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COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	30 October 2014
To:	Mr Linas LINKEVICIUS, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Insurance and Occupational Pensions Authority for the financial year 2013 together with the Authority's replies

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Insurance and Occupational Pensions Authority for the financial year 2013.

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

Encl.: Report on the annual accounts of the European Insurance and Occupational Pensions Authority for the financial year 2013 together with the Authority'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/>.

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TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
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ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



EUROPSKI REVIZORSKI SUD
CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
EUROPOS AUDITO RŪMAI

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IL-QORTI EWROPEA TAL-AWDITURI
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EURÓPSKY DVOR AUDÍTOROV
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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the European Insurance and Occupational Pensions Authority
for the financial year 2013

together with the Authority's replies

INTRODUCTION

1. The European Insurance and Occupational Pensions Authority (hereinafter “the Authority”, aka “EIOPA”), which is located in Frankfurt, was established by Regulation (EU) No 1094/2010 of the European Parliament and of the Council¹. 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 the protection of policyholders, pension scheme members and beneficiaries². The Authority was set up on 1st January 2011.

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 Authority’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:

¹ OJ L 331, 15.12.2010, p. 48.

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

- (a) the annual accounts of the Authority, which comprise the financial statements³ and the reports on the implementation of the budget⁴ for the financial year ended 31 December 2013, and
- (b) the legality and regularity of the transactions underlying those accounts.

The management's responsibility

4. 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 transactions⁵:

- (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 officer⁶; making accounting estimates that are reasonable in the circumstances. The 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

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.

⁵ Articles 39 and 50 of Commission Delegated Regulation (EU) No 1271/2013 (OJ L 328, 7.12.2013, p. 42).

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.

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.

- (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

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 Authority 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

⁷ Article 107 of Regulation (EU) No 1271/2013.

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.

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 Authority's annual accounts present fairly, in all material respects, its financial position as at 31 December 2013 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 2013 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 Management Board adopted the Authority's 16 Internal Control Standards in March 2013. At the end of the year, their implementation was ongoing on the basis of a clear action plan agreed with the Commission's Internal Audit Service.

12. Legal commitments were not always authorised by officers with a proper delegation and were not always preceded by a properly authorised budgetary commitment. This shows the need to improve the definition of, and compliance with, financial circuits in accordance with the Financial Regulation.

COMMENTS ON BUDGETARY MANAGEMENT

13. The overall level of committed appropriations was 95 %. However, the level of committed appropriations carried over further increased as compared with previous years and was high at 5,2 million euro (28 %), particularly for title II at 1,0 million euro (30 %) and title III at 3,7 million euro (85 %). This mainly resulted from specific contracts with a cumulative value of 3 million euro signed late in the year, particularly for the development and maintenance of a European database (2,6 million euro) and other IT services to be provided in 2014. Although the related commitments are legal and regular and low cancellation rates for carry-overs from 2012 confirmed sound estimations, the extent to which 2013 appropriations were used to cover 2014 activities is at odds with the budgetary principle of annuality.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

14. 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 Milan Martin CVIKL, Member of the Court of Auditors, in Luxembourg at its meeting of 8 July 2014.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

Follow-up of previous years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	<p>The Authority's budget for the financial year 2011 amounted to 10,7 million euro. In accordance with Article 62(1) of its Founding Regulation, 55 % of the 2011 budget was financed from Member States' and EFTA countries' contributions and 45 % from the Union budget. At the end of 2011 the Authority recorded a positive budget outturn of 2,8 million euro. In compliance with its Financial Regulation the full amount was then recorded in the accounts as a liability towards the European Commission.</p>	Completed
2011	<p>The audited procurement procedures were not fully consistent with the provisions of the general Financial Regulation. For five purchases of IT equipment (total amount of 160 117 euro) the award criteria applied were not set in advance and no written contracts were signed. In another case related to recruitment services (55 000 euro), the award criteria were incorrectly applied. The Authority should ensure that all new contracts are awarded in full compliance with the EU procurement rules.</p>	Completed

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2011	The Authority needs to improve the transparency of recruitment procedures: threshold scores for admission to written tests and interviews or for inclusion in the list of suitable candidates, and questions for oral and written tests, were not set before the examination of applications, and there was no decision of the Appointing Authority to appoint the selection boards.	Completed
2012	EIOPA has improved its procurement procedures in order to become fully compliant with EU procurement rules. However, one contract related to the design of a financial database was subdivided into four lots of 60 000 euro each, which were all directly awarded to two companies. Given the total value of the services to be procured for the same project (240 000 euro), an open or restricted procedure should have been applied and the related commitments and payments are thus irregular.	N/A
2012	A physical verification of assets was carried out in May and June 2012, but no physical verification report was produced. The Authority has not adopted any procedures or guidelines on physical checks on tangible assets.	Completed
2012	The carry-over of committed appropriations to 2013 was very high for title III (operational expenditure) at 79 % of total appropriations. This mainly results from the complexity and lengthy duration of one IT procurement procedure for which the contract of 2,2 million euro was signed as planned in December 2012.	Outstanding

**European Insurance and Occupational Pensions Authority
(Frankfurt am Main)**

Competences and activities

<p>Areas of Union competence deriving from the Treaty</p> <p><i>(Articles 26, 114, 290, 291 of the Treaty on the Functioning of the European Union)</i></p>	<ul style="list-style-type: none"> – Establish or ensure the functioning of the internal market, in accordance with the relevant provisions of the Treaties. – Prepare draft technical standards as preparatory work for non-legislative acts of general application to supplement or amend certain non-essential elements of the legislative act or where uniform conditions for implementing legally binding Union acts are needed.
<p>Competences of the Authority</p> <p><i>(Regulation (EU) No 1094/2010 of the European Parliament and of the Council establishing the Authority, Article 1(6) and Article 8 on tasks and powers)</i></p>	<p>Objectives</p> <p>Protect the public interest by contributing to the short, medium and long-term stability and effectiveness of the financial system, for the Union economy, its citizens and businesses.</p> <p>Tasks</p> <ul style="list-style-type: none"> – 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 cooperate closely with the ESRB, – to organise and conduct peer review analyses of competent authorities, – to monitor and assess market developments in the area of its competences, – to undertake economic analyses of markets to inform the discharge of the Authority's functions, – to foster the protection of policyholders, pension scheme members and beneficiaries, – to contribute to the consistent and coherent functioning of colleges of supervisors, the monitoring, assessment and measurement of systemic risk, the development and coordination of recovery and resolution plans, providing a high level of protection to policy holders, to beneficiaries and throughout the Union, – to fulfil any other specific tasks set out in this Regulation or in other legislative acts, – to publish on its website, and to update regularly, information relating to its field of activities, – to take over, as appropriate, all existing and ongoing tasks from the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).
<p>Governance</p> <p><i>(Regulation (EU) No 1094/2010 establishing the Authority: Articles 40-44: Board of Supervisors; Articles 45-47: Management Board; Articles 48-50: Chair; Articles 51-53: Executive)</i></p>	<p>Board of Supervisors (BoS)</p> <p><i>Composition</i></p> <p>Chairperson (non-voting), the head of the national public authority competent for the supervision of financial institutions in each Member State (one voting member per Member State), one representative of the Commission (non-voting), of the European Systemic Risk Board (non-voting), the European Banking Authority, the European Securities Markets Authority (both non-voting); observers may be permitted and the Executive Director may participate in meetings (non-voting).</p>

<i>Director)</i>	<p>Tasks</p> <p>The Authority's main decision-making body.</p> <p>Management Board (MB)</p> <p><i>Composition</i></p> <p>Chairperson of the Authority (voting), six Members of the BoS (voting). A representative of the European Commission shall participate in MB meetings and may vote on budget issues. The Executive Director shall participate in meetings of the MB without the right to vote.</p> <p><i>Tasks</i></p> <p>The MB shall ensure that the Authority carries out its mission and performs the tasks assigned to it in accordance with Regulation No 1094/2010.</p> <p>The Authority's Chairperson</p> <p>Represents the Authority, prepares the work of the Board of Supervisors (BoS), chairs the BoS and MB meetings.</p> <p>The Authority's Executive Director</p> <p>Is in charge of the management of the Authority and the implementation of the annual work programme and the budget; prepares the work of the Management Board, the budget, the work programme.</p> <p>Quality Control Committee</p> <p><i>Composition</i></p> <p>The Authority's Alternate Chairperson (chair) and two Members of the Management Board. The Executive Director participates as an observer.</p> <p><i>Tasks</i></p> <p>To oversee and assess appropriate implementation of the internal procedures and decisions.</p> <p>External audit</p> <p>European Court of Auditors.</p> <p>Internal audit</p> <p>European Commission's Internal Audit Service (IAS).</p> <p>Discharge authority</p> <p>European Parliament acting on a recommendation from the Council.</p>
Resources made available to the Authority in 2013 (2012)	<p>Final Budget</p> <p>Final Budget Appropriations: 18 767 470 (15 655 000) euro</p> <p>Establishment Plan</p> <p>Statutory staff: 80 (69) posts authorized in the establishment plan, of which occupied: 80 (69)</p> <p>Establishment plan 100 % (100 %) fulfilled</p> <p>Contract staff posts: 22 (12) planned in the budget, 19 (14) occupied</p> <p>Seconded National Experts posts: 12 (8) planned in the budget, of which occupied: 11 (8)</p> <p>Total: 110 (91) staff</p>
Products and services in 2013	<p>Regulatory tasks</p> <ul style="list-style-type: none"> - Four public consultations related to the Authority's activities in insurance.

- Issuance of four guidelines relating to the Authority's activities in insurance.
- Approval of an Implementing Technical Standard relating to the Authority's activities in occupational pensions.
- Discussion paper on long term investments.
- Report to the Commission on long term investments.
- Quantitative impact study in the area of occupational pensions.
- Report on information to members of occupational pension schemes.
- Discussion paper in the area of personal pensions.
- Publication of the register of IORPs and database of pension plans and products.
- Selection of two Stakeholder Groups for insurance and reinsurance, and occupational pensions.
- Professional secrecy & gap analysis reports for Australia, Chile, China, Hong Kong, Israel, Mexico, Singapore, South Africa.
- Memorandum of Understanding signed between EIOPA and the World Bank.

Supervisory tasks

- Attendance of Colleges of Supervisors' meetings and/or telephone conferences for 82 groups.
- Participation in four joint on-site inspections.
- Collection and dissemination of Practical Solutions and Examples (PSEs) in three areas (coordination arrangements, College Workplans, Confidentiality agreements and processes).
- Two events for Group Supervisors were organised.
- Dissemination of a structure for a group risk assessment approach.
- Action Plan for Colleges 2014-2015 disseminated.
- Interim and end of the year report on the Functioning of Colleges and the Accomplishments of the 2012 Action Plan.
- Abstract from the Preparatory Guidelines listing the Guidelines that are relevant for discussion and assessment in the Colleges was provided to the Group Supervisors.
- The continuous update of the Helsinki Plus list on the restricted area of EIOPA's website and publication of a summary on the public part of EIOPA's Website.
- Organisation of six meetings (visits) between EIOPA's oversight staff and the supervisory authorities involved in the supervision of groups, either as Group or as Host Supervisor, in individual countries.

Consumer protection and financial innovation

- Guidelines on Complaints-Handling by Insurance Intermediaries.
- Report on Best Practices by Insurance Intermediaries in handling complaints.
- Consumer Trends Report.
- Revised Methodology Report for collecting, analysing and reporting on consumer trends.
- Report on Good Supervisory practices regarding knowledge and ability requirements for distributors of insurance products (including public consultation).
- Opinion on Payment Protection Insurance.
- Background note on Payment Protection Insurance.
- Opinion on Beneficiary Protection Arrangements Regarding Life Insurance

	<p>Contracts.</p> <ul style="list-style-type: none"> – Consultation Paper on a draft Report on Good Practices on Comparison Websites. – Discussion Paper on a possible EU-single market for personal pension products (supervisory and consumer protection). <p>Common supervisory culture</p> <ul style="list-style-type: none"> – Three cross-sector seminars. – Seventeen seminars for national competent authorities. – Completed three peer reviews, launched two new peer reviews, launched one follow-up process to a peer review, and optimised the process for applying the methodology for conducting peer reviews. <p>Financial stability</p> <ul style="list-style-type: none"> – Two bi-annual Financial Stability Reports. – Preparation of Europe-wide stress test for the insurance sector (test postponed due to Long-Term Guarantee Assessment). – Production of quarterly Risk Dashboard. – Completion of the Long-Term Guarantee Assessment exercise and delivery of report to Trialogue parties. – Publication of revised annual insurance statistics. <p>Crisis management</p> <ul style="list-style-type: none"> – Finalisation of a comprehensive, decision-making framework setting out in detail the processes that the Authority will follow in discharging its crisis pre-emption and management responsibilities. – Completion of Task Force on Crisis Management mandate and disbanding of task force. – Agreement of an EIOPA Opinion on the supervisory response to a prolonged period of low interest rates. – Detailed contribution to the Financial Stability Board consultation on recovery and resolution for non-bank financial institutions. – Publication of Survey Report on Crisis Prevention, Management and Resolution Preparedness of National Supervisory Authorities. <p>External relations</p> <ul style="list-style-type: none"> – Ten meetings, including a joint one with BoS, of IRSG and OPSG, twelve official opinions and feedback statements on public documents, six own initiative papers and three responses to informal consultations. – Approximately twenty Regulatory and Supervisory Dialogues with third country supervisors and supervisory associations from Austral-Asia, Latin and North America, South Africa, Iceland and Switzerland. Active participation in and contributions to the IAIS Technical and Executive Committee, Financial Stability Committee, Solvency & Actuarial Subcommittee, development of Insurance Global Capital Requirements (Field Testing Task Force/Higher Loss Absorbency Task Force) and IAIS Annual Conference. – EU-US Dialogue Project: regular Steering Committee Meetings, the Technical Committees progressing on plan and Public Event in Washington DC. – Equivalence: Gap analysis of the (re)insurance regimes of Australia, Chile, China, Hong Kong, Israel, Mexico, Singapore, South Africa, including full professional secrecy assessment, as basis for an EC decision on equivalence transitionals. Initiation of professional secrecy assessment of ten countries in Central and Eastern Europe. Signature of the Multilateral Memorandum of Understanding for supervisory cooperation between EIOPA members and the
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	<p>Bermuda Monetary Authority (BMA).</p> <ul style="list-style-type: none">- Operational Memorandum of Understanding signed between EIOPA and the World Bank. <p>Conferences / other public events in 2013</p> <ul style="list-style-type: none">- Six conferences and events ("Conference on Global Insurance Supervision (GIS)", Results of "QIS (Quantitative Impact Study) for Pensions", Personal Pensions and Sponsor Support Public Events, annual EIOPA Conference and third Consumer Protection Day.
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Source: Annex supplied by the Authority.
