possible matters that might be highlighted as the result of a more in-depth study.

1.3.3 We have relied upon explanations and source information provided by certain staff of the Commission.

1.3.4 Our recommended improvements relate to the area of reducing average payment times and eliminating excessive delays.

1.3.5 We have conducted our study from the European Commission headquarters in Brussels, Belgium and from our office in Glasgow, Scotland.

1.4 Confidentiality

1.4.1 This report is confidential and has been prepared exclusively for the European Commission. It should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent, which will only be given after full consideration of the circumstances at the time.

2 EXECUTIVE SUMMARY

2.1 Introduction

2.1.1 Grant Thornton have been instructed by the European Commission to conduct a study on the times taken by the Commission to make payments to its suppliers. The Commission makes payments with an annual total value of the order of 82 billion ECUs. Approximately 1 million payments are made annually.

2.1.2 We have conducted interviews with appropriate representatives and staff of the Commission and have distributed a questionnaire (attached at Appendix II) for completion by all DGs. The findings from our interviews and from analysis of the replies to the questionnaires are incorporated in this report.

2.1.3 Specific responses, as analysed by payment types, are included in Appendix III of the report.

2.1.4 Due to the nonconformity of procedures being operated within different DGs and for different payment types, our comments are in some cases by necessity of a general nature.

2.1.5 The main findings, perceived barriers to timeous payment, recommendations for improvement and how best to realise these improvements are summarised below. We stress however that this executive summary should be read in conjunction with the full report.

2.2 Findings

2.2.1 Delays in payment of debts occur at various stages in the payment processing procedure. Specific types of payments, such as for research contracts, and payments to experts, create particular problems.

2.2.2 Each DG carries out independent payment processing procedures and there is little uniformity, even for the same payment types. There is insufficient standardisation of approach to achieve optimum efficiency in making payments. We believe that a much greater degree of standardisation and uniformity of approach is appropriate for an organisation of the Commission's size and structure.

2.2.3 Statistics on payment times are based on a date entered into SINCOM. The date is entered by desk officers within the financial units of the DG. However the criteria for establishing the date is not standardised across the Commission. This renders the processing times for payments incomparable.

2.2.4 An updated version of SINCOM, "SINCOM II", is to replace the existing version. Contrary to the belief of some respondents, this will not perform a tracking function of payments.

2.2.5 We believe that there is significant scope for improving payment times, and for improving the reliability of statistics produced to enable more accurate monitoring of performance.

2.3 Barriers to Prompt Payment and Implementation of Recommendations

2.3.1 From our study, it appears that there could be a number of factors which may currently prevent timeous payment of debts and make the implementation of our recommendations more difficult. We list below these perceived barriers and stress that with careful management these need not affect the successful reduction of payment times:

- insufficient uniformity of approach and standardisation of systems - currently each DG follows independent procedures
- lack of communication between DGs. This means the good practices of one DG are not shared with others whose performance records are poorer
- the culture within some departments may prevent positive reception of new ideas
- the threat of pecuniary liability for authorising officers if a payment is made inappropriately may induce a duplication of checking of financial details
- the staffing allocation of some DGs may create burdensome workloads

2.4 Recommendations

2.4.1 Sections 4 and 5 of this report cover our recommendations for the short and medium terms. Whilst there are improvements which can be made within DGs XIX and XX, it is clear from our study that the greatest improvements can be made within the spending DGs. The main recommendations can be summarised as follows:

Short Term

- requests for payments should be received and registered centrally in the finance units

- checklists, which some DGs already operate, should be revised and used in the operational and finance units of all DGs when reviewing payment applications to ensure all salient points have been addressed

- standard request for payment documentation should be brought into use throughout the Commission

- all staff should receive formalised training in the procedures and responsibilities. This will require an ongoing commitment by the Commission

- authorising officers should restrict their checking to ensuring that checklists are completed and signed with only spot-checks being conducted in more depth

- first payments on the receipt of signed contracts should be processed as quickly as possible

- a suitably empowered person should be identified in each DG and given responsibility to ensure that payment targets are met

- decentralisation to spending DGs of the payment of experts

Medium Term

- a computer application should be used to track the progress of requests for payment both physically (the location of the file) and administratively (the stage of progress)

- the computer application should be coupled with a warning system which highlights payments which are about to become overdue

- statistical data should be gathered from the above computer application, as opposed to SINCOM

- consideration should be given to changing Commission regulations to remove the pecuniary liability on authorising officers

2.5 Payment Performance Targets

2.5.1 Current practice in the UK is that on average companies pay their debts within between 54 and 70 days depending on the size of the paying organisation. Large organisations were found to be the slowest payers at 70 days. In most cases, payment terms are "30 days net", which is generally understood to mean payment within 30 days following the month of receipt, ie a maximum of 60 days.

2.5.2 There have been various studies carried out and it is considered that in general companies should aim to pay debts within 30 days following the month of receipt (ie an average of 45 days).

2.5.3 The main basis for this is the adverse effect on business that late payment causes and the increased effect that this has on smaller entities.

2.5.4 In light of this, and the Commission's desire to provide a good example, we recommend that the Commission's current target of payment within 60 days from receipt of the request for payment should be reduced in the medium term to an average of 45 days, which is in common with recognised best practice. In the short term, all DGs should endeavour to meet the present Commission target of 60 days.

2.6 Realising the Improvements Suggested

2.6.1 A working party should be set up to assist with implementation and monitoring of the recommendations made for improving payment times.

2.6.2 The working party should develop an action plan with appropriate milestones within a timetable for achieving improvements.

2.6.3 We suggest that prompt payment "Champions" be designated from within the Commission's staff, to assist motivation, improve communication, and to help adapt the culture to be as receptive as possible to the changes required to achieve improvements in payment times.

3 FINDINGS - IDENTIFICATION AND EXAMINATION OF CAUSES OF LATE PAYMENT

3.1 Introduction

3.1.1 Following initial meetings with representatives of DG III, DG XIII, DG XXIII, DG IX, DG XIX and DG XX, a questionnaire was compiled and distributed to all the "spending" DGs, and DGs XIX and XX (See Appendix II). Fifty-four questionnaires have been returned. The questionnaire gave respondents the opportunity to reply for up to three categories of expenditure. Many respondents replied for more than one expenditure type, and in most cases the payment procedures differed within DGs for each category of payments.

3.1.2 With the assistance of DG XIX, expenditures were subdivided into several categories. The categories of expenditure, and the number of responses for each, represented in this study are as follows:

Expenditure Type	Number	Percentage
Direct payments under Commission regulations	6	5%
Research contracts	11	9%
Grants and subventions	23	19%
Studies and consultancy	23	19%
Supplies of goods and services	30	25%
Expert meetings	16	13%
Other (fisheries, publications, etc)	12	10%
Total responses by expenditure category	121	100%

3.1.3 Payments in the region of 82 billion ECUs are made annually by the 38 spending DGs.

3.1.4 The questionnaire was designed to permit Grant Thornton to gain an understanding of the payment procedures carried out in different DGs. Suggestions as to possible improvements that could be made to the payment process resulting from our initial discussions were also included in the questionnaire.

3.1.5 Our remit specifically listed five key areas to be researched. These are as follows and have been incorporated at appropriate points within this section of the report, along with other findings. Paragraph references are also given below, to enable our findings on these key areas to be readily located:

- transmission of payment demand on arrival to the appropriate department and sector within department (3.2)
- organisation of payment processing within the department (3.3)
- treatment of unsatisfactory payment demands (3.11)
- information given to beneficiaries at the contract stage (3.12)
- processes within Financial control and the Accounting Officer's service (3.13)

3.2 Transmission of Payment Demand on Arrival to Appropriate Department and Sector within Department

3.2.1 The "demand for payment" may take different forms. In 58% of cases a demand for payment will be recognised only after an invoice from the beneficiary has been received. A standard request for payment document is utilised in 33% of cases, particularly for payments to experts. In the remaining cases, receipt of a contract, request for reimbursement, cost statement or report would suffice.

3.2.2 The procedures for receiving, recording and transmitting payment demands on arrival are different according to:

- the internal procedures of different spending DGs
- the expenditure type being processed for payment

3.2.3 There is no uniform procedure for the treatment of certain expenditure types. For example, requests for payment of research expenditure are received in some DGs only in the operating unit, in some cases only in the financial unit, and in one case in either unit.

Receipt of Request for Payment

3.2.4 Despite it being Commission policy that all requests for payment should be received in the financial unit of the directorate general, the following is actually happening:

- 51% of all payment requests are received only by the financial unit
- 32% are received only by the operating unit
- 17% are received by either unit

3.2.5 Of the requests for payment which are received in the financial unit, approximately half are received centrally, with the rest being addressed to, and received directly by gestionnaire (desk officer), authorising officer or by others.

3.2.6 Of all requests for payment which are received in the operating unit, again just over half are received centrally, with the rest being received directly by project officers.

Recording of Receipt of Request for Payment

3.2.7 The recording of receipts of requests for payment is recognised as being vital. It is the first stage in tracking the progress of the request for payment. Receipts are recorded in 99% of cases: 39% recorded in Adonis and 60% by other software applications and spread-sheet packages.

3.2.8 Adonis is the system used throughout the Commission for recording all mail. It does not have the capacity for, and is not utilised for tracking the progress of payments.

3.3 Organisation of Payment Processing within the Department

3.3.1 For most reports commissioned there will require to be at least two payments made: a first payment to account, (interim payments) and a final payment.

3.3.2 The first payment to account is made once the contract is signed by the beneficiaries. There need be no delays arising at this stage, although a delay of up to 3 days may arise due to the need to have the beneficiary's banking details validated by the "fichier tiers" unit. For interim and final payments, in many cases it is necessary to check that the report which has been commissioned complies with the remit. At this stage delays arise due to the time taken to ensure that the report conforms to the contract.

3.3.3 Before a request for payment can be authorised for payment, the spending DG must first verify that the payment is due. This may be done by verifying the technical quality of a report or checking that project funding has been properly spent by the recipient and is in line with the contract with the recipient.

3.3.4 It is the aim of the Commission to pay all requests for payment within 60 days. This 60 days has been allocated as 40 days for the spending DG to authorise the payment and 20 days for DG XIX and XX to perform checks and make the payment.

3.4 Verification of Technical Quality

Operating Unit

3.4.1 In all cases the task of ensuring that a report (if applicable) which has been commissioned is technically acceptable and/ or the work has been performed and conforms with the contract is undertaken in the operating unit by the project officer.

3.4.2 The time taken to verify this is included within the 60 days target payment time.

3.4.3 Research contracts and studies are however unique in that it is accepted that for first payments, the project officer has 30 days to approve the technical quality of the report, before the 60 days target payment time commences[1]. For subsequent payments, the project officer has 60 days to approve the technical quality of the report before the 60 days target payment time commences. This term is written in all research and study contracts.

3.4.4 The following table details the time that we are told is taken for a project officer to verify that products/services and reports conform to the contract. These statistics include the research contracts and studies above, but omit the 30 or 60 days grace given to approve the report where advantage of this concession is taken by a DG. (More detailed information can be found in Appendix III, question 12.)

First payment	%	**Final payment**	%
1 -10 days	63%	1 -10 days	33%
11 - 20 days	14%	11 - 20 days	26%
21 -30 days	10%	21 - 30 days	20%
> 30 days	2%	> 30 days	10%
Not applicable	11%	Not applicable	11%

1 *Art 10.3 of general conditions of contract, adopted by written procedure No. E/1412/95*

3.5 Verification of Financial Details

3.5.1 Verification of the financial aspects of a request for payment include checking that costs are in line with contract and are supported by the necessary documentation.

3.5.2 Financial details are checked by:

	%
Operating unit only	13%[1]
Finance unit only	29%
Both operating and finance unit	52%
Unanswered	7%

1 *The above DGs who check the financial aspects in the operating unit, have a "financial cell"set up within the operating unit for this purpose.*

3.6 Operating Unit

3.6.1 Verification of the financial details within the operating unit requires consultation between the project officer and the gestionnaires. We are told that the time taken to verify the financial aspects of a request within the operating unit is as follows:

First Payment	%	Subsequent Payment	%
1 - 10 days	43%	1 - 10 days	24%
6 - 20 days	12%	6 - 20 days	22%
21 - 30 days	5%	21 - 30 days	8%
> 30 days	2%	> 30 days	8%
Not applicable	38%	Not applicable	38%

3.6.3 In 74% of cases it was felt that 10 days was a reasonable time for payments to be checked regarding financial aspects. For research contracts, it was largely felt that 10 days would not be sufficient because there required a judgement as to whether the costs incurred were reasonable relating to the value of the work done or in accordance with the proposal.

3.6.4 The issues raised by the complexities of the cost statements are addressed in the recommendations.

3.7 Financial Unit

3.7.1 The authorising officer within the financial unit has responsibility for validating all expenditure. This entails verifying the existence of the creditor's claim, determining the amount due and verifying the conditions under which payment falls due. The authorising officer must personally check the supporting documents or ascertain that this has been done[2], for example by relying on completed check-lists, signed by a project officer.

3.7.2 The time taken to verify the financial aspects of a report within the financial unit is as follows:

First Payment	**%**	**Subsequent Payment**	**%**
1 - 10 days	65%	1 - 10 days	55%
6 - 20 days	11%	6 - 20 days	15%
21 - 30 days	2%	21 - 30 days	6%
> 30 days	0%	> 30 days	2%
Not applicable	22%	Not applicable	22%

3.7.4 From our discussions with selected DGs, where financial details are checked in both operating and financial units, the procedures being operated are not standard. In some cases the financial units operate a spot checking system and rely on check lists completed by gestionnaires in the financial and operating units. In other cases the authorising officer personally checks financial details that should have already been checked in the operating unit.

Tracking of Payment Requests within Departments

3.7.5 There does not appear to be consistency in the date recorded within SINCOM by the spending DGs as the commencement date for measuring the payment time.

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[2] *Art 41,para 2, European Commission Financial Regulation of 21 December 1977*

3.7.6 From our enquiries, the date recorded in SINCOM as the commencement date for the request for payment by DGs is:

	%
Receipt of request mail within the Commission	16%
Registered date of receipt of request within the DG	45%
Approval date of report	8%
A date which reflects the date of receipt by post, manually adjusted for periods when the 60 days was suspended	10%
The date when the request is entered on to the SINCOM system (This may be the transfer date from another accounting package).	7%
Other	7%
Not answered	5%

Tracking of Payment Requests within Departments

3.7.8 It is recognised as necessary that the progress of payment requests within departments should be tracked for two reasons:

- in order to assist the DG in ensuring that payment target times are met
- to provide comparative statistics on DG payment times

3.7.9 Of the respondents, 21% of DGs rely on SINCOM for tracking progress. SINCOM was not designed for this purpose and does not have sufficient date fields to deal with all eventualities. Details of payment requests are generally entered on to SINCOM by officers within the financial unit. This may be too late a stage to commence effective tracking as this is not necessarily the initial point of receipt of the request.

3.7.10 There would appear to be the belief within some DGs that the updated version of this software, SINCOM II will perform a tracking function. This will in fact not be the case.

3.7.11 A manual control sheet attached to the payment request file is used by 25% of respondents to track the progress of a file. This is effective for establishing where delays have occurred after the event.

3.7.12 A local software package is used by 36% of respondents for tracking payments. In most cases this is coupled with a warning system, in the form of exception reports highlighting payments which are about to become late. This may prove to be highly effective in preventing late payments.

3.7.13 Of the remaining 18%, the majority do not track progress at all.

Recording the Date of Receipt of Request for Payment

3.7.14 To gather accurate data for statistics, it is essential that all DGs use the same starting point as the commencement date of the 60 day period. In the case of advance payments for research contracts, this should be the date when the contract is signed by both parties. In all other cases it should be the date on which the request for payment is registered as having been received by the authorising department.

3.7.15 Due to the unique nature of research and study contracts, where an additional 30 days is permitted to review the report, we would anticipate that the approval date of the report would be the date recorded as the commencement date. This is however the case in only 45% of research contracts and 27% of studies.

3.7.16 An additional 30 days for approving a report before the 60 day payment time commences is also taken by some DGs dealing with grants (24%) and supplies (11%).

Responsibility for Ensuring Compliance with the 40 day Target within the Spending DG

3.7.17 Responsibility for ensuring compliance with the 40 day target time within each spending DG is allocated to different officers according to the policy of the particular DG:

- the Head of Finance Unit has responsibility in 37% of DGs
- the Head of Operating Unit has responsibility in 12% of DGs
- no *one* person has responsibility in 26% of DGs, where responsibility is shared throughout the units

3.7.18 Where one person is delegated as being responsible for ensuring compliance with the 40 day target time, there is more likelihood of targets being met.

3.7.19 It was considered by 87% of respondents that 40 days is a reasonable allocation for processing a request for payment within a spending DG.

Specific Types of Contracts Causing Delay

3.7.20 It was noted during our study that there are specific types of payment and circumstances which make it more likely that a delay in payment will be encountered. These are:

- payments to experts
- studies
- research contracts, especially where there are a number of co-contractors

3.8 Payments to Experts at Meetings

3.8.1 Of the DGs who deal with experts, 74% reported that additional time delay problems occur. Historically, this has been due mainly to the payments to experts being routed through DG IX. Currently, 38% of DGs pay experts directly, 58% of DGs pay experts through DG IX and 4% use both methods of payment.

3.8.2 The other intrinsic cause of delay is that there are inevitably a large number of delegates, each of whom require to be paid individually, leading to a high volume of payments to be processed.

3.8.3 The problems arising from the payment of experts through DG IX under the "old" system has been recognised and addressed through MAP 2000, which provides for the eventual full decentralisation of expert payments to DGs.

3.8.4 Currently a period of transition is being experienced. Most DGs are continuing to use the pre-printed label system operated by DG IX, to ensure that necessary details ("fichier tiers") are submitted with a request for payment, whilst others are introducing their own systems.

3.8.5 It is very important that all DGs implement the same procedures where possible and therefore to do this prior to different systems becoming established.

3.8.6 The role of the meeting secretary has been considered and DG XIX has undertaken training of the secretaries to ensure that the fichier tiers of all experts are taken and checked before the experts leave the meetings. We are told that this has greatly decreased delays reducing the possibility of the fichier tiers details being incorrect.

3.8.7 The creation of fichier tiers details in the payment system is dealt with by gestionnaires in the operational and financial units and by authorising officers.

3.8.8 Requests for the creation of a fichier tiers are made in the majority of cases immediately when a contract is drafted, or when the payment detail requests are being entered on to the system. Unnecessary hold ups can be caused if the fichier tiers is not created at an early stage by the delay of the fichier tiers details being entered and verified.

3.9 Studies

3.9.1 Final reports from studies must be registered with the Register for Studies on a central database. This can take circa 21 days and as such causes further delays in the payment process because the payment request must be held back until the DG receives notification that the study has been registered.

3.10 Research Contracts, especially where there are a Number of Co-Contractors

3.10.1 Research and study contracts create difficulties due to the nature of the cost-statements which require to be verified. As previously mentioned, an additional 30 or 60 days for approval of the report is permitted prior to commencement of the 60 days target payment period.

3.10.2 Contracts where there are a number of co-contractors requesting payment through a co-ordinator are entered into by 36% of DGs. Of those DGs who use numerous co-contractors for one contract, 28% of respondents report additional problems in meeting deadlines, due to the additional difficulties inherent in dealing with a number of people with different priorities.

3.10.3 In 73% of the above cases, the Commission is responsible to only one co-ordinator. This was intended to reduce the need for repetitive queries and to reduce delays. Some respondents have commented however that this did not have the desired effect. The delays were merely transferred to the stage where the co-ordinator was responsible for gathering information from the contractors.

Holiday Cover

3.10.4 The majority of respondents indicated that in both operating and financial units, there is a policy of redistribution of workload in order to provide cover during leave, other commitments or periods of illness. It would appear however that this policy is not universal. This is obviously an area where unnecessary delays could occur if there was not a satisfactory system in place.

3.11 Treatment of Unsatisfactory Payment Demands

3.11.1 A suspension of the 60 day payment period may occur when the beneficiary has not satisfactorily supplied all requirements within the payment demand. During the suspended period, rectification of the problems or further information will be sought from the beneficiary. Commission policy states that the beneficiary should be informed that a suspension of the 60 day period has taken place.

3.11.2 Tracking the 60 day payment period may become difficult when suspensions occur. Where a DG uses SINCOM to track the payment time there are insufficient date fields within the software to permit the period to stop and start. Some DGs therefore manually calculate the period that the payment has taken, allowing for suspensions, and then post-date the commencement of the payment period in SINCOM.

3.11.3 There are further issues to be considered when unsatisfactory demands are received:

- a backlog of difficult cases may be accumulated which will require to be dealt with
- where an initial payment has been made, it may transpire that the payment should be recovered

3.11.4 These two points raise different issues as to whether previous payments on the contract should have been made or indeed should be recalled. For the purposes of this study, their relevance is principally that manpower is required to investigate and rectify unsatisfactory demands. Both the existence of the old cases and the time taken to close them may affect DG payment statistics.

3.12 Information given to Beneficiaries at the Contract Stage

3.12.1 Standard contracts are available on the Commission's intranet for the use of the DGs. These explain the payment policy of the Commission and its terms. Some DGs also issue standard request for payment documents to ensure that all necessary information is received from beneficiaries.

3.13 Processes within Financial Control and the Accounting Officer's Service

3.13.1 In order to complete the payment process, the involvement of the Financial Control service of DG XX and the Accounting Officer service of DG XIX is required. Of the 60 day target payment time, 20 days are allocated to these functions.

Financial Control (DG XX)

3.13.2 When authorised by the spending DG, request for payment files are then processed by DG XX.

3.14 Visa

3.14.1 Firstly officers within DG XX ensure that the payment order has been properly issued by the spending DG, by checking that all of the necessary supporting documents and authorisations from the spending DG are present.

3.14.2 DG XX also carry out the following checks:[3]

- the payment order agrees with the commitment expenditure, and that the expenditure is charged to the correct item in the budget
- appropriations are available
- supporting documents are in order
- the payee is correctly named and described

3.14.3 There are a number of control units responsible for different parts of the budget. In each there are financial controllers who can authorise ("visa") a payment once it is checked.

3.14.4 We are told that errors have been found in less than 2% of cases on average, although the error rate varies greatly between different areas of the budget and over time. If an error is considered to be major, the file will be sent back to the spending DG for repair. For minor errors a return sheet is sent by e-mail to the spending DG requesting missing information. In both cases the progress of the file is documented in an ancillary system to SINCOM, called "renvoi".

3.14.5 The renvoi system permits evaluation and reasons for returns for statistical purposes and is currently being further developed to provide a tracking and reminder system. Any files outstanding in the renvoi system for more than 8 days will be included in a report. A reminder will be sent in the first instance to the authorising officer, and if no progress is made after 21 days a reminder will be sent directly to the director in the financial unit of the spending DG.

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[3] *as prescribed by Article 47 of Financial Regulations of 21 December 1997*

3.14.6 If the error highlighted by DG XX is due to information not being supplied by the beneficiary, the 60 day period can be suspended by the spending DG notifying the beneficiary.

3.15 File Review

3.15.1 Currently, the system for sourcing the files to be reviewed in DG XX may be one of the following: attribute sampling, judgmental sampling and 100% checking of files. Clearly, it is preferable that a consistent method of selection of files is used across all DGs. This is to be introduced when the SINCOM II system is implemented.

3.15.2 Following the implementation of SINCOM II, a global system of monetary unit sampling (MUS) will be introduced. The only exceptions will be where the risk has been assessed as too high, in which case a system of 100% checking will continue to be used.

3.15.3 For MUS, a sample size will be predetermined on the basis of the level of risk, materiality and precision. Only the files picked by the control unit for sampling will be held back and all other files will continue to be processed by DG XIX. At regular intervals the error level will be assessed and if necessary the sample size will be adjusted.

3.15.4 If there appear to be problems with a particular DG or policy, more files will be selected for checking from that area.

3.15.5 This technique will reduce the need for the physical transmission of files to DG XX. Only the selected files will be sent to DG XX, and others will be sent directly to DG XIX. This contrasts with the current procedures where all files must be passed through DG XX. Where attribute sampling is in place, the batch is held until the testing is completed before proceeding to DG XIX.

Accounting Officer Service (DG XIX)

3.15.6 The role of the Accounting Officer Service is to make the payment once it has been authorised by the spending DG and given an electronic visa by DG XX.

3.15.7 Two units in DG XIX/C are instrumental in the processing of payments:

- C3 - accounting officer's validation and management of third party file (fichier tiers)

- C5 - treasury and bank accounts.

3.15.8 C3 is the intermediary stage where the "validity of the discharge" is checked. This entails reviewing the invoice to ensure that the correct amount is paid to the designated beneficiary and on the requested bank account. (Supporting documents are not checked and are archived and sent monthly to the Court of Auditors.) Once satisfied, the C3 unit will make the "first signature". This process usually takes two days, but may take up to seven days in exceptional circumstances.

3.15.9 Under Sincom II, there may be scope to reduce the time taken for this part of the process to between two and five days because only a certified copy of the invoice will be sent to C3.

3.15.10 Where information is incorrect and a payment cannot be made, a file must be returned to the spending DG via DG XX.[4] The payment is cancelled and a new payment generated once the details have been corrected. DG XIX does not have authority to change any payment details, due to the need for segregation of duties.

3.15.11 The function of Treasury is to check that the payments are sent to the correct bank, and to ensure there are sufficient funds in the bank to make payment. A period of five days will elapse from the date of the validation by the accounting officer in C3 and the date on which the money is withdrawn from the Commission bank account.

3.15.12 It has been indicated that there may be some scope to reduce the time required in the treasury department to four days with the advent of SINCOM II.

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4 *The criterion for validation by the Accounting Officer are set down in Articles 51 and 52 of the Financial Regulations.*

4 SHORT TERM RECOMMENDATIONS

4.1 In making the following recommendations we have taken account of the need to ensure that security is not compromised, and of the need for satisfactory internal controls.

4.2 Initial Payments on Signature of Contracts

4.2.1 We understand that a first payment is due on signature of a contract. At this stage delays may occur whilst the fichier tiers unit validate the banking details for a beneficiary. Delays need not occur if the fichier tiers is requested upon signature of the contract.

4.2.2 We recommend that, in line with 32% of DGs the fichier tiers unit is requested to validate banking details when the contract is drafted. This would allow the validation process to take place in tandem with the completion and signature of the contract, allowing immediate payment on receipt of the signed contract.

4.3 Transmission of Payment Demand on Arrival to Appropriate Department and Sector

Receipt of Requests for Payment Centrally

4.3.1 Within a number of DGs requests for payments are received and registered centrally prior to the documents being passed to the relevant people for processing.

4.3.2 This facilitates effective tracking of requests and ensures that documents are distributed to the person most able to deal with the request.

4.3.3 60% of respondents thought this procedure could be operated within their DGs and would improve the payment process. In some cases where a respondent thought this would not improve procedures, this was due to the small size of the DG and few number of payments being processed.

4.3.4 We recommend that, in line with the Commission instructions, all requests for payment are sent to the financial unit, registered centrally, date stamped and issued timeously to the relevant person for processing.

4.3.5 We also recommend that the "commitment reference number" which is set up when the commitment is agreed, is used from inception as a reference for the contract. The beneficiary should be encouraged to use this number on all correspondence to facilitate the registration and distribution of documents.

Tracking

4.3.6 The progress of requests for payment is tracked independently by the use of manual control sheets, spreadsheet applications and software packages in 61% of cases. The remaining DGs do not track progress of payments, or rely on SINCOM for tracking delays.

4.3.7 SINCOM does not have the capacity for effective tracking and cannot provide a warning system for payments which are about to become overdue.

4.3.8 We recommend that all DGs operate the same tracking software. In the short term this could be one of the systems already operated by the DGs with any necessary minor modifications. The tracking software should allow several dates and file locations to be registered and should allow password protected, on-line access. This computerised application could be made available on the intranet to be accessed by all DGs. The application of this is discussed further within the medium term recommendations.

4.4 Payment Time Commencement Date

4.4.1 The statistics on payment times compiled by the Commission are taken from SINCOM. The responses to our questionnaire revealed that at least five different dates may be recorded in SINCOM as the commencement date for the request for payment.

4.4.2 We recommend that, as a short term measure, it is impressed on all DGs that the same date factor must be used in order to provide comparative statistics. This should be the date of receipt of the request and all periods of legitimate suspension separately identified and adjusted.

4.5 Organisation of Payment Processing within the Department

Holiday/ Absence Cover

4.5.1 A system of holiday and absence cover should be introduced in all units so that payment files can be dealt with by another member of the team.

Duplication of Checking

4.5.2 We have explored the possibility of reducing a duplication of financial checks of invoices where both the financial and operating units participate in checking the financial aspects of a request.

4.5.3 Under the Financial Regulations the authorising officer in the financial unit has responsibility for validating expenditure. (This responsibility may lead to pecuniary penalty if a payment is wrongfully validated). This is leading to some authorising officers personally checking every aspect of the request for payment, which in many cases have already been checked in the operational unit. We consider the possible amendment of the Financial Regulations to remove the potential for pecuniary penalty further in Section 5.4 below.

4.5.4 In some DGs a duplication of checking arises from lack of confidence in the operational staff.

4.5.5 We recommend that operational and financial desk officers receive training from experienced members of staff. Comprehensive guidelines are necessary for personnel carrying out financial operations. Well designed checklists may serve not only as a memory aid, but also in the training of inexperienced staff.

4.5.6 We believe that the completion and signing of comprehensive check-lists in both the operational and financial units would reduce the need for the authorising officer to repeat checks. It is stated in the regulations that it is sufficient for the authorising officer to ascertain that the appropriate checks have been made[5].

4.5.7 We recommend that the checklists used in both the operational and financial units are revised to ensure that both operational and financial staff are aware of their areas of responsibility. Where possible the checklists should be standardised across all the spending DGs.

4.5.8 The rules which are applied by DG XX when vetting files are available on the Commission's intranet. We recommend that the satisfactory application of these rules is incorporated into the revised check-lists.

4.5.9 To date, the three "Structural Action" DGs operate checklists which have previously been agreed with the financial controlling service of DG XX. These checklists are completed by the authorising officer in checking that files are complete and are

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5 *European Commission Financial Regulation, Article 41*

attached to the front of files, before being sent to DG XX. This has led to less rejections by DG XX.

4.5.10 We recommend that the other DGs implement a similar procedure.

4.5.11 To further ensure that the standard of checking is being maintained, the authorising officers, or gestionnaires within the financial unit could conduct spot checks on judgmental samples of files.

4.5.12 We appreciate there are specific types of payment such as research contracts, where the technical and financial check of cost-statements cannot be separated. In these cases we recommend that the operating unit makes the financial checks and the financial unit conducts spot check analyses of costs, as well as verifying the payments schedule according to the contracts.

4.5.13 Less than half of the respondents thought it would be appropriate for the financial unit to conduct all of the checking of the financial aspects of requests for payment, although 29% currently operate this system. The main reasons given were the need for internal control by means of segregation of duties, and that in some cases, particularly research contracts, the checking of operational and financial checks cannot be separated.

Experts

4.5.14 We are aware that some of the specific problems arising from dealing with experts are currently being addressed through MAP2000. Extensive training of meeting secretaries, whose task it is to ensure that the necessary details of experts are correct, should help to reduce unnecessary payment delays.

4.5.15 The system in place whereby labels produced by DG IX are attached to the form which should be completed at the meeting has produced problems due to the details being outdated in some cases.

4.5.16 Some DGs are now implementing their own systems, such as DG III, who issue reimbursement forms, together with the invitation, to be completed prior to the meeting. The meeting secretary checks that the form is filled in and signed before the delegates leave the meeting.

4.5.17 We agree with the decentralisation of expert payments to DGs taking place, permitting the spending DGs total control over the progress of a payment request.

4.5.18 We recommend that spending DGs should move towards issuing reimbursement forms for completion with the invitation to the meeting. A standard reimbursement form could be made available on the intranet for the use of DGs.

Research Contracts and Studies

4.5.19 It is recognised that research contracts create specific difficulties for processing requests for payment. An additional 30 days is permitted for approving the report, and 60 days for the final report, before the 60 day payment period starts to run.

4.5.20 We recommend that the project officers who are responsible for research contracts ensure on an ongoing basis, that interim reports are fulfilling their remit. This will make the job of reviewing the final reports less time-consuming, and would hopefully eliminate or reduce the need for an extra 30 days for checking the final report.

4.5.21 Delays created by the registration of studies must be addressed within the Registry of Studies.

4.6 Treatment of Unsatisfactory Payment Demands

4.6.1 We understand that where minor rectification is required, project officers will contact the beneficiary and seek additional information, without formally suspending the 60 day payment period. In circumstances where there is need of serious amendment, the beneficiary will be informed in writing that the 60 day payment period has been suspended pending receipt of information.

4.6.2 We are of the opinion that suspensions should only be made when absolutely necessary. Standard documents should be uniformly sent to the contractor on suspension so that he is in no doubt of his legal situation.

4.6.3 Tracking of periods of suspension should be performed by means of the aforementioned computer application. This software should be capable of automatically calculating the payment time, taking account of periods of suspension. Back-up, by means of correspondence and file-notes should be available on the file to corroborate dates entered on to the system.

4.6.4 The current practice whereby some individuals manually change the start date in SINCOM in order to approximate the true time to process payments is inappropriate.

4.6.5 We recommend that the previously recommended computerised tracking system be used to monitor and calculate the payment time, adjusting for reasonable periods of suspension. Furthermore we recommend that statistics are drawn from this system, so as to ensure consistency.

4.7 Information Given to Beneficiaries at Contract Stage

Standard Contracts

4.7.1 Standard contracts are available on the intranet. It should be ensured that these standard documents contain clear and consistent payment terms.

4.7.2 All DGs should ensure that they are using the up-to-date versions which contain the appropriate clauses regarding payment terms.

Standard Request for Payment Documents

4.7.3 The majority of respondents thought that it would be helpful for standard request for payment documents to be given to the beneficiary at the time of signing the contract.

4.7.4 A number of DGs already issue standard cost statements for research, reimbursement forms for experts, and standard applications for grant and subsidies etc.

4.7.5 Some DGs expressed reservations due to the lack of volume of payments processed. If standard documents are available on the intranet for use by all DGs then there should be no requirement for each DG to make a large investment in terms of resources to create the documents.

4.7.6 We recommend that standard request for payment documents for each type of payment, are made available on the intranet for use by all spending DGs.

4.8 Processes within Financial control and the Accounting Officer's Service

4.8.1 The processes within financial control and the accounting officer's service are to undergo some change with the introduction of SINCOM II.

Financial Control

4.8.2 A new system of sample checking of payments is to be facilitated with the introduction of SINCOM II. This has the potential to speed the progress of payment files, since only the files selected for sampling will be sent to DG XX for inspection. All other files will be sent directly to DG XIX for payment.

4.8.3 The benefits provided by this sample checking is very much an audit function and there is an argument in favour of conducting this means of checking after the payments have been made and hence to remove the delay completely.

Accounting Officer's Service

4.8.4 From our review we can see little opportunity to reduce payment processing times within DG XIX other than maybe one day following the implementation of SINCOM II. Where errors are detected within DG XIX, files are returned to the spending DG for rectification. Whilst this would appear to be an area where time could be saved if DG XIX were to amend the information, this would not be advisable for security reasons as it is necessary to ensure segregation of duties.

5 RECOMMENDATIONS - MEDIUM TERM

5.1 In making the following recommendations we have taken account of the need to maintain security and internal controls. The following recommendations will require additional investment in time and resources. Also, we recognise that where a change in the Financial Regulations is required this will take time to implement.

5.2 Tracking System

5.2.1 Within the scope of this study we have not been able to investigate in detail the operations of all of the various tracking systems operated throughout the Commission. We recommend that a more detailed study is carried out and the most suitable system chosen to be developed as a Commission wide application.

5.2.2 The standardised tracking system chosen should be used by all DGs. This tracking system would have the following capabilities:

- to enable tracking of the administrative and physical progress of files throughout the DGs
- to produce exception reports of payment requests nearing the boundaries of the payment target time
- to be capable of automatically calculating payment periods taken including periods of suspension
- to be linked to SINCOM I and then SINCOM II to avoid unnecessary duplication of input of data
- to produce reliable statistics on payment times for use by the Commission
- be available on the intranet

5.3 Research Contracts

5.3.1 It is recognised that the checking of cost statements is a time consuming process. This is due to the need to check the reasonableness of expenses.

5.3.2 This problem may be addressed in two ways:

- by using fixed cost contracts

- by paying fixed rates for labour

Fixed Cost Contracts

5.3.3 The use by the Commission of fixed cost contracts, whereby tenders are requested at a fixed fee, which will be payable in predetermined instalments may reduce the need for analysis of cost-statements.

5.3.4 Providing that the terms of the contract were being complied with in terms of stage of completion and quality of work, a percentage of the fee would be payable. The contractor would be responsible for expenses incurred, and would be paid a fixed fee agreed at the inception of the contract based on anticipated and reasonable expenses.

5.3.5 Costs would be the responsibility of the contractor. The Commission would therefore only track the progress to date. There would be no necessity for tracking expenses and ensuring invoices etc are available. We recognise that this will not be possible in all cases.

5.3.6 We recommend that where possible the Commission uses fixed cost contracts.

Paying Fixed Rates for Labour

5.3.7 There may be circumstances where it is not feasible to use fixed cost contracts, as recommended above. An example may be where a large project will last a number of years, and it would be impractical to estimate all costs. In these circumstances the payment of pre-determined fixed rates to categories of employees used by contractors may reduce the difficulties of checking labour cost-statements.

5.3.8 We recommend that the labour rates in use by contractors are logged by DGs and collected in a central database. These can then be used as benchmarks to calculate appropriate fixed labour rates which will be stated in invitations to tender as the rate which will be paid, and built in as terms to the contracts.

5.4 Removing the Potential Pecuniary Liability of Authorising Officers

5.4.1 We have considered the arguments for removing the threat of pecuniary liability for authorising officers (and of lowering the level of responsibility to project officers). In our opinion the pecuniary liability clause is unduly burdensome, and leads to excessive duplication of checks by authorising officers, slowing down payment times.

5.4.2 We consider the threat of personal financial penalty to be inappropriate, except in the case of fraud. Error, mistake or inadequate performance of designated duties should be dealt with under normal staff management and appraisal procedures.

5.4.3 In the event of a fraud taking place, it is likely that general legislation and the provisions of the statute of the Commission civil servants would be sufficient to impose civil and/or criminal sanctions on the perpetrators, rendering the need for the pecuniary liability clause in the Financial Regulations unnecessary.

5.4.4 We are of the opinion that it is appropriate to give staff a level of responsibility commensurate with their position.

5.4.5 All staff involved in the processing of a request for payment should be aware of their duties and responsibilities as imposed by their contracts of employment and by normal legislation.

5.4.6 We therefore recommend that consideration be given to amending the Financial Regulations to remove the threat of pecuniary penalty for authorising officers.

6 PAYMENT PERFORMANCE TARGETS

6.1 Current Practices in the UK and Europe

6.1.1 The Late Payment of Commercial Debts Act is soon due to take effect in the UK, allowing companies to charge interest on bills not paid in the contractually agreed time. A considerable volume of statistics has been published in recent months.

6.1.2 According to research carried out in 1998 by the information solutions company, "Experian", the average payment period (number of days following invoice) for UK firms is as follows:

Small companies	55 days
Medium sized companies	54 days
Large companies	70 days

6.1.3 The survey found the difference between the best and worst payers to be 35 days. The best payers were found to be small banks, who take on average 45 days to pay. At the other end of the spectrum are large rental companies who take 80 days to pay their debts.

6.1.4 In 1997, a European Business Survey was conducted by Grant Thornton International and Business Strategies Limited. The results of this survey, which covered small and medium sized businesses in European countries, showed that in the UK, companies took on average 49 days to pay their debts, whilst in Europe the average was 61 days.

6.1.5 A final survey, the Payments Habits Survey 1996 by Intrum Justitia, Amsterdam, suggested that the average UK payment period was 49 days, and the European average was 54 days. The European average however masked a wide variation between countries, ranging between 27 days in Norway to 94 days in Greece.

6.1.6 Most industries work on 30 day payment terms following the end of the month of receipt which effectively equates to an average of 45 days.

6.1.7 As can be seen from the results of the surveys, however, the payment terms are rarely adhered to in practice.

6.1.8 The 60 day average payment time made by the Commission is within the parameters of the results of the most recent Experian survey.

6.1.9 Bearing in mind the aim of the Commission to set a good example regarding timely payment of debts, we recommend that the following targets are aimed for:

- all DGs achieving payment of debts within 60 days from the date of receipt of the request for payment in the short term

- the Commission achieving an average payment period of 45 days in the medium term

7 CONCLUSION - SUGGESTED APPROACH TO ACHIEVING IMPROVEMENTS

7.1 This report has been prepared on behalf of the European Commission in order to highlight and address the causes of late payment of debts within the Commission.

7.2 Working Party

7.3 It is our opinion that a working party should be set up, preferably including members of the initial contact group, with responsibility for taking forward a project to refine, implement and monitor the recommendations set out in this report. This will ensure that priority is given to realising improvements and that momentum is not lost after this report is finalised.

7.4 The opinions of as many DGs as possible should be sought on an ongoing basis to ensure the continued involvement and motivation of all affected.

7.5 Action Plan

7.6 The group should develop an action plan setting out specific milestones to be achieved within a timetable based on the short and medium term recommendations set out within this report.

7.7 We conclude that there are a number of opportunities to improve the systems operated within the Commission regarding payments. Our findings and recommendations have been discussed within this report.

7.8 Prompt Payment "Champions"

7.9 The successful implementation of our recommendations will require an ongoing commitment by the Commission's staff. The organisation of a working party to meet regularly should help to ensure the smooth execution of the suggestions and achieve improved procedures and hence payment times.

7.10 Members of the working party, and/ or other appropriate members of staff could be designated as prompt payment "Champions", with a responsibility to keep staff motivated to seek on-going improvements, to improve communications, and to improve the prevailing culture so that a positive attitude to improving payment times is maintained.

7.11 We would like to take this opportunity to thank you and your staff for your assistance during the course of this project.

7.12 If you would like any further assistance, please do not hesitate to contact Jim Borrows or Kirstine Hyde at Grant Thornton, PO Box 151, 114 West George Street, Glasgow, G2 1QF, telephone: +44 (0) 141 332 7484.

Yours faithfully

Grant Thornton

GLOSSARY

DG	Directorate General of the European Commission
Authorising Officer	Member of staff delegated with responsibility of implementing payments following a check on the validity of the payment
Gestionnaire	Desk officer
Operating Unit	Unit where technical merits of reports and requests for payments are made and invoices are stamped "bon a payer" (good for payment)
Financial Unit	Cell within DG where validity of payment is confirmed
SINCOM	Computer application which is used by DGs to enter payment details and relevant dates of visa and payment
SINCOM II	Revised version of SINCOM
Adonis	Mail registration system of Commission
Fichier Tiers	Third party file containing bank details of beneficiary
First signature	Initial point of authorisation in DG XIX
Second signature	Final stage of authorisation required for payment in DG XIX