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 2000
together with the replies of the European Central Bank
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Table 1

Replies of the European Central Bank
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's accounts for the financial year ending 31 December 2000 were approved by the Governing Council on 13 March 2001 and published in April 2001\(^2\) after they had been audited and certified on 14 March 2001 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. In 2000, the Council comprised, 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\(^3\).

3. The ECB experienced in 2000 its second full year of activity as a central bank, which had started 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 and operation 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

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


\(^3\) The Governor of the Bank of Greece attended all the meetings of the Governing Council of the ECB in the second half of 2000 as a "special invitee".
appropriate Community institutions or bodies or to national authorities on matters in its fields of competence.

THE EFFICIENCY OF THE MANAGEMENT IN 2000

Budgetary management and monitoring

4. An initial budget of 267 million euro was approved by the Governing Council at its meeting on 2 December 1999 (see Table 1). The initial budget was increased to 289 million euro at the end of March 2000, following the approval of the project submission document for the Euro 2002 Information Campaign (see paragraph 19). But in the light of the predicted overall underspending showed by the "mid-year review - forecast for 2000" conducted at the end of June 2000, the Governing Council approved a revised budget in September 2000. As a consequence the revised budget from March 2000 was reduced by 62 million euro, bringing the budget down to 227 million euro. As a part of the revised budget in September 2000 an amount of 5 million euro as “contingency reserve” was approved.

5. The account headings dedicated to business units decreased by 28 million euro or 15 % from 191 million euro according to the revised budget as at end of March 2000. The effective utilisation was 163 million euro. The main reasons were reduced investments in the business units, a decrease of their “other operating expenditure” and a slower recruitment than foreseen.

6. Concerning the expenditure for projects, there was an important decrease of 40 million euro or 52 % from the initial budget. The actual utilisation amounted to 37 million euro. The underspending is mainly due to delays in four main projects.

7. As in previous years there was an important gap between the planning of the projects and the effective ability to implement them. Once again the ECB was apparently too ambitious as regards its planned projects and the budget only served to a modest extent as a strategic tool for the effective management and control of expenditure.
Disaster Standby Site

8. The primary objective of the Disaster Standby Site project is to assure the continuation of ECB critical functions in the wake of a disaster. Phase 1, which has been already completed, comprised the implementation of an off-site disaster recovery facility for “TARGET”, a large-value payment system, and the establishment of a "shell" computer centre as a disaster recovery area. It further included the detailed analysis of the full ECB business requirements for disaster recovery and procedures with the owner of the site in order to use the facility that has been offered by the latter. Phase 2 comprises the full implementation of the ECB’s own Disaster Recovery Centre replacing the arrangements with the owner of the site, and the formulation and testing of a full recovery plan, including operational procedures.

9. Following a tender procedure, a company was selected in November 1999 for a common data storage and back-up sub-system. The decision to implement this sub-system was to await the conclusion with one of the ECB’s other suppliers of IT-services of an interoperability agreement.

10. Although it has not yet been possible to reach such an agreement the ECB recently agreed to approve the conclusion of the contract with the preferred supplier subject to the negotiation of penalties to be applied if it fails to meet its obligation. Given the importance of the data storage system for the operation of the back-up facility, this decision appears premature.

Eurotheum building

11. In order to accommodate the growing staff numbers, the ECB decided to rent an additional office site located in the vicinity of the Eurotower as from the middle of 2000.

12. Because of the operation of German tax law, which does not treat the ECB as a business, the rent paid by the ECB reflects the lessor’s VAT-inclusive capital costs. In the case of the additional office accommodation the resulting extra
charge amounts to 616.000 euro per year. The same situation has most likely applied for several years to the rent paid by the ECB for the Eurotower. It is questionable whether this situation is consistent with the Protocol on the privileges and immunities of the European Communities which exemptes the Institutions – including the ECB – from the payment of national taxes. This problem has been raised by the ECB with the Ministry of Finance of the Federal Republic of Germany.

**Euro 2002 information campaign**

13. The main goals of the Euro 2002 information campaign are

- “to gradually prepare the general public for the introduction of the euro banknotes and coins so that they are favourably received;

- to help the general public to recognise the euro banknotes and coins (information about the security features) and

- to show cashiers in shops and banks how to examine the euro banknotes quickly and efficiently in order to detect possible counterfeits”.

14. In February 1999 a notice for a restricted tender was published in the Official Journal: “Designing a campaign to publicise the euro banknotes. This shall include co-ordinating the production and effecting the implementation of the agreed campaign foreseen for the years 2000, 2001 and 2002. The target is that the official banknotes shall be recognised by the citizens of all euro countries and those outside the euro area who handle the new banknotes on a professional or regular basis.”

15. Thirty-nine companies responded to the call for expression of interest. Following the initial response to tender notice, nine companies were chosen to “make a presentation detailing with supporting evidence how they could successfully manage the required campaign”.
16. Three agencies were chosen to take part in the final stage of the competition. They were told that “...the cost to the ECB for this project is estimated at between 20 million euro and 30 million euro. This does not include prime-time television advertising. The presentation should contain a rough estimate of the costs of the realisation of the European-wide campaign, including specific details of all fees and in-house production charges”. In addition to the written briefings, a separate oral briefing was given to each of the three candidates. This last element in the procedure carried with it a risk that the tenderers would not be given identical information.

17. There were no significant price differences between the tenderers. This reflected the fact that the companies involved at the final stage had been given two alternative limits to the programme costs: 50 million euro and 80 million euro.

18. In October 1999 a jury of 12 members used a “comparative evaluation table” incorporating criteria different from the tender notice (e.g. human/personal contact instead of awareness), to recommend a contractor.

19. On 18 November 1999 the Governing Council decided that the Euro-campaign should not be included in the draft ECB budget. A supplementary budget for the year 2000 including provisions of 14,5 million euro for the campaigns was however approved in March 2000.

20. The successful tenderer was a “Société Anonyme” listed on the Paris stock exchange. However the contract was signed with a company registered in the Netherlands. The contract does not mention any reason for the change from the original applicant to another contractor. No document of the ECB gave details about the reasons for the change, the ownership-structure of the other company, the justification regarding the procurement rules and the consequent approval of the changes by the Executive Board and Governing Council.

21. It was intended that the Media planning and the buying of advertising space and time should be carried out during 2000. The media programme should have been defined and developed and the negotiations should have been started.
Finally in April 2001 the ECB decided how much money would be spent for the media campaign in each Member State, which enabled the media-selection procedure to be started.

**Follow up**

**Rules and procedures for recruitment and for internal promotion**

22. On June 2001 the Administrative Circulars on Rules for Recruitment and on Promotion and Additional Salary came into effect.

**Weaknesses of the physical inventory system**

23. During the previous audits of the Court, the attention of management has been drawn to the absence of a reliable inventory of tangible assets. Instead of introducing a unique physical inventory system, some monitoring of the inventory is managed by different departments. Physical inventories had not been undertaken before the end of 2000 and are foreseen only every three years. There is no monitoring of printers or laptops bought by the EMI/ECB since 1998. An administrative circular delegates the responsibility for the security of the assets to the individual managers: no overview of the position is available.

**CONCLUSIONS**

24. The Court noted in its report on the financial year 1999, that "budgetary forecasting and management should be much improved, so that the budget can serve as an effective control and management instrument"\(^4\). While in 1999 the budget reflected a utilisation of 83 % for the projects and 80 % of the total, in 2000 the utilisation was only 48 % for the projects compared to the initial budget and 69 % compared to the budget revised in September. Total expenditure in 2000

was 200 million euro, i.e. 88 % compared to the revised budget of 227 million euro and 75 % compared to the initial budget of 267 million euro.

25. The ECB decided in 1999 to mount an information campaign to assist the introduction of the Euro in 2002. The content and cost of the campaign were not clearly defined, and as a result there was no satisfactory objective basis on which to choose the successful contractor.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 26 September 2001.

For the Court of Auditors

In the absence of Jan O. Karlsson

President

Bernhard Friedmann

Acting President
Table 1 - ECB’s budget in 1999 and 2000

<table>
<thead>
<tr>
<th>Purpose</th>
<th>1999</th>
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</thead>
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<tr>
<td></td>
<td>Budget</td>
<td>Actuals</td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business units</td>
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<td>129</td>
</tr>
<tr>
<td>Projects</td>
<td>27</td>
<td>23</td>
</tr>
<tr>
<td>Contingency reserve</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>190</td>
<td>152</td>
</tr>
</tbody>
</table>

Source: ECB.
REPLY OF THE EUROPEAN CENTRAL BANK
TO THE REPORT BY THE EUROPEAN COURT OF AUDITORS ON THE OPERATIONAL EFFICIENCY OF
THE MANAGEMENT OF THE EUROPEAN CENTRAL BANK FOR THE FINANCIAL YEAR 2000

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.

7. Whilst agreeing with the comment on the ECB’s unfortunately limited ability to implement projects in 2000, it needs to be emphasised that the ECB’s project budget outlining the scope and size of all intended project undertakings is considered to serve as an effective management tool for determining precise budget ceilings. There are various layers of control of expenditures, as outlined in the ECB’s Annual Report 2000.

9. It was stated that the decision to proceed with the implementation of the full production environment would be subject to the establishment of an acceptable framework for fault handling procedures in a mixed vendor environment. The optimal solution would have been for suppliers of IT services and the supplier of the common data storage system to reach full interoperability agreements. Although (despite considerable efforts) this was not possible in one instance, the support framework established was nonetheless considered acceptable.

10. It should be recognised that the contracts were only concluded having taken steps to mitigate all risks, including the conduct of work to establish a satisfactory support framework, and having assessed the residual risks to be acceptable.

16. The three finalist agencies were offered an opportunity to seek clarification of information contained in the ECB’s brief. Meetings were held individually, however, a short memo on the issues which raised most debate was forwarded to all three agencies.

18. There was a clear justification for the criteria used in the “comparative evaluation table” and all of them can be subsumed under the criteria published in the tender notice.

19. In November 1999, the Governing Council of the ECB decided on an overall project ceiling for an implementation period of three years. No indication of the corresponding annual portions was
available at that time. Hence, funds relating to Financial Year 2000 were added to the ECB’s annual budget in the form of a supplementary budget only once the required budgetary needs had been substantiated. The ECB considers this approach to be prudent.

20. The successful tenderer is a global enterprise, which has a structure comprising a mother company (S.A.), charged with the development and supervision of all business strategies, and a number of subsidiaries that can operate either on a country or specific competence basis. Advertising and PR campaigns of a relevant transnational dimension are the responsibility of the subsidiary (B.V.) with which the contract was established. The subsidiary operates under the supervision of the mother company. Whilst communications between the ECB and the tenderer were addressed to or came from the mother company for logistical reasons, it was clear for the ECB from the very outset that the subsidiary would be entrusted with the development of the PR and advertising strategies for the Euro 2002 Information Campaign.

21. The media programme could only be agreed once the creative campaign had been defined and the second wave of qualitative research finalised (in January 2001). Upon advice from agency experts, media programme negotiations started in February 2001 (for the international programme) and April 2001 (for the national programme).

23. A central record of the holders of individual laptop computers is currently unavailable. This issue will be addressed with the individual managers. In parallel, a project to implement an overall IT Asset Management System will be proposed for 2002.

24. The FY 2000 project underspending mainly derived from four large projects (out of a total of 38 projects). The following should be noted: underspending in projects for the calendar year or the postponement of specific project steps from one financial year to the other are not an automatic indication on the progress of the project outside its overall timeframe or on a potential real overspending/underspending of the overall project budget.

In relation to the budget utilisation rates as quoted by the Court, it should be noted that in the year 2000 the annual ECB budget was formally revised following the mid-year budget review. Such formal revision had been suggested by the Court in its report on the financial year 1999.

25. On the basis of clearly defined objectives (see paragraph 13) the purpose of the tender process was to find the best content/cost ratio.