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REPORT

on the report of the Court of Auditors on the operational efficiency of the management of the European Monetary Institute and the European Central Bank for the financial year 1998 together with the replies of the European Central Bank
(C5-0319/2000 – 2000/2163(COS))

Committee on Budgetary Control

Rapporteur: Christopher Heaton-Harris

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PROCEDURAL PAGE

By letter of 18 April 2000, the European Court of Auditors forwarded to Parliament its report on the operational efficiency of the management of the European Monetary Institute and the European Central Bank for the financial year 1998 together with the replies of the European Central Bank (2000/2163(COS)).

At the sitting of 3 July 2000 the President of Parliament announced that she had referred this report to the Committee on Budgetary Control as the committee responsible and the Committee on Economic and Monetary Affairs for its opinion (C5-0319/2000).

The Committee on Budgetary Control had appointed Heaton-Harris rapporteur at its meeting of 6 June 2000.

The committee considered the draft report at its meetings of 7 November and 5 and 12 December 2000.

At the last meeting it adopted the motion for a resolution unanimously.

The following were present for the vote: Diemut R. Theato, chairman; Herbert Bösch and Lousewies van der Laan, vice-chairmen; Christopher Heaton-Harris, rapporteur; Raffaele Costa, Rijk van Dam, Anne Ferreira, Michiel van Hulten, Helmut Kuhne, Mair Eluned Morgan, José Javier Pomés Ruiz, Bart Staes, Gabriele Stauner, Mogens Camre (for Isabelle Caullery), Bert Doorn (for Thierry B. Jean-Pierre), Christos Folias (for Brigitte Langenhagen), John Joseph McCartin (for Diemut R. Theato), Jan Mulder (for Antonio Di Pietro), Giovanni Saverio Pittella (for Freddy Blak), Heide Rühle (for Claude Turmes).

The explanatory statement will be presented orally in plenary sitting.

The opinion of the Committee on Economic and Monetary Affairs is attached.

The report was tabled on 13 December 2000.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the report of the Court of Auditors on the operational efficiency of the management of the European Monetary Institute and the European Central Bank for the financial year 1998 together with the replies of the European Central Bank (C5-0319/2000 – 2000/2163(COS))

The European Parliament,

- having regard to the report of the Court of Auditors on the operational efficiency of the management of the European Monetary Institute and the European Central Bank for the financial year 1998, together with the replies of the European Central Bank¹,
 - having regard to Article 248 of the Treaty, Article 17(4) of the Protocol on the Statute of the European Monetary Institute and Article 27(4) of the Protocol on the Statute of the European System of Central Banks and of the European Central Bank, both annexed to the Treaty,
 - having regard to Rule 47(1) of its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control and the opinion of the Committee on Economic and Monetary Affairs (A5-0395/2000),
- A. whereas, the primary objective of the European Central Bank is to maintain price stability, it shall without prejudice to this objective support the general economic policies in the Community;
- B. whereas on 1 June 1998, the European Central Bank replaced the European Monetary Institute, set up on 1 January 1994 and took on the latter's assets and liabilities;
- C. whereas, according to the European Court of Auditors' report, the European Central Bank had not yet been asked to exercise the usual functions of a Central Bank during 1998;
- D. whereas expenses since the establishment of the EMI amounted to ECU 185 million in total, with ECU 96 million spent on staff costs and ECU 77 million on other administrative expenses;
- E. whereas the Court of Auditors has identified management weaknesses as regards the extraordinary bonus paid to staff, budgetary monitoring and project monitoring;
- F. whereas the replies of the European Central Bank to the observations of the Court of Auditors are inadequate and do not give any indication of actions it intends to take to remedy shortcomings, even though it is incumbent upon the ECB to do so;
- G. whereas the Court of Auditors noted as regards the extraordinary bonus, that although the maximum bonus was 13.5% for the period of 18 months from 1 July 1997 to 31 December 1998, some employees of the European Monetary Institute/European Central Bank received bonuses of up to 38% of their annual basic salaries for a period of 54

¹ OJ C133, 12.5.2000

months, covering the entire period of operation of the EMI (i.e. 4.5 years);

- H. whereas, although the EMI Council set a figure of DEM 1.9 million as the total for the extraordinary bonus, the total amount distributed was DEM 2.8 million;
- I. whereas the Court of Auditors notes that the transfer of the shortfall of DEM 900,000 to the extraordinary bonus budget was not authorised by the EMI Council;
- J. whereas the Court of Auditors notes that, by the decision of the EMI Council of 24 March 1998, the extraordinary bonus was paid on top of the normal merit bonus distributed every year since 1996;
- K. whereas in its replies to the observations of the Court of Auditors, the European Central Bank stated that the extraordinary bonus was merely an acknowledgement of rather than a compensation for the high number of extra hours worked by EMI staff;
- L. whereas a question was raised as regards the extraordinary bonus during the hearing of the President of the European Central Bank at Parliament on 20 June 2000;
- M. whereas the Court of Auditors notes that the services responsible for budget monitoring did not carry out any reconciliation of the expenditure outturn and the expenses shown in the profit and loss account, whether for the EMI or the ECB;
- N. whereas, in its replies, the European Central Bank acknowledges that the reconciliation for 1998 was not available because of the non-availability of homogeneous data due to differences in accounting principles, in charts of accounts and in IT systems in use;
- O. whereas the Court of Auditors notes that project monitoring procedures need to be improved, in particular as regards the assessment of the state of progress of projects;
- P. whereas the Court of Auditors notes that the current management information system does not allow any overruns of resources or time limits to be pointed out in good time, citing the case of the foreign currency reserves subledger (FCRS) project;
- Q. whereas the Court of Auditors notes that the contract, for a firm of consultants engaged on the FCRS project as from the beginning of July 1998, was not signed until 2 October 1998;
- R. whereas the Court of Auditors noted that, by the end of 1998, the European Central Bank had not designated a full-time manager for the FCRS project, although filling this post was essential for monitoring the work of consultants;
- S. whereas in its report for the financial year 1997, the Court of Auditors noted that in the case of the FCRS project, the project suffered from a poor definition of requirements, a delay in the planning and inadequate control of expenditure and referred explicitly to the case of a consultant who was given the responsibility for heading the project without being subject to any particular scrutiny by senior management;
- T. whereas the European Central Bank has stated that it will not allow the European Anti-Fraud Office, OLAF, to conduct internal investigations;

- U. whereas, in its conclusions to the Cologne summit of 3 and 4 June 1999, the European Council invited the European Central Bank to consider as soon as possible the terms under which OLAF might carry out internal investigations;
- V. whereas in its first report¹ to Parliament, Council and Commission, the Supervisory committee of OLAF called for legal proceedings to be brought against Community bodies that have not implemented Regulation on 1073/99, before the end of 1999;
- W. whereas on 12 January 2000, the Commission initiated legal proceedings at the European Court of Justice² against the decision of 7 October 1999 of the European Central Bank regarding the non-application of Parliament and Council Regulation no 1073/99³;

Issue of wage moderation and size of extraordinary bonus

1. Regrets that whilst, on the one hand, the European Central Bank is pursuing its policy of price stability in Europe, it has paid an extraordinary bonus of 38% to some of its own employees, and calls for bonuses in the next five years to be in line with its inflationary target and thereby set an example for wage moderation;
2. Notes that granting such bonuses represents current practice in the banking sector, to which EMI/ECB employees belong, but that the procedures followed in granting and funding the extraordinary bonus paid should be criticised.

Cooperation with Anti-Fraud Office, OLAF

3. Welcomes the creation of the Anti-Fraud Committee on 1 January 2000, which is composed of three independent persons with experience in central banking, fraud prevention and detection, and justice and policing, and expects the Court of Auditors to report on progress in subsequent annual reports;
4. Welcomes the public commitment of the European Central Bank, in its annual report for 1999, to establish a cooperative relationship with the European Anti-Fraud Office OLAF but regrets clear incompatibility between the public commitment assumed by the ECB in its 1999 annual report to establish close cooperation with OLAF and the decision by the ECB itself to prevent OLAF from carrying over internal investigations, pending the ruling by the European Court of Justice;

Need for strict hands-on management

5. Calls upon the European Central Bank to provide an adequate response to the problems identified by the Court of Auditors concerning the allocation of an extraordinary bonus, budgetary monitoring and project management, to give itself the means to resolve the problems concerned and to ensure that such situations do not recur;

Court of Auditors

6. Regrets the length of the contradictory procedure which resulted in the publication of the

¹ report 1/99, FdR 382504, 7 October 1999

² Court of Justice case C-11/00

³ OJ L136, 31.5.1999

report for the financial year 1998 in May 2000;

7. Calls on the Court of Auditors to ensure that its annual report on the operational efficiency of the management of the European Central Bank is published before September of year N+1, where year N is the one under consideration, and to indicate the number of man days used to complete the report;
8. Invites the Court of Auditors to report on progress by the European Central Bank in its management of information technology systems and list all financial and performance audits carried out by the European Central Bank;
9. Instructs its President to forward this resolution to the European Central Bank, Council, Commission and Court of Auditors.

28 November 2000

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

for the Committee on Budgetary Control

on the operational efficiency of the management of the European Monetary Institute and the European Central Bank for the financial year 1998 together with the replies of the European Central Bank

(C5-0319/2000 – 2000/2163(COS))

Draftsman: Göran Färm

PROCEDURE

At its meeting of 25 October 2000 the Committee on Economic and Monetary Affairs appointed Göran Färm draftsman.

It considered the draft opinion at its meetings of 23 and 28 November 2000 .

At the last meeting it adopted the following conclusions unanimously with 4 abstentions.

The following were present for the vote:

Christa Randzio-Plath, chairwoman; José Manuel García-Margallo y Marfil, vice chairman and rapporteur; Ioannis Theonas, vice chairman, Alejandro Agag Longo, Luis Berenguer Fuster, Hans Blokland, Hans Udo Bullmann, Martin Callanan (for Jonathan Evans), Harald Ettl (for Pervenche Berès), Monica Frassoni (for Alain Lipietz pursuant to Rule 153(2)), Robert Goebbels, Lisbeth Grönfeldt Bergman, Christopher Huhne, Liam Hyland, Juan de Dios Izquierdo Collado (for Simon Francis Murphy), Pierre Jonckheer, Giorgos Katiforis, Werner Langen (for Christoph Werner Konrad), Astrid Lulling, Jules Maaten (for Carles-Alfred Gasòliba i Böhm), Thomas Mann (for Othmar Karas), Ioannis Marinou, Peter Michael Mombaur (for Alain Madelin), Karla M.H. Peijs (for Amalia Sartori), Fernando Pérez Royo, Mikko Pesälä (for Karin Riis-Jørgensen), José Javier Pomés Ruiz, John Purvis (for Piia-Noora Kauppi), Alexander Radwan, Bernhard Rapkay, Olle Schmidt, Charles Tannock, Marianne L.P. Thyssen, Helena Torres Marques, Bruno Trentin, Ieke van den Burg (for Richard A. Balfe), Theresa Villiers, Karl von Wogau

BACKGROUND/GENERAL COMMENTS

The Court of Auditors report on the operational efficiency of the management of the European Monetary Institute and the European Central Bank for the financial year 1998 follows four similar reports on the EMI for 1994-97. In 1998, the exercise was complicated by the mid-year handover from EMI to ECB, with partly non-compatible accounting systems and

software. As a result, the contradictory procedure took longer than usual, so that the report on 1998 only came before the European Parliament in April 2000.

Limited by the relevant protocols on the EMI and ECB statutes to examining the operational efficiency of the respective institution's management, the Court of Auditors highlighted three areas in its observations and recommendations:

1. **Budgetary management and monitoring**
where the main criticism concerned the lack of a consolidated budget outturn due to the transition from EMI to ECB.
2. **Project management and monitoring**
where the Court made recommendations for closer monitoring and tracking of projects over several years.
3. **Extraordinary bonus**
where it questioned the amount and funding of a "winding-up bonus" granted to EMI staff in March 1998 in proportion to their performance and length of service.

The replies by the European Central Bank on all three items have been succinct, but mostly satisfactory, and were since elaborated upon in a face-to-face meeting between ECB representatives and the Rapporteur of the Committee on Budgetary Control. On balance, while Parliament should not hesitate to call the ECB to account over the items mentioned, it is felt that the observations by the Court of Auditors in no way warrant questioning the ECB's management efficiency in general.

CONCLUSIONS

The Committee on Economic and Monetary Affairs therefore calls on the Committee on Budgetary Control, as the committee responsible, to include the following paragraphs in its draft resolution:

- to be inserted before para. 1 :
- 1. Acknowledges the achievements of the European Monetary Institute in preparing the third stage of Economic and Monetary Union and laying the foundations for the European Central Bank and the ESCB;
- 2. Recognises that in the period under scrutiny both institutions were operating under difficult circumstances, breaking new ground both in monetary policy and, by necessity, in administrative procedure; however, the criticism brought forward by the Court of Auditors contains some important points, which the bank appears to have respected since then, and which must be respected in the future;
- to be inserted after para. 1 :
- 3. Notes that granting such bonuses represents current practice in the banking sector, to

which EMI/ECB employees belong, but that the procedures followed in granting and funding the extraordinary bonus paid should be criticised.