

REPORT**on the financial statements of the Translation Centre for the bodies of the European Union (TCBEU — Luxembourg) for the financial year ended 31 December 1999 together with the Centre's replies**

(2000/C 373/04)

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THE COURT'S OPINION

1. This report is addressed to the Management Board of the Translation Centre for the bodies of the European Union in conformity with Article 14(4) of Council Regulation (EC) No 2965/94 ⁽¹⁾.

2. The Court has examined the financial statements of the Translation Centre for the bodies of the European Union for the financial year ended 31 December 1999. In accordance with Article 14(1), of Council Regulation (EC) No 2965/94, the budget was implemented on the responsibility of the Director. This responsibility includes the drawing-up and presentation of the financial statements ⁽²⁾ in accordance with the internal financial provisions, as provided for in Article 15 of Regulation (EC) No 2965/94. The Court of Auditors is required under Article 248 of the Treaty establishing the European Community to audit these accounts.

3. The Court performed its audit in accordance with its audit policies and standards. These have been adapted from generally accepted international auditing standards to reflect the specific characteristics of the Community context. The Court carried out such tests of the accounting records and other audit procedures as it deemed necessary in the circumstances. By means of this audit, the Court obtained a reasonable basis for the opinion expressed below.

4. This examination has enabled the Court to obtain reasonable assurance that the annual accounts for the financial year ended 31 December 1999 are reliable and that the underlying transactions, taken as a whole, are legal and regular.

MAIN OBSERVATIONS ON THE IMPLEMENTATION OF THE BUDGET OF THE TRANSLATION CENTRE FOR THE BODIES OF THE EUROPEAN UNION (TCBEU — LUXEMBOURG) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1999

Analysis of the implementation of the budget

5. The growth in demand for translations during the financial year resulted in a considerable increase in the revenue entered in the budget, which rose from an initial estimate of 13,6 million euro to 17,3 million euro, i.e. an increase of 27 %. The estimated revenue was established as due and collected, almost in its entirety, i.e. 14 million euro.

⁽¹⁾ OJ L 314, 7.12.1994, p. 1.

⁽²⁾ As required under Article 14(3) of Council Regulation (EC) No 2965/94, the accounts for all the Centre's revenue and expenditure for the financial year 1999 were drawn up on 2 March 2000 and forwarded to the Centre's Management Board, the Commission and the Court of Auditors. These accounts were received by the Court on 3 March 2000. A summarised version of these financial statements is presented in the tables attached to this report.

6. In accordance with the principle of budgetary equilibrium, the revenue for the financial year authorised commitments up to the amount of 17,3 million euro, of which 14,1 million euro, i.e. 82 %, was actually committed, the remainder being cancelled. Of the commitments made in 1999 against the appropriations for 1999, 3,1 million euro, i.e. 22 %, had to be carried over to the following financial year.

7. The extent to which revenue increased and the relative scale of the carry-overs and cancellations of appropriations demonstrate how necessary it is for the Centre to refine its estimates relating to the filling of posts, to adopt more realistic invoicing rates (see paragraph 9 below) and to develop even further its consultation with those Community institutions and bodies which are its clients.

8. As far as the commitments carried over from the previous financial year are concerned, i.e. 2,5 million euro, 1,9 million euro was used, i.e. 76 %, and the balance lapsed.

Analytical accounts

9. In its report concerning the financial year 1998 ⁽³⁾, the Court noted a considerable difference between the estimated cost of a page of translation and the real cost. As a result, large amounts had to be reimbursed. This situation was repeated in 1999, during which year pages of translation were invoiced at 74 euro per page, i.e. an amount 15,5 % greater than the last available cost estimate, which was 64 euro per page.

10. More precise and more realistic estimates would allow reimbursements to the Community bodies which are the Centre's clients to be reduced and would facilitate the management of their accounts with the Centre. Consequently, the Court reiterates its previous recommendations ⁽⁴⁾ that the Centre should set up analytical accounts in order to be able to establish, by body and by type of work, the real cost of the services that it provides.

Inventory

11. The inventory exhibits anomalies in the numbering of the items. In addition, the value of some of the equipment recorded in the inventory ledger has not been included in the balance sheet. Moreover, the Centre was not in a position to reconcile the balance sheet and the inventory ledger at the close of the financial year. Although these anomalies do not affect the reliability of the accounts, the Court urges the Centre to be more meticulous in the keeping of its inventory records and to conduct an exhaustive reconciliation of its accounts with its inventory ledger at least once a year.

⁽³⁾ OJ C 372, 22.12.1999, paragraph 7, p. 20.

⁽⁴⁾ OJ C 393, 29.12.1997, paragraph 1.6, p. 47 and OJ C 406, 28.12.1998, paragraph 1.6, p. 33.

Awarding of contracts

12. According to the documentation contained in the ACPC files, a report submitted to the latter in the context of the evaluation of a bid for translation work expressed the opinion that equal weight had been given to the price factor and the quality factor. An examination of the method of calculation used to rank the various bids reveals that the quality factor was actually given considerably more importance.

13. Within the framework of this same call for tenders, which gave rise to 38 offers, the prices contained in the evaluation sheet in respect of three tenderers were different from those mentioned in their bids and this led to errors in the ranking. The most scrupulous attention should be paid to the evaluation procedures in order to avoid the evaluation being falsified by errors.

14. At the beginning of 1998, after consulting the ACPC, the Centre awarded an initial contract for 68 245 euro, for a computer project concerning the management of freelance translators. To extend the project the Centre awarded an additional contract for 146 375 euro in December 1998, which was to be

implemented, in the main, in 1999. The Centre based the terms of the second contract, as in the case of the first, on a framework contract used by the Commission. In addition, this second contract was awarded by private treaty without obtaining the opinion of the ACPC. Furthermore, as no examination of the extension of the contract was conducted by the ACPC, it is not possible to verify whether the additional costs were justified in relation to the objectives of this extension.

Premises

15. There was no change during 1999 in the situation observed by the Court in 1997 ⁽¹⁾ and in 1998 ⁽²⁾: the Centre is still occupying premises made available by the Luxembourg authorities, but no agreement has been made between the parties on the tenancy conditions (amount of any possible rent, surface area and facilities rented, duration of the lease, etc.). An agreement should be concluded in due form in order to clarify the situation, in particular with regard to the Centre's financial statements.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 11 and 12 October 2000.

For the Court of Auditors

Jan O. KARLSSON

President

⁽¹⁾ OJ C 406, 28.12.1998, paragraph 1.13, p. 33.

⁽²⁾ OJ C 372, 22.12.1999, paragraph 18, p. 20.

Table 1

Balance sheet as at 31 December 1999 and 1998

(1 000 EUR)

| Assets | 1999 | 1998 | Liabilities | 1999 | 1998 |
|--|---------------|---------------|---|---------------|---------------|
| Fixed assets | | | Fixed capital | | |
| Equipment and furniture | 108 | 95 | Own capital | 576 | 361 |
| Computer equipment | 429 | 220 | Balance for the financial year | 1 854 | 5 062 |
| Intangible assets | 39 | 46 | | | |
| <i>Subtotal</i> | 576 | 361 | <i>Subtotal</i> | 2 430 | 5 423 |
| Current assets | | | Current liabilities | | |
| Amounts to be recovered ⁽¹⁾ | 4 133 | 977 | Automatic carry-overs of appropriations | 3 053 | 2 461 |
| Sundry accounts receivable | 479 | 10 | Advances received ⁽²⁾ | 836 | 2 843 |
| <i>Subtotal</i> | 4 612 | 987 | Amounts to be collected ⁽¹⁾ | 4 133 | 977 |
| Cash accounts | | | Sundry accounts payable | 23 | 344 |
| Bank — demand accounts | 5 299 | 10 711 | <i>Subtotal</i> | 8 045 | 6 625 |
| Cash | | 2 | Suspense accounts | | |
| <i>Subtotal</i> | 5 299 | 10 713 | Sums to be reused | 12 | 13 |
| Total assets | 10 487 | 12 061 | Total liabilities | 10 487 | 12 061 |

⁽¹⁾ To be collected from clients.⁽²⁾ Advances received from clients for translation services.

Source: Table prepared by the Court of Auditors on the basis of data provided by the Centre.

Table 2

Revenue and expenditure accounts for the financial years 1999 and 1998

(1 000 EUR)

| | 1999 | 1998 |
|---|---------------|---------------|
| Revenue | | |
| Contribution from the general budget | — | — |
| Own revenue | 13 760 | 14 743 |
| Bank interest | 212 | 245 |
| Miscellaneous revenue | 38 | 3 |
| Total revenue | 14 010 | 14 991 |
| Expenditure | | |
| <i>Staff expenditure — Title I of the budget</i> | | |
| Payments | 10 363 | 9 702 |
| Appropriations carried over | 871 | 1 079 |
| <i>Buildings, equipment and miscellaneous administrative expenditure — Title II of the budget</i> | | |
| Payments | 727 | 675 |
| Appropriations carried over | 2 182 | 1 382 |
| Total expenditure | 14 143 | 12 838 |
| Outturn for the financial year | | |
| Balance carried over from the previous financial year | — 133 | 2 153 |
| Repayment of the excess received under previous financial years ⁽¹⁾ | 5 062 | 2 666 |
| Appropriations carried over from the previous financial year, which lapsed | — 3 632 | — 653 |
| Exchange-rate differences | 566 | 880 |
| | — 9 | 16 |
| Balance for the financial year | 1 854 | 5 062 |

⁽¹⁾ Net repayment to clients after final closure of the financial years 1995, 1996 and 1997. The profit and loss accounts for these financial years remained open until 31 December 1999.

Source: Table prepared by the Court of Auditors on the basis of data provided by the Centre.

THE CENTRE'S REPLIES

Analysis of budget implementation

Points 5, 6, 7 and 8

Since 1997, the Centre has drawn up in the course of each financial year Supplementary and Amending Budgets (SABs) in order to adjust its budget to the growing volume of work.

In 1999, the SAB allowed the budget to be adjusted to take account of the unexpected increase in work requests, but also, as set out in the general introduction, to reduce the provisional price per page, which fell from EUR 79 to EUR 74, i.e. a reduction of 6,5 %.

As stated in the Centre's reply to the observations of the Court of Auditors concerning the financial year 1998, the Centre set up a system for consulting customer institutions and bodies in order to draw up forecasts which reflect reality as much as possible. Since this is the case, account should be taken of the fact that a large part of the Translation Centre's work is linked to changes in business activity in the private sector, which is difficult even for our clients to predict.

The Director therefore proposed, in the framework of a possible review of the Centre's operating procedures, the adoption of more flexible tools allowing the budget to be managed in such a way that it can react efficiently to variations in the workload.

Analytical accounts

Point 9

Calculation by the Centre of the provisional budget figure was based partly on the volume of work predicted by its customers, and partly on the basis of the forecastable expenditure required to deal with this workload.

Prices had been revised at the time of the adoption of the Supplementary and Amending Budget for 1999. This is why the pages translated were invoiced at EUR 74 instead of EUR 79, backdated to 1 January 1999.

In response to the recommendation of the Court of Auditors in its report on the financial year 1997, the Centre decided to review its Financial Regulation and to insert Article 26a which makes it possible for any positive or negative balance for each financial year to be carried over to the subsequent financial year. This change means that reimbursement of the difference between prices invoiced and the true cost recorded at the end of the financial year is avoided.

Point 10

Since 1 January 2000, the Centre has adopted a system of analytical codes for all budget transactions entered into the accounts using the S12 program and it is currently drawing up analytical reports which exploit this data to best effect. At the end of 2000, the Centre had analytical data and statistics at its disposal which enabled it to make more accurate estimates.

Inventory

Point 11

Until the end of 1999, the Centre used a spreadsheet to keep its inventory. This system was shown to have limitations and proved ineffective. The Centre also installed the ELS system (SIC — Inventory) used and developed by the Commission. This data base uses a system of bar codes.

The changeover to the new system took place in January 2000 and is nearing completion.

At the time of the visit by the European Court of Auditors, the system was in the process of being installed, and the reporting software was not yet operational. This is why certain inconsistencies were reported. Thanks to this new system, the Centre will be in a position to manage its inventory more effectively.

Awarding of contracts

Point 12

The contracts in question were awarded on the basis of the tender which is the most advantageous in terms of price, in accordance with the award criteria listed in the General Terms and Conditions.

At its 12th meeting on 12 August 1999, the Centre's ACPC examined the matter concerned and gave a favourable opinion, although it recommended that, 'the evaluation of tenders should be based on a more transparent system centred on the price/quality comparison. A more detailed comparative table of the tenders should be drawn up'.

Point 13

During the preparation of these contracts, the competent section noted that the prices offered by the two tenderers chosen to carry

out the translation of texts from English into Greek and used to calculate the ranking of the tenderers had been inverted on the spreadsheet. This mistake was corrected prior to conclusion of the contract.

Currently, the Centre is studying the possibility of reorganising these departments in order, among others, to improve the administration of calls for tender.

Point 14

This matter was dealt with during the 3rd meeting of the ACPC on 29 January 1998; the ACPC declared itself in favour of the use of Commission framework contract DI/0041700 and of the first specific agreement.

The second contract is based on the same Commission framework contract, and its use was approved by the Centre's ACPC. Consequently, given that the framework contract was drawn up in response to an interinstitutional call for tenders, it cannot really be deemed a contract concluded by private treaty.

Since 1998, when this matter was originally brought up, improvements have been made both to the Centre's departments and

ACPC, and files are monitored more closely. To avoid excessive recourse to the framework contracts of other institutions, since the second half of 1998, the Centre, and, in particular, the Computer Department, has launched several calls for expressions of interest in order to draw up lists of suppliers.

Premises

Point 15

This matter had been addressed in all the meetings of the Management Board in 1999 and 2000, and the growing concern of customers and the Management Board in the light of the lack of progress made had been communicated, in writing and orally, on several occasions by the Director and the Chairman of the Management Board to the Luxembourg authorities. However, no definitive solution had been proposed by the Luxembourg authorities.

As pointed out in the observations of the Court of Auditors in 1997 and 1998, the Centre had submitted draft tenancy agreements, as well as the draft agreement on the seat and the draft agreement on security, but despite the numerous reminders sent to the Luxembourg authorities, no response has been forthcoming.
