



Decision of the Governing Board adopting the Internal Control Principles

THE GOVERNING BOARD OF THE CLEAN SKY 2 JOINT UNDERTAKING,

Having regard to the Council Regulation n° 558/2014 of 6 May 2014 establishing the Clean Sky 2 Joint Undertaking¹ ('Clean Sky 2 JU') and in particular Article 14.4,

Having regard to the Statutes annexed to Council Regulation n° 558/2014 of 6 May 2014 establishing the Clean Sky 2 JU and in particular Articles 8.2 and 10.4(m),

Having regard to Article 12 of the Financial Rules of Clean Sky 2 JU²,

Having regard to the revised Internal Control Framework (ICF) adopted by the Commission on 19 April 2017³,

WHEREAS:

- 1) Internal control is a process that helps an organisation to achieve its objectives and sustain operational and financial performance, respecting rules and regulations. It supports sound decision making taking into account risks to the achievement of objectives and reducing them to acceptable levels through cost-effective controls;
- 2) The Clean Sky 2 JU is entrusted with the implementation of EU Budget and should therefore ensure a proper management and control mechanism in accordance with Article 32 of the Regulation (EU, Euratom) No 966/2012⁴ and provide a level of assurance from its systems at least equivalent to that of the European Commission;
- 3) An effective and efficient internal control of Clean Sky 2 JU should be based on best international practices and include, in particular, the elements laid down in Article 32(3) and (4) of Regulation (EU, Euratom) No 966/2012 while taking into account the structure and size of the Clean Sky 2 JU, the budget amount and nature of the tasks entrusted to it, and the associated financial and operational risks involved;
- 4) The European Commission adopted on 19 April 2017 a revised Internal Control Framework (ICF), consisting of 17 principles to better reflect today's environment and to allow the services the necessary flexibility to adapt to their specific characteristics and circumstances while ensuring a robust internal control with a consistent assessment;

¹ OJ ref. L 169/85, 7.6.2014

² Ref. CS-GB-Writ. Proc. 2016-05 Revised CSJU Financial Rules

³ Communication on the revision of the Internal Control Framework - C(2017)2373



- 5) It is deemed appropriate to adapt, by means of Governing Board Decision, the 17 Internal Control Principles of the Commission to the specific structure and size of the Clean Sky 2 JU;
- 6) The baseline requirements shall be defined by the Executive Director to ensure the sound implementation of the Internal Control Principles and its continuous monitoring. This should be done within the internal control system and by using appropriate indicators and other sources of evidence;

HAS DECIDED:

Article 1

The attached list of Clean Sky 2 JU Internal Control Principles is hereby adopted.

Article 2

The Executive Director shall implement this decision. He shall in particular define the baselines for each internal control principle and shall improve the awareness and understanding of each internal control principle by all staff through training, information and support activities.

Article 3

This decision shall enter into force on the date following its adoption.

Brussels, 5 April 2018

Ric Parker

Chairman of the Governing Board

Enclosure:

Annex – List of Clean Sky 2 Joint Undertaking Internal Control Principles

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Principle 1: The Clean Sky 2 JU demonstrates a commitment to integrity and ethical values

Characteristics:

- **Tone at the top.** The Governing Board and all management levels respect integrity and ethical values in their instructions, actions and behaviour.
- **Standards of conduct.** The Clean Sky 2 JU's (JU) expectations on integrity and ethical values are set out in standards of conduct and understood at all levels of the organisation, as well as by entrusted bodies, outsourced service providers and beneficiaries.
- **Alignment with standards.** Processes are in place to assess whether individuals and units are aligned with the JU's expected standards of conduct and to address deviations in a timely manner.

Principle 2: The Governing Board of the Clean Sky 2 JU demonstrates independence from management and exercises oversight of the development and performance of internal control

Characteristics:

- The Governing Board (GB) has the overall responsibility for the strategic orientation and the operations of the Clean Sky 2 JU (JU) and supervises the implementation of its activities.

It oversees the JU's governance, risk management and internal control practices and takes overall political responsibility for management carried out by the Executive Director. This happens through the use of appropriate working arrangements and communication channels between the GB and the JU's management.

- The Executive Director (ED) oversees the internal control system established in the Clean Sky 2 JU and monitors the functioning of the system in place. The ED is supported in this task by the Internal Control Coordinator (Head of Unit (HoU) in charge of internal control¹ and by the Internal Audit Capability.
- In its capacity as Authorising Officer, the ED of the JU provides a Declaration of Assurance on the appropriate allocation of resources and their use for their intended purpose and in accordance with the principles of sound financial management, as well as on the adequacy of the control procedures in place.
- The Internal control Coordinator plays a key role by contributing to the preparation of the ED's Annual Activity Report. Senior management, i.e. all Authorising Officers by Delegation (AODs), sign a declaration taking responsibility for the completeness and reliability of management reporting. This declaration covers both the state of internal control in the JU and the robustness of reporting on operational performance.
- The European Court of Auditors provides annually its opinion on the liability of the JU's accounts and on the legality and regularity of the underlying transactions. It issues recommendations for strengthening the internal control.
- The Internal Audit functions of the JU assess annually the risks concerning the JU's internal control system and issue recommendations for system and processes improvements. The IA functions report directly to the GB and the ED.

¹ Head of Administration and Finance (Resources)

Principle 3: Management establishes, with political oversight, structure, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives

Characteristics:

- **Management structures are comprehensive.** The design and implementation of management and supervision structures cover all activities as defined in the CS2 Regulation including the Work Plan execution by the JU's private Members, in order to support the achievement of operational and control objectives.
- **Authorities and responsibilities.** The Governing Board (GB) and the Executive Director, as appropriate, delegate authority and use appropriate processes and technology to assign responsibility and segregate duties as necessary at the various levels of the JU including the private Members of the JU.
- **Reporting lines.** The ED and senior management design and evaluate reporting lines within the units of the JU and with the private Members, to enable the execution of authority, fulfilment of responsibilities, and flow of information.

Principle 4: The Clean Sky 2 JU demonstrates a commitment to attract, develop and retain competent individuals in alignment with objectives

Characteristics:

- **Competence framework.** The Clean Sky 2 JU (JU) defines the competences necessary to support the achievement of objectives and regularly evaluates them across the JU, taking action to address shortcomings where necessary.
- **Professional development.** The JU provides the training and coaching needed to attract, develop, and retain a sufficient number of competent staff.
- **Mobility.** Taking into account the limited number of staff working for the JU, it facilitates staff mobility within the Agencies network and JTIs network, so as to strike the right balance between individual personal development and continuity.
- **Succession planning and deputising** arrangements for operational activities and financial transactions are in place to ensure continuity of operations.

Principle 5: The Clean Sky 2 JU holds individuals accountable for their internal control responsibilities in the pursuit of objectives

Characteristics:

- **Enforcing accountability.** The Clean Sky 2 JU (JU) defines clear roles and responsibilities and holds individuals accountable for the performance of internal control responsibilities across the organisation and for the implementation of corrective action as necessary.
- **Staff appraisal.** Staff efficiency, abilities and conduct in the service are assessed annually against expected standards of conduct and set objectives. Cases of underperformance are appropriately addressed.
- **Staff promotion.** Promotion is decided after consideration of the comparative merits of eligible staff taking into account, in particular, their appraisal reports.

□

Principle 6: The Clean Sky 2 JU specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives

Characteristics:

- **Mission.** The Executive Director and senior management of the Clean Sky 2 JU (JU) have up-to-date mission statements that are aligned across all hierarchical levels, down to the tasks and objectives assigned to individual staff members. Mission statements are aligned with the JU's responsibilities and objectives set in the CS2 Regulation and H2020 Regulation.
- **Objectives are set at every level.** The JU's objectives are clearly set and updated when necessary (e.g. significant changes in achievement of core results or time planning during the CS programme period). They are consistently filtered down from the JU level (high-level objectives) to the various levels of programme execution within the JU organisation and are reflected in the core JU documents (e.g. CS2DP, WPs, GAs, topic descriptions). The objectives are communicated and understood by JU management, private Members of the JU and JU staff.
- **Objectives are set for the most significant activities.** Objectives and indicators cover the JU's most significant activities contributing to the delivery of the planned achievements.
- **Objectives form the basis for committing resources.** Management uses the objectives set as a basis for allocating available resources as needed to achieve operational and financial performance goals.
- **Financial reporting objectives.** Financial reporting objectives are consistent with the accounting principles applicable in the European Commission and with the specific guidance established for the JUs by the Accounting Officer of the European Commission.
- **Non-financial reporting objectives.** Non-financial reporting provides management with accurate and complete information needed to manage the JU and the operational processes at different levels, including the activities carried out by the JU's Members and Partners in the research consortia (Systems and Platform Demonstrators – SPDs).
- **Risk tolerance and materiality.** When setting objectives, management defines the acceptable levels of variation relative to their achievement (tolerance for risk). Criteria and methodology for risk management in the SPDs are agreed between the private Members and the JU. For reporting purposes, the appropriate level of materiality is defined, taking into account cost-effectiveness.
- **Monitoring.** Setting objectives and performance indicators make it possible to

monitor progress towards their achievement.



Principle 7: The Clean Sky 2 JU identifies risks to the achievement of its objectives across the organisation, and analyses risks as a basis for determining how the risks should be managed

Characteristics:

- **Risk identification.** The Clean Sky 2 JU (JU) identifies and assesses risks at several levels (strategic objectives, programme performance, execution of the work plans), analysing internal and external factors. Management and staff are involved in the process at the appropriate level.
- **Risk assessment.** The JU estimates the significance of the risks identified and determines how to respond to significant risks, considering how each one should be managed and whether to accept, avoid, reduce or share the risk. The intensity of mitigating controls is proportional to the significance of the risk.
- Risk identification and risk assessment are integrated into the annual activity planning and are regularly monitored.

Principle 8: The Clean Sky 2 JU considers the potential for fraud in assessing risks to the achievement of objectives

Characteristics:

- **Risk of fraud.** The risk identification and assessment procedures (see principle 7) consider possible incentives, pressures, opportunities and attitudes which may lead to any type of fraud, notably fraudulent reporting, loss of assets, disclosure of sensitive information and corruption.
- **Anti-fraud strategy.** The Clean Sky 2 JU sets up and implements measures to counter fraud and any illegal activities affecting the financial interests of the EU. This is done by applying the anti-fraud strategy put in place for the entire Research family, to improve the prevention, detection and conditions for investigating fraud, and to set out reparation and deterrence measures, with proportionate and dissuasive sanctions.

Principle 9: The Clean Sky 2 JU identifies and assesses changes that could significantly impact the internal control system

Characteristics:

Assess changes. The risk identification process of Clean Sky 2 JU (JU) considers changes in the internal and external environment, in relevant legal and regulatory provisions, operational progress and priorities, as well as in management's attitude towards the internal control system.

Principle 10: The Clean Sky 2 JU selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels

Characteristics:

- **Control activities are performed to mitigate the identified risks and are cost-effective.** They are tailored to the specific activities and risks of the Clean Sky 2 JU and their intensity is proportional to the underlying risks.
- **Control activities are integrated in a control strategy.** The control strategy includes a variety of checks, including supervision arrangements, and where appropriate, should include a balance of approaches to mitigate risks, considering manual and automated controls, and preventive and detective controls.
- **Segregation of duties.** When putting in place control measures, management considers whether duties are correctly divided between staff members to reduce risks of error and inappropriate or fraudulent actions.
- **Business continuity plans** based on a business impact analysis following corporate guidance are in place, up-to-date and used by trained staff to ensure that the JU is able to continue working to the extent possible in case of a major disruption. Where necessary, business continuity plans must include coordinated and agreed disaster recovery plans for time-sensitive supporting infrastructure (e.g. IT systems).

Principle 11: The Clean Sky 2 JU selects and develops general control activities over technology to support the achievement of objectives

Characteristics:

- **Control over technology.** In order to ensure that technology used in business processes, including automated controls, is reliable, and taking into account the overall corporate processes, Clean Sky 2 JU (JU) selects and develops control activities over the acquisition, development and maintenance of technology and related infrastructure.
- **Security of IT systems.** The JU applies appropriate controls to ensure the security of the IT systems of which it is the system owner. This is done in accordance with the IT security governance principles, in particular as regards data protection, professional secrecy, availability, confidentiality and integrity.

Principle 12: The Clean Sky 2 JU deploys control activities through dedicated CS procedures implementing what is expected according to the CS2 Regulation

Characteristics:

- **Appropriate control procedures ensure that objectives are achieved.** The control procedures assign responsibility for control activities to the unit or individual responsible for the risk in question. The staff member(s) put in charge perform the control activities in a timely manner and with due diligence, taking corrective action where needed. Management periodically reassesses the control procedures to ensure that they remain relevant.
- **Exception reporting** is one of the management tools used to draw conclusions about the effectiveness of internal control and/or the changes needed in the internal control system. A system is in place to ensure that all instances of overriding controls or deviations from established processes and procedures are documented in exception reports. All instances must be justified and approved before action is taken, and logged centrally.
- **The impact assessment and evaluation** of the Clean Sky 2 programme execution is performed under the responsibility of the European Commission to assess the performance of Clean Sky 2 JU (JU) and recommendations resulting from the exercise are implemented by the JU, to the extent they are addressed to the JU management and Governing Board.

Principle 13: The Clean Sky 2 JU obtains or generates and uses relevant quality information to support the functioning of internal controls

Characteristics:

Information and document management. The Clean Sky 2 JU identifies the information required to support the functioning of the internal control system and the achievement of its objectives. Information systems process relevant data, captured from both internal and external sources, to obtain the required and expected quality information, in compliance with applicable security, document management and data protection rules. This information is produced in a timely manner, and is reliable, current, accurate, complete, accessible, protected, verifiable, filed and preserved. It is shared within the organisation in line with prevailing guidelines.

Principle 14: The Clean Sky 2 JU internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control

Characteristics:

- **Internal communication.** The Clean Sky 2 JU (JU) communicates internally and with its Members (European Commission and private Members) about their objectives, challenges, actions taken and results achieved, including but not limited to the objectives and responsibilities of internal control.
- **Separate communication lines,** such as whistleblowing hotlines, are in place at JU level to ensure information flow when normal channels are ineffective.

Principle 15: The Clean Sky 2 JU communicates with external parties about matters affecting the functioning of internal control

Characteristics:

- **External communication.** The Clean Sky 2 JU (JU) ensures that its external communication is consistent, relevant to the audience being targeted and cost-effective. The JU establishes clear responsibilities to align its communication activities with the H2020 political priorities and narrative. Internal procedures ensure adequate control of content and format of publications and presentations made on behalf of the JU.
- **Communication on internal control.** The JU communicates with its stakeholders including the general public on the functioning of the components of internal control. Relevant and timely information is communicated externally, taking into account the timing, audience, and nature of the communication, as well as legal, regulatory, and confidentiality requirements.

Principle 16: The Clean Sky 2 JU selects, develops and performs on-going and/or separate assessments to ascertain whether the components of internal control are present and functioning.

Characteristics:

- **Continuous and specific assessments.** Under the responsibility of the Executive Director, the Clean Sky 2 JU (JU) continuously monitors the performance of the internal control system with tools that make it possible to identify internal control deficiencies, register and assess the results of controls, and control deviations and exceptions. In addition, when necessary, the JU carries out specific assessments, taking into account changes in the control environment. On-going assessments are built into business processes and adjusted to changing conditions. Both kinds of assessment must be based on clearly defined baseline requirements using appropriate indicators and other sources of evidence
- **Sufficient knowledge and information.** Staff performing on-going or separate assessments has sufficient knowledge and information to do this, specifically on the scope and completeness of the results of controls, control deviations and exceptions.
- **Risk-based and periodical assessments.** The JU varies the scope and frequency of specific assessments depending on the identified risks. Specific assessments are

Principle 17: The Clean Sky 2 JU assesses and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Governing Board, as appropriate.

Characteristics:

- **Deficiencies.** With support of the Head of Unit in charge of risk management and internal control, the JU's Executive Director considers the results of the assessments of how the internal control system is functioning within the JU. Deficiencies are communicated to senior management and to the units responsible for taking corrective action. They are reported in the Annual Activity Reports and to the Governing Board, as appropriate.

The term 'internal control deficiency' means a shortcoming in a component or components and relevant principle(s) that reduces the likelihood of the JU achieving its objectives. There is a major deficiency in the internal control system if management determines that a component and one or more relevant principles are not present or functioning, or that components are not working together. When a major deficiency exists, the Executive Director cannot conclude that it has met the requirements of an effective system of internal control. To classify the severity of internal control deficiencies, management has to use judgement based on relevant criteria contained in regulations, rules or external standards.

- **Remedial action.** Corrective action is taken in a timely manner by the staff member(s) in charge of the processes concerned, under the supervision of their management. With the support of the Head of Unit in charge of risk management and internal control, the Executive Director monitors and takes responsibility for the timely implementation of corrective action.