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*Annual Report on the  
activities of the Anti-Fraud Committee  
of the European Central Bank*

*– Covering the period from January 2001 to February 2002 –*

14 March 2002

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# EUROPEAN CENTRAL BANK

## ANTI-FRAUD COMMITTEE

### ANNUAL REPORT

#### **1. Introduction**

In its second year of existence the Anti-Fraud Committee of the European Central Bank (hereinafter, "the AFC") continued its activities pursuant to the Decision of the European Central Bank of 7 October 1999 on fraud prevention (ECB/1999/5) .

The members of the AFC, Dr. Eric Ernst Nordholt, Mr Justice John L. Murray and Dr. Maria Schaumayer, who were appointed by a Decision of the European Central Bank of 16 November 1999, continued in office, with Mr Justice Murray as Chairperson.

Having regard to the responsibilities conferred by the Decision of the ECB on Fraud prevention (ECB/1999/5), (see annex I) the activities performed by the AFC within the reporting period, January 2001 - February 2002, were as follows:

The AFC liaised with and monitored the activities of the Directorate Internal Audit of the ECB in the field of fraud prevention and detection. The Director of Internal Audit forwarded a programme of the relevant activities and kept the AFC regularly informed on these activities.

Monitoring the activities of the Directorate Internal Audit included consideration of proposals and initiatives of the Directorate and where it considered it appropriate, the AFC emphasised the priority and importance to be attached to such proposals.

#### **2. Observations of the Anti-Fraud Committee of the European Central Bank**

A. Having regard to the Decision of the ECB on Fraud Prevention (ECB/1999/5) the observations of the AFC with regard to the reporting period are as follows:

- There has been no issue detected concerning fraud and other illegal activities detrimental to the financial interests of the ECB;
- There has been no occasion for an investigation related to fraud and other illegal activities detrimental to the financial interest of the ECB;
- There has been no case in which the management of the ECB or the decision-making bodies of the ECB have failed to act on recommendations regarding an issue of fraud prevention or detection or regarding compliance with relevant standards and/or codes of conduct of the ECB;

- There has been no occasion to forward information to the judicial authorities of a Member State;
- There has been no information submitted to the AFC by a member of staff of the ECB or any other person on any fraud or illegal activities detrimental to the financial interests of the ECB;
- There has been no complaint submitted to the AFC by a member of staff of the ECB in respect of an act or omission having an adverse effect on him/her committed by the Directorate Internal Audit as part of the activities referred to in the Decision of the ECB on Fraud Prevention (ECB/1999/5).

B. As regards compliance with relevant internal standards and/or codes of conduct of the ECB the AFC considers that the following matters should be given particular mention:

1.1 The promotion of compliance as a continuing exercise.

This is a subject to which the AFC has given some consideration. Clearly the Bank, including the Directorate Internal Audit, have sought to promote a policy of strict observance of the standards and codes which have been established by the Bank. It is generally recognised that the simple establishment of standards and codes of conduct does not guarantee that the issues or problems which such standards or codes address will automatically be resolved, prevented or avoided. Consistent compliance with codes and standards are recognised as an essential element in maintaining confidence in the functioning and integrity of financial institutions in general. Uneven compliance can compromise the efficacy of risk control. Moreover, rules which may, superficially, appear peripheral to compliance objectives might on occasion be disregarded if their importance is not fully appreciated. Obviously it is essential that there is, at all levels within the ECB, a full understanding of the policy basis of all codes and standards as well as their importance. Any lack of common understanding can lead to divergence in their enforcement or observance. Undoubtedly, the ECB is conscious of these considerations and in pursuing a policy of compliance it has sought to achieve more than the simple establishment of standards and codes of conduct.

1.2 In this context the appointment, during 2001, of an ethics advisor for the purpose of advising personnel on questions which arise in connection with compliance and related ethical matters is welcomed by the AFC. The members of the AFC met and discussed with the ethics advisor, his role and functions.

1.3 Having given consideration to the possibility of introducing additional measures aimed at promoting a '*compliance culture*' the AFC has initiated discussions with the Directorate Internal Audit with a view to considering, in the coming months, whether further such measures might usefully be introduced to promote compliance having regard to recognised international practice in this area. This practice recognises the value of such measures even in the absence of any significant problems in the compliance area.

- 2.1 During the year 2001, Rules for official entertainment and representation costs, business travel expenses, and telecommunication costs of the Executive Board Members, as well as corresponding procedural guidelines have been introduced as anticipated in the last annual report. This has proved to be a positive step. These costs and expenses have been the subject of an audit by the Directorate Internal Audit full details of which have been made available to the AFC. In the light of the report, and with the benefit of practical experience together with the actual application of the new rules and procedures, additional measures are recommended to improve their effective and efficient application.
- 2.2 In this respect the AFC fully supports and endorses all the recommendations of the Directorate Internal Audit in that report and has made some recommendations of its own. In particular the AFC is of the view that it would be opportune now for the committee established under Article 11.3 of the Statute of the Bank<sup>1</sup> to review in the light of the report these rules and corresponding procedural guidelines so that, where considered appropriate, they may be clarified and/or extended. The AFC has also recommended to Directorate Internal Audit that in the absence of the "four-eyes" principle applying it should ensure that full and comprehensive documentation is at all times provided in accordance with Article 6 of the Rules. In this context, the AFC considers that it is important to enhance "first level" controls applied pursuant to these rules and guidelines. The AFC is also of the view that such first level control would be best located in an exclusively budgetary unit rather than one which also has day-to-day administrative functions.
- 3.1 The ECB has still to develop and implement specific policies regarding physical inventory and assets acquisition. The AFC has recommended that priority be given to the inventory of 'secure items'. Furthermore control of access to such items should be reviewed and updated periodically in accordance with the best practice criteria. Importance should also be attached to the establishment of an I.T. equipment inventory.
- 4.1 The AFC has received informative reports on the internal and external "firewalls" designed to ensure secure electronic communication within and external to the ECB as well as on related procedures. It notes that further measures are being put in place which will strengthen procedures concerning routine e-mail communication as part of a continuing process.

C. AFC has received a communication on behalf of the Bank Staff Committee seeking clarification of the manner in which confidential communications by staff to the AFC may be made and the procedures which the AFC would adopt in handling such communications. The AFC proposes to respond to the staff query by providing them with a Practice Statement to inform staff members how any such communications will be dealt with by the AFC and in particular the respect which will be accorded to such confidential communications.

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<sup>1</sup> Statute of the European System of Central Banks and of the European Central Bank. (Protocol 18).

### 3 Conclusion

In its Annual Report of 2001, the AFC welcomed the continuing process of establishing internal procedures and controls for fraud prevention. This process has been continued. The AFC is satisfied with the manner in which the Bank is addressing and dealing with these issues. The AFC will continue to review and monitor these procedures and controls and, as already indicated, consider means by which they may be enhanced.

The Directorate Internal Audit has exercised a key function in the compliance area and the importance of its involvement in all matters concerning, directly or indirectly, controls and standards cannot be underestimated.

The Directorate Internal Audit have fully co-operated with the AFC during the past year in the carrying out of its activities and made available to it all information or documentation which it required. The AFC also received full co-operation and assistance from personnel from other sectors of the Bank whom they met to discuss matters related to its activities.

14<sup>th</sup> March, 2002

John L. Murray  
Chairperson of the AFC

Maria Schaumayer

Member of the AFC

Erik Ernst Nordholt

Member of the AFC