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#### COVER NOTE

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| From:            | Mr Klaus-Heiner LEHNE, President of the European Court of Auditors  |
| date of receipt: | 4 November 2016   |
| To:              | Mr Peter KAZIMIR, President of the Council of the European Union  |
| Subject:         | Report on the annual accounts of the European Banking Authority for the financial year 2015 together with the Authority's reply |

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Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Banking Authority for the financial year 2015.

This report is accompanied by the Authority'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 European Banking Authority for the financial year 2015 together with the Authority'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 European Banking Authority  
for the financial year 2015  
  
together with the Authority's reply

## **INTRODUCTION**

1. The European Banking Authority (hereinafter “the Authority”, aka “EBA”), which is located in London, was established by Regulation (EU) No 1093/2010 of the European Parliament and of the Council<sup>2</sup>. The Authority’s task is to contribute to the establishment of high-quality common regulatory and supervisory standards and practices, to contribute to the consistent application of legally binding Union acts, to stimulate and facilitate the delegation of tasks and responsibilities among competent authorities, to monitor and assess market developments in the area of its competence and to foster depositor and investor protection.

2. **Table 1** presents key figures for the Authority<sup>3</sup>.

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

|  | <b>2014</b> | <b>2015</b> |
|--|-------------|-------------|
| Budget (million euro)                      | 33,6        | 33,4        |
| Total staff as at 31 December <sup>4</sup> | 146         | 156         |

*Source:* data provided by the Authority.

## **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 Authority’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>2</sup> OJ L 331, 15.12.2010, p. 12.

<sup>3</sup> More information on the Authority’s competences and activities is available on its website: [www.eba.europa.eu](http://www.eba.europa.eu).

<sup>4</sup> Staff includes officials, temporary and contract staff and seconded national experts.

## **STATEMENT OF ASSURANCE**

4. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

- (a) the annual accounts of the Authority, which comprise the financial statements<sup>5</sup> and the reports on the implementation of the budget<sup>6</sup> for the financial year ended 31 December 2015, and
- (b) the legality and regularity of the transactions underlying those accounts.

### ***The management's responsibility***

5. The management is responsible for the preparation and fair presentation of the annual accounts of the Authority and the legality and regularity of the underlying transactions<sup>7</sup>:

- (a) The management's responsibilities in respect of the Authority's annual accounts include designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies on the basis of the accounting rules adopted by the Commission's accounting officer<sup>8</sup>; making accounting estimates that are reasonable in the circumstances. The Executive Director approves the annual accounts of the Authority after its accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he declares, inter alia, that he has reasonable assurance that they present a true and fair view of the financial position of the Authority in all material respects.

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<sup>5</sup> These include the balance sheet and the statement of financial performance, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

<sup>6</sup> These comprise the budgetary outturn account and the annex to the budgetary outturn account.

<sup>7</sup> Articles 39 and 50 of Commission Delegated Regulation (EU) No 1271/2013 (OJ L 328, 7.12.2013, p. 42).

<sup>8</sup> The accounting rules adopted by the Commission's accounting officer are derived from the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, where relevant, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

- (b) The management's responsibilities in respect of the legality and regularity of the underlying transactions and compliance with the principle of sound financial management consist of designing, implementing and maintaining an effective and efficient internal control system comprising adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

***The auditor's responsibility***

6. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council<sup>9</sup> with a statement of assurance as to the reliability of the annual accounts and the legality and regularity of the underlying transactions. The Court conducts its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions. These standards require the Court to plan and perform the audit to obtain reasonable assurance as to whether the annual accounts of the Authority are free from material misstatement and the transactions underlying them are legal and regular.

7. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the underlying transactions. The procedures selected depend on the auditor's judgement, which is based on an assessment of the risks of material misstatement of the accounts and material non-compliance by the underlying transactions with the requirements in the legal framework of the European Union, whether due to fraud or error. In assessing these risks, the auditor considers any internal controls relevant to the preparation and fair presentation of the accounts, as well as the supervisory and control systems that are implemented to ensure the legality and regularity of underlying transactions, and designs audit procedures that are appropriate in the circumstances. The audit also entails evaluating the appropriateness of accounting policies, the reasonableness of accounting estimates and the overall presentation of the accounts. In preparing this report and Statement of Assurance, the Court considered the audit work of the independent external auditor performed on the Authority's accounts as stipulated in Article 208(4) of the EU Financial Regulation<sup>10</sup>.

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<sup>9</sup> Article 107 of Regulation (EU) No 1271/2013.

<sup>10</sup> Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

8. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

**Opinion on the reliability of the accounts**

9. In the Court's opinion, the annual accounts of the Authority present fairly, in all material respects, its financial position as at 31 December 2015 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer

**Opinion on the legality and regularity of the transactions underlying the accounts**

10. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2015 are legal and regular in all material respects.

**Other matter - event after balance sheet date**

11. On 23 June 2016, the citizens of the United Kingdom (UK) voted to leave the European Union. Article 50 of the Treaty on European Union provides that a Member State which decides to withdraw from the Union shall notify the European Council of its intention and the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal. The accounts and related notes of the Authority, which is located in London (UK), were prepared using the information available at the date of signing of these accounts when the results of the referendum were not yet known and the formal notification of the triggering of Article 50 has not been presented<sup>11</sup>.

12. The comments which follow do not call the Court's opinions into question.

**COMMENTS ON BUDGETARY MANAGEMENT**

13. Carry-overs of committed appropriations for Title II (administrative expenditure) were high at 1 487 794 euro, i.e. 28 % of the total committed appropriations under this title (2014: 3 431 070 euro, i.e. 48 %). These include an unresolved issue regarding the outstanding VAT to be paid on the balancing charge of the Authority's new building and an

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<sup>11</sup> The Authority's accountant signed the accounts on 24 May 2016.

invoice concerning business rates by the UK Valuations Office (combined value 538 938 euro).

14. Weaknesses were noted in the estimation of IT needs, in particular concerning outsourced services, which affect the Authority's budgetary management of related expenses.

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

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

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 4 October 2016.

*For the Court of Auditors*

Klaus-Heiner LEHNE  
*President*

Follow-up of previous years' comments

| Year        | Court's comment   | Status of corrective action<br>(Completed / Ongoing / Outstanding / N/A) |
|-------------|---|--|
| <b>2012</b> | In order to cover higher school fees, the Authority grants staff whose children attend primary or secondary school an education contribution in addition to the education allowances provided for in the Staff Regulations <sup>1</sup> . Total 2012 education contributions amounted to some 76 000 euro. They are not covered by the Staff Regulations and therefore irregular. | <b>Ongoing<sup>2</sup></b>   |
| <b>2014</b> | Carry-overs of committed appropriations for title II (administrative expenditure) were high at 3 431 070 euro, i.e. 48 % (2013: 1 974 511 euro, i.e. 35 %) and mainly related to the Authority's move to its new premises in mid-December 2014.   | <b>N/A</b>   |

<sup>1</sup> Article 3 of Annex VII provides for twice the basic allowance of 252,81 euro = 505,62 euro.

<sup>2</sup> As at the end of 2015 the Authority had signed contracts with 20 of the 21 schools attended by children of staff members.



### THE AUTHORITY'S REPLY

11. The Authority has taken note of the Court's report.

13. The EBA puts considerable effort into minimising carry-overs for justified needs. The carry-over referred to was justified.

14. Outsourced services are governed by properly procured framework contracts. The use of these services is driven by the EBA work programme and is continuously monitored by IT and Finance. The EBA has further improved the documentation of its estimation of needs for procurement procedures. Compared to the 2015 initial budgetary appropriations allocated to IT costs, the EBA reduced the IT appropriations by just 4,3 % over the course of the year.