

Official Journal

of the European Union

C 159



English edition

Information and Notices

Volume 53

18 June 2010

Notice No

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NOTICES FROM EUROPEAN UNION INSTITUTIONS, BODIES, OFFICES AND AGENCIES

Court of Auditors

2010/C 159/01

Report on the audit of the operational efficiency of the management of the European Central Bank for the 2008 financial year: the systems and procedures established by the ECB for managing its Business Areas' activities together with the replies of the European Central Bank

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Price:
EUR 3

IV

(Notices)

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COURT OF AUDITORS

**Report on the audit of the operational efficiency of the management of the European Central Bank
for the 2008 financial year: the systems and procedures established by the ECB for managing its
Business Areas' activities together with the replies of the European Central Bank**

(2010/C 159/01)

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ABBREVIATIONS

<i>BCO</i>	Budget, Controlling and Organisation division (in DG-H)
<i>BUCOM</i>	Budget Committee (ESCB Committee)
<i>D-CO</i>	Directorate Communications
<i>DG-E</i>	Directorate General Economics
<i>DG-H</i>	Directorate General Human Resources, Budget and Organisation
<i>DG-I</i>	Directorate General International & European Relations
<i>DG-R</i>	Directorate General Research
<i>DG-S</i>	Directorate General Statistics
<i>DG-SL</i>	Directorate General Secretariat & Language Services
<i>ECB</i>	European Central Bank
<i>EMO</i>	Econometric Modelling division (in DG-R)
<i>ESCB</i>	European System of Central Banks
<i>FIP</i>	Fiscal Policies division (in DG-E)
<i>FIR</i>	Financial Research division (in DG-R)
<i>KPI</i>	Key Performance Indicator
<i>MTP</i>	Medium Term Plan
<i>NCBs</i>	National central banks
<i>ODP</i>	Organisational Development Project
<i>RCC</i>	Research Coordination Committee
<i>STC</i>	Statistics Committee
<i>T2S</i>	Target 2 Securities programme

INTRODUCTION

1. The European Central Bank (ECB — ‘the bank’) and the national central banks of all EU Member States together constitute the European System of Central Banks (ESCB). The primary objective of the ESCB is to maintain price stability. The ESCB also supports general economic policies in the Union with a view to contributing to the achievement of the Union’s objectives⁽¹⁾. To this end, the ECB carries out the tasks specified in its Statute⁽²⁾ and is responsible for managing its activities and finances.

2. The Court’s audit of the operational efficiency of the ECB is based on Article 27.2 of the Protocol on the Statute of the ESCB and of the ECB⁽³⁾. The audit covered the systems and procedures established by the ECB for managing its Business Areas’ activities for the 2008 financial year, including the planning of the 2009 activities.

3. The decision-making bodies of the ECB are the Governing Council and the Executive Board⁽⁴⁾. The Executive Board implements monetary policy in accordance with the guidelines and decisions laid down by the Governing Council⁽⁵⁾ and has overall responsibility for the management of the day-to-day business of the ECB and its resources.

4. The ECB is organised into 18 Business Areas, 15 of which are Directorates or Directorates General. All Business Areas are under ‘the managing direction of the Executive Board’⁽⁶⁾. Each Business Area reports to one of the Executive Board Members.

5. The budgetary authority of the ECB is vested in its Governing Council. It adopts the ECB’s annual budget following a proposal of the Executive Board⁽⁷⁾. The Directorate General for Human Resources, Budget and Organisation monitors budgetary execution and provides advice and support to the Business Areas for managing their resources effectively and efficiently.

AUDIT SCOPE AND APPROACH

6. A rotational audit approach has been adopted for the audit of the ECB whereby different management fields are selected for examination each year. The main objective of the Court’s 2008 financial year audit was to assess whether the ECB had established the systems and procedures needed for managing its Business Areas’ activities, by addressing the following three audit questions:

- Did the Business Areas plan their activities adequately?
- Did the Business Areas monitor their activities appropriately?
- Did the Business Areas report on their activities and evaluate their performance?

7. The Court’s assessment covered the systems and procedures established for the bank as a whole, as well as the specific arrangements developed and used by the Business Areas examined. Good practices established by a Business Area which were noted during the Court’s audit were used to assess the management systems and procedures established in others. The audit did neither evaluate the results of the ECB as a whole nor of the Business Areas’ activities.

⁽¹⁾ Article 127(1) of the Treaty on the Functioning of the European Union.

⁽²⁾ The Statute of the ESCB and of the ECB is a protocol attached to the Treaty.

⁽³⁾ Article 27(2) stipulates: ‘The provisions of Article 287 of the Treaty on the Functioning of the European Union shall only apply to an examination of the operational efficiency of the management of the ECB’. The institutional provisions relating to the European Central Bank are included in Articles 282-284 of the Treaty on the Functioning of the European Union.

⁽⁴⁾ Article 9.3 of the Protocol on the Statute of the ESCB and of the ECB. The Governing Council consists of the six Members of the Executive Board, plus the Governors of the national central banks of the euro area countries. The Executive Board consists of the President, the Vice-President and four other Members.

⁽⁵⁾ Article 12.1 of the Protocol on the Statute of the ESCB and of the ECB.

⁽⁶⁾ Article 10.2 of the Decision of the European Central Bank of 19 February 2004 adopting the Rules of Procedure of the European Central Bank (ECB/2004/2) (OJ L 80, 18.3.2004, p. 33).

⁽⁷⁾ Article 15.1 of the Decision of the European Central Bank of 19 February 2004 adopting the Rules of Procedure of the European Central Bank.

8. Six Business Areas were selected for audit (see **Box 1**) from the 15 Business Areas which are Directorates or Directorates General ⁽¹⁾. The selection was based on the following criteria: (i) nature of activities; (ii) the size of the budget and human resources; and (iii) support and operational areas ⁽²⁾. A brief description of each Business Area selected is provided in **Annex I**.

Box 1 — Business Areas covered by the audit

- (i) Directorate Communications (D-CO);
- (ii) Directorate General Economics (DG-E);
- (iii) Directorate General International & European Relations (DG-I);
- (iv) Directorate General Secretariat & Language Services (DG-SL);
- (v) Directorate General Statistics (DG-S); and
- (vi) Directorate General Research (DG-R).

9. **Annex II** provides an overview of the specific audit criteria and the assessment made for each Business Area examined.

OBSERVATIONS

Did the Business Areas plan their activities adequately?

10. In order to assess the adequacy of the systems and procedures established by the ECB for the Business Areas so they can plan their activities, the Court examined whether:

- strategic/multiannual planning was undertaken which provided a clear indication of strategic goals and multiannual priorities,
- annual plans/work programmes were established which clearly described the annual objectives and activities,
- during the planning process, the stakeholders' needs and expectations were considered and the objectives and activities were appropriately prioritised, and
- the resources needed in order to achieve the set objectives and the selected activities were considered during the planning process.

Strategic/multiannual planning

11. To optimise the use of ECB resources, strategic/multiannual planning should be undertaken aiming to define the Bank's goals and multiannual priorities, including the responses to a changing environment and ensuring that all elements of the organisation work towards shared vision.

⁽¹⁾ The three Business Areas that are not Directorates or Directorates General are: the Counsel to the Executive Board, ECB representation in Washington and the Target 2 Securities Programme (T2S). They were excluded due to their relatively small size.

⁽²⁾ The Directorate or Directorates General Administration, Human Resources, Budget & Organisation, Information Systems and Financial Stability & Supervision, which had recently been audited by the European Court of Auditors or by the ECB's Internal Audit, were excluded.

12. Neither the Protocol on the Statute of the European System of Central Banks and of the ECB nor the Decision of the ECB on the 'Rules of procedure' explicitly requires any documents of a strategic/multiannual nature to be established.

13. Article 9 of the Protocol provides that 'the ECB shall ensure that the tasks conferred upon the ESCB...are implemented either by its own activities...or through the national central banks'. The existing legal base defines a number of the ECB's functions and those of the national central banks. However, there are a number of areas for which there is no clear division of tasks and the split and exact functions are set out by bilateral agreements and specific arrangements. The ECB's strategic/multiannual planning is thus affected by the structure of the system of the ECB and ESCB/Eurosystem⁽¹⁾. This limits the extent to which the bank can undertake effective strategic/multiannual planning.

14. All Business Areas examined contributed to the ECB's planning process by formulating strategic goals and multiannual priorities (see paragraph 21). These were updated annually and they did provide a long-term direction to their activities. However, in most cases⁽²⁾ strategic goals included in the multiannual planning documents were not sufficiently specific and only limited information was provided on how the Business Areas would achieve their goals. In addition, specific deadlines to achieve these multiannual goals were not always set.

15. Human resources were not reflected in these multiannual planning documents even though this represents one of the main constraints to reaching the goals set. However, in the case of D-CO a project was undertaken linking activities to resources and aiming to identify and implement measures in order to manage the increasing workload with an overall stable headcount⁽³⁾ (see **Box 2**).

Box 2 — The Organisational Development Project (ODP)

Over the years, Directorate Communications (D-CO) has experienced a substantial rise in workload. This increase led to a high use of temporary workers and overtime. To identify solutions to the workload and resource problems, Directorate General Human Resources, Budget and Organisation (DG-H), D-CO and their respective Executive Board Members agreed to conduct an Organisational Development Project (ODP).

The analysis phase of the project included an in-depth review of processes, resources, workload and activities from 2005 to 2008 and a projection of the workload for the next five years.

The main conclusion was that both of D-CO's divisions should undergo a transition from being purely demand-driven to a more proactive role and they should concentrate on core communication activities. An action plan was developed. The implementation of this plan was monitored through regular meetings between D-CO and the consulting team responsible for carrying out the ODP project.

Annual plans/work programmes

16. Sound annual planning requires, amongst other things, the establishment of an annual plan/work programme which should clearly define the annual objectives, provide a description of the activities to be implemented to attain these objectives, identify the expected results and establish Key Performance Indicators (KPIs). The Business Areas' annual objectives should be aligned with both the ECB's overall objectives and the Business Areas' strategic priorities.

⁽¹⁾ The term 'Eurosystem' denotes a subset of the ESCB that comprises the ECB and the National central banks (NCBs) of those EU Member States that have adopted the euro. The operational set-up of the Eurosystem takes full account of the principle of decentralisation. The NCBs perform almost all operational tasks of the Eurosystem including most of the monetary policy operations, issuing and handling of euro banknotes and collection of statistics.

⁽²⁾ One of the exceptions was the FIP division of DG-E, which prepared a Business Plan in 2007 that set out the strategic priorities over the period of two years. It described the mission, mandate and the organisation of the division, as well as available resources.

⁽³⁾ The ECB strives for overall stable headcount in the medium term and requests for additional staff resources are considered only in special circumstances.

17. Apart from the annual budget, which has to be adopted by the Governing Council, the 'Rules of procedure of the ECB' do not explicitly require any annual planning documents to be established.

18. However, all Business Areas examined did define their annual objectives and set Key Performance Indicators (KPIs) to measure performance (see paragraphs 34-37) in line with the ECB's overall objectives (see paragraph 21) and the Business Areas' strategic priorities.

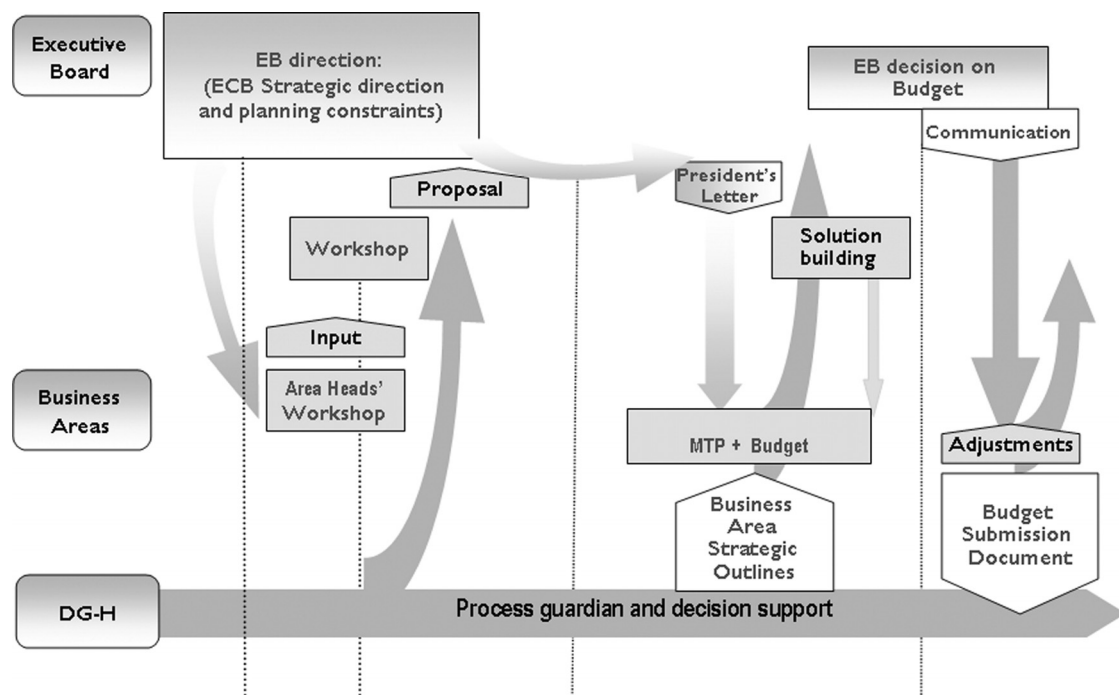
19. The activities to be performed to achieve these objectives were not described with the same degree of precision. For a comprehensive view on a Business Area's activities, various planning documents need to be consulted at divisional level. There is no formal link between the Business Area's activities and the objectives described in the strategic outlines (see paragraph 21).

The annual planning process

20. The annual planning process should take into account the mandate of the ECB, the Bank's goals and multiannual priorities, stakeholders' needs and expectations and should aim to prioritise the Bank's annual objectives and activities on the basis of an assessment of the impact of these activities and their comparative expected added value.

21. The annual planning process at the ECB is launched in the spring with a workshop for the Heads of the Business Areas. High-level priorities and objectives of the ECB are discussed and a proposal is submitted to the Executive Board for assessment. The outcome of this assessment is reflected in the President's letter which sets out the strategic objectives of the ECB for the following year. These objectives are further elaborated in the Business Areas' strategic outlines. The outlines set out the challenges, objectives and KPIs for the following year providing also a longer-term perspective. The same process feeds into the preparation and adoption of the ECB's Annual Budget (see paragraph 24). The process (summarised in **Figure 1**) involves all the main senior management stakeholders and aims at obtaining an informed consensus on the priorities to be set at ECB level.

Figure 1 — Annual planning and monitoring process overview



Source: European Central Bank.

22. The procedures used for the annual planning of activities within the Business Areas examined differ significantly. This is partly due to the varied nature of their activities. In few cases the stakeholders' needs and expectations were formally considered for certain activities or to a limited extent only. Furthermore, the prioritisation of activities was not sufficiently documented ⁽¹⁾. Two Business Areas ⁽²⁾ did establish a comprehensive and well documented process of annual planning of their activities. **Box 3** provides a short description of one of these two examples of good practice.

Box 3 — Annual planning process — DG-S

The preparation of the annual work programme for year n starts in June of year n-1. This coincides with the mid-year review of the work programme for year n-1. Simultaneously, the work programmes of the ESCB committee on statistics (STC) ⁽³⁾ and its working groups are prepared. There is a close link between the STC work and the DG-S, which is also enhanced because the latter chairs and provides secretarial support to the STC and all working groups. Thus, consistency and compatibility of the planned activities is ensured. At the end of year n-1 an assessment of the work programme for year n-1 is carried out and the work programme for year n is finalised.

The divisions of DG-S prepare the first draft of their annual work programmes and these are discussed with senior management of the DG-S. The draft annual work programme is also sent to all internal stakeholders for validation. Comments received are assessed and changes are made to the work programme as necessary. The final document is sent to the Executive Board Member for approval.

Planning of resources

23. The annual planning process should evaluate the human and financial resources needed in order to achieve the set objectives and the selected activities and compare them with those available in order to establish any further needs. The ultimate aim should be to make best use of the available resources.

24. The Business Areas estimate the resources needed for the next year during the budgetary planning exercise. The President's letter launches not only the annual planning of objectives and activities, but also the annual budgetary planning (see paragraph 21). Each Business Area makes a budget request for financial and human resources. The requests include a brief description of the tasks to be carried out, expected deliverables and the resources needed. However, it was not possible for those Business Areas examined to establish a clear link between the budget, the objectives in the strategic outlines and the activities in the annual planning documents.

25. Only two out of the six Business Areas ⁽⁴⁾ systematically estimated the human resources at the level of selected activities. As a result, in most cases the resources needed to accomplish each of the objectives is not documented.

Did the Business Areas monitor their activities appropriately?

26. The Court examined whether:

- appropriate procedures and systems were used to monitor performance on a regular basis,
- regular reports were presented to the Executive Board on progress made in meeting objectives, and
- key performance indicators (KPIs) were established to assess progress made towards the achievement of the annual objectives.

⁽¹⁾ With an exception of the D-CO, which carried out a thorough prioritisation during the ODP exercise.

⁽²⁾ DG-S and DG-R.

⁽³⁾ The Statistics Committee mainly advises on the design and the compilation of statistical information collected by the ECB with the assistance of the national central banks.

⁽⁴⁾ DG-S and DG-R.

Internal monitoring

27. Internal monitoring should include procedures and systems which aim to provide regular and accurate information on the state of progress of the annual plan implementation and the extent to which the objectives are being met. The procedures should identify any problems or difficulties in good time to allow remedial action to be taken.

28. As far as the use of resources is concerned, the Budget Centre Managers, together with the Budget, Controlling and Organisation division in DG-H (BCO), participate in monthly meetings and sign off the monthly budget reports. The primary focus of these meetings is the monitoring of budgetary execution. The monthly budget reports do not include any information on the assessment of tasks performed by the Business Area related to the budgetary expenditure ⁽¹⁾, as the progress in terms of activities is not reflected in these reports.

29. By far the most important procedure for monitoring the activities is the management meetings at the senior management level of each Business Area ⁽²⁾. These are complemented by divisional meetings which are the main procedure for monitoring the activities more closely and for providing an overview of the staff workload. In addition to the above, regular more frequent meetings are held at section level. At this level, various monitoring procedures and systems are used to assess whether tasks are being carried out within the expected deadlines.

30. A mid-year review of the Business Area's annual work programme is prepared in DG-S and DG-R, providing a record of what has been achieved and setting the expectations till the end of the year.

31. All DGs examined had established procedures and had developed systems in order to manage their activities on a regular basis. In most cases, the monitoring is focused on the specific tasks carried out rather than examining the achievement of objectives.

Reporting to the Executive Board

32. The Executive Board should be periodically informed on the progress made in achieving objectives and expected results.

33. There are no specific ECB-wide reporting requirements to the Executive Board common to all Business Areas on the progress made in achieving objectives and expected results. Each Business Area reports to one of the Members of the Executive Board. Regular meetings are held ⁽³⁾ with the responsible Member and the senior management of the Business Area. However, except for DG-S ⁽⁴⁾, these meetings are generally not minuted. Reports on progress are prepared and submitted to the Executive Board as a result of the mid-year review of the annual work programme by DG-S. The Financial Research division in DG-R (FIR) and the Econometric Modelling division of DG-R (EMO) also prepare progress reports on the fulfilment of the respective research programmes for the Executive Board and, in addition to that, memos are prepared to inform the Executive Board Member on the progress on major policy-relevant projects. No formal periodic monitoring reports are produced by D-CO, DG-I, DG-E and DG-SL.

Key performance indicators

34. The prerequisite for effective monitoring is the definition of a set of clear indicators and assessment criteria. Key performance indicators (KPIs) should be established which aim to assess progress made towards the achievement of the objectives and the expected results of the selected activities and they should fulfil the RACER criteria ⁽⁵⁾.

⁽¹⁾ For all the Business Areas staff costs are the most substantial part of their budgeted expenditure.

⁽²⁾ Held weekly in DG-S and D-CO, three times a month in DG-E, twice a month in DG-R and DG-SL, and every three to four weeks in DG-I.

⁽³⁾ DG-S holds bi-weekly meetings, DG-I and DG-SL monthly, DG-E, D-CO and DG-R regular and based on the needs.

⁽⁴⁾ DG-S meetings are documented, agenda and minutes prepared and action points kept for the purpose of monitoring progress.

⁽⁵⁾ RACER stands for relevant, accepted, credible, easy and robust.

35. KPIs were introduced for the first time in 2006 for the support Business Areas and in 2007 for all Business Areas. The design of the KPIs is determined by the Business Areas themselves with the BCO providing an input by making recommendations for improvement, e.g. the introduction of KPIs to be used by all Business Areas ⁽¹⁾.

36. There has been significant progress in the development of the KPI framework, in terms of completeness, clarity and overall quality since their introduction. The 2009 KPIs are clearly linked to the ECB-wide objectives as defined in the President's letter and each KPI has a measurable target. The KPIs cover different aspects of performance measurement, such as use of resources, achieved output, and impact of the activities and in general, they fulfil the RACER criteria ⁽²⁾.

37. Since the KPIs are monitored once or twice ⁽³⁾ a year, they are primarily a reporting tool for top management rather than a tool which is used to regularly monitor the Business Area's tasks.

Did the Business Areas report on their activities and evaluate their performance?

38. The Court audited the adequacy of the systems and procedures established by the ECB for the Business Areas to report on their activities and to evaluate their performance, by examining whether:

- there was an annual assessment and reporting on the results achieved, and
- the added value and impact of the results were periodically evaluated.

Assessment of annual results

39. The Business Areas' annual activities and results achieved should be formally assessed. Results should be compared to initial plans, measuring achievement and progress made in both qualitative and quantitative terms. The resources used in producing these results should also be considered.

40. There are two main annual reports prepared at the ECB central level that include, to some extent, an assessment of the annual results of the individual Business Areas — the Annual Report of the ECB ⁽⁴⁾ and the Year End Budget Monitoring Report prepared by DG-H ⁽⁵⁾. Neither the Protocol on the Statute of the ESCB and of the ECB nor the 'Rules of procedure of the ECB' foresees any other reports on the assessment of the annual results to be submitted to the Governing Council.

41. The 2008 Annual Report, in addition to the annual activities of the ESCB and the monetary policy, provides selected information on the annual activities of individual Business Areas. For instance, there are chapters on Statistics, Economic Research and External Communications. The information on annual activities is largely for the ECB's external stakeholders. Little reference is made to progress as compared to annual and medium term objectives or to the utilisation of resources.

⁽¹⁾ For instance, consumption of the budget of the Business Area, implementation of the Internal Audit recommendations, appraisal forms completed on time and training participation.

⁽²⁾ Each Business Area has established KPIs ranging from 10 KPIs (DG-E) to 24 (DG-R).

⁽³⁾ For DG-S, DG-SL, DG-E and D-CO the monitoring is done bi-annually.

⁽⁴⁾ The ECB has reporting obligations and is required to address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, the Council, the Commission and the European Council. The Governing Council adopts the annual report (Article 16.1 of the Rules of Procedure of the ECB).

⁽⁵⁾ The Year End Monitoring Report provides information on the annual budgetary execution. The Report is presented to the Governing Council and to the Budget Committee of the ESCB (BUCOM).

42. The 2008 Year End Budget Monitoring Report includes a high-level summary of achievements per core function ⁽¹⁾. The report has two different reporting structures: while the financial figures and the qualitative descriptions of the achievements are reported by core functions, the headcount is reported by Business Areas. The description mainly provides information on the level of activity in each core function. Its presentation depends on the input provided by the Business Areas concerned, as there are no rules on content.

43. The Business Areas have also developed their own individual reporting tools. A good example of such a tool was noted in DG-S. For each activity included in the annual work programme a summary of the results is provided with additional information on activities not planned but achieved and planned but not done. This document is sent to the user areas for review and to the Executive Board Member in charge of the Business Area for information. The Executive Board also receives the results of the KPIs of the Business Areas in a summarised report (see paragraphs 34 to 37).

44. In the other five Business Areas ⁽²⁾ examined, several documents need to be assessed and compared in order to cover all activities, and often there is only a limited link to the planning documents. Therefore, it is difficult to assess whether all planned activities have been carried out.

45. Another example of good practice is the ex-post annual review stipulated by the Research Coordination Committee (RCC) ⁽³⁾ (see **Box 4**).

Box 4 — RCC Annual Review Report

The contents of the 2007 RCC Annual Review Report are as follows: (i) evaluation of the policy relevance; (ii) summary of available evidence concerning the academic quality; (iii) experience with the ECB Research secondment programme; (iv) list of the research conferences organised by the ECB during the year; and (v) main review, providing detailed evaluation of each of the 24 separate research priority agreements.

Evaluation of added value and impact

46. The added value and impact of Business Area activities should be periodically evaluated. The aim is to assess the extent to which the Business Areas' output achieved the intended impact and thereby provide valuable input to the setting of subsequent strategic and operational priorities.

47. Measurement of impact and assessment of the added value is, to some extent, incorporated in certain KPIs. In addition, a number of initiatives to measure impact and assess added value have been used at the ECB. Within the last five years the following evaluations and assessments were performed:

- (a) internal customer satisfaction survey launched in October 2008 in order to assess the ECB staff's satisfaction with the support functions of the ECB;
- (b) external evaluation of the ECB research activities in 2004 (see **Box 5**);
- (c) introduction of a point scoring system ⁽⁴⁾ for academic publications by staff;

⁽¹⁾ Summaries of achievements are prepared for DG-S, DG-I and D-CO. DG-SL activities are covered separately for both Decision Making Bodies and Languages divisions. DG-E and DG-R activities are reported together in the section on Monetary policy preparation.

⁽²⁾ DG-SL, D-CO, DG-E, DG-I and DG-R. In DG-R though most of the work would be covered by the RCC annual review report as described in **Box 4**.

⁽³⁾ The RCC was established in order to coordinate research activities at the ECB, which is done by several Business Areas, e.g. DG-E, DG-I, etc.

⁽⁴⁾ The impact is assessed by applying the points system, based on criteria set by DG-R senior management. This system was introduced to evaluate academic publications by staff. The system aims at creating the right incentives for staff to conduct research which is both high-quality and policy-relevant by a ranking of economic journals combined with a points system.

(d) 2007-08 Organisation Development Project (see **Box 2**); and

(e) surveys monitoring and evaluating public opinion.

Box 5 — Main recommendations of the review of research activities

1. Sufficient time and incentives should be provided to the researchers;
2. The ECB should increase research with the potential of publication for the leading journals and reduce the emphasis on the working papers;
3. Improve the long-term management of the research staff by creating an expert career path, making greater use of the mobility scheme, increasing the budget for consultants and decreasing the research visitors' programme;
4. Draw-up a comprehensive annual research programme for all Business Areas in which research is produced;
5. Improve research support by hiring new research assistants and improve the IT tools employed; and
6. Communicate research results to a wider public in a non-technical way.

48. The Court found that these evaluations and assessments had been carried out on an ad hoc basis. There is no systematic approach to cover by evaluations all the main activities of the ECB on a multiannual basis.

CONCLUSIONS AND RECOMMENDATIONS

Did the Business Areas adequately plan their activities?

49. All Business Areas examined contributed to the ECB's planning process by formulating strategic goals and multiannual priorities which provided a long-term direction to their activities. However, in most cases the strategic goals were not sufficiently specific and precise.

50. In one of the six Business Areas audited an annual work programme, in which the objectives were set and the annual activities and expected results were described in sufficient detail, was developed. For the other five, various planning documents need to be consulted at divisional level to obtain a comprehensive view of the activities and to link these to the objectives in the Business Areas' strategic outlines document.

51. The Business Areas considered the resources required during the budgetary planning exercise. However, there is no formal link between the Business Areas' planned objectives and activities in the strategic outlines and in the annual planning documents and the human and financial resources necessary to achieve them. In addition, the absence of a system whereby management of best practices within the ECB are identified, adopted and applied throughout the organisation, increases the risk that some of its Business Areas are less efficient and effective than they could be.

Recommendations

1. The ECB should further enhance its Business Areas' annual planning by specifying how the strategy is linked to the annual work programme. This should in turn link the annual objectives to specific activities and expected results. The resources needed to achieve these results should also be formally defined.
2. The ECB should put in place procedures which aim to identify good management practices and actively disseminate them to all Business Areas with the aim of enhancing cooperation and quality of management.

Did the Business Areas monitor their activities appropriately?

52. The ECB established procedures and developed appropriate systems to monitor their activities on a regular basis. The Executive Board Members were periodically informed on the progress of the activities and KPIs were established to assess the achievement of the objectives. Notwithstanding the above, in most Business Areas periodic monitoring reports were not produced for the Executive Board.

53. The ECB has recently developed KPIs which are clearly linked to ECB-wide objectives and cover different aspects of performance measurement.

Recommendations

3. Producing periodical implementation reports which provide a snapshot view of progress made in the execution of the annual activities would improve the quality of monitoring and serve as the basis for amendments to be made to the initial annual plans.

Did the Business Areas report on their activities and evaluate their performance?

54. The Business Areas reported on their activities and results in both the Annual Budget Monitoring Report and the Annual Report of the ECB and in other Business Area specific reporting. In most cases, however, these reports do not assess performance against the objectives set.

55. A number of relevant and pertinent evaluations and assessments have been performed providing useful information to the management of the Business Areas. There is however, no systematic approach covering on a multiannual basis all the main activities of the ECB. This increases the risk that remedial action will not be taken when necessary.

Recommendations

4. Annual reporting should be further improved by: (i) including an annual assessment of the Business Areas' activities; and (ii) by offering an assessment of the progress made in terms of achieving the objectives set in the strategic outline documents. These reports should also give an indication on if and how the strategic orientation should be modified in the light of practical experience.
5. A regular system of periodic evaluations and assessments of the Business Areas' added value and impact of their activities should be set up.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 5 May 2010.

For the Court of Auditors
Vitor Manuel da SILVA CALDEIRA
President

Overview of the Business Areas examined by the European Court of Auditors

Directorate Communications	Directorate General Economics	Directorate General International & European Relations	Directorate General Secretariat & Language Services	Directorate General Statistics	Directorate General Research
<p>Directorate Communications (D-CO) manages the ECB's external and internal communications. It communicates the official views of the ECB/Eurosystem/ESCB and informs the public and the media about the tasks, missions and organisation of the ECB. The Directorate develops and implements the external and internal communication policies and coordinates communication activities within the ECB/Eurosystem/ESCB. It produces ECB/Eurosystem/ESCB publications and manages the ECB's internet and intranet sites. It manages events, organises conferences and handles protocol issues.</p> <p><i>Human Resources as at 31 December 2008: 51</i></p>	<p>Directorate General Economics (DG-E) prepares the monetary policy decisions of the Governing Council and all related ECB/Eurosystem/ESCB policy positions. DG-E monitors, analyses and forecasts, as well as conducts studies on, monetary, financial, fiscal, structural and other economic developments and policies, and prepares the reports and external communication on these issues. In addition, DG/E analyses the state of convergence of the non-euro area EU countries and the coordination of their monetary policies with that of the ECB and reports on these issues.</p> <p><i>Human Resources as at 31 December 2008: 176</i></p>	<p>Directorate General International & European Relations (DG-I) prepares policy positions of the ECB/Eurosystem/ESCB on international as well as European issues. It prepares such positions in cooperation with other Business Areas in line with their respective responsibilities. It conducts economic analysis of global systemic issues, and economic analysis and forecasts of emerging market economies and the EU neighbouring regions. DG-I also analyses the non-macroeconomic internal and external policies as well as institutional issues of the EU.</p> <p><i>Human Resources as at 31 December 2008: 48</i></p>	<p>Directorate General Secretariat & Language Services (DG-SL) supports the decision-making process of the General Council, the Governing Council and the Executive Board. It contributes to corporate governance issues (including the decision-making process and the confidentiality, public access and ethical regimes). DG-SL provides centralised library services and maintains the document/records management and archiving policy and procedures, as well as manages the central archives. It provides language-related services (translation, editing, proof-reading, terminology and language technology support) to the ECB/Eurosystem/ESCB.</p> <p><i>Human Resources as at 31 December 2008: 115</i></p>	<p>Directorate General Statistics (DG-S) develops, compiles and disseminates the statistics, the statistical indicators and the metadata required for monetary policy and the other ECB tasks. It also develops, manages and applies the statistical tools, databases and processes to collect, manage, produce, disseminate and exchange the data. It defines the concepts, classifications and the seasonal adjustment of the statistics used by the ECB. DG-S makes the statistics and the supporting information available to the public and market participants.</p> <p><i>Human Resources as at 31 December 2008: 115</i></p>	<p>Directorate General Research (DG-R) contributes to the ECB's monetary policy and its other tasks and functions by conducting economic research and by providing research-based policy advice and analytical tools. In particular, DG-R conducts research in monetary economics, macro-economics and finance, and it develops maintains and uses econometric models for forecasting and policy analyses.</p> <p><i>Human Resources as at 31 December 2008: 56</i></p>
Source: information supplied by the European Central Bank.					

Overview of the specific audit criteria and assessment made for each Business Area examined

	DG-SL	D-CO	DG-I	DG-E	DG-S	DG-R
DID THE BUSINESS AREAS PLAN THEIR ACTIVITIES ADEQUATELY?						
Strategic/multiannual planning						
Strategic/multiannual planning was introduced	S	S	S	S	S	S
The multiannual planning sets strategic goals which are prioritised, specific, time bound and consider resources needed for their attainment	I	I	I	I	S	I
Annual plans/work programmes						
Annual plan/work programme was established at Business Area level	I	I	I	I	S	I
Annual plans/work programmes were established at the level of divisions of the Business Areas	S	I	S	S	S	S
Annual objectives were sufficiently defined	S	S	S	S	S	S
Annual objectives were aligned with the ECB's overall objectives and the Business Area's strategic priorities	S	S	S	S	S	S
Activities in order to achieve set objectives and expected results were sufficiently defined	I	I	I	I	S	I
The annual planning process						
Stakeholders needs and expectations have been formally considered during the planning process	I	I	I	I	S	S
The process of prioritisation of annual activities was sufficiently documented	I	S	I	I	S	S
Planning of resources						
Resources needed for the following year were considered during the budgetary planning exercise	S	S	S	S	S	S
The human and financial resources needed were linked to set objectives and selected activities	I	I	I	I	I	I
DID THE BUSINESS AREAS MONITOR THEIR ACTIVITIES APPROPRIATELY?						
Internal monitoring						
Regular management meetings are held to monitor the performance of the Business Area	S	S	S	S	S	S
Division/section meetings are held to monitor the performance of the division/section	S	S	S	S	S	S

	DG-SL	D-CO	DG-I	DG-E	DG-S	DG-R
Reporting to the Executive Board						
The Executive Board is periodically informed	S	S	S	S	S	S
Written reports are periodically submitted to the Executive Board	I	I	I	I	S	S
Key Performance Indicators (KPIs)						
KPIs were defined with measurable target values	S	S	S	S	S	S
KPIs were used for both monitoring and reporting on the annual activities	I	I	I	I	I	I
DID THE BUSINESS AREAS REPORT ON THEIR ACTIVITIES AND EVALUATE THEIR PERFORMANCE?						
Assessment of annual results						
Annual activities and results achieved are presented in an annual activity report	I	I	I	I	S	S
The information allows the Executive Board to identify the results of the Business Area's activities	I	I	I	S	S	S
Evaluation of added value and impact						
Periodic internal evaluation of the added value and impact of the results was performed	S	S	I	S	S	S
Periodic external evaluation of the added value and impact of the results was performed	I	S	I	I	I	S
S - satisfactory, I - improvement needed						

REPLY OF THE EUROPEAN CENTRAL BANK

The European Central Bank (ECB) welcomes the report of the European Court of Auditors (ECA) for the 2008 financial year and expresses its appreciation for the ECA's observations and recommendations for improvement. The ECB also notes the ECA's acknowledgment that all business areas examined: (i) contributed to the ECB's planning process by formulating strategic goals; (ii) defined their annual objectives and set key performance indicators (KPIs) to measure performance in line with the ECB's overall objectives and the business areas' strategic priorities; and (iii) established procedures and developed appropriate systems to monitor their activities on a regular basis.

The ECB takes note of the ECA's observations and recommendations for improvement. Please find below some comments from the ECB with regard to specific paragraphs and the five recommendations.

Paragraphs 4 and 33

While each business area reports to one of the members of the Executive Board, it should be noted that the Executive Board has collegiate responsibility for the ECB's business areas.

Paragraphs 12 and 17

The ECA acknowledges in paragraphs 12 and 17 that neither the Protocol on the Statute of the ESCB and of the ECB nor the Decision of the ECB on the 'Rules of Procedure' specifically requires that the ECB produce an annual plan (or any documents of a strategic/multiannual nature).

This notwithstanding, the ECB has progressively developed a performance management system based on: (i) the ECB's mandate as stipulated in the Treaty on the Functioning of the European Union; (ii) the decisions of the Governing Council and the Executive Board; (iii) the President's annual letter to staff, which also adopts a medium-term perspective; and (iv) the strategic outlines produced at business area level. The strategic outlines contain KPIs linked to the (strategic and operational) objectives of the business area in question and the challenges identified by its management. Targets were set and identified as 'annual' targets in 2008. In 2009 'longer-term' targets were introduced, and these are being further refined, in cooperation with business areas, to ensure that medium-term directions are given prominence. The Executive Board as a whole approves the business areas' strategic outlines and KPIs.

In addition, a medium-term plan has been put in place. This focuses mainly on cost drivers in order to increase the predictability of the budget and promote the adoption of a medium-term perspective in the planning of resources.

As part of this performance management system, several business areas have already drawn up work programmes tailored to their specific needs, as the ECA acknowledges in Annex II. These plans have clear links with other plans, such as ESCB/Eurosystem committees' work programmes, decision-making bodies' meeting agendas and other business areas' planning and scheduling (e.g. economic projections).

Paragraph 15

The medium-term plan, which is prepared for the Executive Board on an annual basis with input provided by the various business areas on the basis of their medium-term strategic goals and priorities, focuses on both cost drivers and resource planning over the medium term. Consequently, the ECB takes the view that these resources are linked to the medium-term strategic goals established by each business area.

Paragraph 22

It is important to note that, to a large extent, core business areas' activities are determined and driven by the Treaty on the Functioning of the European Union and the Statute of the ESCB and of the ECB. Moreover, business areas adjust/reprioritise their activities on the basis of requests from ECB decision-making bodies (i.e. the Executive Board and the Governing Council) and external developments. This was particularly true in 2008, the year covered by the ECA's audit, which saw the unfolding of the most severe economic crisis in the euro area and the global economy since the Second World War. For support areas, internal customer satisfaction surveys have been initiated to help determine the needs/expectations of internal stakeholders. Hence, in the ECB's opinion, the needs and expectations of stakeholders are considered when prioritising, planning, executing and monitoring the business areas' activities.

Paragraph 28

Area heads and budget centre managers discuss, as part of their regular meetings with the Budget, Controlling and Organisation Division within DG/H, the progress and execution of the tasks carried out by the various business areas, together with any changes required in terms of resources as a result of postponements or new activities. Thus, while the budget monitoring reports focus on the execution of the budget, these meetings also serve as a forum for monitoring developments and progress in the tasks performed.

Paragraphs 31 and 41

The ECB's Annual Report provides the public with information on the ECB's activities and achievements. Furthermore, the ECB's year-end budget monitoring report sets out the planned and actual consumption of financial and human resources for each function (broken down in line with the Eurosystem functions grid). Since the allocation of resources to functions during the budget exercise is based on the strategic objectives set (with these derived from the business areas' strategic objectives and resources), this report examines, *inter alia*, the achievement of these objectives. Moreover, these financial data are complemented by a qualitative assessment highlighting the main achievements in a given year, which can be compared and contrasted with the main directions set out as part of the budget document. Thus, in the ECB's opinion, the progress made in achieving objectives is already documented.

Paragraphs 33 and 52

Weekly debriefing meetings and regular dialogue between Executive Board members and area heads are deemed to be more conducive to effective management than lengthy quarterly or half-yearly reports. Each Executive Board member is responsible (together with the relevant area heads) for monitoring the activities of the business areas in his/her portfolio ⁽¹⁾ and deciding whether a particular issue should be brought to the attention of the Executive Board as a whole. Area heads have regular bilateral monitoring meetings with their respective Executive Board members as part of the periodic monitoring process. These meetings are aligned with all stages of the annual and interim planning and monitoring process (planning and prioritisation of human resources, budget planning, KPI reporting, customer satisfaction surveys, decision-making bodies' agenda planning and monitoring process, etc.) and are the forum for reporting on the business areas' plans, objectives, progress and achievements and for discussing and agreeing any adjustments that need to be made to those plans. The topics to be addressed are communicated in advance of these meetings and relevant documentation is prepared as required.

Moreover, once a year a consolidated report is submitted to the Executive Board about progress made on KPI-related targets. In addition, the Executive Board submits regular monitoring reports to the Governing Council – namely a mid-year forecast and a year-end budget monitoring report – and the Annual Report also serves to communicate and report on the activities and achievements of the ECB. Furthermore, the Executive Board is also sent regular progress reports on major activities.

Finally, the ECB would like it to be noted that the Secretariat Division's agenda planning database, a comprehensive planning and monitoring tool, allows issues to be followed up in an efficient manner where required by the Executive Board, as well as allowing reports on progress where necessary.

⁽¹⁾ Regular bilateral meetings take place between business area heads and their respective Executive Board members.

The ECB is therefore of the opinion that specific requirements and practices have been established for periodic reporting to the Executive Board.

Paragraph 37

The KPI structure can be – and is – used for both monitoring and assessing the performance of business areas. In the case of ECB-wide KPIs, it makes it possible to focus on issues of relevance for the organisation as a whole. Hence, KPIs are used both as a reporting tool for senior management and as a tool for monitoring the execution of the business areas' tasks.

Paragraphs 48 and 55

As clarified in the reply to Recommendation 5, the ECB is confident that such evaluations and assessments have been developed and applied as required, targeting the areas regarded as being the most relevant for this purpose. Given the number of evaluations carried out to date (e.g. the Zero-Based Budgeting exercise and numerous organisational development projects (ODPs), together with subsequent follow-up measures), the ECB is of the opinion that there is no increased risk that remedial action will not be taken when necessary.

Paragraph 51

The management structures of the various business areas/divisions – together with the management, planning and monitoring practices in place – are sufficiently robust to ensure effectiveness and the efficient allocation of resources to activities. Moreover, activities are reprioritised across the ECB on a regular basis in each budget round, and the Budget Committee (which comprises representatives of the Eurosystem) also assesses the ECB's budget. In addition, as indicated in the reply to Recommendations 1 and 2, the implementation of a more formal process for annual work programmes should further improve the *documentation* of the allocation of resources to objectives. The ECB is therefore of the opinion that there is no increased risk of some business areas being less efficient and effective than they could be.

Recommendations 1 and 2

As a continuation of the constant development seen in its first ten years in existence, the ECB intends to roll out a more formal process for annual work programmes. This initiative will begin with the establishment of an initial blueprint in the first half of 2010, before being refined through pilot phases involving selected business areas in the course of 2010 and early 2011, with the aim of implementing it across the ECB by mid-2011. Within these work programmes, business areas could, inter alia: (i) link their pre-agreed functions (based on the Eurosystem functions grid) to strategic objectives; and (ii) detail the specific deliverables that fall under these functions and plan the human and related financial resources that these may entail.

In developing and establishing these work programmes in the course of 2010, the ECB will – particularly via the envisaged pilot phases, as well as 'strategy workshops' offered specifically for this purpose – strive to develop good management practices that can be applied across all business areas.

Thus, the ECB accepts both recommendations.

Recommendations 3 and 4

As highlighted above in the response to paragraphs 33 and 52, area heads have regular bilateral meetings with their respective Executive Board members for the purposes of reporting and monitoring, in which business areas' plans, objectives, progress and achievements are presented to the Executive Board member and any adjustments that need to be made to those plans are discussed and agreed.

In addition, at regular 'dashboard meetings', area heads and other budget centre managers meet with the Budget, Controlling and Organisation Division to discuss changes in resource requirements, postponements, new activities and any potential reprioritisation of activities during the year. This provides a 'snapshot' view of developments in the various areas, allows the monitoring of progress made in the execution of annual activities and is the basis for any adjustments that need to be made to the initial plans. This snapshot is then formalised in the mid-year forecast report.

In parallel, projects and investments are monitored on a regular basis in the Project Steering Committee and the Project Steering Groups, as well as in ESCB/Eurosystem committees if they concern the whole of the ESCB/Eurosystem. Moreover, once a year a consolidated report is submitted to the Executive Board about progress made on KPI-related targets. In addition, as indicated above, the Executive Board submits regular monitoring reports to the Governing Council – namely a mid-year forecast and a year-end budget monitoring report – and the Annual Report also serves to communicate and report on the activities and achievements of the ECB. Furthermore, the Executive Board is also sent regular progress reports on major activities.

Last but not least, the Secretariat Division's agenda planning database, a comprehensive planning and monitoring tool, allows issues to be followed up in an efficient manner where required by the Executive Board, as well as generating reports on progress where necessary.

However, since the ECB intends to implement a more formal process for annual work programmes (see reply to Recommendation 1), and this will also further improve the reporting of progress on business areas' activities and the achievement of strategic objectives, Recommendations 3 and 4 are partly accepted.

Recommendation 5

The ECA's report acknowledges (in paragraph 47) that '*a number of initiatives to measure impact and assess added value have been used at the ECB*'. These include the Zero-Based Budgeting exercise, organisational development projects, internal customer satisfaction surveys, surveys monitoring and evaluating public opinion, and benchmarking exercises. ODPs are planned and structured organisational initiatives aimed at assessing and advising on ways to improve and/or transform a process or business area.

The ECB is confident that such evaluations and assessments have been developed and applied as required, targeting the areas regarded as being the most relevant for this purpose ⁽¹⁾. The Executive Board has this organisational instrument at its disposal for future use.

The ECB is therefore of the view that this recommendation has already been implemented. Such a system of evaluation is already in place and is, in the ECB's opinion, working effectively.

Implementation of recommendations

Recommendation 5 has already been implemented. Recommendations 1 and 2 – and, to the extent indicated in this reply, Recommendations 3 and 4 – will be implemented in the course of 2010 and 2011.

⁽¹⁾ ODPs have been carried out in the following areas: the Directorate Communications, the Directorate General Administration (the Facility Management ODP), the Directorate General Information Services (the Information Services Strategic Review), the Directorate General Financial Stability (in connection with the establishment of the European Systemic Risk Board) and the Directorate General Market Operations.

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2985 Luxembourg
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