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(Information)

COURT OF AUDITORS

REPORT BY THE COURT OF AUDITORS

on the audit of the operational efficiency of the management of the European Central Bank for the financial year 1999, together with the European Central Bank's replies

(2001/C 47/01)

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INTRODUCTION

1. The Court's mandate with regard to the European Central Bank (ECB) stipulates 'an examination of the operational efficiency of the management of the ECB' ⁽¹⁾. The ECB replaced the European Monetary Institute (EMI) on 1 June 1998 ⁽²⁾. The ECB's accounts for the financial year ending 31 December 1999 were approved by the Governing Council on 16 March 2000 and published in April 2000 ⁽³⁾ after they had been audited and certified on 1 March 2000, without qualification, by an external auditor.

2. The ECB is subject to the financial provisions contained in its Statute, a detailed interpretation of which has been set out in the decisions of the Governing Council, which is the budgetary authority of the ECB. The Council comprises, in accordance with Article 112 of the Treaty establishing the European Community, the six members of the Executive Board and the 11 governors of the national central banks (NCBs) of the Member States which have adopted the euro.

3. The ECB experienced in 1999 its first year of a central bank activity starting with the launching of the euro on 1 January 1999. In accordance with Article 105(2) of the Treaty, the ECB is in charge of the following basic tasks: definition and implementation of the monetary policy of the Community, conduct of foreign exchange operations, holding and management of the official reserves of the Member States and promotion of the smooth operation of payment systems. Dealing with advisory functions, the ECB, under the provisions of Article 105(4) of the Treaty, submits opinions to the appropriate Community institutions or bodies or to national authorities on matters in its fields of competence.

THE EFFICIENCY OF THE MANAGEMENT IN 1999

Budgetary management and monitoring

4. At the stage of the preparation of the budget, high safety margins were included for many planned expenditures and the initial budget was thus set at 188,6 million euro ⁽⁴⁾. Although the mid-year 1999 budget review forecasted an underspending of approxi-

mately 26 million euro ⁽⁵⁾, the budget was not revised accordingly. The Governing Council took note of the intention of the Executive Board to consider the new forecast for the 1999 year-end, i.e. 163,7 million euro for overall expenditure, as an 'internal budget ceiling'. A formal revision of the budget did not take place.

5. Total expenditure amounted to 152,0 million euro in 1999, i.e. 93 % of the mid-year forecast of 163,7 million euro, but only 80 % of the final revised budget (189,6 million euro). Under these circumstances the budget cannot perform its function as a strategic tool for the effective management and control of expenditure.

Internal control systems

6. Pursuant to the Statute ⁽⁶⁾, two signatures are compulsory, with the exception of the President, in order to commit the ECB for contracts or orders for the supply of goods and services. The payment procedure is set out by the ECB internal rules which establish as cornerstone the role of the budget centre managers, i.e. the persons responsible for a certain part of the budget. The budget centre managers authorise the payment of the invoice, having verified its compliance (amounts, goods or services received) with the commitment. No dual signatories are required to authorise the payment.

7. As no commitment information system is in place, there is no systematic verification of the consistency between the commitment and the payment other than that carried out manually by the budget centre managers. Arrangements should be made to ensure that in all cases appropriate checks are made before payments can be executed. The present system in combination with the fact that the budget is not constraining (see paragraph 5), leaves expenditure subject to risk.

8. In 1999, the ECB continued to call upon consultancy firms for the development of major projects. For the foreign currency reserves subledger (FCRS) project (see also the Court's comments in the 1997 and 1998 reports ⁽⁷⁾), the ECB hired consultants from one firm under contracts which were renewed several times. Of 1,8 million euro paid in 1999 to this firm as consultancy costs for the project, around 0,7 million euro represented the fees paid to a single consultant. From January to November 1999, this

⁽¹⁾ Protocol 18 (ex 3) on the Statute of the ESCB and of the ECB annexed to the EC Treaty, Article 27.2.

⁽²⁾ Five reports on the operational efficiency of the management of the EMI until 31 May 1998 and of the ECB until 31 December 1998 were published in the Official Journal: OJ C 394, 31.12.1996 for 1994 and 1995; OJ C 42, 9.2.1998 for 1996; OJ C 164, 10.6.1999 for 1997; OJ C 133, 12.5.2000 for 1998.

⁽³⁾ ECB Annual Report 1999.

⁽⁴⁾ The initial ECB 1999 budget, i.e. 188,6 million euro was revised three times in 1999: practically unchanged at the end of March, 190,8 million euro at the end of June, 189,6 million euro at the end of September.

⁽⁵⁾ Attributable to delays in recruitment and, due to heavier than expected workload for the year 2000 compliance, to delays in projects.

⁽⁶⁾ Protocol 18 (ex 3) on the Statute of the ESCB and of the ECB annexed to the EC Treaty, Article 39.

⁽⁷⁾ OJ C 164, 10.6.1999, for 1997, paragraph 12; OJ C 133, 12.5.2000, for 1998, paragraph 19.

consultant invoiced 60 hours almost every week, i.e. the maximum foreseen by the contract, at an initial rate of 255 euro per hour, later increased to 306 euro per hour. More than 5,6 million euro were spent since 1997 but the project had still not been fully completed at the end of 1999. This experience illustrates the importance of avoiding future open-ended contracts at high rates without clear commitment from the consultants as to what is to be achieved within a given timescale.

Human resources

9. In the course of 1999, 242 additional staff were recruited and 44 left. At the end of 1999, 732 were employed, of whom 55 held managerial positions.

10. In July 1998, in compliance with Article 12.3 of the Statute, the Governing Council adopted the Rules of Procedure ⁽¹⁾. These Rules stipulate that 'Members of staff shall be selected, appointed and promoted with due regard to the principles of professional qualification, publicity, transparency, equal access and non-discrimination. An administrative circular shall further specify the

rules and procedures for recruitment and for internal promotion'. Since this circular has not yet been introduced, the application of the principles cannot be assessed.

CONCLUSION

11. As already pointed out by the Court in 1996 and 1997 reports on the operational efficiency of the management of the EMI ⁽²⁾, budgetary forecasting and management should be much improved, so that the budget can serve as an effective control and management instrument. Significant forecast underspendings should lead to a formal revision of the budget by the Governing Council (see paragraphs 4 and 5). The weaknesses in budgetary procedures, coupled with the absence of a system which ensures in all cases the consistency between commitments and the subsequent payments leaves expenditure subject to risk (see paragraphs 6 and 7).

12. In view of the number of ECB staff, the introduction of the administrative circular specifying the rules and procedures for recruitment and for internal promotion should be regarded as a priority (see paragraphs 9 and 10).

This report was adopted by the Court of Auditors in Luxembourg at the Court meeting of 10 January 2001.

For the Court of Auditors

Jan O. KARLSSON

President

⁽¹⁾ OJ L 338, 15.12.1998, p. 28, amended in OJ L 125, 19.5.1999, p. 34 and amended in OJ L 314, 8.12.1999, p. 34; (versions in French, Greek and Portuguese corrected by OJ L 273, 26.10.2000, p. 40).

⁽²⁾ OJ C 42, 9.2.1998, paragraph 4.7; OJ C 164, 10.6.1999, paragraph 5.

THE EUROPEAN CENTRAL BANK'S REPLIES

The European Central Bank (ECB) welcomes the report of the European Court of Auditors and takes note of the various points raised by the Court.

Paragraph 4: It should be noted that for the budget year 2000, the ECB implemented the mid-year review as a formal reduction of the ECB's 2000 Budget by means of a decision of the Governing Council.

Paragraph 5: The ECB continuously endeavours to further improve its budgetary forecasting and management.

Paragraph 6: Following a recommendation made on the occasion of the 1999 interim internal audit review, the ECB Management supported an amendment of the relevant procedures (procurement/invoice processing guidelines) in order to provide clear instructions for the reconsideration and approval of business cases by the relevant superiors/signatories in the event of discrepancies between the order and the invoice before a payment is processed. The Directorate Internal Finance (Accounting) has initiated the necessary changes to the invoice processing rules, with the object of requiring a counter-signature from a person responsible for the original order in the event that an invoice does not correspond to the commitment regarding amounts, goods and services received.

Paragraph 7: All budget centre managers are obliged to record their commitments on a decentralised basis and use such information as part of their overall budget monitoring responsibility.

The ECB has already initiated first steps towards the implementation of a uniform commitment information system.

Paragraph 8: The ECB has authorised different models for contracting external resources, depending on the varying requirements of and constraints upon different projects. The model used for the FCRS Accounting project was chosen after careful consideration of the advantages and disadvantages of different options. It was characterised by an integration of the external resources under ECB management in the project organisation. The progress made by individual consultants and their performance, measured against their assignments and the time estimates for these assignments, were regularly assessed by the ECB.

Paragraph 10: The administrative circular on recruitment and promotion has in the meantime been submitted to the Staff Committee for its opinion and to the Union of the Staff of the ECB for comments. Even though the circular was not introduced in 1999, the ECB has nevertheless shown due respect in its selection, appointment and promotion procedures for the principles laid down in Article 20 of the Rules of Procedure.

Paragraph 11: The ECB strives to balance costs and benefits with potential risk and possible corresponding measures/resource requirements in a prudent way.
