

ΕΒΡΟΠΕΪΣΚΑ ΣΜΕΤΗΑ ΠΑΛΑΤΑ
TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
EUROPOS AUDITO RŪMAI

EURÓPAI SZÁMVEVŐSZÉK
IL-QORTI EWROPEA TA' L-AWDITURI
EUROPESE REKENKAMER
EUROPEJSKI TRYBUNAŁ OBRACHUNKOWY
TRIBUNAL DE CONTAS EUROPEU
CURTEA DE CONTURI EUROPEANĂ
EURÓPSKY DVOR AUDÍTOROV
EVROPSKO RAČUNSKO SODIŠČE
EUROOPAN TILINTARKASTUSTUOMIOISTUIN
EUROPEISKA REVISIONSRÄTTEN

Report on the audit of the operational efficiency of the management of
the European Central Bank for the 2006 financial year

together with the replies of the European Central Bank

TABLE OF CONTENTS

	Paragraph
Introduction	1-2
Audit scope and approach	3-5
Observations	6-16
Were the ECB's budget forecasts realistic?	6
Did the ECB design adequate budgetary management rules and procedures?	7-10
Budgetary rules and procedures	7-8
IT systems for budget and planning	9-10
Were the budgetary management rules and procedures properly applied?	11-16
Budgetary rules	11
Budget planning	12
Budget transfers	13-14
Budget reporting	15-16
Conclusions and recommendations	17-21
Were the ECB's budget forecasts realistic?	17
Did the ECB design adequate budgetary management rules and procedures?	18-19
Were the budgetary management rules and procedures properly applied?	20-21

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 stability¹. To this end, the ECB carries out the tasks specified in its Statute² and is responsible for managing its activities and finances. The Court’s audit of the operational efficiency of the European Central Bank (ECB) is based on Article 27.2 of the Protocol on the Statute of the European System of Central Banks (ESCB) and of the ECB³. The audit subject for the 2006 financial year was the ECB Budgetary Management. Relevant developments in the period 2006-2008 have been considered. The Court is also carrying out audits of other related aspects of the operational efficiency of the ECB whose results may also be published in 2009.

2. The ECB’s budgetary expenditure for the 2006 and 2007 financial years amounted to 326 and 355 million euro respectively (see **Table 1**). The budgetary authority of the ECB is vested in its Governing Council. It adopts the ECB’s annual budget following a proposal put forward by the Executive Board⁴. The Executive Board has overall responsibility for the management of all the bank’s resources. At operational level, budget centre managers⁵ have delegated responsibility to manage their budget centres in line with the bank’s

¹ Article 105(1) of the Treaty establishing the European Community.

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

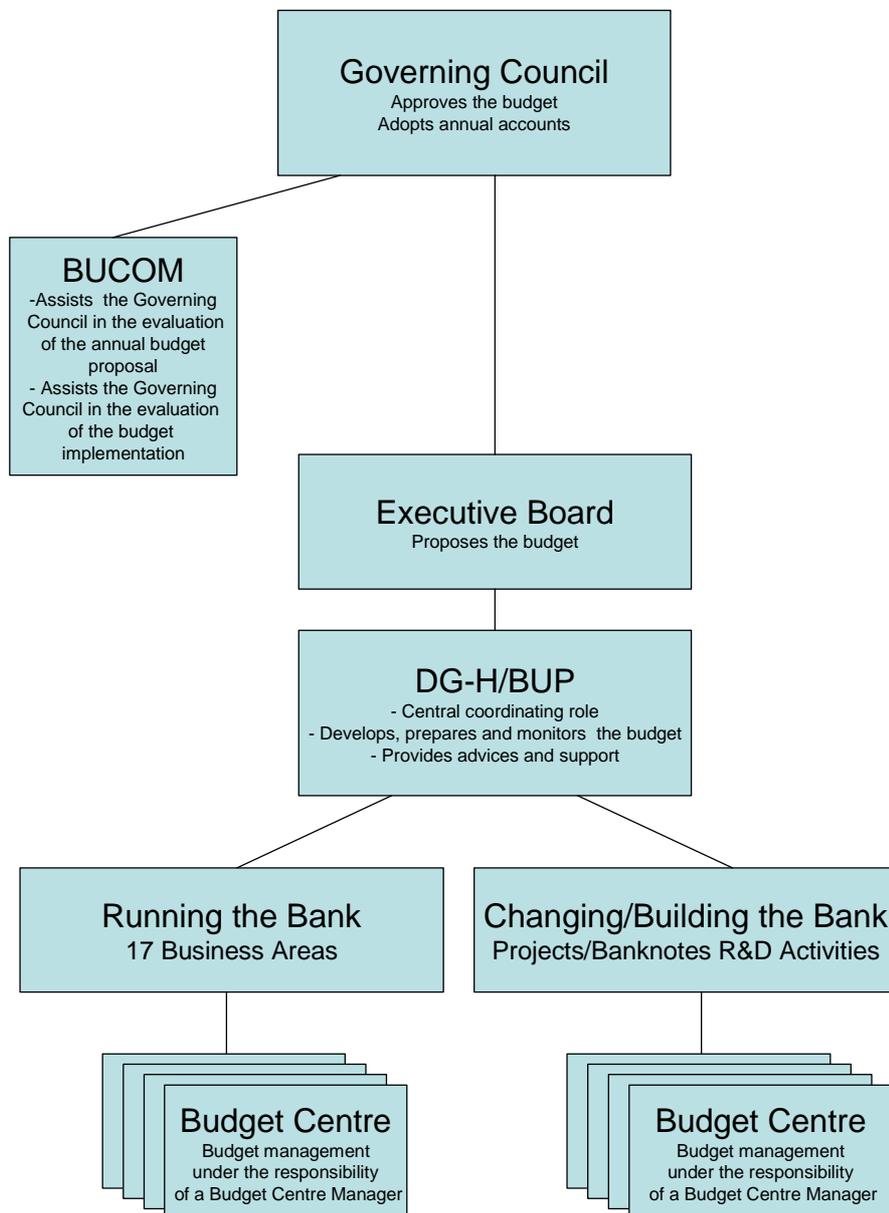
³ Article 27.2 stipulates: "The provisions of Article 248 of the Treaty shall only apply to an examination of the operational efficiency of the management of the ECB". The institutional provisions relating to the European Central Bank are included in Articles 112-115 of the EC Treaty.

⁴ 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 (ECB/2004/2) (OJ L 80, 18.3.2004, p. 33).

⁵ Budget centre managers are: Business Area Heads, Heads of Division and/or project managers.

rules and procedures. The Budget and Projects division (BUP) within the Directorate General for Human Resources, Budget and Organisation plays a central monitoring role and provides advice and support to the budget centres in order for them to plan and control their resources effectively and efficiently. **Diagram 1** below presents an overview of the main actors involved in the budgetary process.

Diagram 1 – Responsibilities of the ECB’s main actors in the budgetary process



Source: European Court of Auditors.

AUDIT SCOPE AND APPROACH

3. The main objective of the Court's audit was to assess the operational efficiency of the ECB's budgetary management by addressing three questions:

- Were the ECB's budget forecasts realistic?
- Did the ECB design adequate budgetary management rules and procedures?
- Were the budgetary management rules and procedures properly applied?

4. The audit included an assessment of the ECB's rules and procedures applicable to the different stages of the ECB's budgetary process as well as an examination of their application for both the 2006 and the 2007 budget years. Developments in the ECB's budgetary practices in the first half of 2008 were also reviewed. In addition, a review of budgetary implementation of both recurrent and project expenditure for the 2006 and 2007 budget years was carried out in order to assess the ECB's budget forecasts.

5. In order to assess whether the rules and procedures were being properly applied, 10 representative budget centres out of more than 100⁶, covering five out of the 17 Business Areas, were reviewed. The aspects of the budgetary process which were examined related to planning, budget transfers and reporting.

OBSERVATIONS

Were the ECB's budget forecasts realistic?

6. The rate of budget implementation is an indicator of the adequacy of the budget setting process. The Court examined the rate of budget implementation

⁶ The five Business Areas and the 10 budget centres were selected based on their financial importance.

for 2006 and 2007⁷ and analysed the reasons for significant underspending in order to judge whether the budgets forecasts were realistic. For both the 2006 and the 2007 budget years, the overall budget spending rate was 92 % of the revised budget (see **Table 1**). For the Business Areas' recurrent expenditure, the "Running the Bank" section of the budget, budget forecasts were quite realistic. However, the budget spending rate of the "Projects" and "Changing/Building the Bank" sections was only 65 % and 82 % respectively. The main factor contributing to this underspending were delays in project execution. 43 % of the 14 major projects completed in 2006 and 40 % of the 15 major projects completed in 2007 suffered from significant delays. As already noted by the Court in its Report for the financial years 2000⁸ and 2003⁹, the persistent and relatively high occurrence of projects suffering from delays is due to initial project plans which prove to be unrealistic.

⁷ As from the 2007 budget year, the ECB consolidated its three pillars ("Business Units", "Projects" and "Special Activities") into two ("Running the Bank" and "Changing/Building the Bank"). The "Business Units" section of the 2006 budget forms part of the "Running the Bank" and the "Projects" section forms part of the "Changing/Building the Bank". The "Special Activities" section of the 2006 budget was split to the two new pillars depending on the nature of the activities concerned.

⁸ OJ C 341, 4.12.2001, p. 3.

⁹ OJ C 286, 23.11.2004, p. 13.

Table 1 - The ECB's budget implementation for 2006 and 2007**2006**

Budget activities	Initial budget (million euro)	Mid-year review budget (million euro)	Year-end actual expenditure (million euro)	Budget Implementation (Initial budget)	Budget Implementation (Mid-Year budget)
Business units	311	300	283	91 %	94 %
Projects	35	30	20	56 %	65 %
Special activities	25	25	23	90 %	89 %
TOTALS	371	355	326	88 %	92 %

2007

Budget activities	Initial budget (million euro)	Revised budget (million euro)	Year-end actual expenditure (million euro)	Budget Implementation (Initial budget)	Budget Implementation (Revised budget)
Running the Bank	317	317	298	94 %	94 %
Changing/ Building the Bank	58	69	57	97 %	82 %
TOTALS	375	386	355	95 %	92 %

Source: European Central Bank and European Court of Auditors.

Did the ECB design adequate budgetary management rules and procedures?

Budgetary rules and procedures

7. The Court assessed the adequacy of the ECB's budgetary management rules and procedures by examining the completeness and clarity of the bank's rules and procedures established for budget planning, monitoring and reporting. Despite the recommendation from the Court in its Report for the financial year 2002¹⁰ encouraging the ECB to continue its efforts in consolidating the procedures for budget management and monitoring into a

¹⁰ OJ C 45, 20.2.2004, p. 27.

single update document, until mid-2007, the various budgetary rules and procedures were still contained within a number of different administrative circulars and notes. This increased the risk of inconsistency. In 2007 selection of these circulars and notes dealing with rules and policies were consolidated into the Business Practice Handbook (BPH)¹¹. This was formally adopted by the Executive Board in July of that year.

8. At the same time, the “ECB Budget Cycle: Planning, Monitoring and Forecasting Policies and Procedures” document¹² was issued by the Directorate General for Human Resources, Budget and Organisation. The consolidation of the various administrative circulars and notes in two main documents was a positive development which resulted in the ECB’s budgetary management rules and procedures, providing a clear division of responsibilities between the ECB budgetary decision-making bodies, the Budget and Projects division, and the budget centre managers. They also lay out in a clear manner, the ECB’s budgetary procedures and what should be done at each stage of the budgetary cycle. Despite the above advances, the fact that the rules and procedures are still not available together in a single comprehensive document continues to create a risk of inconsistencies¹³.

IT systems for budget and planning

9. In June 2006 a decision was taken to replace the internally developed IT system for budget and planning by a new Enterprise Resource Planning (ERP) system. The new system was installed in September 2006 with the aim of

¹¹ The Business Practice Handbook encompasses rules and policies on issues such as management of documents, authorisation levels, budgetary issues, procurement, business travel, information security etc.

¹² The “ECB’s Budget Cycle: Planning, Monitoring and Forecasting Policies and Procedures” document describes in detail all the budgetary principles and processes and the role and responsibilities of the main actors.

¹³ For instance, the BPH indicated that budgetary transfers over 211 000 euro should be approved by the Executive Board, whereas a limit of 200 000 euro is set in the “ECB Budget Cycle” document.

producing information needed at each stage of the budgetary cycle. However, the service provider failed to deliver part of the agreed set of functionalities and, despite the commitment to deliver them as soon as possible, no significant progress had been achieved up to mid-2008.

10. As a result, in both the 2007 and the 2008 budget years there were instances where it was not possible to apply all the bank's budgetary rules and procedures, especially those relating to processing of data¹⁴, monitoring and reporting. The major issues encountered with the budgetary functionalities also had a significant impact on the workload of the Budget and Projects division as additional work had to be performed to mitigate the system deficiencies. Thus, the non-delivery of the agreed set of functionalities resulted in administrative inefficiencies¹⁵.

Were the budgetary management rules and procedures properly applied?

Budgetary rules

11. The budgetary rules established for the areas examined by the Court (see paragraph 5) were applied as intended at both central (Budget and Projects division) and operational level (budget centres). Only in one of the 10 budget centres reviewed were the budgetary rules relating to budget monitoring and control incorrectly applied. As a result, for this budget centre incorrect budget postings were not identified.

¹⁴ For example the commitments could no longer be monitored in the system. This increased the risk of duplicate payments.

¹⁵ For instance, IT controls which were supposed to be automated had to be executed manually in order to ensure correctness of processing and reports on budgetary implementation had to be compiled without using the system functionalities in order to ensure accuracy of data provided to budget centre managers.

Budget planning

12. During budget planning, requests for financial resources are submitted by the budget centre managers. These requests are assessed by the Budget and Projects division. In both the 2006 and the 2007 budget years, central budget cuts were applied to all budget centres on selected items of expenditure. However, as these cuts were across-the-board they did not take into account activities selected for implementation and objectives set by the Business Areas.

Budget transfers

13. As part of their monthly procedures, budget centre managers should ensure that the budget allocated to each activity is not overspent. If more financial resources are needed, budget transfers can be made. The purpose of such transfers is to either:

- provide additional financial resources not included in the initial approved budget; or
- re-allocate funds across budget centres in response to changes in planned activities.

14. Budget transfer requests are authorised at different managerial levels, depending on the nature and amounts involved. 30 budget transfers¹⁶ were examined by the Court covering both the 2006 and the 2007 budget years. In the case of three transfer requests, the approval was not given at the appropriate level, therefore lacking the required authorisation. For one of these three cases, the budget transfer request was approved by the Project Steering Committee instead of the Executive Board.

¹⁶ Of the 10 budget centres mentioned in paragraph 5.

Budget reporting

15. The reporting from the Budget and Projects division to the budget centres takes the form of a monthly table. This summarises, at Business Area level, the main budget and human resources information of the previous month. The quality of the information included in this monthly report was found to be satisfactory overall. However, it was noted that the information was sent to the budget centres with such a delay that up-to-date information was not available to management on a timely basis.

16. The Budget and Projects division is also responsible for providing budgetary information to the Governing Council and the Executive Board. Three main budget reports¹⁷ are issued during the year, as well as ad-hoc budgetary information when requested. Over the period 2006 to 2008, while the overall structure remained the same, the quantity and quality of the budgetary information provided improved significantly.

CONCLUSIONS AND RECOMMENDATIONS

Were the ECB's budget forecasts realistic?

17. The ECB estimated its budgetary needs of the Business Area's recurrent expenditure reasonably realistically and achieved a fairly high budget implementation for both the 2006 and the 2007 budget years. However, budget forecasts for such activities as for "Projects" and "Changing/building the Bank" turned out to be unrealistic, in view of significant delays in the project execution in 2006 and, to a lesser extent, in 2007.

¹⁷ The three main budget reports are: the budget submission report, the mid-year budget forecast report and the year-end budget monitoring report.

Did the ECB design adequate budgetary management rules and procedures?

18. The ECB's budgetary management rules and procedures were overall adequately designed. They set out the framework for the bank's budget management procedures and clearly define roles, responsibilities and expected deliverables at each stage of the process. The consolidation in 2007 of the various administrative circulars and notes into two main documents was a positive development. However, the existence of two documents, may give rise to inconsistencies.

19. As a result of the service provider failing to deliver part of the agreed set of functionalities, the implementation of the ERP system used to support the budgetary process, faced significant deficiencies and delays. This resulted in administrative inefficiencies as significant additional work was required to mitigate the missing functionalities.

Were the budgetary management rules and procedures properly applied?

20. The application of the budgetary rules and procedures was in general satisfactory, except for the budget transfers, where instances of errors at authorisation level were noted. The budget planning and reporting procedures were adequate. The quality of the information provided in the ECB's budget reports significantly improved during the period 2006-2008.

21. The Court recommends that the ECB:

- analyses the reasons leading to project delays and proposes actions to improve project budgeting;
- consolidates the budgetary rules and procedures into one single document;

- establishes an action plan aiming to resolve the problems encountered with the implementation of the ERP system;
- enhances control procedures in the area of budget transfers.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 15 and 16 July 2009.

For the Court of Auditors

Vítor Manuel da Silva Caldeira
President

REPLY OF THE EUROPEAN CENTRAL BANK

The European Central Bank (ECB) welcomes the report of the European Court of Auditors (ECA) for the financial year 2006, and expresses its appreciation for the Court's observations and recommendations for improvement. The ECB also notes the Court's acknowledgment that its budgetary management rules and procedures were, all in all, adequately designed, and that the application of budgetary rules and procedures was generally satisfactory.

The ECB takes note of the Court's observations and recommendations for improvement. Below are some comments from the ECB with regard to specific paragraphs and to the four recommendations.

Paragraph 9

In noting the complexity of a cross-organisational programme such as an Enterprise Resource Planning (ERP) system, the ECB would like to inform the ECA that the outstanding budget functions were delivered to the ECB's satisfaction prior to the end of 2008.

Paragraph 12

The ECB wishes to highlight that the central budget cuts, as applied at the ECB, corresponded to a measure of efficiency that has enabled the institution to further tighten the budget. These central budget cuts have been transferred to the contingency reserve, and, from there, funds have been released when justified by an appropriate business case. This measure has been supported by the ECB's budget stakeholders: the Budget Committee, the Executive Board and the Governing Council.

Recommendation 1

The ECB accepts the recommendation and will review its project budget planning process in 2009, with the aim of identifying improvement opportunities.

The ECB also wishes to emphasise that project budgets are subject to numerous assumptions and to a high degree of uncertainty when compared with normal administrative budgets. Project delays are also often triggered by exogenous factors affecting the implementation of the project.

Recommendation 2

The ECB accepts the recommendation and will consolidate the procedures as appropriate.

Recommendation 3

The ECB acknowledges the observations and has already implemented measures to identify and resolve problems encountered in the implementation of the ERP solution in a timely manner.

Recommendation 4

The implementation of the ERP solution has led to the replacement of the transfer process by an “on-demand forecasting exercise” that is conducted each month.

All recommendations will be implemented by the end of 2009.