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11.2 Budgetary Management Accounts of the Council of Europe for the year ended 31 December 2011

PART I : Budgetary Management Accounts 2011

PART II : External Auditor's Report 2011

¹ This document has been classified restricted until examination by the Committee of Ministers.



**REPORT OF THE EXTERNAL AUDITOR
ON THE BUDGETARY MANAGEMENT ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2011**

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I. EXECUTIVE SUMMARY

1. We have audited the budgetary management accounts of the Council of Europe in accordance with its Financial Regulations and with International Standards on Auditing.² The accounts were prepared and presented in accordance with the Financial Regulations. We issued an unqualified opinion that the budgetary management accounts properly reflect the financial records and transactions. Transactions were also in accordance with the Financial Regulations.

2. As regards the result of executing the ordinary budget a slight deterioration can be noted, since the surplus decreased from €1.7M in 2010 to €1.5M in 2011. This represents only 4 % of the overall surplus including the partial agreements' results.

3. The two most significant partial agreements, the Pharmacopoeia and "Eurimages", generated budget surpluses of €11M and €23.1M respectively. Together they account for 92.7% of the budget surpluses (excluding the special accounts).

4. At the end of 2011 the overall surplus for the general budget and the partial agreements stood at €36.8M, a 6.8 % increase over the 2010 figure (€34.4M). The surpluses carried forward in the special accounts totalled €29.5M at the same date (compared with €23.5M at the end of 2010), corresponding to a 25% increase.

5. The new structure introduced with the reformed Programme and Budget has enabled the Council of Europe to enhance the clarity and visibility of its budget document. As well as being presented in terms of thematic pillars and operational programmes, the document provides information on objectives, expected results and indicators. A new approach to reporting and monitoring execution, whether from a budgetary or programme standpoint, has been adopted, based on a coherent, reliable system of data acquisition. This is unquestionably a positive development, and our only recommendation concerns the concept of an indicator as applied here, since a distinction should be drawn between activity and performance indicators.

6. The budgetary importance of the Directorate of Logistics (DLOG) and its central role in the cost containment efforts led us to examine the management of this administrative entity, essential to the functioning of the Council of Europe. It can be noted that, for lack of genuine cost accounting, less than one quarter of this directorate's expenditure can be assigned directly to given departments or entities, which makes it crucial that the Council consider introducing an appropriate management tool offering budgeting, accounting and reporting functions. Lastly, the fact that there is some duplication of tasks might justify the pooling of resources, or possibly a degree of outsourcing, in line with the steps already being taken.

II. AUDIT APPROACH

7. In accordance with Part VI of the Financial Regulations, an audit to certify the budgetary management accounts of the Council of Europe was conducted by seven auditors from 10 to 20 April 2012. Tests of the principal items were performed on a sampling basis to obtain evidence supporting the amounts in the budgetary management accounts and the relevant notes. The diverse sample of transactions utilised was representative of the Council of Europe's activities.

8. Each observation and each recommendation was discussed with the relevant staff members. An observations report taking full account of management's comments and replies was sent to the Secretary General on 28 June 2012.

² ISA

III. FOLLOW-UP TO PREVIOUS AUDIT RECOMMENDATIONS AND TO INTERNAL AUDIT PROCEDURES

9. We examined the implementation of our previous audit recommendations³ and noted that, of the two recommendations, one had been implemented and the other, concerning updating of the data extraction queries performed in the FIMS accounting system, was in hand and had already been partly implemented. The recommendation concerning a new computer system for calculation and settlement of official journey expenses had been partly implemented at the time of our previous audit. This matter is addressed at greater length in this report.

10. No report on budgetary management matters had been issued by internal audit.

IV. PRINCIPAL OBSERVATIONS

11. A more detailed report setting out our observations was sent to the secretariat on 28 June 2012. These observations were taken into account in the preparation and presentation of the budgetary management accounts for the year ended 31 December 2011, enabling us to issue an unqualified opinion.

12. This report focuses on the principal observations to be implemented in the longer term that would reinforce quality assurance and facilitate comprehension of the budgetary management accounts.

V. FINANCIAL POSITION

13. In a budgetary context characterised by the need to control expenditure, implementation of the ordinary budget resulted in an overall credit balance of nearly €1.5M (0.7% of the budget) in 2011, compared with €1.7M in 2010, €0.55M in 2009 and €1.9M in 2008.

14. General budget receipts, which represent over 64% of all receipts, grew by 0.8% between 2010 and 2011 as a result of two opposite trends, firstly a stabilisation, and even a decrease, of the main components and secondly growth in receipts at the levels of the European Youth Centres (+5.4%), the pensions budget (+7.1%) and the European Youth Foundation (+2.7%). Financial revenue doubled, generating additional receipts of €656K.

15. The partial agreements' receipts, which represent 23.8 % of total receipts, grew by 8.6 % in 2011 over 2010 as a result of an increase in the receipts of the two most significant partial agreements, the Pharmacopoeia and "Eurimages".

16. General budget expenditure, representing 70.5% of total expenditure, remained stable (+0.6%) in 2011 as compared with 2010. The partial agreements' expenditure, representing 17.8% of total expenditure, grew by 9.1% over the 2010 figure. The special accounts, which represent 9.2 % of all expenditure, recorded a 4.6 % increase in expenditure in 2011. The trend varies significantly depending on the special account concerned. The expenditure of the most significant special account, that concerning joint programmes (68.9% of the special accounts), rose by 23.8 %, whilst its receipts increased by only 2.3%.

17. The budgetary result is the annual sum of expenditure and receipts under the ordinary budget, the subsidiary budgets (pensions budget, European Youth Centres, publications, services, Extraordinary Budget and European Youth Foundation) and the partial agreement budgets. Allocation of this result depends on the resolution voted by the Committee of Ministers after approving the accounts. It can be allocated to reserves, repaid to the member states (or deducted from future contributions) or carried forward in the following year's budget receipts (which is most frequently the case, for example, in the ordinary budget or subsidiary budgets). The Committee of Ministers decided to credit the ordinary budget result for 2010 (€1 728 866.66) to the member states.

³ CM(2010)100 add of 26 August 2011

18. The ordinary budget result decreased by 11.5% year on year, from €1 729K in 2010 to €1 530K in 2011, including the impact of a provision for litigation amounting to €467K. This result represents 0.8% of total ordinary budget receipts. The general budget result, which also includes the results of the publications and European Youth Foundation budgets, increased from €2 271K in 2010 to €2 339K in 2011 (+3%).
19. The partial agreements' budget results are extremely varied. They represent a total amount of €34.4M, a 7.4% increase over 2010. The Pharmacopoeia's result increased by 14.8% in 2011 compared with 2010, and that of Eurimages by 4.7%, whereas the result of the GRECO enlarged agreement decreased by 45%.
20. The North-South Centre's budget result shrank by 73%, from €46 443 in 2010 to €12 456 in 2011. This reflects the specific context of the withdrawal from the partial agreement of two of the Centre's longest-standing members, the Netherlands and Switzerland, to be joined by Germany as from 2013, a situation which raises questions about the strategy to be implemented to ensure the Centre can continue to operate at its current activity level. To maintain the operating budget at its current level, failing new accessions, the existing members' contributions would have to be raised by 27.7% (100/78.3), which could pose a problem of sustainability. A complete discontinuation of the activities of this partial agreement cannot be ruled out entirely, making it necessary to consider how any outstanding liabilities might be met, in particular regarding commitments in respect of the Centre's staff.
21. The overall surplus on the general budget and the partial agreements grew from €34 406K in 2010 to €36 761K in 2011, a 6.8 % increase.
22. Under Article 11 of the Financial Regulations the special accounts are multi-annual in nature. Any credit balance or deficit is accordingly automatically carried forward to the following year. The cumulative results of the special accounts grew by 25.7% in 2011 compared with 2010, mainly due to the results of the "Termination of service" and "Programme of activities" special accounts. The overall surplus on joint programmes nonetheless decreased by €1.6M, or 12 %.
23. The presentation of the budgetary management accounts was further improved in 2011. Those relating to the special accounts now include an introductory note explaining their nature and objectives, as is the case for the ordinary budget, the pensions budget and the partial agreements' budgets, and a commentary is made on the trend in their overall outcome. Similarly, supporting notes have been added so as to clarify the main budget variances regarding receipts, whereas previously only trends in expenditure were commented upon.

VI. NEW PROGRAMME AND BUDGET: EXPECTED RESULTS AND PERFORMANCE INDICATORS

24. In January 2010 the Secretary General of the Council of Europe presented the main lines of a reform aimed at raising the Organisation's profile. The reform measures announced at that time included a review of the programming of all of the Council's activities. This review led to the introduction of a single document (the "Programme and budget") giving a condensed overview of activities and of the resources allocated to them. This document, intended as a strategic instrument, is organised around three thematic pillars (pillar 1: Human Rights; pillar 2: Rule of Law and pillar 3: Democracy), plus a pillar for support services. It encompasses the existing budgetary votes and the three operational dimensions: standard-setting, monitoring and co-operation.
25. The new "programme and budget" can be seen to constitute a corner-stone of the reform, since, while covering the entire Organisation and its resources, it provides a platform for determining options for the future and for making the transition to a pluri-annual budget. The new structure of the programme and budget is aimed at improving the decision process and adapting the Organisation to achieve the results expected of it. For this reason, as regards the presentation programme, the logframes cover two years, possibly with separate expected results and performance indicators for each year, to which the introductory section of the budgetary management accounts for the year ended 31 December 2011 makes reference. The indicators were audited with regard to their manner of definition, relevance, measurability and/or verifiability and an evaluation was made of the indicators reporting system and the reliability of the results it produces.

26. Performance indicators are nothing new at the Council of Europe. The first attempts to introduce an approach of this kind were made some ten years ago.

27. The single programme and budget document for 2011 includes 38 operational programme lines, each corresponding to a logframe stipulating what the Organisation does (what?) the objectives and expected results (why?) and the structures and resources underpinning these programmes (how?). The focus has been placed on the activities' essence rather than the existing structures. The programme accordingly simultaneously covers the intergovernmental sector, the Council's institutions, the partial agreements and the independent mechanisms. At the level of resources, the information provided concerns the ordinary budget allocation to each operational programme, EU contributions to joint programmes and voluntary contributions by the member states.

28. Implementation of the programme and budget is addressed in an annual progress review report and, since the amendment of the Financial Regulations in 2011, an interim progress review report. 2011 is accordingly a transitional year. The progress review report for 2011 was discussed by the Budget Committee at its May 2012 meeting. It will be presented to the Committee of Ministers in September 2012. On reading the 2011 progress review report it can be noted that "Overall, the successful implementation rate remained at a high level and reflected a continuous increase in recent years. Of the 214 expected results, 173 were fully achieved (81%, compared with 79% in 2010 and 77% in 2009)."

29. The programme and budget for 2012-2013, structured in the same way as the 2011 document, now includes only 31 operational programme lines. Resources coming from European Union contributions to joint programmes and voluntary contributions by member states are shown in greater detail than in the previous document. The expected results and performance indicators have been revised by the departments concerned.

Audit methodology

30. Our analysis of the performance indicators and the reporting process was based mainly on the "programme and budget" documents for 2011 and 2012-2013, on information extracted from the RBB⁴ database, summarising the results achieved, comparing them with the indicators and briefly commenting on any variances, and on the progress review report for 2011, which addresses certain aspects in more detail, providing fuller explanations for variances or for the results obtained. According to the latter document, 173 expected results out of a total of 214 were fully achieved.

31. The audit accordingly focused on the general performance indicators rather than the detailed indicators developed by each department so as to manage its own activities. Due to time constraints it was decided to select a sample of 12 programmes included in the 2011 document, based on the following criteria:

- the budget allocated to them (together these 12 lines account for more than 50% of the total budget),
- the activities pillar concerned (selection within pillars 1, 2 and 3 or the "support services" pillar),
- the type or nature of the activities concerned (entity mainly engaged in standard-setting, co-operation or monitoring/intergovernmental activities, institution, independent mechanism or partial agreement).

32. The single programme and budget document principally serves a strategic purpose. It must give a concise picture of activities implemented and of the resources allocated to them. It must also impart a degree of consistency to all the activities of the Council of Europe. Lastly, it must allow a stocktaking exercise on the basis of the results attained, so as to identify new priorities for the future. It is not intended to be of direct use to the managers of the operational departments or support services but is rather conceived for the Organisation's most senior governing bodies (secretariat and Committee of Ministers). Two strong points can be highlighted here:

- The clarity of the two programme and budget documents examined must be underlined. They indeed give a concise, cross-cutting picture of all the activities, the strategy adopted and the resources allocated to each activity.
- All of the Council's activities are covered by the single document.

⁴ Results Based Budgeting

33. One weakness can nonetheless be noted, in that the basis for distributing the operational activities sometimes seems artificial. For example, the distinction between the "Rule of law" and "Democracy" pillars is not self-evident, as the two concepts partly overlap. At the same time, it is unnatural to group together a number of very different activities within the same programme line so as to attain a critical mass in terms of budget volume (an example being "Culture and Democracy: Cultural Diversity and Intercultural Dialogue - Cultural Routes, North-South Centre, Eurimages and European Audiovisual Observatory", which concerns separate activities with different objectives and operating methods).

Determination of the expected results and indicators

34. The programme and budget is prepared by the Programme and Budget Department within the DPFL,⁵ which is part of the Organisation's Directorate General of Administration. The next document, covering the period 2014-2015, will be drawn up by the DPFL in close co-operation with the Directorate General of Programmes, which was established in the autumn of 2011 and will have responsibility for devising strategic guidelines on the basis of the priorities set by the Committee of Ministers, above all with the so-called "operational" programmes. The DPFL will remain responsible for preparation of the document itself and of the progress review reports (interim and for the previous financial year).

35. The expected results and performance indicators were determined by the departments concerned. With the introduction of the single programme and budget document they were asked to reduce the number of objectives (expected results) as compared with previous years, so as to bring to the fore the strategic priorities being pursued. Similarly, they were asked to conduct a regular review of objectives and indicators from one programme to the next.

36. The indicators are centralised by the Programme and Budget Department, which is responsible for preparing the single document. This department verifies the indicators' relevance and, if necessary, requests the departments concerned to provide further information or make changes. The indicators are determined through consultation between the Programme and Budget Department and the other departments, which means that the process is relatively informal and flexible.

37. The indicator determination cycle runs from June/July of year N-1 to the indicators' adoption by the Committee of Ministers in November N-1 for a programme beginning in year N. Attention can be drawn to two strengths:

- The number of expected results and corresponding indicators per operational programme line is limited (a maximum of five expected results per programme line, with four indicators per expected result), making it possible to focus the indicators on the core priorities. The main advantage of this exercise is that it encourages departments to give real thought to the reasons for their activities.
- In general the expected results (general objectives), albeit limited in number, duly reflect the priorities assigned to the entity implementing the programme line concerned.

38. Two weaknesses were also observed:

- The performance indicators chosen, by nature limited in number, are sometimes completely dissociated from departments' internal indicators, which are necessarily more numerous and more detailed. This can be explained, firstly, by the fact that the cycle for determining/revising the general indicators requires that they be set very much in advance and, secondly, by the independent reporting arrangements that are usually in place for activities corresponding to operational projects.
- The programme managers accordingly do not regard the synthetic indicators used in the programme and budget document as a tool for managing their departments. Although most of them acknowledge that the general approach is useful in certain respects, they perceive this process more as a question of justifying their activities and reporting to the Committee of Ministers.

⁵ Directorate of Programme, Finance and Linguistic Services

The indicators' relevance

39. Given the great diversity of the activities it is naturally hard to devise appropriate indicators. Identifying uniform, quantified assessment criteria is inherently impossible. Individual staff members also have their own, very different ideas as to what constitutes an appropriate performance indicator. One key question has received no specific answer: what is to be measured?

40. The term "performance indicator" is both ambitious and ambiguous. The concept of performance necessarily involves both a quantitative dimension and a qualitative one. Furthermore, measuring performance entails studying the impact of the activity being carried out. It stands to reason that it is difficult to evaluate the quality of work on the basis of a limited number of quantitative indicators that are both quite rudimentary and measured annually. The impact of the Council of Europe's activities also depends to a great extent on current affairs and on political goals external to the Organisation and cannot be gauged in the short term. It would scarcely be judicious to base measurement of an entity's general performance on parameters over which it has no control. It can therefore be concluded that the purpose of the chosen indicators is not so much to measure performance as to determine the volume of activities implemented in the light of the resources allocated to that end. In this respect, the indicators will more closely resemble action plans to be carried out than performance indicators in the strict sense.

41. The following strong points were noted:

- Clear efforts have been made to produce quantified, easily verifiable indicators. These are mostly simple indicators, expressed in volume terms (such as the number of applications dealt with, of conferences held, of training sessions run, of monitoring visits performed) or in terms of timeframes to be adhered to.
- Some progress was noted between the programme and budget for 2011 and that for 2012-2013. Although certain imprecise indicators can still be found, in most cases they have been supplemented with a quantified, measurable element.
- More often than not when a quantified level is indicated, reference is made to results achieved in previous years, which allows comparisons and the identification of general trends;
- Some expected results linked to other objectives or poorly defined indicators have been eliminated;
- A training session for staff in charge of devising indicators is scheduled in the autumn of 2012.

42. Particular attention could be paid to certain weaknesses, namely:

- The improper term "performance" indicator detracts from the credibility of the exercise, since the performance of departments or programmes rightly cannot be summed up in a few figures. The Council should adopt another term which, while admittedly being less ambitious, would doubtless be more realistic and better accepted, such as "activity" indicator in a number of cases;
- There are still some sub-indicators whose achievement is hard to assess. An example, concerning execution of judgments of the Court,⁶ is the expected result "Transparency and visibility of the CM's supervision activity are improved, as requested in the Interlaken Action Plan" / Performance indicator "The state of execution of cases is easily accessible to capitals, applicants and NGOs.⁷ Information on the payment of just satisfaction is easily accessible to all interested persons. ..." Although perfectly meaningful in terms of performance, "easily accessible" is still too vague to make it easy to assess whether or not the criterion has been met;
- Indicators do not fully reflect the objective being pursued (the expected result);
- The threshold of the chosen indicators is usually set at a level that is fairly easy to attain for the departments concerned, thereby focusing on what is already working well.

⁶ European Court of Human Rights

⁷ Non-governmental organisations

43. The external auditor recommends utilising "activity indicator", a more precise term than "performance indicator" which, as the Organisation acknowledges, covers both output and activity indicators and is more commonly used. It is for the Organisation to choose the terminology employed. Nonetheless, we consider it desirable in future that, in the light of experience gained, a distinction should be drawn between activity indicators and performance indicators.

Recommendation 1: The external auditor recommends that, in future, a distinction should be drawn between activity indicators and performance indicators.

The quality of the reporting process

44. Results achieved are reported, firstly, through the RBB (Results Based Budgeting) database, which makes it possible to set out in columns (and compare) the indicators and the results actually achieved and, secondly, in the form of an annual progress review report for submission to the Budget Committee, as mentioned above. An interim report, adopted at the mid-year point, was introduced following an amendment of the Financial Regulations in 2011.

45. The progress review report for 2011 (which was finalised as at 31 March 2012) was prepared by submitting a questionnaire to departments in 2011 via the major administrative entities. This questionnaire included four sections:

- what went well - tangible results achieved;
- what did not go well: lessons learnt for the future and action to be taken in the future;
- impact of the 2011 programme on the programme and budget for 2012-2013;
- the added value provided by the Council of Europe and co-operation with other organisations.

46. Programme co-ordinators were able to provide more detailed information on the context in which the results (achieved, partly achieved or not at all achieved) were obtained.

47. The progress review report, which effectively supplements the indicator reporting system itself, can be regarded as a strong point. At the same time, two weaknesses can be noted, namely:

- as is the case with the definition of the indicators, preparation of the progress review report is a time-consuming administrative exercise for both the programme co-ordinators and the Programme and Budget Department;
- the six-monthly frequency of the interim reports is not necessarily suited to all activities.

48. It is true that, as the Organisation pointed out in its reply, Article 65 of the Financial Regulations, as revised in 2011, provides for the production of both an interim progress review report for the ongoing financial year before 15 September of each year and a progress review report on the implementation of the programme and budget of the previous year before 31 March, with the difference between these two reports being confined solely to the fact that the first concerns "expected results" and the second "results achieved". Both reports are required to give information on resources utilised per programme line.

49. While it is premature to evaluate this system in the first year of implementation of the first biennial programme and budget, it is clear that the scope and content of the interim progress report for the ongoing financial year (the report due "before 15 September") will differ depending on the year in the biennium being covered, whereas the progress review report on implementation (the report due "before 31 March"), will be far more consistent from one year to the next, since it will deal with "results achieved". Unlike the evaluation or measurement of results, reporting on use of resources, distinguishing between commitments and payments, should, at least in-house, take place more frequently than the six-monthly rhythm resulting from the combined provisions of paragraphs 1 and 2 of Article 65 of the Financial Regulations.