



Brussels, 1 December 2017  
(OR. en)

15009/17

FIN 768

#### COVER NOTE

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From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	28 November 2017
To:	Mr Märt KIVINE, President of the Council of the European Union
Subject:	Report on the annual accounts of the Translation Centre for the Bodies of the European Union for the financial year 2016 together with the Centre's reply

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Delegations will find attached the European Court of Auditors' report on the annual accounts of the Translation Centre for the Bodies of the European Union for the financial year 2016.

This report is accompanied by the Centre's reply and will shortly be published in the *Official Journal of the European Union*.

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Encl.: Report on the annual accounts of the Translation Centre for the Bodies of the European Union for the financial year 2016 together with the Centre's reply.<sup>1</sup>

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<sup>1</sup> In English only. The other languages of this report are available on the European Court of Auditors' website: <http://eca.europa.eu/>.



EUROPEAN  
COURT  
OF AUDITORS

Report on the annual accounts  
of the Translation Centre for the Bodies of the European Union  
for the financial year 2016

together with the Centre's reply

## **INTRODUCTION**

1. The Translation Centre for the Bodies of the European Union (hereinafter “the Centre”, aka “CDT”), which is located in Luxembourg, was created by Council Regulation (EC) No 2965/94<sup>1</sup>. The Centre's task is to provide any European Union institutions and bodies which call upon its services with the translation services necessary for their activities.
2. **Table 1** presents key figures for the Centre<sup>2</sup>.

**TABLE 1: KEY FIGURES FOR THE CENTRE**

	<b>2015</b>	<b>2016</b>
Budget (million euro)	49,6	50,5
Total staff as at 31 December <sup>3</sup>	218	225

*Source:* data provided by the Centre.

## **INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE**

3. The audit approach taken by the Court comprises analytical audit procedures, direct testing of transactions and an assessment of key controls of the Centre’s supervisory and control systems. This is supplemented by evidence provided by the work of other auditors and an analysis of management representations.

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<sup>1</sup> OJ L 314, 7.12.1994, p. 1.

<sup>2</sup> More information on the Centre's competences and activities is available on its website: [www.cdt.europa.eu](http://www.cdt.europa.eu).

<sup>3</sup> Staff includes officials, temporary and contract staff and seconded national experts.

**OPINION**

4. We have audited:

- (a) the accounts of the Centre which comprise the financial statements<sup>4</sup> and the reports on the implementation of the budget<sup>5</sup> for the financial year ended 31 December 2016, and
- (b) the legality and regularity of the transactions underlying those accounts,

as required by Article 287 of the Treaty on the Functioning of the European Union (TFEU).

**Reliability of the accounts***Opinion on the reliability of the accounts*

5. In our opinion, the accounts of the Centre for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Centre at 31 December 2016, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with its Financial Regulation and with accounting rules adopted by the Commission's accounting officer. These are based on internationally accepted accounting standards for the public sector.

**Legality and regularity of the transactions underlying the accounts****Revenue***Opinion on the legality and regularity of revenue underlying the accounts*

6. In our opinion, revenue underlying the accounts for the year ended 31 December 2016 is legal and regular in all material respects.

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<sup>4</sup> The financial statements comprise the balance sheet, the statement of financial performance, the cashflow statement, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

<sup>5</sup> The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

**Payments***Opinion on the legality and regularity of payments underlying the accounts*

7. In our opinion, payments underlying the accounts for the year ended 31 December 2016 are legal and regular in all material respects.

***Responsibilities of management and those charged with governance***

8. In accordance with Articles 310 to 325 of the TFEU and the Centre's Financial Regulation, management is responsible for the preparation and presentation of the accounts on the basis of internationally accepted accounting standards for the public sector and for the legality and regularity of the transactions underlying them. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. The Centre's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts.

9. In preparing the accounts, management is responsible for assessing the Centre's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

10. Those charged with governance are responsible for overseeing the entity's financial reporting process.

***Auditor's responsibilities for the audit of the accounts and underlying transactions***

11. Our objectives are to obtain reasonable assurance about whether the accounts of the Centre are free from material misstatement and the transactions underlying them are legal and regular and to provide, on the basis of our audit, the European Parliament and the Council or other respective discharge authorities with a statement of assurance as to the reliability of the accounts and the legality and regularity of the transactions underlying them. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement or non-compliance when it exists. These can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

12. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and the regularity of the transactions underlying them. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the accounts and of material non-compliance of the underlying transactions with the requirements of the legal framework of the European Union, whether due to fraud or error. In making those risk assessments, internal controls relevant to the preparation and fair presentation of the accounts and legality and regularity of underlying transactions, are considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the accounts.

13. For revenue, we verify the subsidy received from the Commission and assess the Centre's procedures for collecting fees and other income, if any.

14. For expenditure, we examine payment transactions when expenditure has been incurred, recorded and accepted. Advance payments are examined when the recipient of funds provides justification for their proper use and the Centre accepts the justification by clearing the advance payment, whether in the same year or later.

15. In preparing this report and Statement of Assurance, we considered the audit work of the independent external auditor performed on the Centre's accounts as stipulated in Article 208(4) of the EU Financial Regulation<sup>6</sup>.

#### **Other matter**

16. The Centre's task is to provide the EU agencies and bodies with the translation services necessary for their activities in addition to doing so for the EU institutions which may call on its services. The founding Regulations of most of the agencies and bodies require them to use the Centre's translation services. Several of them (counting for more than half of the Centre's revenue)

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<sup>6</sup> Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

make increasing use of in house and other alternative solutions. However, this means that the Centre's capacity is not used to the greatest possible extent, that there is a duplication of systems development and running costs at European level and that the Centre's business model and continuity could be at risk.

17. The comments which follow do not call the Court's opinion into question.

#### **COMMENTS ON BUDGETARY MANAGEMENT**

18. In 2016, cash and short term deposits held by the Centre decreased to 34,2 million euro (38,3 million euro at the end of 2015) and reserves to 31,1 million euro (34 million euro at the end of 2015). This decrease results from a budgetary approach which intends to reduce the accumulated surplus from previous years.

#### **FOLLOW-UP OF PREVIOUS YEARS' COMMENTS**

19. An overview of the corrective action taken in response to the Court's comments from previous years is provided in the **Annex**.

This Report was adopted by Chamber IV, headed by Mr Baudilio TOMÉ MUGURUZA, Member of the Court of Auditors, in Luxembourg at its meeting of 17 October 2017.

*For the Court of Auditors*

Klaus-Heiner LEHNE

*President*

Follow-up of previous years' comments

Year	Court's comments	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
<b>2012</b>	The Founding Regulation of 20 regulatory agencies audited by the Court in 2012 requires them to use the Centre for all their translation needs (the Centre's Founding Regulation stipulates the same for four other agencies). Other agencies are not obliged to use the Centre. For non-technical documents agencies could reduce their costs by using local services. In the Court's opinion the legislator should consider allowing all agencies to do so.	N/A [Recommendation not taken by the legislator]
<b>2015</b>	The Centre does not yet have a Business Continuity Plan in place. It is thus not complying with Internal Control Standard 10 <sup>1</sup> .	Ongoing
<b>2015</b>	At the end of 2015 cash and short term deposits held by the Centre amounted to 38,3 million euro (44 million euro at the end of 2014) and its reserves amounted to 34 million euro (40,4 million euro at the end of 2014). This reflects the reduction of prices in 2015.	N/A
<b>2015</b>	The level of committed appropriations carried over was high for Title II (administrative expenditure) at 2 million euro, i.e. 29 % (2014: 1,5 million euro, i.e. 24 %). These carry-overs mainly concern the refurbishment of additional premises rented in 2015 as well as IT services not yet provided by the end of 2015.	N/A
<b>2015</b>	The Centre cancelled 5,9 million euro (12 %) of appropriations available at the end of 2015. These cancellations are related to the overestimation of the cost of external translators.	N/A

<sup>1</sup> The Centre's Internal Control Standards are based on the equivalent standards laid down by the Commission.



**THE CENTRE'S REPLY**

19. The Centre has taken various steps to reduce its budgetary surpluses. The budget 2016 was prepared as a deficitary budget in order to reduce the reserve for stability pricing. The balance of the budget outturn of the year, which amounted to EUR -2.9 million, contributed to the decrease of the reserve for stability pricing as well as the cash balance.

It is envisaged that the decrease of the budgetary surpluses will be further accelerated in 2017 as a result of the implementation of the new pricing structure that will decrease the average price for translation paid by the Centre's clients.