



## EUROPEAN PARLIAMENT

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DIRECTORATE-GENERAL FOR RESEARCH  
DIRECTORATE A  
DIVISION FOR INTERNATIONAL AND CONSTITUTIONAL AFFAIRS

### FACTSHEET

CYPRUS

Chapter 28 - Financial Control

#### 1. The *acquis*<sup>1</sup>

The number of regulations covered by this chapter is limited, with the result that the *acquis* refers rather to general, internationally-agreed principles of sound financial management and control. The Commission is called upon to assess the existing financial control systems of the candidate countries with reference to five main aspects:

- **Public Internal Financial Control (PIFC)**, which covers financial control activities in the public sector. The main criteria for assessment are the presence of the legislative framework, the development of the internal audit function and *ex-ante* control mechanism throughout all income and spending centres, as well as ensuring the independence of the internal auditors.
- **External Audit**, which comprises the ability of the candidate countries to confirm the independence of their external control body. The presence of the formal mechanism for parliamentary reaction to audit findings is of particular importance.
- **Control Measures relating to EU Own Resources**, which implies that the bodies in charge of collecting and controlling own resources should be aware of what is needed to carry out their tasks properly. Timely fiscal controls and an effective customs administration are important in this context.
- **EU pre-accession funding and future structural action**: PIFC procedures should apply in the same way to all public funds, whether of national or EU origin. The candidate countries are asked to establish the appropriate *ex-ante* control and functionally independent internal audit mechanisms, to make available experienced and qualified staff and to produce procedure manuals and audit trails for each funding instrument. An important indicator is the existence of the procedure for recovering lost EU funds.
- **Protection of EU financial interests**, which includes the ability to implement the relevant EC Regulations by the time of accession and the designation of a single contact point for cooperation with OLAF. Also covered is the development of the necessary administrative and judicial capacity.

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<sup>1</sup> Information largely drawn from the European Commission, DG Enlargement  
<http://www.europa.eu.int/comm/enlargement/negotiations/chapters/index.htm>

## 2. The negotiations

The negotiations have been closed with ten countries and provisionally closed with Bulgaria, while it remains open with Romania. No transitional arrangements have been requested. DG Budget, in cooperation with DG Enlargement, attaches great importance to the ongoing monitoring exercise for countries which have closed this chapter. The emphasis is on evaluating the implementation of financial control legislation and the development of administrative capacity at all levels.

**Chapter opened:** first half of 2000

**Status:** Closed December 2002 (provisionally closed in the first half of 2000)

**Transitional arrangements:** none

## 3. Position of the European Parliament

In its resolution of 5 September 2001<sup>1</sup>, Parliament:

- notes that, despite the good standard of Cyprus' system of internal and external financial control, the Cypriot Government still needs to strengthen the independence of internal auditing within the government;
- urges Cyprus to take the necessary steps to ensure the proper management of pre-accession funding and future structural funds.

## 4. Latest Assessment by the European Commission<sup>2</sup>

In its 1998 Regular Report, the Commission concluded that proper public internal financial control seemed to have been established and that legislation provided for an adequate level of protection for Government public funds and the financial interests of the Community. Although the structures of financial control seemed to correspond to EC structures, the accounting internal control and auditing procedures needed to be strengthened.

Since 1998, Cyprus has made substantial progress in this field. It has developed management and control systems for receiving EC funds and has made progress in the structural modernisation of its financial control system. Overall, Cyprus has reached a satisfactory level of harmonisation in this field. However, further efforts are required to ensure functional independence of the Internal Audit Directorate.

Negotiations on this chapter have been provisionally closed. Cyprus has not requested any transitional arrangements. Cyprus is generally meeting the commitments it has made in the accession negotiations in the field of financial control.

In order to complete preparations for membership, Cyprus's efforts now need to focus on enhancing administrative capacity, in particular of the Treasury and of its anti-fraud structures, and actually starting the implementation of the Extended Decentralisation Implementation System (EDIS), once approved by the Commission.

January 2003

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<sup>1</sup> Resolution on the state of negotiations with Cyprus, §. 23 & 24: [A5-0261/2001](#)

<sup>2</sup> European Commission, Regular Report on Cyprus 2002, p. 114:  
[http://www.europa.eu.int/comm/enlargement/report2002/cy\\_en.pdf](http://www.europa.eu.int/comm/enlargement/report2002/cy_en.pdf)