

Official Journal

of the European Communities

ISSN 0378-6986

C 326

Volume 23

15 December 1980

English edition

Information and Notices

Contents

I *Information*

Court of Auditors

Special report of the Court of Auditors with its observations on acquisition and control over office supplies and equipment, etc. as applied by the institutions of the European Communities 1

II *Preparatory Acts*

Court of Auditors

Opinion of the Court of Auditors of the European Communities on the proposal for a Council Regulation laying down general rules for the supply as food aid of products other than cereals, skimmed-milk powder or butteroil to certain developing countries and specialized bodies 22

I

(Information)

COURT OF AUDITORS

SPECIAL REPORT OF THE COURT OF AUDITORS

with its observations on acquisition and control over office supplies and equipment, etc. as
applied by the institutions of the European Communities

(Original language English)

CONTENTS

	Page
1. INTRODUCTION	3
2. ASSESSMENT OF NEEDS	4
2.1. System	4
2.2. Specific cases	4
3. SELECTION OF SUPPLIERS AND PRICE	6
3.1. Financial Regulation	6
3.2. Implementation measures	6
3.3. Role of purchasing sections	7
3.4. Consultation of suppliers	7
3.5. Inter-institutional coordination	8
3.6. Specific cases	9
4. CONTRACTUAL ORDERING	11
5. RECEIPT AND STORES CONTROL OVER ASSETS	11
5.1. Reception	11
5.2. Passing through stores (description of a model system)	12
5.3. Specific cases	12
6. INVENTORY SYSTEM — CONTROL AFTER ISSUE	13
6.1. System	13
6.2. Specific case studies	13
7. DISPOSALS	14
7.1. Criteria and authority	14
7.2. Methods of disposal	15
7.3. Removal from permanent inventories (deletions)	16
8. INSURANCE	16
9. COMMENTS BY THE COURT OF AUDITORS	16
APPENDICES:	
I. Commitments for the purchase of administrative assets (excluding research) ..	20
II. Values of assets on hand (excluding research)	20
III. Number of typewriters held at 31 December 1978 in Brussels, Luxembourg and Strasbourg	21
IV. Review of cost of furniture selected by the Commission for grade A 3 (resulting from request for tenders No 402 7)	21

1. INTRODUCTION

1.1. The Financial Regulation of 21 December 1977⁽¹⁾ establishes in Articles 50 to 62 certain minimum procedures which each institution is required to apply in the areas of competitive tendering, selection of suppliers, procurement of goods and services, conclusion of contracts and the inventory recording of permanent assets. The Financial Regulation draws attention to the need for control and valuation of assets as part of accountability.

1.2. Assets exist in many forms. These observations are concerned with the acquisition and control over physical (tangible) assets in the categories of movable property, immovable property and stocks of consumable goods. So far as the institutions of the Communities are concerned, these categories fall into two distinct divisions — office supplies and equipment etc. (those held by the various institutions in the provisional locations) and 'research assets' (those purchased from the research budget and held by the specialized research establishments). However, this report deals only with the former and all references in it to 'assets' should be read accordingly. Some of the procedures and comments set out in this report may also be applicable for the institution's purchasing arrangements for services.

1.3. The Court notes that in 1977 and 1978 the institutions committed 9.5 million ECU and 10.8 million ECU respectively (Appendix I) for the purchase of assets of varying types with useful lives ranging up to several years. It also notes that these sums were charged directly to the 1977 and 1978 appropriations, which means that all these assets were written off in the budgetary accounts of the year of purchase.

1.4. The institutions maintain inventory and stock records for certain assets (see paragraphs 6.1.1. and 5.3.4.2.). Where these were evaluated they were found at 31 December 1977 and 1978 to record assets with an original cost of 33.2 million ECU and 38.9 million ECU respectively (Appendix II). As stated in the Court's Report on the financial year 1978, paragraph 11.8, asset holdings were not reflected in the general accounts or balance sheets of the institutions at any stage.

1.5. The audit work on which the following observations are based was carried out in three stages: firstly, by a review and documentation of the

systems for purchases, inventories and stock controls in the Commission, the Parliament, the Council, the Court of Justice and the Economic and Social Committee (referred to in this report as the institutions), with a view to obtaining an overall understanding of how the Financial Regulation is interpreted; secondly, a series of sample audit (compliance) checks to test whether each system was being operated as described; lastly, a detailed (substantive) examination of the systems as they are applied to certain selected assets which may be regarded as representative, that is specifically to furniture, paper, offset machines and typewriters. Further areas of asset control remain for examination as part of continuing audit.

1.6. In its examinations, the Court took cognizance of the differences between the institutions. Such differences arise from their relative sizes in staff terms, from their methods of working, and from their divided locations. Thus undoubtedly one would expect the Court of Justice in Luxembourg to have less purchasing power than the Commission. Nevertheless, the Court of Auditors must take the view that an assessment of the effectiveness of any institution's purchasing and control practices must have relation to the equivalent practices with other institutions; and it would expect these institutions to work together rather than in isolation. The Court must also have regard primarily to the interests of the Communities as a whole rather than to that of each institution.

1.7. Because the Court's enquiries were conducted mainly during 1979, many of the statistics quoted refer to the last full year of 1978. The comments on practices however relate to the situation applying in both 1978 and 1979. Data for this latter year has been added wherever it was available at the time of drafting this report.

1.8. The Court consulted the institutions during its examination and in the drafting of this Report. Their comments were carefully considered and have been reflected in the final wording and recommendations. In particular the Commission stated that it shared the concern of the Court that the purchasing functions of the institutions should be carried out as efficiently as possible. As to the general recommendations of the Report for further centralization of purchasing and the adoption, wherever possible, of common standards for items of common use, the Commission is very willing to discuss with the other institutions how these might best be achieved. While it is conscious of the need for adequate control over the receipt and issue of consumable stores and the safeguarding of its assets it does have to consider this

⁽¹⁾ OJ No L 336, 31.12.1977.

objective against the priorities of other competing demands placed upon the Commission which also require additional resources if they are to be realized. Nevertheless the Commission assured the Court that it will review its existing procedures in the light of the observations made in the Report to see whether and to what extent these might be improved upon.

1.9. The following are the principal observations made by the Court in this report:

- Joint implementing measures should include a clear definition of the role of each institution's central purchasing section and of its responsibility for final choice of supplier.
- Institutions should obtain their main regular needs from centrally invited and placed contracts.
- Standards of quality and cost should be defined in a clearer and more harmonized manner.
- Consideration should be given to the formation of one Central Advisory Committee on Procurements and Contracts (with appropriate amendment of the Financial Regulation).
- Greater regard generally should be given to obtaining competitive prices.
- Weaknesses in the present stock records (see paragraph 5.2) should be remedied, particularly regarding furniture.
- Weaknesses in the present inventory records established according to Article 59 of the Financial Regulation should be remedied, particularly so as to assist stocktaking and to evaluate asset holdings.

2. ASSESSMENT OF NEEDS

2.1. System

2.1.1. In theory any procurement transaction falls into five stages — the identification of need, the selection of supplier and price, the contractual ordering, the receipt and payment and finally the use and control of the asset. In practice these stages cannot always be so clearly identified.

2.1.2. Demands for any item (the identification of need) are usually formulated throughout the

institutions at the level of each individual section or 'service'. The form in which demands are made varies from institution to institution. Three institutions (Council, Commission and Parliament) each separately use standard special documents to record normal recurring demands; these require a justification of need and description (specification) of the item required. The Court of Justice and the Economic and Social Committee use the form on which all their financial commitments are requested; these smaller institutions work on a more informal level and the amount of justification and description given is frequently minimal. All institutions record less common demands by internal letter or memorandum. For particularly expensive or technical demands, detailed specifications and justifications are normally given in such letters or memoranda.

2.1.3. No formal procedure exists in any institution which designates those individuals or grades permitted to authorize demands in each section. Practices exist whereby demands are required to be signed by relevant and responsible officials, but their role and level varies with each institution.

2.1.4. Each institution has a purchasing section(s) or office(s) which has the responsibility for accepting the need and for making the purchase. It has to ascertain whether the items are already in stock, whether they conform to the institution's standard, if any, and whether on this or other grounds the demand should be accepted. They may refuse a demand, or question need. In its audit the Court came across few examples of refusal and observed that the powers of the purchasing sections in this regard are determined by both the status of the demander and the nature of the demand, i.e. whether technically complex or not. The Commission, however, stated that their purchasing section frequently took part in preliminary discussions prior to formulation of the official demand and in this role was able to advise on the suitability of the demand; and the Economic and Social Committee stated that their purchasing service frequently insisted on additional justification before purchasing.

2.2. Specific cases

2.2.1. The following paragraphs describe some of the principal areas where predetermined standards are applied and illustrate the variety of practices throughout the institutions. These cases are followed through in subsequent paragraphs to the later procurement stages.

2.2.2. Furniture

In a matter so basic as the furniture needs of any official, it would be clearly impracticable if each official or section were to develop their own demands. For such items each institution makes bulk purchasing arrangements, calculating its needs on the basis of certain predetermined standards, which are expressed in value and quantity terms for each grade. There is considerable variation between the institutions, both in these standards by value (see Table 1) and in the styles/makes purchased. To some extent the latter is deliberate. Thus the Commission purchases several styles/makes to ensure a certain amount of competition in this market. Standardization nevertheless generally exists by building, following the Commission's principle of not moving furniture from building to building when staff moves take place.

The European Parliament confirmed that it had not formulated predetermined standards for its own usage, though it was aware of those in use by the Commission.

2.2.3. Typewriter

No common standard for typewriters has been determined throughout the institutions nor did the Court find any coordinated evidence of evaluations of the respective facilities offered by the

manufacturers; for example, durability, maintenance cost, accessories, speed, which might be relevant to their economy, effectiveness and efficiency. Officials of the Parliament considered without such evaluations that all their electric typewriters should be IBM machines, whereas all the other institutions restrict the use of this more expensive make⁽¹⁾ to certain posts. Thus, the Council defines its standards as follows:

- secretaries of directors — electric IBM,
- typing pools — electric Olivetti,
- missions — Olympia machines (mostly mechanical).

In the Commission, IBM machines (1.5 % of whole) are allowed in the Cabinets of the Members but not elsewhere unless a special need can be justified; otherwise machines were purchased from Olympia (50 %) and Olivetti (47 %). Appendix III analyses for each institution the typewriters held at 31 December 1978.

2.2.4. Offset printing machines

The differing interpretation of needs is well illustrated in the area of offset machines. Each institution has established to varying degrees its own printing service. In practice it is left to this service to

⁽¹⁾ See paragraph 3.6.5.

TABLE 1

Furniture standards

Administrative grades	Commission (Bfrs)	Council (Bfrs)	Court of Justice (Bfrs)	Economic and Social Committee (Bfrs)
A 1	200 000 ⁽¹⁾	278 000	—	—
A 2	155 000 ⁽¹⁾	84 000	74 000	141 000
A 3	76 000 ⁽¹⁾	55 000	74 000	66 000
A 4	42 000	37 000	74 000 ⁽²⁾	47 000
A 5	30 000	32 000	60 000 ⁽¹⁾	47 000
A 6	30 000	32 000	60 000 ⁽¹⁾	24 000
A 7	30 000	25 000	60 000 ⁽¹⁾	24 000
A 8	30 000	25 000	—	—
B 1	30 000	—	49 000	20 000
B 2	30 000	22 000	49 000	20 000
B 5	30 000	22 000	—	20 000
C 1	30 000	21 000	30 000	17 000
C 5	30 000	21 000	—	17 000
C 1-5 sec.	30 000	27 000	—	17 000

⁽¹⁾ See paragraph 3.6.1.3

⁽²⁾ Head of Service only

⁽³⁾ Linguistic grade only, LA5 LA6 LA7

make its own assessment of the type of printed output it desires and the technical specifications required to achieve it. This has resulted in five institutions investing in three different makes of machine between them⁽¹⁾.

2.2.5. Paper

Following the general standardization within Europe of paper production into A sizes, the institutions generally have restricted their orders to these sizes. As regards the assessment of needs in quantity terms the Court found that, with the exception of the Office of Official Publications, the main purchasers of paper within the institutions base their ordering on a formal system of minimum stock levels related to previous consumption (see paragraph 5.3.4.3).

3. SELECTION OF SUPPLIERS AND PRICE

3.1. Financial Regulation

3.1.1. The Financial Regulation (Articles 50 to 58) sets out the procedures to be followed in selecting suppliers and concluding written contracts with them.

3.1.2. It specifies that contracts may be made against simple invoice up to 300 EUA (or 750 EUA outside the places of work of the institution). Contracts for below 6 500 EUA may be made by private treaty although the institutions should enable potential suppliers to compete. In addition, contracts above this amount may be made by private treaty without limit *in special circumstances* where:

- (a) for a variety of reasons, the contract can only be carried out by a particular supplier,
- (b) urgency rules out tendering,
- (c) tendering gives no result or unacceptable prices.

3.1.3. In all other cases, either adjudication or tendering procedures must be followed. The difference between these two procedures is that adjudication is an administrative procedure whereby after public advertising, the lowest valid offer is publicly awarded the contract, whereas in a request for tenders the institution is not necessarily obliged to select the lowest tender. Adjudication or a request for tender is said to be 'public' or open where the

invitation to supply is made generally available to all, or 'restricted' when the institution contacts only a certain selection of prospective suppliers. Either restricted tendering or private treaty was operated for all cases seen during the audit, with the single exception of the Parliament publicly advertising in 1979 for several large scale purchases of assets⁽²⁾. No instances were found of the adjudication procedure being used.

3.1.4. The Financial Regulation states that an Advisory Committee on Procurements and Contracts shall be established by each institution with representatives of the administrative, financial and legal departments together with a representative of the Financial Controller as observer. It stipulates that, before the Authorizing Officer takes a decision, contracts exceeding 18 000 EUA shall be submitted for the opinion of the Advisory Committee on the procedure followed, the proposed choice of supplier and the proposed terms of the contract. Any other problem concerning procurement and conclusion of contracts may be referred to the Committee for an opinion. This is irrespective of the procedure used to select the proposed supplier. Such committees have been established in all the institutions.

3.2. Implementation measures

3.2.1. Implementation measures under the Financial Regulation of 21 December 1977 have yet to be formulated. But those under the previous Regulation⁽³⁾ set out in some detail the procedures for competitive tender, which include the use of a standard form or text. Each institution has its own standard form, the text of which varies between the institutions. The Court found that in the Parliament, Council and Court of Justice the standard forms are frequently not used, or are used with changes thereto being made without consulting of the legal department. The Parliament informed the Court that the demands arising from working on three locations called for greater flexibility than could be obtained with the use of a standard form.

3.2.2. The implementation measures require all tender offers to be submitted under double envelope by a specified date limit. Most of the institutions, as a normal measure of internal control, followed strict

⁽¹⁾ See paragraph 3.6.6.

⁽²⁾ OJ No S 1, 3.1.1979, OJ No S 26, 7.2.1979, OJ No S 62, 29.3.1979, OJ No S 93, 17.5.1979.

⁽³⁾ OJ No L 130, 1.7.1973.

tender opening procedures using panels of officials including some from section other than those from the demanding and purchasing sections. During the audit, however, it was observed that the Council did not follow this procedure though they have subsequently agreed to do so.

3.3. Role of the purchasing sections

3.3.1. In examining how suppliers are selected, it is important to bear in mind the role and inter-relationships of those sections within each institution's organizational structure which are entitled to procure goods and services. Reference to the 'purchasing sections' in this report covers the activities of the principal purchasing section, which is that normally responsible for the acquisition of assets in the form of inventory or consumable items. This section has responsibility for the commercial, economic and administrative aspects of the purchasing function, and in general has the responsibility for final choice of supplier taking these aspects into account together with users' needs. These needs are generally specified initially by the user department and interpreted into practical choice by the purchasing section in the light of its knowledge of market availability. For a limited range of technical assets, where specification may be more crucial to the user specialist, specialist sections make their own assessment of needs and procurement of services or goods. Examples of such items are accommodation, catering, data-processing and medical. This report does not cover the operations of these sections but is confined to the activities of the principal purchasing section responsible in each institution for the acquisition of the generality of items. The principles enunciated apply generally.

3.3.2. Even where the 'purchasing section' had responsibility, it was clear that in some instances the demander conducted preliminary studies and even negotiations with the supplier before forwarding his demand to the purchasing section. Exceptionally, for certain difficult or technical needs. An initial survey of the goods available may be defensible. The Court found, however, demands for more common items where initial enquiries had been carried out by a demander who categorically stated that, for technical or other reasons, e. g. standardization, there was only one possible supplier, and even in some instances, quoted an agreed price. In such cases, whether through lack of power, capability or staff, the purchasing sections were unable to verify such statements and were in practice obliged to accept as a *fait accompli* the selection of the supplier. The Commission, however, confirmed to the Court that the purchasing section should have the final responsibility for choice and the Court welcomes this assurance.

3.4. Consultation of suppliers

3.4.1. In the normal event, on receiving a demand for goods, the purchasing section decides on the selection procedure to be adopted. The Court found that the requirement that all cases above 18 000 EUA should be presented to the Advisory Committee was generally respected by the institutions. It should be noted that the opinion of the Advisory Committee is not binding on the institution and the Authorizing Officer can select a supplier other than that recommended in the opinion.

3.4.2. The reports to the Advisory Committees setting out individual cases for consideration are

TABLE 2

Advisory committee opinions

	Number of opinions in 1978	Number of suppliers consulted		
		more than 4	2 to 4	1
Commission	182	78	22	85
Parliament	31	11	7	13
Council	24	6	4	14
Court of Justice	4	2	2	--
Economic and Social Committee	3	2	--	1
Total	244	96	35	113

normally well documented with supporting files showing every step taken in the standard procedure. The only major exception for this was noted in the case of the Parliament where five out of the 12 files examined in detail were incomplete in some way, and where pre-1977 files had been destroyed by the end of 1978.

3.4.3. Although presentation to the Committee generally ensured that the invitation and tendering procedures were formalized, it did not necessarily guarantee that a wide range of suppliers had been consulted. The range varied considerably depending on the goods being procured. Thus the Court found that in 1978 out of 244 cases referred to the Advisory Committees, in 113 cases only one supplier had been consulted (46% — see Table 2).

The Commission informed the Court that single tender on a very limited range of tenders would be sought, for example, for standardized equipment, local maintenance services, or special items for which tenders had previously been sought. The Council stated that in certain cases reference to only one supplier had been made because of satisfaction in earlier contracts, for technical compatibility or for other special reasons. The Economic and Social Committee on the other hand stated that such cases were not included in those put to its Advisory Committee, deeming the decision process to make this unnecessary.

3.4.4. The Court found that for contracts between 6 500 ECU and 18 000 ECU it was general practice among the institutions to seek written tenders from a range of suppliers similar to that consulted for Advisory Committee cases. Below the level of 6 500 ECU, however, the amount of competition was frequently limited and informal. Out of 120 sample cases under this level examined in all institutions 87 (or 72%) showed no evidence of consultation of more than one supplier; of the 33 for which competitive offers were obtained, all but six were placed with the cheapest.

3.4.5. At all levels the choice of suppliers to be consulted is determined by the purchasing section drawing on their considerable expertise and well-established lists and directories of suppliers. The Commission uses a specially designed form entitled 'justification du marche' on which it lists the firms consulted, the method of contact and the prices offered. For the other institutions, there was no system for clearly recording these details in a standard manner. In several cases where there were no written tenders, the Court was unable to ascertain

whether or not suppliers other than that selected had been consulted. The examination on a sample basis of cases below the Advisory Committee level showed that two institutions had particularly inadequate evidence of consultation of potential suppliers; thus in a sample of 27 cases examined at the Parliament, only in four cases was there evidence of consultation with more than one prospective supplier, and with the Economic and Social Committee this was found with only three out of 16.

3.5. Inter-institutional coordination

3.5.1. As stated previously, each of the institutions is separately responsible for its procurement activities. Many of their needs are, however, common, and an inter-institutional 'Groupe d'harmonisation d'achats' (Group to harmonize purchases) has existed since February 1975. This includes representatives of the purchasing sections of all the institutions. The group held three meetings in 1978 and three in 1979. Among the topics discussed were:

- a possible standard specification for cleaning contracts,
- a proposal to compare statistics of each institution on the relationship between make, quality and price of offset machines,
- a comparison of the different prices obtained by two institutions for offset paper,
- word processing methods and equipment,
- harmonization of forms.

The minutes of the meetings did not record a conclusive recommendation on any of these issues.

3.5.2. The Commission and the Parliament also negotiated inter-institutional supply contracts ('contrats-cadre') after consultation on probable quantities involved. While these may be used by all

TABLE 3

Common supply contracts used

	Number	of total
Commission	45	100
Parliament	8	18
Council	7	16
Court of Justice	36	80
Economic and Social Committee	40	89

other institutions, each institution reserves the right to make its own selection. Table 3 illustrates the use made by each institution of the 45 supply contracts or purchase orders which were or could have been made common to all during 1978.

3.6. Specific cases

3.6.1. Furniture selection by Commission

3.6.1.1 The Court made an examination of the Commission's last major request for tenders for furniture (August 1977 — ref. 402/7). The objective of the Commission was the placing from 1978 onwards of inter-institutional contracts (contrats-cadre) to supersede those which had been negotiated in 1975. The Commission wrote to 97 furniture suppliers in all Member States setting out specific conditions for the tenders including detailed descriptions of the furniture required. The time limit for the receipt of tenders was 26 September 1977.

3.6.1.2 58 replies were received which conformed with the specific conditions. These were then classified into three categories:

- inferior quality to that required: 18
- price in excess of target standards (Table 1): 16
- tenders suitable for consideration: 24.

Of the 16 tenders which each in total exceeded the standard criteria, two were eventually given orders to supply certain selected articles of furniture and the rest, together with the 18 of unacceptable quality, were eliminated. The 24 acceptable suppliers were invited to submit examples of their goods for exhibition in Brussels, before representatives of the user departments and the Advisory Committee on Procurements and Contracts. The Committee's report concluded: 'on the basis of the result of this exhibition, which especially permitted a comparison of the quality of the materials used, the robustness of construction and the presentation of the equipment, the choice was given to ...'

3.6.1.3 Nine companies out of the 24 exhibiting were selected to meet the furniture needs of the institutions. No record was made of the reasoning leading to this choice; the Commission has, however, informed the Court that the purpose of the exhibition was to enable the final choice of suppliers to reflect a sensible balance between their price, quality and style. The Court notes, however:

- (a) that the prices of the suppliers chosen were well in excess of the target standards determined before tendering commenced (Table 4) and the standards set by other institutions (Table 1), and

- (b) that in a number of instances the prices offered by the unsuccessful firms among the 24 were lower than those selected, (Appendix IV).

TABLE 4

Cost of furniture

Grade	Target standards (Bfrs)	Cost of furniture actually selected (Bfrs)
A 1	200 000	219 285
A 2	155 000	171 483
A 3	76 000	103 594

3.6.2. Furniture selection by Parliament

In October 1978 the Parliament invited tenders for the supply of furniture for the P building (annex) in Strasbourg and obtained offers from 12 suppliers in six Member States. The Parliament's Advisory Committee on Procurements and Contracts expressed, on 16 November 1978, a majority opinion that one particular supplier's models, already in use in the Palais d'Europe, should be selected, even though they were not the cheapest. However, the minutes of the Committee of 13 December 1978 indicate that it was ultimately decided that another supplier, with whom the Parliament had not previously dealt, should be selected. Although no reason for this decision was stated, this choice proved to be considerably more expensive even than that recommended (34% more for standard desks and 58% more for typists' desks). In addition, it increased the variety of furniture used in the several buildings of the Parliament despite the opinions expressed in favour of standardization by the Advisory Committee meetings of 16 November and 13 December 1978.

3.6.3. Furniture selection by the Council

The Council also makes its own purchasing arrangements for furniture. In September 1978 it issued a restricted invitation to tender to five suppliers and obtained offers from four for the supply of visitors' seats at a total cost of Bfrs 649 600. The furniture selected was the third cheapest of the four offers (21% more expensive than the cheapest). The Purchasing Section's file supporting this contract noted that the cheapest range offered had in fact already been purchased in 1976 but was now considered structurally too fragile, and a justification was recorded for the non-selection of the second cheapest offer.

TABLE 5

Institution	Make	Description	Number purchased	Unit cost (Bfrs)	
				1978	1979
Commission	Olivetti Lexicon	93 ch. 13"	155	21 840	
	Olivetti Lexicon	93 ch. 13"	60		21 840
Parliament	IBM	Mod D Standard	90	33 620	
	IBM	82	125		29 788
Council	Olivetti Editor	4 Ch. 13"	128	18 000	
	Olivetti Editor	4 Ch. 13"	138		21 650
Court of Justice	Olivetti Lexicon	90c Ch. 13"	14	23 680	
	Olivetti Lexicon	83c Ch. 18"	9		27 072
Economic and Social Committee	Olivetti Lexicon	90c Ch. 18"	17	23 730	
	Olivetti Lexicon	90c Ch. 18"	9		24 030

3.6.4. Furniture selection by the Court of Justice

In obtaining furniture for its move to the new Jean Monnet III building, the Court of Justice purchased through three 'contrats-cadres' suppliers. The furniture which the Court selected cost Bfrs 45 900 for the category LA, 25 900 for B and 17 800 for C — considerably below the ranges noted in Table 1.

3.6.5. Selection of typewriters

The effect of the present purchasing policy can be seen by comparing the principal purchases of electric typewriters by each institution in 1978 and 1979.

All the institutions, with the exception of the Parliament, made their choice on the basis of separate requests for tenders. The prices vary from Bfrs 33 620 (Parliament) to Bfrs 18 000 (Council).

any formal tendering procedures for offset machinery, each of the purchasing sections being informed that only one make or type (different in each case) was suitable for the particular needs of that institution at the time; these recommendations were adopted. In the Commission and the Court of Justice tenders were obtained and considered in an apparently balanced way, although the final choice was obviously strongly influenced by technical preferences. As a result each institution, though performing similar printing operations in each of its workshops, does so on machines from several manufacturers and of several types from each. It is noteworthy that the Court of Justice considered one make accepted by the Commission to be unsuitable, whereas the Council took the same view of another accepted by the Court of Justice and the Parliament.

3.6.6. Selection of offset machines

The choice of offset machines is frequently determined by the technical demands of the printing sections. In 1978, the Parliament, the Council and the Economic and Social Committee, did not carry out

3.6.7. Selection of offset paper

The purchase of offset paper is another area where separate tendering procedures have led to divergent conclusions. Table 6 makes the comparison of major purchases by each institution of white A4 offset paper (80 g per m²).

TABLE 6

Institution	Make	Date of purchase	Quantity purchased (reams of 500 sheets)	Price per ream in Bfrs	Number of offers obtained	Cheapest or otherwise
Commission	1	September 1978	13 000	58.13	Extension of April 1976 contract	
	2	April 1979	190 000	55.61	7	sixth cheapest
Parliament	3	March 1979	100 000	55.25	6	cheapest
Council	3	June 1978	100 000	53.25	4	third cheapest
Court of Justice	1	December 1978	17 000	59.87	(1)	

3.6.8. Selection of photocopying paper

The purchase of photocopying paper is an additional area where separate tendering procedures have also led to divergent conclusions and Table 7 compares purchases by each institution of A4 photocopying paper (80 g per m²).

TABLE 7

Institution	Make	Date of Purchase	Quantity purchased (reams of 500 sheets)	Price per ream in Bfrs ⁽²⁾ ⁽³⁾
Commission	4	September 1978	7 400	67.50
Parliament	4	February 1978	6 000	67.50 ⁽¹⁾
Council	5	April 1978	28 000	58.33
	1	April 1979	24 000	54.75
Court of Justice	6	April 1979	2 000	72.50
Economic and Social Committee	1	October 1978	4 000	69.00

⁽¹⁾ Used inter-institutional contract.

⁽²⁾ In making any comparison, the machine rental charge should also be taken into consideration.

⁽³⁾ The Commission also used A4 recycled paper at an average cost of Bfrs 40.5.

4. CONTRACTUAL ORDERING

4.1. The type and form of document used for a formal contract, or for an order form containing standard purchase conditions varies greatly between the institutions. The Commission's 'bon de commande' sets out in 11 copies the standard conditions, and is available in all the official languages. The Court of Justice has two types of order form, only one of which refers to but does not state standard conditions; it has informed the Court that it will consider introducing the use of a form based on that of the Commission. The Parliament uses its own 'bon de commande'.

4.2. Generally lists exist of officials delegated to sign order forms; officials signing order forms have not always been clearly so authorized in the Parliament but it has informed the Court that a formal list will be prepared.

suppliers for delivery. Exceptions to this general rule occur, for example when specially ordered high quality furniture is delivered directly to the demander or when a new building is being furnished.

5.1.2. The purchasing section sends a copy of the order to the reception point, where the person responsible for receiving the goods records the details of the goods received either on an internal 'bon de réception', on a copy of the order form, or on the supplier's 'bon de livraison'. In the Commission and the Parliament this operation is performed by specially designated stores officials and includes verifying that the goods conform with the original order, both in terms of quantity and of quality. In the smaller institutions where permanent storemen do not exist, this function is frequently carried out by the purchasing sections themselves.

5. RECEIPT AND STORES CONTROL OVER ASSETS

5.1. Reception

5.1.1. Each institution has designated central reception points. The appropriate reception point is normally indicated on the order forms issued to

5.1.3. For purchases placed by the purchasing section, processing the relevant invoices for payment includes a check that the goods or services have been properly received and that the invoices are in accordance with the purchase terms. When necessary, e.g. for technical equipment, the purchasing section confirms with the demander that the goods received are in fact those ordered; this, however, is only considered necessary in exceptional

cases, the signature of the reception point normally being sufficient.

5.2. Passing through stores (description of a model system)

5.2.1. The asset having been received passes either directly to a demander or is put into stores for future use. It is at this point that sound internal control should result in clear records of the physical movement of the asset until it reaches its final destination; this is over and above the permanent inventory records required by the Financial Regulation (see paragraph 6.1.1 of this report). Thus 'Stock records' should exist for all assets, and should include a record of all such items received by the institutions, and all items then issued or disposed of together with adequate identifying references. The balance in the stock record should therefore be the quantity in stock. Supporting vouchers should exist for all stock movements. The Court is of the opinion that, in addition to bin-cards maintained by the storekeeper for local handling purposes, stock records controlling the handling and reordering levels should be maintained independently of the storekeeper, and they should show the stock of all assets on hand in the stores at any time; this would then enable their existence to be physically verified by an official independent of the stores. The issue documents would show where the 'used' items had been sent and should be supported by signature of the recipient responsible. These records could also be an aid to future ordering.

5.2.2. This sort of control over the movement of assets after reception does not exist for important assets of the institutions, and the practices in the furniture stores illustrate this, as noted below:

5.3. Specific cases

5.3.1. Furniture stores — Commission, Brussels

5.3.1.1. An audit carried out in the Commission's stores at Zaventem revealed that the Commission maintained large quantities of different types of furniture. The majority was new furniture held either for a foreseen future need or as a reserve for replacements. The stores also contained old furniture awaiting reallocation or taken out of service for repair, sale or scrapping.

5.3.1.2. The Court observed that on receipt new goods were inspected and signed for on a copy of the 'bon de commande' which formed the basis for payment; and that a plaque was immediately and permanently fastened to any new articles, bearing the reference of the inventory entry which was made at the same time. It noted, however, that despite the quantity of furniture held in stores, no stock records were maintained, either by the storekeeper or elsewhere in the Commission, and thus the receipt of goods and the quantities retained in store could not be established except by physical count (see also paragraph 6.1.3).

5.3.2. Furniture stores — Council, Brussels

A similar absence of records was noted during the Court's audit in 1978 of the Council's store, but during 1979 stock records of inventory items (see paragraph 6.1.1) were introduced by the Council. These have yet to be audited by the Court.

5.3.3. Furniture stores — Parliament, Luxembourg

The Court found at the Parliament's stores in Luxembourg, weaknesses similar to those noted for the Commission; however the holdings were on a much smaller scale. Local stock records had been compiled by the storeman for some items of furniture held in stores for some time, and copies of all receipt and issue forms were retained. These records were, however, insufficient at the time of the audit visit to enable the Court to verify whether all furniture ordered and paid for had been recorded nor was this information independently kept elsewhere.

5.3.4. Stocks of consumable goods

5.3.4.1. Substantial stocks of paper, office supplies and other consumable goods were held by the Commission, Council and Parliament; the other institutions held much smaller stocks and obtained most of their supplies as required either via the inter-institutional contracts or directly from the stocks of the larger institutions.

5.3.4.2. The Commission keeps records of its stocks of paper and office supplies on a computerized system. The Parliament has adapted this system to its needs. The Council maintains a manual system. The two other institutions do not maintain detailed stores records for their small stocks. The Court found that the system operated by the Commission appeared to function adequately but it did not extend to all consumable goods such as maintenance materials,

electrical items, phone and motor spares. The section responsible for these kept whatever records it considered necessary and these have not yet been examined by the Court.

5.3.4.3. The Commission stated that it aimed to keep a minimum of six month's stock of consumable goods for its Brussels offices. Reordering was normally done annually and stock levels could therefore reach 18 month's supply. An audit test of 25 articles showed that seven covered more than 12 months' supply. A similar comment could be made for the Council where, out of 30 articles tested, eight constituted more than 13 months' supply, though in this institution these were low-values items. The highest stock levels were noted, however, in the Office for Official Publications, where an examination of production stocks (paper, copyproofs, offset plaques, inks, etc.) revealed that out of 64 active articles tested, more than 32 months' supply was held of 17 items.

6. INVENTORY SYSTEM — CONTROL AFTER ISSUE

6.1. System

6.1.1. The Financial Regulation of 21 December 1977, Articles 59 to 62, specifies that permanent quantitative inventories shall be kept of all movable and immovable property belonging to the Communities. The implementation measures referred to in paragraph 3.2.1 of this report define property to be entered into the inventory as non-consumable items with an original value of not less than 30 units of account or 37.5 ECU (100 units of account or 125 ECU for scientific or technical equipment) and with a normal life exceeding one year (two years for scientific or technical equipment)⁽¹⁾.

6.1.2. The audit showed that all the institutions, except one, were maintaining permanent quantitative inventories with each acquisition being physically identified by a separate inventory number. The exception was the Court of Justice, which was in the process of establishing inventories.

6.1.3. The Financial Regulation, Article 59, also states that each institution shall carry out its own inspection to ascertain that entries in the inventory correspond to the facts. No formalized procedure appeared to exist in any of the institutions to check regularly the physical existence of *all items* on the inventory either on an annual or on a continual programme.

⁽¹⁾ The amounts are subject to indexation according to Article 88 of the implementation measures.

6.2. Specific case studies

6.2.1. The Commission

6.2.1.1. On receipt of each asset the Commission allocates to it an inventory reference number (based on an entry in a manually kept register) then attaches a permanent plaque to the object itself and finally enters details of the asset into a computerized inventory system maintained by the Computer Centre at Luxembourg. These details include the date of entry, asset type and purchase price. The computer system produces loose-leaf cards for each asset change, monthly summaries of input, and six-monthly statements of all records quantified by original purchase price (no depreciation is calculated). The loose-leaf cards are used by the Inventory Sections as the base for their day-to-day record and these are manually updated.

6.2.1.2. In November 1976, the Commission issued instructions based on a study by the firm Cap-Sogeti with the intention of making best use of the then existing inventory systems. These instructions were based on there being no accurate location data on the inventory records themselves and called for physical inspection only in the following limited instances:

- furniture — verification when taken off the records for reasons of sale or scrap,
- office machines — verification at the time of maintenance work (on the basis of separate card records containing the up-to-date location),
- other machines and installations (e.g. printing machines, radio and television equipment) — separate card indexing to be maintained by the user departments and fully verified on an annual basis.

On the above basis, the Commission pointed out in its reply to paragraph 11.3 (vi) of the Court's 1977 annual report that it did check that assets had been properly recorded on the inventory when furniture was issued from the stores. However, the Court found this practice inadequate and noted its intention to examine further.

6.2.1.3. Substantive audit tests now have shown that complete regular physical checks from the inventory have not been carried out. Checks on a sample of furniture items in store in Zaventem or in use showed that while the inventory system recorded all items when purchased and allocated an inventory number, it only subsequently registered the location of assets

if and when it was informed of issue to the initial user. Thus items held in store at Zaventem did not have their location recorded nor were movements generally recorded after the initial issue, and the inventory was not adjusted for every item returned to Zaventem. Several instances were also discovered of items of furniture recorded on the inventory as being issued to locations which were no longer occupied by the Commission. Without accurate details of current location, it is not practicable to imbue in officials any sense of accountability for physical assets given into their responsibility or to verify the continuing physical existence of all items on the inventory record except by a full scale physical inspection of all property held. And with the exception of the machines mentioned in paragraph 6.2.1.2, such checks as are carried out by the Commission serve only to confirm that existing property is on the record; they do not confirm the reverse, that property on the record continues to exist which indeed is the most important control procedure.

6.2.1.4. The instructions of November 1976 also require the development of the present computer system to provide the calculation of depreciation and statistical data on the use of assets; the Court understands that this has not yet been implemented.

6.2.2. *The European Parliament*

6.2.2.1. The Parliament identifies each asset on receipt with a numbered plaque, recording it in a manually kept permanent ledger, which records date of entry, asset type and purchase price, in chronological order. Location is not noted, either initially or at any later stage, nor are assets grouped by type. No regular physical checks are carried out from the inventory record to the assets. The Parliament informed the Court that it considered it would be impracticable to maintain a record by location because of the movement of staff and furniture between the various buildings. However, the Court noted that the ledger entry did not usually even indicate whether items were in Luxembourg, Brussels or Strasbourg.

6.2.2.2. Although separate sub-records are maintained for office machines, at the time of the Court's visit these were not kept up to date for location, were not verified by inspection and were not checked back to the inventory ledger. The Court

has been informed that physical checks have since been introduced for this equipment.

6.2.3. *The Council*

6.2.3.1. The Council identifies each asset on receipt with an indelible handwritten inventory number. The inventory records are manually kept and comprise a chronological permanent ledger plus a card index of assets by category on which location is noted in only a small number of cases. The inventory department thus cannot physically verify on an annual basis more than a small proportion of the total assets.

6.2.3.2. Separate sub-records for office machines are kept in a manner similar to the other institutions. They are regularly verified at the time of maintenance but these records are not reconciled with the card index mentioned in the preceding paragraph.

6.2.4. *The Economic and Social Committee*

The Economic and Social Committee, after identifying each asset with a numbered plaque, manually records the details in the same way as the Council (i.e. ledger plus card index by category). Location is also noted only for a minority of items. No physical verification against the records is made, even for office machines which are regularly examined for maintenance purposes.

6.2.5. *The Court of Justice*

At the time of audit, the Court of Justice was in the process of setting up an inventory system by physically counting all its relevant assets and allocating reference numbers (by plaque) which were being manually summarized in permanent records. The Court understands that this has now been completed, and that there are plans for the introduction of a mechanized record.

7. DISPOSALS

7.1. *Criteria and authority*

7.1.1. Apart from those assets which clearly can no longer be used, the question of when to dispose of old but useful assets should be based on well-defined

TABLE 8

	Number of years			
	Commission	Council	Parliament	Court of Justice
Mechanical typewriters	7	7	7	—
Electrical typewriters	7	7	5	8
Dictaphones	5	5	5	5
Office furniture	10	16	10	—
Storage furniture (e.g. shelving)	14	16	14	—

renewal criteria. The Commission has formally established such criteria for itself and the Council has also independently but somewhat informally created guidelines for renewal. The other three institutions have not defined criteria on this matter. However, the 'groupe d'harmonisation d'achats' has noted that in practice the institutions are applying the minimum renewal periods shown in Table 8.

The renewal periods set out in the table are not always rigidly applied. Other factors — such as condition and current needs — may also be taken into account with the result that sometimes assets are retained well beyond these periods. Thus, at the time of the audit, Parliament was still using typewriters acquired 12 years ago and office furniture 15 years ago.

7.1.2. The institutions are obliged by the Financial Regulation, Article 61, to have a record prepared by the Authorizing Officer and authenticated by the Financial Controller for any disposal, scrapping or loss. Such records are prepared by all the institutions. In addition, the Commission has formed a 'Comité de Réforme' to consider all disposals over 25 000 ECU.

7.1.3. It should be noted here that the budget distinguishes between new purchases and purchasing for replacement. With the latter, each item bought should be balanced by an old item disposed of, scrapped or declared lost.

7.2. Methods of disposal

7.2.1. The methods of disposal of assets available to an institution obviously depend on the condition of the item concerned. For damaged items, scrapping

may be the only solution; it may however have a further useful life sometimes after repair. The Commission informed the Court that where economically feasible it tries to repair and/or reuse.

7.2.2. In following its replacement policy, an institution may decide that certain assets should be renewed although they still have some useful life. In some instances, arrangement can be made to trade these in against new items. In other instances sale on the open market is adopted. For these latter items, the Commission's approach is to put the assets into 'lots' for sale as a whole; the items put into each lot mix usable with relatively worthless assets. The purchasing section then contacts by telephone a selection of firms who might be interested, invites them to view the lot or lots and to submit written offers. In 1977 and 1978, sales by the Commission in Brussels of individual furniture lots brought in receipts ranging up to Bfrs 102 000 per lot. Typewriters were also sold using this approach at Bfrs 600 to Bfrs 2 000 per machine. Total income from all disposals has amounted to Bfrs 9.6 million over the past three years (of which Bfrs 5.7 million derived from sales of cars).

7.2.3. In the examination of the Parliament's disposals, no sales of furniture by lot were noted, all used furniture being traded in against purchases from one Luxembourg supplier in return for a 10% price reduction. However, two sales of typewriters by lot advertised in the local press brought in Bfrs 1 360 and Bfrs 3 000 per machine.

7.2.4. A test of 19 disposals by the Council showed no evidence of sales or trade-in to third parties though the Court was informed that such arrangements are made when economically viable. Table 9 gives the make-up of the 19 cases and illustrates that in 13 the Court was unable to establish

TABLE 9

Council disposal:

	Number of cases	Original cost (Bfrs)
Loss or theft	2	19 034
Traded in against new items	4	486 440
No record of the final disposition or destination of these items or group of items	13	563 577
	19	1 069 051

from the records available how the assets concerned were disposed of or by whom. The Council informed the Court that these items had reached a stage where they no longer had any trade-in value.

7.3. Removal from permanent inventories

7.3.1. Assets to be disposed of by the Commission under its renewal policy are identified from the inventory loose-leaf record and deletions from inventory are then made. As the inventory does not contain complete information about the location of assets, the Court's auditors could not verify that the assets were actually taken out of use. Those assets which require renewal before the expiration of the deemed length of useful life (e.g. because of damage) are identified by their plaques when they are returned to store and then deleted from the inventory.

7.3.2. The present manual inventory system in the Parliament does not provide for the possibility of removing from the record assets for which the inventory reference (plaque) is missing, and therefore the inventory ledger includes items which have physically been taken out of service. On the other hand, a number of other cases were found to have been deleted from the record for renewal purposes while these items continued in use.

7.3.3. Audit tests on the inventory of the Economic and Social Committee showed that the records were not up to date, in that no disposals had been recorded since 1975. It was noted for example that seven typewriters and one car sold in 1976 were still recorded. Efforts have now been initiated to rectify this.

8. INSURANCE

8.1. Risks arising on the institutions' assets are generally covered by insurance. In principle, the question of deciding whether any particular asset or risk should be so covered is judged on considerations of its opportuneness. In cases where the premium seems high in relation to the possible benefit, the institution may decide not to take cover.

8.2. After calling for tenders, the Commission concludes its main insurances through two brokers, underwriting through several insurance companies. The valuation of assets covered (notably furniture, equipment and paper stocks) is derived from the original purchase price indexed at annual rates. However this valuation is not directly related to or reconciled with the inventory and/or stock records.

8.3. Generally the other institutions can use the Commission's insurance policies, but in some instances they undertake their own arrangements.

9. COMMENTS BY THE COURT OF AUDITORS

Procurement

9.1. As stated before, in this review of procurement activities the Court has largely confined itself to those office supplies and equipment etc. being processed by the principal purchasing section of each institution. The Court finds such centralization within each institution highly desirable as the expertise thus built up should enable the section to invite offers from a wider range of suppliers so improving the chance of obtaining the most

economic prices. *The Court recommends that the Commission ensure that the joint implementing measures include a clear definition of the respective roles of the purchasing section and of the user departments and of the former's responsibility for final choice of suppliers to be contacted and selected, and that consideration should be given to transferring the existing rights of certain other sectors to make their own procurements to the central purchasing section.*

9.2. In the absence of firm objectives for the institutions, the Court has sought to compare the system and procurement activities and experiences of the others and with other generally accepted practices. It welcomes the existence of the 'Groupe d'harmonisation d'achats' which it hopes will continue to encourage the development of exchange of information, and of inter-institutional contracts (contrats-cadres). While the Court realizes that the institutions have to avoid the encouragement of a monopoly in any one field, it considers that this can be avoided by the 'contrats-cadres' offering a range of suppliers styles (as with the Commission's contracts for furniture) and by the avoidance of automatic renewals of contracts. *It recommends that purchasing be further centralized so that the institutions can obtain their main regular needs from such centrally invited and placed contracts.* In the Court's view, such an arrangement, if properly operated, must be in the Communities' economic interests since it would consolidate their marketing powers, should make the lowest prices available to all the institutions and should reduce the duplication of effort now occurring in the institutions. Thus, while it might be necessary for exceptional procurements (e.g. delivery to Strasbourg) to still be processed by the institution concerned, the Court proposes that the 'Group' examine how the institutions could best work together to seek offers and place contracts for common items, such as furniture, office equipment and supplies. The need for such centralization is clearly indicated by the variety of prices quoted in Tables 5, 6 and 7.

9.3. The arguments that will be raised against the loss of autonomy by the institutions will include evidence of occasional lower prices by the smaller institutions, and by claims of preferred choice. In the Court's view, neither of these is defensible. For the latter, it is clear that the first step towards economy in procurement could come from a rational system of clearer standards. These can be fixed in quantity and value terms and do not need to result in mass standardization. But the divergencies between the institutions revealed in the limited range of items taken for this Report should be questioned. For

example, the Court questions whether the levels of furniture standards have been subjected to inter-institutional consideration, and whether there are reasons why the Commission should pay Bfrs 103 594 for furniture for each A3 (Table 4) when other institutions keep within a range of Bfrs 55 000 to 74 000 (Table 1). Nor have the arguments for or against IBM typewriters (costing about Bfrs 30 000) as opposed to various other makes (on average about Bfrs 20 000) been fully evaluated (Table 5). Even though some technical arguments were advanced, similar criticisms apply to the lack of economic control apparent in the purchase of offset printing machines (paragraph 3.6.6). *The Court recommends that greater steps be taken to harmonize standards and prices and suggests in particular that the Commission make recommendations to the budgetary authorities to establish clear standards for items of common use.*

9.4. If certain institutions are independently able to negotiate more favourable terms than these obtained centrally for the 'contrats-cadres', this should be encouraged. And the lower prices should be made available to the other institutions, thus becoming in turn 'contrats-cadres'.

9.5. While expressing the view that more centralized buying and more common standards should be sought by the institutions, the Court does not necessarily consider that this is a complete solution. The 'Groupe d'harmonisation' has taken the view that differences of size and role between the institutions would make identical formulae impracticable. But the Court nevertheless considers that much greater cooperation should be introduced into the institution's procurement practices. Apart from the measures recommended above, *it suggests that consideration be given to the formation of one common Advisory Committee on Procurement and Contracts* to which all institutions would have to submit their major purchase proposals. This common Committee would then be able to make comparison between institutions of the qualities being sought, the range of suppliers invited and the prices offered. Its membership could be composed of non-involved officials drawn from all the institutions, and meetings could be attended by the Financial Controllers concerned as observer. Presentations would be made to the Committee concerned as observer. Presentations would be made to the Committee by the purchasing section involved. *The Financial Regulation currently requires each institution to establish its own Committee; in the Court's view a common Committee for major purchases would be more in the interests of the Communities and it recommends that individual*

institutions commence discussions towards this end, with a view to proposing the necessary amendment of the Financial Regulation.

9.6. Purchasing can only be carried out efficiently and economically if the services involved are so minded and directed; and the adoption of common standards would be worthwhile only if they were not those of the present highest cost. In this respect the Court must point out that, while in general officials appeared to carry out their tasks conscientiously, certain criticisms are made in this report of different aspects of each of the institutions' procurement and asset control arrangements. Two particular common faults of detail were:

- (i) the absence of a common system of justification. References in paragraphs 3.4.2, 3.4.5, 3.6.1.3, 3.6.2, 3.6.3 and 4 particularly identify the inadequacy in some cases of the records justifying choice of supplier and the variations in practices and types of records between institutions. It is understood that consideration is being given to the use throughout the institutions of a 'justification du marche' similar to that of the Commission;
- (ii) inadequate sounding of the market by priced offers, and the high percentage of single tender or dearer offers accepted (paragraphs 3.4.3, 3.4.4 and 3.6.1.3 particularly refer).

Both these aspects suggest that the purchasing sections could adopt a more price-conscious approach in their choice of supplier, and the introduction of a clear requirement that the justification of choice be fully documented (and thus available for audit) could be a first step in this direction. Such documentation should then be retained at least until discharge of the relevant accounts has been granted.

Stock controls and inventory

9.7. Whether these be for consumable or for 'permanent' items, sound financial management should include records of receipt, issue and retention in order to support the proper expenditure of Community funds and to continue a stewardship of these assets when in use. Basically these records should come in three stages (local bin-cards, independent stock records, inventory and main ledger account). The Court is of the view that the records maintained by the institutions do not adequately satisfy the request either of the Financial

Regulation or of generally accepted accounting principles. Thus stock records (recording receipts, issues and holdings in-store at any time) are an essential part of asset control, form a useful control over the receipt and physical existence of items, and assist in the procurement processes by indicating use and re-order levels. Such purposes are being met by the computerized stock records maintained by the Commission for its paper and office supplies, and to a lesser extent by the Parliament's and the Council's manual systems for these. The Court welcomes the Parliament's decision to use the Commission's computer system. It finds, however, the general absence of other stock records disturbing particularly for furniture. *It recommends that each institution introduce complete records independent of the stock-keeper for whatever goods are purchased and received, and that regular checks be introduced to ascertain that actual issues and holdings conform to the expected levels.*

9.8. Apart from providing a physical check on the stock-keeper's stewardship, such stock records perform at least three other useful functions. They enable a valuation to be made of the capital held in such stocks, they can identify over-stocking, and can control reordering. It should be part of the stock control system to reduce Community holdings to the most economic level, taking into account usage, supply lag, and alternatives such as leaving stocks with the supplier. Thus the high holdings identified in paragraph 5.3.4.3 should have been acted upon, if necessary by rearranging ordering calendars.

9.9. They also provide an auditable document of usage. The absence of any stock records of furniture prevented the Court from carrying out an effective audit of these purchases. Thus, though each payment was supported by a signed receipt generally from the reception point, it was frequently impossible to establish whether and where these items had been consigned to or indeed if they had ever been passed to the store-keeper. This was certainly the case for items such as chairs, etc. below the inventoriable price. Even when they were subject to inventory recording, the lack of any formalized transfer control procedure and of continual location indication together with the absence of checks of physical existence gives no assurance that the institutions receive and properly use all goods paid for nor that responsibility exits for stewardship. *The Court strongly recommends that stock-records of furniture in particular be introduced at an early date by all institutions.*

9.10. The need for an inventory is also generally regarded as an essential control of assets, and is as such required by the Financial Regulation. The existent records fail on the count of their lack of location identity. Because of this, the records cannot be shown to bear any relationship to physical reality, neither do they provide any real control over these assets, nor can there be any allocation of responsibility to recipients. Thefts and other losses may not be detected, items may be taken off the inventory on age grounds although in practice they continue to exist, and the inventory fails to impart a sense of responsibility for ownership since there is no requirement to notify and record subsequent movements. *The Court recommends that the present system in use by the institutions be further reviewed*

so as to lead to a record which is effective and from which physical checks may be more easily performed.

9.11. The question of whether the Communities should purchase insurance cover, or should bear the risks on their own account, is debatable. The Court has not considered this as part of its present examination. It is, however, clear that any insurance cover if taken should be related to realistic valuations and, in this respect too, proper maintenance of stock and inventory records could provide a firmer basis for determining the overall value and existence of assets to be insured.

Adopted by the Court on 24 September 1980.

APPENDIX I

Commitments for the purchase of administrative assets (excluding research)

(1 000 ECU)

	Description	Immovable assets	Office machines	Furniture	Technical equipment	Transport equipment	Stationary and office supplies	Total
	Budget items	2000	2200 2201	2210 2211	2220 2221	2230 2231	2300	
Commission (including Publications Office)	1977	369.7	221.6	981.8	1 368.2	227.8	2 963.6	6 132.7
	1978	—	209.5	651.1	1 747.1	271.3	3 474.7	6 353.7
Parliament	1977	—	151.5	436.0	327.7	50.1	619.9	1 585.2
	1978	—	194.4	590.0	837.4	71.1	724.1	2 417.0
Council	1977	—	96.0	277.7	275.4	11.3	565.7	1 226.1
	1978	—	79.0	158.2	289.4	24.0	802.0	1 352.6
Court of Justice	1977	—	29.9	27.1	44.7	64.8	191.4	357.9
	1978	—	36.1	48.2	113.8	34.1	177.5	409.7
Economic and Social Committee	1977	—	15.3	9.2	51.4	8.0	133.8	217.7
	1978	—	35.0	19.9	86.6	6.0	116.9	264.4
Total	1977	369.7	514.3	1 731.8	2 067.4	362.0	4 474.4	9 519.6
	1978	—	554.0	1 467.4	3 074.3	406.5	5 295.2	10 797.4

Purchases of both movable and immovable assets are sometimes also charged to the following budget articles.

Restaurants and canteens (142), medical service (143), language courses, etc. (151), fitting out of premises (214), operation of the Computer Centre (224)

Identification of the amounts involved is impossible without detailed analysis as these articles also include other administrative expenditure. The Court considers that the amounts are not material in relation to the above figures:

APPENDIX II

Values of assets on hand (excluding research)

Original cost

(1 000 ECU)

	31 December 1977		31 December 1978	
	Inventories	Stock records	Inventories	Stock records
Commission	25 932.6	1 333.7 ⁽¹⁾	29 279.5	1 491.2 ⁽¹⁾
Parliament	5 915.8	(⁽²⁾)	6 551.1	(⁽²⁾)
Council	(⁽²⁾)	(⁽²⁾)	(⁽²⁾)	(⁽²⁾)
Court of Justice	(⁽²⁾)	(⁽²⁾)	1 613.0	(⁽²⁾)
Economic and Social Committee	(⁽²⁾)	(⁽²⁾)	(⁽²⁾)	(⁽²⁾)
Total	31 848.4	1 333.7	37 443.6	1 491.2

(⁽¹⁾) Excluding the Office for Official Publications.

(⁽²⁾) Records not evaluated.

APPENDIX III

Number of typewriters held at 31 December 1978
in Brussels, Luxembourg und Straßbourg

	Mechanical			Electric				Total
	Olympia	Olivetti	Others	Olympia	Olivetti	Others	IBM	All
Commission, Brussels	538	264	11	1 114	1 416	14	44	3 401
Commission, Luxembourg	274	83	—	89	779	—	35	1 260
Parliament	642	199	—	15	81	—	1 076	2 013
Council	144	—	—	70	1 011	13	30	1 268
						(fact)		
Court of Justice	—	1	—	—	134	—	35	170
Economic and Social Committee	35	1	—	—	209	—	5	250
Total	1 633	548	11	1 288	3 630	27	1 225	8 362
	2 192 (26%)			6 170 (74%)				

Typewriters related to personnel
(as of 31 December 1978)

	^a Number of typewriters	^b Personnel	Average $\frac{a}{b}$
Commission	4 661	9 042	0.52
Parliament	2 013	1 706	1.18
Council	1 268	1 463	0.87
Court of Justice	170	280	0.61
Economic and Social Committee	250	315	0.79
Total	8 362	12 806	0.65

APPENDIX IV

Review of cost of furniture selected by the Commission for grade A 3
(resulting from request for tenders No 402/7)

Description	Prices of three suppliers selected (Bfrs)			Prices of five suppliers not selected (Bfrs)				
	A	B	C	D	E	F	G	H
Bureau avec retour	20 380			12 955	15 562		16 676	17 112
Armoire ⁽¹⁾ basse	11 025			7 864	8 100		8 077	10 769
Table de conference	3 800			3 339	5 661		5 201	6 101
Servante telefonique	2 435			2 923	3 219		4 957	3 050
Table basse	3 465			1 364	2 986		3 534	3 800
Total	41 105			28 445	35 528		38 445	40 832
Fauteuil tournant		8 364			5 772	6 275		5 904
6 chaises conference		26 934			25 308	13 278		25 710
Total		35 298			31 080	19 553		31 614
4 fauteuils bas			26 072	18 169			21 665	15 960

(¹) The request for tenders specified 'armoire basse' whereas the final purchase was for two armoires basses.

II

(Preparatory Acts)

COURT OF AUDITORS

Opinion of the Court of Auditors of the European Communities on the proposal for a Council Regulation laying down general rules for the supply as food aid of products other than cereals, skimmed-milk powder or butteroil to certain developing countries and specialized bodies

THE COURT OF AUDITORS OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 209 thereof,

Having regard to the Council Decision of 28 August 1980 to consult the Court of Auditors on a proposal for a Council Regulation laying down rules for the supply as food aid of products other than cereals, skimmed-milk powder or butteroil to certain developing countries and specialized bodies, the text of which is given in the Annex to document COM (80) 478 final,

Whereas the document COM (80) 478 final contains two different texts, i.e.:

- (a) a draft resolution on the use of Community food aid to attain food security objectives in the developing countries,
- (b) a proposal for a Council Regulation laying down general rules for the supply as food aid of products other than cereals, skimmed-milk powder or butteroil to certain developing countries and specialized bodies;

Whereas the opinion requested from the Court applies only to the proposed Regulation in document COM (80) 478 final, while the grounds for this new

proposal can be found primarily in the wording of the draft resolution;

Whereas the proposal for a Regulation submitted for opinion does not include certain useful provisions on the management of the aid which appeared in the 1979 proposal for a Regulation on the management of food aid (as recapitulated in document COM (79) 1 final), hereinafter called the proposal for a framework Regulation, on which the Court of Auditors delivered its opinion on 8 March 1979⁽¹⁾ and which has not yet been adopted by the Council;

Whereas the proposal for a Regulation fails to define the concepts of exceptional cases and availability on the Community market on normal terms or delivery to the port of shipment and does not include the definition of emergency as given in the proposal for a framework Regulation;

Whereas the proposal for a Regulation makes provision, where the products to be supplied are not subject to a common organization of the market, for a very general and inadequately defined possibility of derogating from nine essential Articles of the Financial Regulation;

Whereas with regard to food aid the new Commission proposals in document COM (80) 478 final do not take sufficient account of the audit

⁽¹⁾ OJ No C 139, 5. 6. 1979

responsibilities of the Court of Auditors, which the latter has already had occasion to recall in its opinions of 26 October 1978 and 8 March 1979;

Whereas the Community expenditure linked to the implementation of the food-aid programme must be clearly presented and properly classified in the budget,

HAS ADOPTED THE FOLLOWING OPINION:

The Court of Auditors

- observes that the reference to the Council Decision of 22 March 1977 in the second recital to the proposed Regulation is to an unpublished Council document and that it is therefore impossible to establish a link between this document and the proposal for a Regulation;
- is of the opinion that the fourth and seventh recitals to the proposed Regulation duplicate each other, at least in part;
- regrets that the proposal for a Regulation is not accompanied by a revised version of the proposal for a framework Regulation at present before the Council, so that the link between the two pieces of legislation may be clearly established;

Article 1

- observes that this Article makes it legally possible to extend Community food aid to products other than cereals, skimmed-milk powder or butteroil.

Article 2

- is of the opinion that:
 - (a) this Article should specify whether the Council decisions on the nature of the products referred to in Article 1 are long-term decisions or are taken for each individual aid programme; in the latter case rapid implementation will prove very problematical, particularly in emergencies;
 - (b) the absence of provisions assigning responsibility for determining the quantities involved, the beneficiaries, or future programmes, is likely to give rise to conflicts of authority between the institutions and consequently to delays in implementing the aid.

Articles 2 and 3 (2)

- considers that whereas at present in an emergency a short procedure can be used, the procedure

proposed in paragraph 3 of Article 3 requires a Council decision each time, and is therefore likely to take longer;

Article 3 (1)

- regrets that the proposed Regulation continues to use the concept of 'port of shipment' which, as stressed by the Court in its opinion of 8 March 1979, lacks precision and is therefore likely to give rise to differing interpretations, whereas the Commission in Regulation (EEC) No 1974/80 of 22 July 1980⁽¹⁾ abandoned this concept in order to bring its rules more into line with international commercial practice.
- regrets that the proposed Regulation continues to use the concept of 'port of shipment' which, as stressed by the Court in its opinion of 8 March 1979, lacks precision and is therefore likely to give rise to differing interpretations, whereas the Commission in Regulation (EEC) No 1974/80 of 22 July 1980⁽¹⁾ abandoned this concept in order to bring its rules more into line with international commercial practice.

Article 3 (2)

- considers that:
 - (a) a reference to a stage corresponding to the port of discharge in the case of landlocked countries should be added to the first indent,
 - (b) the exclusion from Community financing of the distribution costs borne by the recipient country, as implied by the provisions of the second indent, may in certain cases, as the Court has observed in the past, be a cause of poor implementation;
- is of the opinion that to this Article should be added a provision that rules be made laying down the general terms for the supply and transportation of the food aid referred to in Article 1,
- as in its opinion of 8 March 1979, the Court:
 - (a) recommends that both the general terms upon which aid is supplied and the clauses applicable to the recipients of Community aid make explicit reference to the audit responsibilities conferred upon the Court by Article 206 (a) of the EEC Treaty;
 - (b) raises the question whether in the choice of carriers by sea (and certainly whenever the Community is responsible for transport beyond the fob stage) a system analogous to that used in aid procurement could not be applied, so that first priority is given to

⁽¹⁾ OJ No L 192, 26. 7. 1980.

vessels registered in a Member State of the Community, then to those of the recipient country, and only exceptionally and on special grounds could vessels of another nationality be used.

Article 3 (3)

- considers that in order to avoid any ambiguity or contradiction between Articles 3 (3) and 5, the provisions of Article 3 (3) should be preceded by the words 'without prejudice to Article 5' and that conversely, the corresponding introit of Article 5 'without prejudice to Article 3 (3) and' should be deleted.

Article 4 (1)

- considers that the wording of this paragraph, by referring to the possibility of procuring products on the world market, no longer reflects the idea put forward in the proposal for a framework Regulation and repeated in the fifth recital in the new proposal for a Regulation, whereby in the event of an emergency or non-availability on the Community market, the products to be supplied should preferably be procured on the markets of developing countries who export these products and are geographically close to the countries in need of aid,
- is of the opinion that the concepts of 'emergency' and 'availability on the Community market on normal terms' should be more closely defined in order to reduce uncertainty in their application, to ensure sound financial management and the relevant audit and financial controls.

Article 4 (2)

- is of the opinion that in order to avoid legislative ambiguity, this provision should be

supplemented by adding the word 'appropriate' before 'management committee procedure'.

Article 4 (3)

- considers that the general nature of the derogation from the provisions of Articles 50 to 58 of the Financial Regulation governing contracts for the supply of goods and services⁽¹⁾ (for which no reason is given either in the recitals or the introduction), is not compatible with the principles of sound financial management, nor with the relevant audit and financial controls

Article 5

- recommends that the tenders to supply food aid be broken down by cost item in order to make possible a comparison of the component parts of the tenders and to thus facilitate financial controls,
- considers that it is necessary to define the 'exceptional cases' where a direct agreement procedure may be used, as is already the case for cereals and milk products supplied as food aid.

Moreover, the Court

- would refer to its opinion of 8 March 1979 in which it considered that in order for an analysis of the referred expenditure of the EAGGF Guarantee Section to be made from one year to the next, such refund expenditure should remain itemized within Chapter 92 of the general budget of the European Communities;
- is of the opinion that the proposed Regulation should also provide for controls of the type, quality and packaging of the products referred to in Article 1.

This opinion was adopted by the Court of Auditors in its meeting of 2 October 1980.

*For the Court of Auditors of the
European Communities*

The President
Michael N. MURPHY

⁽¹⁾ Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities (OJ No L 356, 31.12.1977).