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COVER NOTE

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 Single Resolution Board for the financial year 2015 together with the Board's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the Single Resolution Board for the financial year 2015.

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

Encl.: Report on the annual accounts of the Single Resolution Board for the financial year 2015 together with the Board's reply.¹

¹ 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 Single Resolution Board
for the financial year 2015

together with the Board's reply

INTRODUCTION

1. The Single Resolution Board (hereinafter “the Board”, aka “SRB”), which is located in Brussels, was established by Regulation (EU) No 806/2014 on the Single Resolution Mechanism (“SRM Regulation”)². The Board’s mission is to ensure an orderly resolution of failing banks with minimum impact on the real economy and on public finances of the participating Member States and beyond.
2. The Board has been operational as an independent EU Agency as of 1 January 2015. However the Commission was responsible for the establishment and initial operation of the Board. It is only as of 8 April 2015 that the Board has the operational capacity to manage its resources autonomously.
3. **Table 1** presents key figures for the Board³.

TABLE 1: KEY FIGURES FOR THE BOARD

	2014	2015
Budget (million euro)	N/A	22
Total staff as at 31 December ⁴	N/A	108

Source: data provided by the Board

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

4. The audit approach taken by the Court comprises analytical audit procedures, direct testing of transactions and an assessment of key controls of the Board’s supervisory and

² OJ L 225, 30.7.2014, p. 1.

³ More information on the Board’s competences and activities is available on its website: www.srb.europa.eu.

⁴ Staff includes officials, temporary and contract staff and seconded national experts.

control systems. This is supplemented by evidence provided by the work of other auditors and an analysis of management representations.

STATEMENT OF ASSURANCE

5. 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 Board, which comprise the financial statements⁵ and the reports on the implementation of the budget⁶ for the financial year ended 31 December 2015, and
- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

6. The management is responsible for the preparation and fair presentation of the annual accounts of the Board and the legality and regularity of the underlying transactions⁷:

- (a) The management's responsibilities in respect of the Board'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 officer⁸; making accounting estimates that are reasonable in the circumstances. The Board's Chair draws up the annual accounts of the Board 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,

⁵ 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.

⁶ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

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

⁸ 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.

that he has reasonable assurance that they present a true and fair view of the financial position of the Board in all material respects.

- (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

7. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council⁹ 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 Board are free from material misstatement and the transactions underlying them are legal and regular.

8. 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

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

considered the audit work of the independent external auditor performed on the Board's accounts as stipulated in Article 208(4) of the EU Financial Regulation¹⁰.

9. 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

10. In the Court's opinion, the Board's annual accounts 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

11. 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.

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

COMMENTS ON THE RELIABILITY OF THE ACCOUNTS

13. Article 92(4) of the SRM Regulation requires the Court to report in particular on the contingent liabilities of the Board, the Council and the Commission as a result of the performance of their tasks under the SRM Regulation. The Court will report on this matter in a separate report.

COMMENTS ON INTERNAL CONTROLS

14. In 2015 the Board became operational and gradually set up its internal control environment. However a number of essential procedures and controls remain to be drafted, adopted or implemented, including the risk management and control strategy, the internal control standards, the periodic assessment of the sound functioning of the internal control system and the anti-fraud strategy.

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

COMMENTS ON BUDGETARY MANAGEMENT

15. The budget of the SRB is funded through contributions from credit institutions and amounted to 22 million euro in 2015. The SRB committed 67 % of the called budget and used 45 % of it. The low implementation rate resulted in a significant budget surplus of 7,7 million euro.

16. Carry-overs of committed appropriations are high for Title II (administrative expenditure) at 3,6 million euro, i.e. 70,4 %. These carry overs mainly concern contracts which have been concluded in 2015 for the new premises of the SRB (e.g. IT infrastructure, security infrastructure and office equipment) whereby the services and goods had not yet been fully delivered or invoiced by the end of 2015.

17. Carry-overs of committed appropriations are high for Title III (operational expenditure) at 0,6 million euro, i.e. 40,3 %. These carry overs mainly concern consultancy services for the "Collection of contributions project" which have not yet been fully delivered or invoiced by the end of 2015.

OTHER COMMENTS

18. In 2015, the SRB signed a contract for its new headquarters in Brussels with a minimum duration of 15 years and a total value of at least 42,4 million euro. The procurement procedure was poorly documented and the location in the contract notice restricted it to one of the most expensive areas in Brussels excluding possible cheaper options.

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 13 September 2016.

For the Court of Auditors

(s) Vítor Manuel da SILVA CALDEIRA
President

THE BOARD'S REPLY

14. Although the Single Resolution Board (the "SRB" or the "Board") is in its start-up phase, work on the formalisation of internal procedures is under way as a priority and is expected to be completed by the end of 2017. Critical areas and activities are being identified and measures are being put in place to be compliant. The Board has not formally adopted the internal control standards, but has complied already with several of them.

15. 2014-2015 budget estimations were drawn up under conditions of uncertainty by the European Commission's Task Force and before the Board was even set-up. Furthermore, according to the SRM Regulation, the SRB collects in advance the contributions of each year. It is also foreseen that any potential positive budget outturn will not result in the accumulation of reserves, but it will decrease accordingly the amount to be charged to the financial institutions in the upcoming year.

16. The Board accepts the comment and points out that the carry-overs are related mainly to the initial investments necessary for the entry into operations of SRB.

17. The Board accepts the comment, however points out that from the total amount of 0,6 million euro carried-forward for Title III, the main part (82 %) was for events/services that have already occurred or been delivered in 2015. Therefore they were accrued accordingly in the accounts. At year end, these services were simply not yet invoiced by the vendors.

18. As SRB was in its start-up phase, the Board made use of the expertise of the Commission (OIB) for launching the negotiated procedure for its new premises. In this respect:

- this procedure was published by OIB under a specific format and the criteria were announced in accordance to OIB's standard practice and in line with its adopted methodologies;
- in line with the principle of sound financial management, the OIB standard 500 m perimeter was increased to 700 m to ensure genuine competition.

Regarding the location, the requirements were based on the SRB's needs with respect to the nature of its tasks and the necessity to be in close proximity with the Commission

Single Resolution Board

(DG FISMA, DG COMP) and the Council in the event of resolution of banks which must be managed under the 24 hours rule and thus requiring a place with access to those institutions within walking distance. In light of the above, a strategic and political decision was taken by the European Commission's Task Force to remain within the European District.