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COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	13 November 2013
To:	Mr Linas LINKEVICIUS, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Aviation Safety Agency for the financial year 2012 together with the Agency's replies

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Aviation Safety Agency for the financial year 2012.

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

Encl.: Report on the annual accounts of the European Aviation Safety Agency for the financial year 2012 together with the Agency's replies.¹

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

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



EUROPSKI REVIZORSKI SUD
CORTE DEI CONTI EUROPEA
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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the European Aviation Safety Agency
for the financial year 2012

together with the Agency's replies

INTRODUCTION

1. The European Aviation Safety Agency (hereinafter “the Agency”, aka “EASA”), which is located in Cologne, was established by Regulation (EC) No 1592/2002 of the European Parliament and of the Council¹ as last amended by Regulation (EC) No 1108/2009. The Agency has been given specific regulatory and executive tasks in the field of aviation safety.²

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

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

STATEMENT OF ASSURANCE

3. 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 Agency, which comprise the financial statements³ and the reports on the implementation of the budget⁴ for the financial year ended 31 December 2012, and

¹ OJ L 240, 7.9.2002, p. 1.

² **Annex II** summarises the Agency’s competences and activities. It is presented for information purposes.

³ These include the balance sheet and the economic outturn account, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

⁴ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

4. In accordance with Articles 33 and 43 of Commission Regulation (EC, Euratom) No 2343/2002⁵, the management is responsible for the preparation and fair presentation of the annual accounts of the Agency and the legality and regularity of the underlying transactions:

- (a) The management's responsibilities in respect of the Agency'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 officer⁶; making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Agency 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 Agency 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

⁵ OJ L 357, 31.12.2002, p. 72.

⁶ 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.

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

5. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council⁷ 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 Agency are free from material misstatement and the transactions underlying them are legal and regular.

6. 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

⁷ Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002 (OJ L 248, 16.9.2002, p. 1).

reasonableness of accounting estimates and the overall presentation of the accounts.

7. 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

8. In the Court's opinion, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2012 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

9. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2012 are legal and regular in all material respects.

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

COMMENTS ON INTERNAL CONTROLS

11. The Agency established a standard procedure for ex ante verifications. However, the related checklists were not completed and documentation justifying the validation of expenditure was not always available⁸.

⁸ Timesheets to justify services charged on a man / days basis did not exist.

12. A methodology for ex post verifications was approved in 2009. Although the Agency made further developments in its implementation, room for improvement still exists in the following areas: there is still no annual planning of verifications, the sample of transactions to be checked is not risk-based and the methodology does not cover public procurement procedures.

COMMENTS ON BUDGETARY MANAGEMENT

13. The overall level of appropriations committed was 95 %, varying between 96 % for title I (staff expenditure), 95 % for title II (administrative expenditure) and 89 % for title III (operational expenditure). However, carry-overs of committed appropriations were high for title III at 46 %. Although this is partly justified by the multiannual nature of the Agency's operations and the carry-overs included in the Court's sample were duly justified, such a high level is at odds with the budgetary principle of annuality.

OTHER COMMENTS

14. In one of the audited recruitment procedures, the selected candidate did not meet the Staff Regulations' requirements as regards university degrees or equivalent professional training.

FOLLOW-UP OF PREVIOUS YEAR'S COMMENTS

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

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 24 September 2013.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

Follow-up of previous year's comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	<p>The decrease in the country coefficient for Germany in June 2010 caused a significant surplus in the Agency's title I (staff expenditure) appropriations for 2011. About 3 million euro (7 % of the appropriations) were transferred from title I to various budget lines in title III (operational expenditure), despite their low implementation rate in terms of payments¹. As permitted by EASA's Financial Regulation, this significant cross-title transfer, which changed considerably the structure of the budget, was not put to the Agency's management board for approval². This situation is however at odds with the budgetary principle of specification.</p>	<p style="text-align: center;">Completed</p>

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	The transfer increased title III appropriations to 13,7 million euro. However, at the end of the year 7,8 million euro were carried over to 2012. This is at odds with the budgetary principle of annuality.	Ongoing
2011	The Agency needs to improve the management of fixed assets. Assets are recorded in two different systems which can only be reconciled manually. Physical inventories should be better reported and summarised. The estimation of project cost of internally generated fixed assets was inadequate and deviations were not monitored. Not all internal staff costs were taken into account and the documentation of external costs was insufficient.	Completed
2011	At the end of 2011, the Agency held bank balances of 55 million euro (2010: 49 million euro) at one bank only. There was no treasury policy in place to limit this risk while gaining appropriate investment returns.	Ongoing
2011	The Court identified further need to improve the transparency of staff selection procedures. There is no evidence that the Agency established the questions for written tests and interviews, the maximum number of candidates for the reserve list or the threshold scores for being put on this list before applications were examined.	Completed

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	The Agency's current lease contract requires it to restore the rented premises at the end of the lease and to restore them to their original condition. A provision of 1 million euro was made in the accounts on the basis of the Agency's estimate of dilapidation costs. However, the owner's estimate is 4 million euro. The Agency needs to obtain an independent external estimate of dilapidation costs and reflect them in the accounts accordingly.	Completed

¹ Budget line 3200 (development of business applications) increased by 37 % to 3,5 million euro; budget line 3600 (rule making) increased by 87 % to 1,4 million euro; budget line 3601 (international cooperation) increased by 123 % to 778 000 euro and budget line 3903 (research) increased by 550 % to 1,3 million euro.

² According to both EASA's and the general Financial Regulation, only transfers of more than 10 % of the appropriations must be submitted to the Management Board for approval. However, unlike the general EU Financial Regulation, EASA's Financial Regulation does not limit transfers to a maximum of 30 % of the appropriations in the receiving budget lines.

European Aviation Safety Agency (Cologne)**Competences and activities**

<p>Areas of Union competence deriving from the Treaty</p> <p><i>(Article 100 of the Treaty on the Functioning of the European Union)</i></p>	<p>The European Parliament and the Council may, acting in accordance with the ordinary legislative procedure, may lay down appropriate provisions for sea and air transport. They shall act after consulting the Economic and Social Committee and the Committee of the Regions.</p>
<p>Competences of the Agency</p> <p><i>(The Agency's powers as defined in Regulation (EC) No 216/2008 of the European Parliament and of the Council (the "Basic Regulation"))</i></p>	<p>Objectives</p> <ul style="list-style-type: none"> - to maintain a high uniform level of civil aviation safety in Europe and to ensure the proper functioning and development of civil aviation safety. <p>Tasks</p> <ul style="list-style-type: none"> - to issue opinions and recommendations to the Commission, - to issue certification specifications, including airworthiness codes and acceptable means of compliance, and any guidance material for the application of the Basic Regulation and its implementing rules, - to take decisions regarding airworthiness and environmental certification, pilot certification, air operation certification, third country operators, inspections of Member States and investigation of undertakings, - to conduct standardization inspections of the competent authorities in the Member States, associated States and ex Joint Aviation Authority (JAA) States <i>(in this case in accordance with working arrangements)</i>.
<p>Governance</p>	<p>Management Board</p> <p>Composition: consisting of one representative of each Member State and one representative of the Commission,</p> <p><i>Tasks</i></p> <p>sets up an advisory body of interested parties.</p> <p>Executive Director</p> <p>Manages the Agency and is appointed by the Management Board on a proposal from the Commission.</p> <p>The Board of Appeal</p> <p>Decides on appeals against the Agency's decisions in accordance with Article 44 of Regulation (EC) No 216/2008 in certain respects such as certification, fees & charges and investigation of undertakings.</p> <p>External audit</p> <p>European Court of Auditors.</p> <p>Discharge authority</p> <p>European Parliament, acting on a recommendation by the Council.</p>
<p>Resources made available to the Agency in 2012 (2011)</p>	<p>Final Budget</p> <p>Total budget: 150,2 (138,7) million euro, including:</p> <ul style="list-style-type: none"> - own revenue: 83,0 (75,2) million euro (55,3 %) - union subsidy: 34,9 (34,4) million euro (23,2 %) - contribution from non-EU countries: 1,7 (1,7) million euro (1,1 %) - assigned revenue from fees and charges: 25,2 (24,7) million euro (16,8 %) - other revenue: 0,9 (1,4) (0,6 %)

	<p>– other subsidies: 4,4 (1,2) (2,9 %)</p> <p>Staff as at 31 December 2012</p> <p>634 (574) temporary staff in the establishment plan</p> <p>Posts occupied: 612 (573)</p> <p>Other staff: 74,6 (68); contract staff: 63,3 (57); seconded national experts: 11,3 (11); special advisors: 0 (0).</p> <p>Total temporary staff: 613⁽¹⁾ (574).</p> <p>Filled posts subsidy-financed: 216⁽²⁾ (223).</p> <p>Filled posts fee-financed: 396⁽²⁾ (350).</p>
<p>Products and services in 2012 (2011)</p>	<p>Opinions</p> <p>Six Opinions, including one alignment of Commission Regulation No (EC) 2042/2003 with Regulation (EC) No 216/2008</p> <p>Rulemaking Decisions</p> <p>22 Decisions related to: Certification specifications (eight); Acceptable Means of Compliance and Guidance Material (13)</p> <p>Additional deliverables in 2012 (which will lead to Rules in the forthcoming years)</p> <p>32 Terms of Reference (ToRs), 23 Notice of Proposed Amendment (NPAs), 19 Comment Response Document (CRDs)</p> <p>International Cooperation</p> <p>18 Working Arrangements. Three Implementation Procedures to the Working Arrangements. 13 recommendations provided on International Civil Aviation Organization (ICAO) State Letters.</p> <p>BASA (Bilateral Aviation Safety Agreement)</p> <p>Support for the implementation of the EU – US Bilateral Aviation Safety Agreement (BASA) including for the preparation of two Bilateral Oversight Board, two Certification Oversight Board, two Joint Maintenance Coordination Board and one Flight Standards meetings with the Federal Aviation Administration (FAA).</p> <p>Initiation of the development of three new annexes under the EU – US Bilateral Aviation Safety Agreement (Flight Crew Licensing, Flight Simulation Training Devices, Pilot Training Organisations).</p> <p>Support for the negotiations of the EU – Ukraine Common Aviation Area Agreement.</p> <p>Support for the preparation of one Joint Committee with Transport Canada Civil Aviation (TCCA), one joint sectorial committee on certification with Transport Canada Civil Aviation (TCCA) and one joint sectorial committee on maintenance with TCCA.</p> <p>Certification decisions at 31 December 2012</p> <p>Type Certificates/Restricted Type Certificates (TCs/RTCs): 10⁽³⁾ Supplemental Type Certificates (STCs): 752 Airworthiness Directives (ADs): 319 Alternative Method of Compliance (AMOC): 65 European Technical Standard Order Authorisation (ETSOA): 264 Major changes/Major repairs/TC New Derivatives: 952 Minor changes/Minor repairs: 814 Aircraft Flight Manual (AFM): 360 Approval of flight conditions (PTF): 498 Flight Simulation Training Devices (FSTD): 237 Approval of Design organisations (AP and Alternative Procedures to DOA (AP-DOA): 495 Approval of Maintenance organisations (bilateral)⁽⁴⁾: 1 505 Approval of Maintenance organisations (foreign)⁽⁴⁾: 299 Approval of Maintenance training organisations⁽⁴⁾: 46 Approval of Manufacturing⁽⁴⁾: 24</p> <p>Standardisation inspections (number of inspections by type) at 31 December 2012</p> <p>In the field of Airworthiness (AIR): 26 In the field of Operations (OPS): 27 In the field of flight crew licensing (FCL): 19 In the field of medical flight crew licensing (MED): 14 In the field of flight simulation training devices (FSTD): 9 In the field of Air Traffic Management / Air Navigation Services (ANS): 10</p>

⁽¹⁾ Two structural part-time pilots occupy one post.

⁽²⁾ The split of filled posts between fee-financed and subsidy-financed may change subject to possible revision of

the cost-accounting allocation keys as of 31 December 2012.

- (3) Only those TCs/RTCs are counted which were issued for a new type design. TCs issued as a result of grandfathering, transfer or administrative re-issuance are excluded.
- (4) The organisation approval activity is subdivided into a main surveillance activity of already approved *organisations (with a renewal every 2/3 years)* and an activity linked to new approvals. The data supplied concern the total number of approvals on 31 December 2012.

Source: Information supplied by the Agency.
