

EUROPEAN COURT
OF AUDITORS

Special Report No 5

2009

ISSN 1831-0834

THE COMMISSION'S TREASURY MANAGEMENT



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Special Report No 5 // 2009

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(pursuant to Article 248(4), second subparagraph, EC)

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Special Report No 5 // 2009

More information on the European Union is available on the Internet (<http://europa.eu>).

Cataloguing data can be found at the end of this publication.

Luxembourg: Office for Official Publications of the European Communities, 2009

ISBN 978-92-9207-295-7

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Printed in Belgium

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REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

I.

Treasury management at the Commission is performed by two Directorates-General (DG): DG Budget (DG BUDG) and the DG for Economic and Financial Affairs (DG ECFIN). DG BUDG is responsible for treasury management of the entire budget managed by the Commission and the European Development Fund. DG ECFIN is responsible for the treasury management of other non-budgetary items and the investment of Community funds.

II.

The main objective of the audit was to assess the quality of the Commission's treasury management and in particular whether:

- (a) the Commission complied with the rules and regulations applicable to treasury management; and
- (b) the Commission had established internal control systems which ensure sound treasury management.

III.

The Court examined the following main treasury management areas:

- (a) the overall set-up of the Commission's treasury management activities;
- (b) risk management of treasury activities;
- (c) performance measurement and benchmarking;

- (d) treasury planning and forecasting;
- (e) management of fiduciary accounts;
- (f) management of fines;
- (g) the payment process and management of bank accounts; and
- (h) human resources.

IV.

The three main legal requirements are:

- (a) the Commission should ensure that it has at its disposal sufficient funds to cover cash needs arising from budgetary implementation;
- (b) the Commission should set up cash management systems enabling the drawing up of cash-flow forecasts; and
- (c) the Commission should draw on the sums credited to the own resources accounts to the extent necessary to cover cash requirements arising from the implementation of the budget.

V.

The Court's main conclusions are:

- the Commission did overall comply with the main provisions prescribed by the Community legislation;

EXECUTIVE SUMMARY

- the Commission has set up prudent cash management forecast procedures ensuring that it has at its disposal sufficient funds to cover cash requirements arising from budgetary implementation;
- the Commission's procedures to transfer funds between Member States' own resources accounts were not sufficiently documented;
- as a result of the provisions of the Communities' own resources regulation, significant balances accumulate during the second half of the year as a consequence of transferring own resources to the accounts opened by the Member States in the name of the Commission on the basis of budget appropriations;
- the internal control procedures in place concerning the execution of payments and bank accounts were effective overall. However, unlike DG ECFIN, DG BUDG did not document its management of risks arising from treasury activities, nor were its procedures established to assess all aspects of its performance;
- lack of coordination between the Commission DGs in an area where a common approach to issues such as risk management and control is necessary. This led to the situation where the accounts' limits for holding funds with commercial banks were established by the DGs concerned without considering the Commission's overall risk exposure with each commercial bank; and
- fines are held in specific bank current accounts, thus there is an increased risk of loss.

VI.

The Court's main recommendations are:

- the Commission should improve the documentation of its cash flow forecasting procedures;
- the Commission should analyse the functioning of the present system of own resources accounts with the aim of reducing balances on these accounts during the second half of the year;
- the Commission should put in place procedures which ensure coordination of its treasury management activities;
- DG BUDG should improve the documentation of its risk management and the scope of its performance measurement; and
- the Commission should as a matter of priority reach a conclusion in its search for an optimum solution for the treatment of provisionally collected fines.

INTRODUCTION

BACKGROUND

1. The European Union budget provides funding for a wide range of actions in the European Union and beyond. The European Commission implements the budget under its own responsibility in accordance with the Financial Regulation¹ and within the limits of the budgetary appropriations. In the process of budget implementation, the Commission made in 2007 approximately 1,5 million payments to third parties. Third parties range from EU officials and pensioners, Member States' public authorities managing funds to private firms and individuals directly benefiting from aid under a Community scheme. In 2007 the total payments made by the Commission reached 114 billion euro.
2. Financial resources need to be readily available to fund these payments. There are two main categories of income: own resources and other revenue². The largest revenue components are own resources calculated on the basis of value added tax (VAT) and own resources based on the Member States' gross national income (GNI). Accounts are opened in the name of the Commission by each Member State and into which their respective own resources contributions are paid on a monthly basis (see **Box 1**).

¹ Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1), as amended by Regulation (EC, Euratom) No 1995/2006 (OJ L 390, 30.12.2006, p. 1) and Regulation (EC, Euratom) No 1525/2007 (OJ L 343, 27.12.2007, p. 9).

² For more details please refer to Chapter 4 of the European Court of Auditors Annual Report concerning the financial year 2007.

TABLE 1

CASH AND CASH EQUIVALENTS

(million euro)

	Balance at 31.12.2007	Balance at 31.12.2006
Accounts with Member States' treasuries and central banks	11 313	11 467
Current accounts	956	933
Imprest accounts	81	82
Cash in transit	2	3
Short-term deposits and other cash equivalents	1 367	976
Restricted cash (fines)	5 037	2 924
Cash and cash equivalents — Guarantee Fund	249	440
Total	19 005	16 824

Source: Annual accounts of the European Communities, financial year 2007.

3. In addition, the Commission opens bank accounts at central and commercial banks in order to execute payments to third parties and collects receipts other than Member States' own resources contributions to the budget. Funds are transferred regularly from the own resources accounts to the bank accounts used for payments. Sufficient funds need to be maintained in these payment accounts to ensure uninterrupted funding of Community activities. On 31 December 2007 the total balance on all accounts amounted to 19 billion euro (see **Table 1**).
4. The Commission has set up systems to manage its treasury operations and more specifically cash flows (receipts and payments), the opening and running of bank accounts, cash forecasting and liquidity management.

³ Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 357, 31.12.2002, p. 1), as amended by Regulation (EC, Euratom) No 1261/2005 (OJ L 201, 2.8.2005, p. 3), Regulation (EC, Euratom) No 1248/2006 (OJ L 227, 19.8.2006, p. 3) and Regulation (EC, Euratom) No 478/2007 (OJ L 111, 28.4.2007, p. 13).

REGULATORY FRAMEWORK

5. According to the Financial Regulation and the implementing measures, treasury management is part of the Accounting Officer's duties³. Although an overall definition of treasury management or of its main components is not provided, individual tasks which are ordinarily part of treasury management, such as management of bank accounts, payment and reconciliation procedures, are described in sufficient detail.
6. The Financial Regulation states that the Accounting Officer should, amongst other duties, be responsible for treasury management, and only the Accounting Officer is empowered to manage cash and cash equivalents⁴. In addition, the Implementing Rules state that the Accounting Officer shall ensure that the Commission has at its disposal sufficient funds to cover cash requirements arising from budgetary implementation and shall set up cash management systems enabling the drawing-up of cash-flow forecasts⁵.

⁴ Article 61(1)(f) and 61(3) of the Financial Regulation.

⁵ Article 58 of the Implementing Rules.

7. The Communities' own resources regulation⁶ includes provisions relevant to treasury management. These provisions set out the funding framework within which the Commission must operate and define the Commission's treasury management objectives. The most important provisions in the context of this report are presented in **Box 1**.

THE EUROPEAN COMMISSION'S TREASURY MANAGEMENT ACTIVITIES

8. Two Directorates-General at the Commission are involved in treasury management activities: DG BUDG and DG ECFIN. DG BUDG is responsible for treasury management of the entire budget managed by the Commission, and the European Development Fund. DG ECFIN is responsible for the treasury management of other non-budgetary items, which are mainly the European Coal and Steel Community (ECSC) in liquidation, the European Community's and Euratom's loans and investments of funds and certain funds managed by financial institutions under a mandate from the Commission⁷. **Diagram 1** presents an overview of the Commission's treasury management system and **Box 2** summarises its main tasks.

⁶ Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 implementing Decision 94/728/EC, Euratom on the system of the Communities' own resources (OJ L 130, 31.5.2000, p. 1), as amended by Regulation (EC, Euratom) No 2028/2004 (OJ L 352, 27.11.2004, p. 1).

⁷ DG ECFIN manages a diverse number of financial instruments related to its off-budget activity treasury operations. These encompass operations relating to the management of some 2,2 billion euro — representing the assets of the ECSC in liquidation and other mandated funds — and banking operations (borrowing and lending activities) for which the outstanding EC/Euratom/ECSC in liquidation borrowing/lending position amounted to close to 1,8 billion euro as of the end of 2007.

BOX 1

OWN RESOURCES REGULATION PROVISIONS

- Accounts for own resources should be opened in the name of the Commission with the treasury or the body appointed by each Member State. The Member States should credit resources to these accounts, which shall be kept free of charge⁸.
- On the first working day of each month, one twelfth of the relevant totals in the budget should be credited to the account for the VAT and GNI resources⁹.
- The Commission should draw on the sums credited to the accounts to the extent necessary to cover its cash resources requirements arising from budgetary implementation¹⁰.

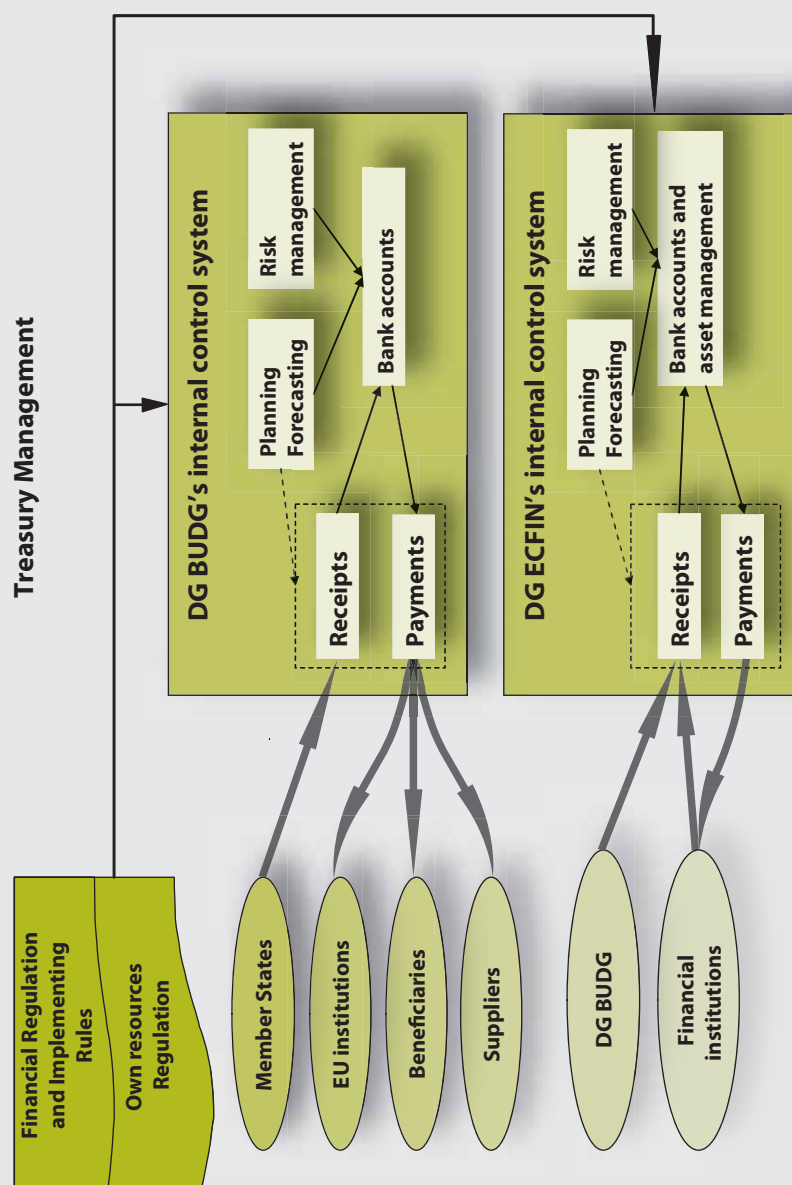
⁸ Articles 6(1) and 9(1) of Regulation (EC, Euratom) No 1150/2000 as amended.

⁹ Article 10(3) of Regulation (EC, Euratom) No 1150/2000 as amended.

¹⁰ Article 12(1) of Regulation (EC, Euratom) No 1150/2000.

DIAGRAM 1

OVERVIEW OF THE COMMISSION'S TREASURY MANAGEMENT SYSTEM



Source: European Court of Auditors.

BOX 2

SUMMARY OF THE MAIN TASKS OF THE COMMISSION'S TREASURY MANAGEMENT**Treasury planning and forecasting**

- Cash flow forecasts (estimates of inflows and outflows)
- Drawing from own resources accounts (treasury and central bank accounts)

Management of receipts and payments

- Maintenance and control of third-party files
- Execution and monitoring of payment transactions
- Matching the receipts to recovery orders issued by authorising officers
- Bank account reconciliations
- Foreign exchange operations

Management of bank accounts

- Opening and closing of bank accounts
- Selecting commercial banks (tender procedures)
- Checking bank interest and charges
- Management of imprest accounts
- Management of fiduciary accounts
- Management of fines
- Management of investments

AUDIT SCOPE AND APPROACH

- 9.** The main objective of the audit was to assess the quality of the Commission's treasury management. This was done by addressing two questions:

 - Does the Commission comply with the rules and regulations applicable to treasury management?
 - Has the Commission established internal control systems which ensure sound treasury management?
- 10.** The Court addressed the second question by selecting and examining the main areas of the Commission's treasury management which is implemented by DG BUDG and DG ECFIN. These were:

 - (a) the overall set-up of the Commission's treasury management activities;
 - (b) risk management of treasury activities;
 - (c) performance measurement and benchmarking;
 - (d) management of fiduciary accounts;
 - (e) management of fines;
 - (f) the payment process and management of bank accounts; and
 - (g) human resources.
- 11.** The audit did not cover the processes established for managing the funding of the other institutions and Community bodies such as the European agencies, or the investment decisions made by DG ECFIN in managing the other non-budgetary items, including the borrowing activities to finance Community loans. The Court reports in its Annual Report on the Commission's management of the Guarantee Fund for external actions and on the compliance with the relevant legislation of the financial operations of the European Coal and Steel Community (ECSC) in liquidation. The audit focused on the financial years 2006 and 2007. Developments in Commission practices in the first half of 2008 were also considered.
- 12.** The audit included visits to both DG BUDG and DG ECFIN. Audit evidence was collected through examination and assessment of existing rules and procedures, reviews of documentation, testing of controls and transactions, and interviews. For comparison purposes treasury management practices in other public bodies were also considered and a review of the relevant academic literature was undertaken.

MAIN OBSERVATIONS

DOES THE COMMISSION COMPLY WITH THE RULES AND REGULATIONS APPLICABLE TO TREASURY MANAGEMENT?

TREASURY MANAGEMENT AND FORECASTING

- 13.** The three main legal provisions which define the nature of treasury management to be exercised by the Commission are:

¹¹ Article 58 of the Implementing Rules.

- (a) the Commission should ensure that it has at its disposal sufficient funds to cover cash needs arising from budgetary implementation;
- (b) the Commission should set up cash management systems enabling the drawing-up of cash-flow forecasts¹¹;
- (c) the Commission should draw on the sums credited to the own resources accounts to the extent necessary to cover cash requirements arising from the implementation of the budget¹².

¹² Article 12(1) of Regulation (EC, Euratom) No 1150/2000.

¹³ In the case of the 2007 budget, a substantial repayment was made at the beginning of 2008.

- 14.** The Court tested whether the Commission's systems and procedures in place and the actions taken for paragraph 13(a) and (c) adhered to these provisions. The Court's testing did not reveal any significant instances of non-compliance with the abovementioned provisions.

- 15.** As mentioned in paragraph 2, VAT and GNI own resources are the largest revenue components of the Community budget. These resources are credited to the accounts opened by each Member State in the name of the Commission in monthly twelfths of their relevant total of the budget. Therefore, with the exception of the need to provide earlier funding to the European Agricultural Guarantee Fund (see paragraph 16) in the first months of the year, the crediting of resources to the aforementioned Commission accounts is not based on actual treasury needs but on the Member States' share of the annual budget. Considering that the budget is in equilibrium, there is therefore a low risk that the Commission will not have at its disposal sufficient funds to cover cash needs arising from budgetary implementation. As a consequence of the above method for providing own resources laid out by the Communities' regulation, together with the effect of a level of budgetary execution lower than planned, significant balances are accumulated during the second half of the year on these own resources accounts (see **Table 1**). Budgetary own resources are amended only as a consequence of a revision of the Community budget¹³. Since this procedure takes considerable time, excess funds are not released back to the Member States as quickly as they could be.

16. The Regulation stipulates that the VAT and GNI resources can be called up in advance, within certain limits, during the first months of the year for the purpose of financing the EAGF payments. The Commission prepares a monthly cash forecast with the purpose of determining whether advanced calls of own resources are needed to cover payments. The Court noted that the documentation in place was neither recently updated nor provided sufficient details of the methodology used for the preparation of these cash flow forecasts. Moreover, financial information on cash requirements, covering approximately 85 % of budgetary expenditure, is provided by three DGs only¹⁴, two of which provide this information on an informal basis only to the unit in DG BUDG responsible for treasury management.

¹⁴ DG Agriculture and Rural Development, DG Regional Policy and DG Employment, Social Affairs and Equal Opportunities.

¹⁵ DG BUDG managed 33 bank accounts in total with 30 banks in 26 Member States.

17. The Commission has also put in place another cash management forecast procedure. Its main aim is to ensure that there are sufficient funds in each commercial bank account for the execution of payments. This is an effective automated tool which enables the Commission both to monitor bank balances and to ensure availability of funds¹⁵.

18. Finally, the Commission has put in place a third cash forecast procedure which aims to transfer funds between Member States' own resources accounts in order to align the balances on these accounts with their respective budgetary contributions. The calculations underpinning the amounts transferred are partly based on estimates of future cash flows. The Court noted that the methodology used for the preparation of the forecast was not sufficiently documented and that the estimates made were not subsequently checked for their accuracy. This has a temporary effect on the balances of the accounts opened by each Member State in the name of the Commission (see paragraph 2).

MANAGEMENT OF IMPREST ACCOUNTS

- 19.** Imprest accounts can be set up for the collection of revenue and for the payment of small sums of money. However, in certain situations, e.g. external aid operations, such accounts may be used without any limitation on the amounts of the payment transactions¹⁶. The requirements set out in the Implementing Rules and in the internal guidelines established for tender procedures for the selection of the banks were not followed in most of the cases the Court examined. In addition, the selection procedure was not appropriately documented in one third of the cases examined.

¹⁶ Article 63(1) of the Financial Regulation as amended.

¹⁷ Depending on the nature of the public sector organisation, the treasury management structures can embrace a wide range of activities. A definition of treasury management provided by the Chartered Institute of Public Finance and Accountancy (UK) is as follows: 'Treasury management includes the management of cash flows, banking, money-market and capital-market transactions; the effective control of the risk associated with those activities; and the pursuit of optimum performance consistent with those risks' (Management in the public services, code of practice and cross-sectoral guidance notes, 2001, the Chartered Institute of Public Finance and Accountancy, United Kingdom).

HUMAN RESOURCES — SENSITIVE POSTS

- 20.** Applying the internal control standards of the Commission, DG ECFIN carried out a risk assessment (see paragraph 26), on the basis of which in 2004 a number of posts were listed as sensitive. As this list is rather old, it needs to be reassessed in the context of the DG's risk assessment, the completion of which is imminent. The 2008 DG BUDG risk assessment exercise concluded that only one post in the unit responsible for treasury management has been assessed as sensitive. This is despite the high volumes, values and nature of transactions processed daily by this unit.

HAS THE COMMISSION ESTABLISHED INTERNAL CONTROL SYSTEMS WHICH ENSURE SOUND TREASURY MANAGEMENT?

OVERALL SET-UP OF THE COMMISSION'S TREASURY MANAGEMENT ACTIVITIES

- 21.** Large commercial organisations have established treasury management departments whose ultimate aim is to contribute to maximising corporate profitability and ensuring at the same time an effective management of risks and the availability of sufficient cash reserves for the financing of operations. Likewise, many public sector organisations have established treasury management structures aimed at providing support to the attainment of their organisational objectives¹⁷. Whatever the nature of the organisation, effective treasury management significantly contributes to corporate success.

22. With a view to achieving effective treasury management whilst remaining within the boundaries of the regulatory framework of Community legislation (see paragraph 7), the Commission assigned the treasury management of the Community budget to DG BUDG and the treasury management of the non-budgetary items¹⁸ and the activity of investing Community funds to DG ECFIN¹⁹ (see paragraphs 6 and 8). Considering their respective areas of expertise and the role and responsibilities of these two DGs in the implementation of the Commission's annual work programme and in the execution of the Community budget, this split of responsibilities reflects the day-to-day reality of treasury operations²⁰. Notwithstanding the aforementioned, it was noted that each DG operates entirely independently in managing and controlling its treasury activities. As a result of this split there was in effect no unit with overall responsibility for the Commission's treasury management operations and there was no coordination in an area where a common approach to issues such as risk management and control is necessary.

¹⁸ Except for the treasury management of the European Development Fund, which is managed by DG BUDG.

¹⁹ The Accounting Officer gives his/her agreement for the opening and closing of accounts with financial institutions and his/her opinion on internal rules established for the DG's treasury operations.

²⁰ DG ECFIN processes a smaller number of high-value payment transactions in comparison to DG BUDG. For DG ECFIN, the timeliness of the execution of payments is a major issue. The DG often needs to make payments within very strict deadlines following an investment decision. Payments commonly have to be executed at the latest within two days and there are instances where payments have to be made on the day the instruction is issued.

23. For instance, in order to control the risk of loss generated by holding funds in accounts with commercial banks, DG BUDG and DG ECFIN have each established their own limits for the maximum amounts of funds to be held at specific banks. The two DGs used different methodologies to establish the limits without considering the Commission's overall risk exposure with each commercial bank. This was due to a lack of communication and coordination between the two DGs in the treasury management area. The Commission's treasury management practices are not aimed at reducing the Commission's overall exposure to financial losses.

RISK MANAGEMENT OF TREASURY ACTIVITIES

24. Entities should carry out risk assessments for each significant business process in order to identify and analyse the key risks to the achievement of their objectives. On the basis of these assessments, the appropriate measures to be taken for the management and monitoring of the identified risks should be decided.

25. No specific risk assessment was carried out by DG BUDG for its treasury management operations. In the 2007 and 2008 general risk assessment exercises undertaken by DG BUDG, only two risks pertaining to treasury management operations were identified: the shortage of staff in the 'third party' section (see paragraph 36) and the risk of loss concerning deposits with commercial banks of provisionally cashed fines (see paragraph 33). Notwithstanding this, the Commission published for the first time an overview of the risks in its treasury operations in the 2007 annual accounts of the European Communities²¹. This overview includes risks arising from the Commission's management of the day-to-day operations, operational, currency, credit and interest rate risks, and risks arising from the management of provisionally cashed fines (see paragraph 33). No documentation was identified providing evidence of active management and monitoring of the abovementioned risks.

²¹ Annual accounts of the European Communities financial year 2007, Volume I (Consolidated financial statements and consolidated reports on implementation of the budget), Section 7 (Financial risk management).

26. Although risk assessments were performed for financial instruments where major changes had occurred, DG ECFIN's last overall risk assessment was carried out in 2004. This assessment contained an evaluation of the impact and likelihood of potential risks for the treasury and financial market operations. In addition, in 2004, a risk management function was established by DG ECFIN contributing to the effective management of risk and monitoring at entity and activity levels. For the risks identified in the abovementioned assessments, risk reports are produced regularly and meetings are held throughout the year to monitor risk exposure (see **Box 3**). The Court examined these reports and noted that the principal risks listed below were monitored and that limits set per investment category were regularly checked by the DG, which took corrective actions when this was deemed necessary:

- (a) market risk: this is the potential loss that could result from adverse market movements; it includes interest rate risk, which is the fluctuation of a financial instrument's future cash flows because of changes in market interest rates, and foreign exchange risk, namely the currency exposures resulting from a financial instrument being denominated in a currency other than the euro;
- (b) credit risk: this is the potential loss to a portfolio that could result from the default of a counterparty or the deterioration of its creditworthiness, such as, for instance, downgrading by a rating agency;
- (c) operational risk: this is the risk of loss resulting from inadequate or failed internal processes, people and systems and external events.

PERFORMANCE MEASUREMENT AND BENCHMARKING

- 27.** Management should monitor performance by establishing systems which gather information on the implementation of the selected activities. These systems should make use of indicators in order to evaluate performance in relation to the set goals and objectives²². In addition, benchmarking is a process used in management by which organisations evaluate various aspects of their processes and performance in relation to best practice and take corrective action.

²² These notions are documented in the Commission's internal control standard number 5 'objectives and performance indicators'.

- 28.** DG BUDG established a number of 'high level' indicators linked to its treasury operations. These were included in the DG's monthly 'tableau de bord' (scoreboard system). They refer to payment operations (at least one payment run per day), the bank reconciliation process (number of unreconciled items older than 30 days), and to the management of third-party files. These 'high level' indicators do not cover all the areas of the treasury management operations and no evidence of appropriate benchmarks was found.

BOX 3

EXAMPLE OF RISK MONITORING ACTIVITIES BY DG ECFIN

Quarterly risk report on financial activities of a DG ECFIN unit for the quarter ending on 31 December 2007 (extracts)

- The financial market turmoil, also known as the sub-prime crisis, continued over the reporting period. The operational unit concerned and the risk management unit continued the close monitoring of the development of the sub-prime crisis over the past months in order to assess its possible impact on the treasury management portfolio of bonds and bank deposits. From a credit risk perspective, an updated analysis of the bond portfolio and the bank counterparties was prepared.
- Concentration risk is also monitored. This is the risk arising from too high a proportion of bonds or deposits being allocated to a specific country, sector, instrument or type of transaction.
- Operational risk for treasury transactions is also monitored. Compliance with in-house procedures and standard regulations was tested and results for the quarter were reported and analysed. This was based on the examination of a sample of securities transactions and deposits placed during the period.

- 29.** DG ECFIN uses a market index²³ as the benchmark for its performance review of the portfolio of securities and cash of the European Coal and Steel Community (ECSC) and the Guarantee Fund for external actions. In this respect, tolerance ranges were established and when the portfolio's actual monthly performance was found to fall outside the range, the DG undertook actions to correct the portfolio. However, the benchmark to be used for the performance review of the other portfolios, namely money market products, such as deposits managed by the DG, was under preparation at the time of the audit.

²³ The iboxx index is published by 'Deutsche Börse AG' on the basis of prices from multiple providers. According to DG ECFIN it constitutes a market standard.

²⁴ 720 million euro of this amount relates to specific agreements entered into by Commission DGs with the European Investment Bank (EIB) and the European Investment Fund (EIF).

MANAGEMENT OF FIDUCIARY ACCOUNTS

- 30.** Fiduciary accounts are established for certain EU spending programmes in the context of specific agreements entered into by the Commission, where a financial institution acts as an authorised agent of the Commission. In other words, these are accounts opened with a financial institution for it to manage funds directly and to make payments on behalf of the Commission. Funds are transferred from the Commission to these fiduciary accounts to cover future payments. The total amount of funds held in such accounts at the end of 2007 was approximately 970 million euro²⁴; the largest part, approximately 900 million euro, is classified as short-term deposits and the rest as current accounts (see **Table 1**).

²⁵ For instance, different rules apply for the interest calculation in the conventions entered into between the Commission and the EIB on the accounts for risk capital and interest rebates from the ones used for the Facility for Euro-Mediterranean Investment (FEMIP). The Court calculated that interest generated up to the end of 2006 on the FEMIP accounts would have been approximately 0,8 million euro higher, if the interest method of the accounts for risk capital and interest rebates had been used.

- 31.** The Court's audit showed that there are no clear rules for the setting up of these fiduciary accounts. In addition, there is also no explicit strategy aimed at the optimisation of the interest produced by these accounts. The Court's audit revealed that the terms of the contractual agreements entered into with financial intermediaries differ. This can result in significant variations as to the return obtained from these accounts²⁵. It should be noted, however, that these variations can be partly explained by the different legal bases, payment frequencies and maturity patterns.

²⁶ EuropeAid, DG Enlargement, DG Research, DG Regional Policy, DG External Relations and DG Development.

- 32.** There is no overall supervision of the management of the funds held by these financial institutions. DG ECFIN has the necessary expertise and systems in place to ensure an effective overview. In July 2007, DG ECFIN offered its asset management services to the six DGs concerned²⁶. As a result, agreements between DG ECFIN and two DGs have been signed.

MANAGEMENT OF FINES

33. Fines are imposed by the Commission for infringement of competition rules by Member States or companies. Fines paid to the Commission in cases of ongoing litigation are provisionally held in specific deposit accounts with commercial banks and they cannot be used to finance any other Community activities²⁷. The volume of fines held as restricted cash has grown significantly from 2,9 billion euro on 31 December 2006 to 5 billion euro on 31 December 2007.

²⁷ Accounts are held with the following six banks: Fortis, BBVA, ING Belgium, KBC, ING NL and Citibank.

34. Although some informal guidelines have been devised and are being followed, a clear policy on the treatment of these fines has not been established. In these guidelines, DG BUDG addressed risk exposure by defining a specific minimum Moody's or equivalent rating required and by limiting its exposure to each commercial bank (see paragraph 23). Notwithstanding the above, the risk of such large sums of money being held in specific current accounts with commercial banks still needs to be effectively addressed. At the time of the audit DG BUDG and DG ECFIN were in the process of searching for an optimum solution to the problem of the treasury management of these substantial funds, aiming to minimise the risk of loss and at the same time to yield a fair return.

TABLE 2

SELECTED PAYMENT PROCESS STATISTICS

	2007	2006
Number of payments processed by DG BUDG	1 570 576	1 508 983
Number of payments processed by DG ECFIN	1 485	1 577
Bank account file validations	71 879	60 637
Bank account file modifications	31 703	18 227
Third-party file validations	56 864	14 551
Third-party file modification volume	17 598	18 796

Source: European Court of Auditors, on the basis of data provided by the Commission.

THE PAYMENT PROCESS AND MANAGEMENT OF THE BANK ACCOUNTS

- 35.** A significant number of treasury transactions are executed and processed each year by both DGs (see **Table 2**). The Court examined key internal controls over the payment execution process, such as segregation of duties, third-party validation, access rights and exception reporting, in the units concerned. No significant weaknesses were noted. Internal controls were overall operating effectively in both DG BUDG and DG ECFIN.
- 36.** Before a payment can be processed, a third-party file has to be created in the Commission's computerised accounting system containing bank details and information on the identity of the recipient. In 2006 there was a significant delay of approximately four to six weeks for processing creation and modification requests for third-party files. This was overcome by DG BUDG in 2007 by increasing human resources in the unit concerned.
- 37.** The Commission also established procedures with the aim of ensuring that:
- (a) the transactions processed by the commercial banks on the Commission's accounts are reconciled on a regular basis with their corresponding entries in the Commission's accounting system in order to identify and resolve any differences;
 - (b) bank interest and charges are checked regularly to ensure correctness of the amounts received and paid;
 - (c) foreign exchange operations are accurately processed²⁸.
- 38.** The Court examined the implementation of the above procedures. No significant weaknesses were noted and the procedures in place were adequate and, overall, operating effectively at both DG BUDG and DG ECFIN. A foreign exchange policy was nevertheless formally adopted by DG BUDG only in February 2008.

²⁸ Examples of foreign currency transactions: (i) bank accounts are held in currencies other than the euro for the purpose of executing payments denominated in these same currencies; depending on the needs, funds are transferred to these accounts from euro accounts and (ii) own resources paid by Member States in currencies other than the euro are converted into euro depending on the treasury needs.

HUMAN RESOURCES

- 39.** Both DG BUDG and DG ECFIN apply standard Commission procedures in the area of human resources management. These procedures include the recruitment, appraisal and career mobility of members of staff involved in treasury management. The Court's audit confirmed that appropriate job descriptions had been drawn up and staff employed possess adequate qualifications and sufficient previous experience relevant to the duties attached to their posts. DG BUDG's unit responsible for treasury management operates with a small and highly experienced number of staff. The low staff turnover over recent years has created a relatively stable working environment. In the event, though, of key members of staff leaving at short notice, and considering the lack of documentation in some of the procedures (see paragraphs 16 and 18), there is a considerable risk to business continuity, potentially impacting on the management and control of the Commission's treasury activities.

CONCLUSIONS AND RECOMMENDATIONS

DOES THE COMMISSION COMPLY WITH THE RULES AND REGULATIONS APPLICABLE TO TREASURY MANAGEMENT?

- 40.** The Commission complied overall with the main legal provisions prescribed by the Communities' own resources regulation and in the Implementing Rules of the Financial Regulation (paragraphs 13 and 14).
- 41.** The Commission has set up reliable and effective cash management forecast procedures ensuring that it has at its disposal sufficient funds to cover cash requirements arising from budgetary implementation (paragraph 17).
- 42.** One consequence of the requirement of the Communities' own resources regulation of transferring own resources to the accounts opened by the Member States in the name of the Commission on the basis of budget appropriations is that significant balances are accumulated during the second half of the year. Since the amending budget procedure takes considerable time, excess funds are not released back to the Member States as quickly as they could be (paragraph 15).
- 43.** The application of the Commission's procedures which aim to:
- (a) transfer funds between Member States' own resources accounts; and
 - (b) determine the need in the first months of the year for advanced call-ups of own resources to cover payments,

were not sufficiently documented or recently updated. Estimates used for the transfer of funds between Member States' own resources accounts were not subsequently checked for their accuracy (paragraphs 15 to 18).

RECOMMENDATIONS

- The Commission should analyse the functioning of the present system of own resources accounts, with the aim of reducing balances on these accounts during the second half of the year.
- The Commission should improve the documentation of its cash flow forecasting procedures, and check the accuracy of the estimates used for the transfers of the Member States' own resources.

HAS THE COMMISSION ESTABLISHED INTERNAL CONTROL SYSTEMS WHICH ENSURE SOUND TREASURY MANAGEMENT?

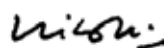
- 44.** Overall, the internal control procedures in place concerning the execution of payments and the bank accounts were effective. However, unlike DG ECFIN, no documentation was identified at DG BUDG providing evidence of active management and monitoring of the risks arising from treasury activities, nor were procedures established to assess all aspects of its performance (paragraphs 24 to 29 and 35 to 38).
- 45.** As a result of the Commission's decision to split treasury management operations between DG ECFIN and DG BUDG, there was no unit with overall responsibility for the Commission's treasury management. There was a lack of coordination between the two Commission DGs in an area where a common approach to issues such as risk management and control is necessary. This led to the situation where the accounts' limits for holding funds with commercial banks were established by these DGs without considering the Commission's overall risk exposure with each commercial bank (paragraphs 21 to 23).
- 46.** No clear rules for setting up fiduciary accounts were established, and neither was there an overall overview of all the funds held by the financial institutions. Optimisation of interest generated was therefore not assured (paragraphs 30 to 32).
- 47.** The value of the provisionally collected fines held in commercial bank current accounts has more than doubled over recent years, to 5 billion euro. This approach exposes the Commission to risk of loss in the event of banking failure. An optimum approach to better managing the risks relating to the holding of these amounts has not been established (paragraphs 33 and 34).

RECOMMENDATIONS

- The Commission should put in place procedures to improve the oversight of its treasury management activities and enhance coordination between the two DGs concerned.
- In the area of treasury management DG BUDG should improve the documentation of its risk management and the scope of its performance measurement.
- A uniform policy and adequate guidelines should be put in place for the opening of fiduciary accounts and for the management of Commission funds held in these accounts.
- The Commission should as a matter of priority reach a conclusion in its search for an optimum solution for the treatment of provisionally collected fines.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 30 April 2009.

For the Court of Auditors



Vítor Manuel da Silva Caldeira
President

REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

V.

Third indent

The procedure for transfers between Member States' own resources accounts is formally documented and is complemented by detailed step-by-step instructions.

Fourth indent

The Commission is bound to respect the provisions of the Council regulation implementing the decision on the system of the Communities' own resources, which foresee, namely, that Member States credit own resources to the account opened in the name of the Commission by means of monthly twelfths. See also the Commission's reply to paragraph 15.

Fifth indent

The Commission's overview of the risks related to its treasury operations (DG BUDG), which is part of its annual accounts, provides a clear and comprehensive summary the risks it is exposed to, how such risks are managed, and which measures have been put in place to control, minimise or neutralise them. It also makes reference to procedures that contain measures to control or limit operational and financial risks. These existing procedures will be cross-referenced into a single formal document of DG BUDG.

The indicators included in the DG BUDG's 'tableau de bord' are the most relevant for its treasury operations and are significant indicators of its performance. Such indicators are regularly tracked and performance against them is assessed. In case of poor performance appropriate measures are put in place to correct it.

See also the Commission's replies to paragraphs 25 and 28.

REPLY OF THE COMMISSION

Sixth indent

The Commission will improve its oversight on the different treasury management activities performed. The separation of tasks between the two Directorates-General concerned serves to limit the need for extensive coordination.

The different methodologies to limit risks are due to the different nature of the tasks performed. Limits for *nostro* accounts, which cater for daily cash movements but normally do not hold substantial funds for a longer period, have to be considered differently from limits for counterparties with whom money is placed for a longer period.

See also the Commission's replies to paragraphs 22 and 23.

Seventh indent

The current system for the management of provisionally cashed fines was subject to a review in 2008, with the main objective of increasing its security. A proposal for a Commission decision on this matter has been issued in early 2009 by DG BUDG.

VI.

First indent

The Commission has redrafted its cash flow reporting and forecasting procedures at the end of 2008, in the context of a review of the related reporting tools. The updated version of the procedure, which also contains more details on the forecasting part, will be adopted as from the end of March 2009.

Second indent

The present system of own resources accounts, primarily designated to receive the own resources payments, is linked to the own resources system, as established by Council Decision 2000/597/EC, Euratom and its implementing regulation, Council Regulation (EC, Euratom) No 1150/2000, that the Commission is bound to implement. The Council adopted in 2007 the new own resources decision (2007/436/EC, Euratom), and very recently a revision of Regulation 1150/2000¹, which do not introduce any significant changes in the system of own resources accounts and payments. This suggests that the Council is satisfied with the functioning of the present system.

Third indent

Meetings will be established more regularly between the two Directorates-General to share information on risks, and to exchange experiences and best practices regarding treasury and asset management activities on a Commission-wide level.

Fourth indent

The Commission's overview of the risks related to its treasury operations (DG BUDG), which is part of its annual accounts, provides a clear and comprehensive summary of the risks it is exposed to, how such risks are managed, and which measures have been put in place to control, minimise or neutralise them. It also makes reference to procedures that contain measures to control or limit operational and financial risks. These existing procedures will be cross-referenced into a single formal document of DG BUDG.

¹ Council Regulation (EC, Euratom) No 105/2009, OJ L 36, p. 1, 5.2.2009.

REPLY OF THE COMMISSION

INTRODUCTION

The indicators included in the DG BUDG's 'tableau de bord' are the most relevant for its treasury operations and are significant indicators of its performance. Such indicators are regularly tracked and performance against them is assessed. In case of poor performance appropriate measures are put in place to correct it.

Fifth indent

Under the present system for the management of provisionally cashed fines the Commission ensures risks are minimised, via a set of measures including minimum credit rating requirements for commercial banks, limits to exposure per bank, and the possibility to transfer funds at any time with immediate effect. Monitoring and review of the situation is ensured regularly and on a daily basis in the current financial context.

In addition the current system for the management of provisionally cashed fines was subject to a review in 2008, with the main objective of increasing its security. A proposal for a Commission decision on this matter has been issued in early 2009 by DG BUDG.

3.

The balance on bank accounts of 19 billion euro at 31 December 2007 included 5,9 billion euro² which was refunded to Member States on the first working day of the following year, together with amounts received from provisional payment of competition fines (5,0 billion euro³), from assigned revenue (3,4 billion euro⁴) and from other sources (1,6 billion) which cannot be refunded to Member States. Of the remainder, 1,2 billion euro⁵ was withheld to cover payment appropriations carried over to 2008, and 1,5 billion euro⁶ was repaid to Member States through deduction from their amounts due for 2008.

5.

The Commission takes the view that the definition of treasury management in the Financial Regulation is oriented towards the normal budgetary cash management and does not comprise asset management, which is dealt with separately.

8.

The relevant Commission decision on off-budget activities states that DG ECFIN 'shall be responsible for conducting the borrowing/lending operations of the Communities, for the activities of investing funds and for the management of the non-budgetary treasury'. DG BUDG Treasury is in charge of the treasury and payment operations related to the implementation of the EU budget.

² Note 2.11.1 of the 2007 EC consolidated accounts.

³ Note 2.11.2 of the 2007 EC consolidated accounts.

⁴ Volume 1, Part II, Table 7, column 9 of the 2007 accounts.

⁵ Volume 1, Part II, Table 7 of the 2007 accounts, columns 7 and 8.

⁶ Volume 1, Part II, Table 1 of the 2007 accounts.

REPLY OF THE COMMISSION

A distinction must be made between the treasury (and payment) functions covered by DG BUDG on the one hand and the asset management function ensured by DG ECFIN on the other hand, in accordance with the decision taken by the Commission. Each of these functions has a responsibility clearly allocated to one central service.

MAIN OBSERVATIONS

15.

The Commission is bound to respect the provisions of the Council regulation implementing the decision on the system of the Communities' own resources, which foresee, namely, that Member States credit own resources to the account opened in the name of the Commission by means of monthly twelfths. However, since 2005 the Commission has proposed a preliminary draft amending budget to the budgetary authority at the end of October updating the budget relative to the forecast of revenue and expenditure. This has typically anticipated the year-end surplus and led to a reduction in Member States' own resources contributions. Indeed, the Commission's good budgetary management has been acknowledged by the Court of Auditors: in its annual report concerning the financial year 2007 (point 3.4) the Court states that the reduction of payment appropriations reflects good budgetary management as it demonstrates the ability to react to changes and reduces the budgetary surplus, allowing own resources to be returned to Member States.

16.

Cash flow forecasting carried out by the Commission (DG BUDG) is effective. Its objective, as stated in Article 58 of the Implementing Rules of the Financial Regulation, has always been achieved, instances of insufficient funds resulting from incorrect forecasting having never occurred.

The existing procedures for both cash flow reporting and forecasting were redrafted in the end of 2008 in the context of a review of the related reporting tools. An updated, unified, version of the procedure, also including more details on the forecasting part, will be adopted as from the end of the first quarter of 2009.

18.

The Commission points out that the cash forecast procedure is formally documented, is published, and is also complemented by a set of step-by-step instructions. For what concerns the estimates it uses in this exercise, they are made with the best possible accuracy, and the Commission considers that the current procedures have no significant impact on either the overall treasury operations or the respect of the applicable regulation.

19.

The Commission selects all its 'house banks' through a public call for tender procedure. House banks are located in the EU and used for the execution of payments authorised by the Commission's central services.

It is materially impossible, and it would be inefficient, to apply the same procedure in order to open a single current bank account in each of the +/- 150 countries where imprests have been set up. These accounts are used to pay small amounts, while balances kept on these accounts are very low and they are periodically refunded up to the amount of the payments effectively made only.

REPLY OF THE COMMISSION

Whenever it is possible and appropriate — in view of the local banking environment — the bank where such an account will be held is selected on the basis of a bank survey undertaken locally under the supervision of the imprest account holder.

The Commission will follow up on the Court's observation and better document the specific selection procedure followed in each case.

20.

A proper segregation of duties exists within the DG BUDG unit concerned between the treasury management and the bank reconciliation and is reflected in the organisational structure of the unit. There are three team leaders in this unit C01:

- one for reconciliation/imprest accounts;
- one for treasury;
- and one for third-party files.

All delegations are given in writing by the Accounting Officer and are kept updated. Those delegations detail the specific tasks delegated.

The delegations respect the job description of each person and the tasks of the unit. Segregations of duties are in place in the unit as demonstrated by the organisation chart.

The IT system itself is the main control tool as segregation of tasks is guaranteed (notably between payment run and reconciliation) and checks are effected by the system.

Risk management is in place as are effective supervisory measures.

On the basis of the above, it has been concluded that only the head of the unit in charge of treasury management should be designated as holding a sensitive function.

21.

Large public sector organisations like Member States also have different entities for debt and asset management from those handling budgetary receipts and payments. In the same way the Commission has found an efficient distribution of tasks between DG BUDG and DG ECFIN.

22.

The tasks carried out by the treasury in DG BUDG (budgetary payments) and DG ECFIN (off-budget asset management, and borrowings) are different from each other and so a different approach to risk management and control is justified based on the different nature of the tasks.

23.

The different methodologies to limit risks are due to the different nature of the tasks performed. Limits for *nostro* accounts, which cater for daily cash movements but normally do not hold substantial funds for a longer period, have to be considered differently from limits for counterparties with whom money is placed for a longer period.

In addition, with the exception of the accounts where provisionally cashed fines are held (on this subject see Commission's reply to paragraph 34), funds held by DG BUDG on current accounts with individual commercial banks are for such limited amounts that, even if DG ECFIN used the same banks, this would not represent a material increase of its risk.

REPLY OF THE COMMISSION

25.

The Commission's overview of the risks related to its treasury operations (DG BUDG), to which the Court makes reference in its observation, clearly explains to which risks it is exposed, how such risks are managed, and which measures have been put in place to control, minimise or neutralise them. It also makes reference to procedures that contain measures to control or limit operational and financial risks. These existing procedures will be cross-referenced into a single formal document of DG BUDG.

26.

A risk assessment of all areas of DG ECFIN's activities was done in 2004. Since then, supplemental risk assessments were performed for activities where a major change had occurred. This risk assessment process is deemed adequate taking into account the quite stable character of DG ECFIN activities. Another full risk assessment of all DG ECFIN activities has been carried out at the end of 2008.

The important financial risks are closely monitored through the course of the year. See the Court's statement in Box 3.

28.

The indicators included in the DG BUDG's 'tableau de bord' are the most relevant for the DG BUDG treasury operations and are significant indicators of its performance. Such indicators are regularly tracked and performance against them is assessed. In case of poor performance appropriate measures are put in place to correct it.

Within the treasury, specific objectives are defined for the individual team members, which are used to assess their performance. Most of them are in the form of performance indicators. They enable management to objectively assess/measure individual performances and the overall performance of the treasury.

29.

The calculation of a benchmark for performance review for the other portfolios is under preparation. At the beginning of 2009 the methodology is established and the IT implementation is in the testing phase.

30.

The mentioned fiduciary accounts opened by the authorising officers for the requirements of the execution of specific budgetary programmes have a different nature than the bank accounts opened by the Accounting Officer for the requirements of treasury management according to Article 59 of the Implementing Rules.

As mentioned by the Court, fiduciary accounts are established for certain programmes in the context of specific agreements where the financial organisation acts as the financial intermediary of the Commission (e.g. fiduciary agreements between DG ECFIN and financial organisations).

Payments to financial organisations, such as the European Investment Bank (EIB) or the Kreditanstalt für Wiederaufbau (KfW), should not always be seen as and automatically treated as fiduciary transactions. Financial organisations could also act as project coordinators, as beneficiary or as additional donor for a trust fund; related payments have to be then normally considered as pre-financing. Thus, the correct classification of such payments requires a detailed analysis of the underlying contracts.

REPLY OF THE COMMISSION

31 — 32.

Following a remark of the Court, DG BUDG made two inventory exercises in 2007 (30.9.2007 and 31.12.2007) in order to ensure the completeness in the annual accounts of financial assets held by financial organisations. All Directorates-General have replied to these two requests and controls were made to verify the coherence of the answers with the annual accounts for 2007.

The inventory exercise is now part of the standardised yearly closure procedure.

To further improve the situation, the Commission has already proposed to and agreed with the Court that as from the 2008 closure an official circular letter is sent to the financial organisations concerned in order to get accurate, complete and standardised information from them regarding the fiduciary accounts.

As already mentioned in the reply to paragraph 30 the fiduciary accounts are different from the bank accounts opened by the Commission's Accounting Officer according to Article 59 of the Implementing Rules. For the latter a uniform policy is already in place. For the fiduciary accounts the Commission will analyse the situation further in order to respond to the Court's remarks.

34.

The current system employed for the management of provisionally cashed fines is clearly defined and is based on a Commission decision of 1999. The related guidelines, which are aligned to this decision, are a standard and integral part of each contract concluded with banks used for this purpose.

The current system for the management of provisionally cashed fines was subject to a review in 2008, with the main objective of increasing its security. A proposal for a Commission decision on this matter has been issued in early 2009 by DG BUDG.

39.

The Commission points out that, first of all, all treasury procedures in all significant aspects are formally documented, and in many cases complemented by detailed step-by-step work instructions.

In addition, for all key tasks within the DG BUDG treasury there are one or more back-ups in order to ensure continuity of the operations in case of planned and/or unexpected absences.

The Commission therefore considers that the risk to business continuity in case of key members of staff leaving the unit at short notice is very low.

REPLY OF THE COMMISSION

CONCLUSIONS AND RECOMMENDATIONS

42.

The Commission is bound to respect the provisions of the Council regulation implementing the decision on the system of the Communities' own resources, which foresee, namely, that Member States credit own resources to the account opened in the name of the Commission by means of monthly twelfths. However, since 2005 the Commission has proposed a preliminary draft amending budget to the budgetary authority at the end of October updating the budget relative to the forecast of revenue and expenditure. This has typically anticipated the year-end surplus and led to a reduction in Member States' own resources contributions. Indeed, the Commission's good budgetary management has been acknowledged by the Court of Auditors — in its annual report concerning the financial year 2007 (point 3.4) the Court states that the reduction of payment appropriations reflects good budgetary management as it demonstrates the ability to react to changes and reduces the budgetary surplus, allowing own resources to be returned to Member States.

43.

With respect to the Court's observation under paragraph (a), the Commission points out that the procedure the Court refers to (transfers between Member States own resources accounts) is formally documented and is complemented by detailed 'step-by-step' instructions.

With respect to the Court's observation under paragraph (b), the Commission points out that the cash forecasting procedure used for advanced call-ups of own resources as well as its application is documented. It is the formal basis for requesting Member States to pay own resources in advance.

In the context of a recent review of the cash reporting tools, the existing procedures for both cash flow reporting and forecasting were redrafted in the end of 2008. An updated, unified version of the procedure, also including more details on the forecasting part, will be adopted as from the end of first quarter of 2009.

For what concerns the estimates used for the transfer of funds between Member States' own resources accounts, they are made with the best possible accuracy and the Commission considers that the current procedures have no significant impact on either the overall treasury operations or the respect of the applicable regulation.

Recommendations

First indent

The present system of own resources accounts, primarily designated to receive the own resources payments, is linked to the own resources system, as established by Council Decision 2000/597/EC, Euratom and its implementing regulation, Council Regulation (EC, Euratom) No 1150/2000, that the Commission is bound to implement. The Council adopted in 2007 the new own resources decision (2007/436/EC, Euratom), and very recently a revision of Regulation 1150/2000⁷, which do not introduce any significant changes in the system of own resources accounts and payments. This suggests that the Council is satisfied with the functioning of the present system.

⁷ Council Regulation (EC, Euratom) No 105/2009, OJ L 36, p. 1, 5.2.2009.

REPLY OF THE COMMISSION

Second indent

The Commission will endeavour to improve the documentation in this area. It has redrafted its cash flow reporting and forecasting procedures at the end of 2008, in the context of a review of the related reporting tools. The updated version of the procedure, which also contains more details on the forecasting part, will be adopted as from the end of March 2009. However, it does not consider that checking the accuracy of estimates used will have a material impact.

44.

The Commission's overview of the risks related to its treasury operations (DG BUDG), which is part of its Annual Accounts, provides a clear and comprehensive summary of the risks it is exposed to, how such risks are managed, and which measures have been put in place to control, minimise or neutralise them. It also makes reference to procedures that contain measures to control or limit operational and financial risks.

These existing procedures will be cross-referenced into a single formal document of DG BUDG.

The indicators included in the DG BUDG's 'tableau de bord' are the most relevant for the DG BUDG treasury operations and are significant indicators of its performance. Such indicators are regularly tracked and performance against them is assessed. In case of poor performance appropriate measures are put in place to correct it.

45.

One has to make a distinction between the treasury (and payment) functions covered by DG BUDG on the one hand and the asset management function ensured by DG ECFIN on the other hand, in accordance with the decision taken by the Commission. Each of these functions has a responsibility clearly allocated to one central service. See also the Commission's reply to paragraph 23.

46.

Given the very varied purpose of the funds held on trust accounts, which results in different cash flow patterns and holding periods, it is operationally very difficult to even optimise interest of funds held with one financial institution. See also the replies to points 31 and 32 above.

47.

The current system for the management of provisionally cashed fines was subject to a review in 2008, with the main objective of increasing its security. A proposal for a Commission decision on this matter has been issued in early 2009 by DG BUDG. See also the Commission's reply to paragraph 34.

Recommendations

First indent

The Commission will improve its oversight on the different treasury management activities performed. The separation of tasks between the two DGs concerned serves to limit the need for extensive coordination. Meetings will be established more regularly between the two DGs to share information on risks, and to exchange experiences and best practices regarding treasury and asset management activities on a Commission-wide level.

REPLY OF THE COMMISSION

Second indent

The Commission's overview of the risks related to its treasury operations (DG BUDG), which is part of its Annual Accounts, provides a clear and comprehensive summary of the risks it is exposed to, how such risks are managed, and which measures have been put in place to control, minimise or neutralise them. It also makes reference to procedures that contain measures to control or limit operational and financial risks.

These existing procedures will be cross-referenced into a single formal document of DG BUDG.

The indicators included in the DG BUDG's 'tableau de bord' are the most relevant for the DG BUDG treasury operations and are significant indicators of its performance. Such indicators are regularly tracked and performance against them is assessed. In case of poor performance appropriate measures are put in place to correct it.

Fourth indent

The current system for the management of provisionally cashed fines was subject to a review in 2008, with the main objective of increasing its security. A proposal for a Commission decision on this matter has been issued in early 2009 by DG BUDG. See also the Commission's reply to paragraph 34.

European Court of Auditors

Special Report No 5/2009

The Commission's treasury management

Luxembourg: Office for Official Publications of the European Communities

2009 — 34 pp. — 21 x 29.7 cm

ISBN 978-92-9207-295-7

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IN THIS SPECIAL REPORT THE COURT AUDITED THE QUALITY OF THE COMMISSION'S TREASURY MANAGEMENT, ASSESSING WHETHER THE COMMISSION COMPLIED WITH THE RELEVANT RULES AND REGULATIONS, AND WHETHER THE COMMISSION HAD ESTABLISHED INTERNAL CONTROL SYSTEMS WHICH ENSURE A SOUND TREASURY MANAGEMENT. THE COURT CONCLUDED THAT OVERALL THE COMMISSION COMPLIED WITH THE APPLICABLE COMMUNITY LEGISLATION, THAT IT HAD SET UP PRUDENT CASH MANAGEMENT FORECAST PROCEDURES, AND THAT IN GENERAL ITS INTERNAL CONTROL PROCEDURES WERE EFFECTIVE. HOWEVER, THE COURT ALSO FOUND A LACK OF COORDINATION BETWEEN THE RELEVANT COMMISSION DGs IN AREAS SUCH AS RISK MANAGEMENT AND CONTROL. THIS LED TO A SITUATION WHERE THE COMMISSION DID NOT SUFFICIENTLY CONSIDER ITS OVERALL RISK EXPOSURE WITH EACH COMMERCIAL BANK. FURTHERMORE THE COURT FOUND THAT THERE IS AN INCREASED RISK OF LOSS OF PROVISIONALLY COLLECTED FINES HELD IN SPECIFIC BANK CURRENT ACCOUNTS.



EUROPEAN COURT OF AUDITORS



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ISBN 978-92-9207-295-7



9 789292 072957