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COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	28 October 2015
To:	Mr Jean ASSELBORN, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Aviation Safety Agency for the financial year 2014 together with the Agency's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Aviation Safety Agency for the financial year 2014.

This report is accompanied by the Agency's reply 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 2014 together with the Agency'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 European Aviation Safety Agency
for the financial year 2014

together with the Agency's reply

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 safety².

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 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 2014, 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 Agency and the legality and regularity of the underlying transactions⁵:

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 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.

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

- (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 Executive 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 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

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.

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

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 Agency's accounts as stipulated in Article 208(4) of the EU Financial Regulation⁸.

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 2014 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 2014 are legal and regular in all material respects.

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

COMMENTS ON BUDGETARY MANAGEMENT

11. The overall level of appropriations committed was high at 97,1 %. Although the Agency reduced further the overall level of carry-overs of committed appropriations from 7,2 million euro (7,7 %) in 2013 to 5,9 million euro (6,2 %) in 2014, carry-overs of committed

⁸ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

appropriations were high at 3,6 million euro (22,0 %) for title II (administrative expenditure) and at 2,0 million euro (38,1 %) for title III (operational expenditure). 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

12. There is room to improve the Agency's procurement planning, particularly in respect of framework contracts. In 2014, three procedures were launched too late to replace existing framework contracts by the time they expired. To ensure business continuity, two existing framework contracts were extended until the new ones were in place and in another case a negotiated procurement procedure was launched to bridge the gap. The change of the initial contract duration affects fair competition and the use of a negotiated procedure was not in compliance with the Financial Regulation.

FOLLOW-UP OF PREVIOUS YEAR'S COMMENTS

13. An overview of the corrective actions taken in response to the Court's comments from the previous year 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 15 September 2015.

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)
2013	<p>In 2012 EASA selected 14 National Aviation Authorities (NAAs) and 10 "Qualified Entities" (QEs) through procurement procedures to outsource part of its certification activities¹. Expenditure for such outsourced certification activities amounted to some 22 million euro in 2013. The process of allocating specific certification tasks to NAAs and QEs and the criteria to be used are described in specific guidelines established by the Agency². However, the transparency of outsourcing could be improved through better documentation of the allocation processes, including the assessments made on the basis of the criteria set in the guidelines. This is also the case for the allocation of the many other low-value contracts to bidders.</p>	Ongoing
2013	<p>The overall level of appropriations committed was high at 98 %. Although the Agency reduced further the overall level of carry-overs of committed appropriations from 10,1 million euro (11 %) in 2012 to 7,2 million euro (8 %) in 2013, carry-overs of committed appropriations for title III were high at 3,4 million euro (42 %). 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.</p>	N/A

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2013	The Agency became operational in 2004 and has, to date, worked on the basis of correspondence and exchanges with the host Member State. However, a comprehensive headquarters agreement between the Agency and the Member State has not been signed. Such an agreement would promote transparency in respect of the conditions under which the Agency and its staff operate.	Ongoing
<p>¹ At the end of May 2014, 3 contracts with QEs had been terminated and consequently there were 14 active contracts with NAAs and 7 with QEs.</p> <p>² "Guidelines for the allocation of certification tasks to National Aviation Authorities and Qualified Entities", EASA Management Board Decision 01-2011.</p>		

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

<p>Areas of Union competence deriving from the Treaty <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 <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>Main Objective</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>Functions and tasks</p> <p>In accordance with Articles 17 and 18 of the Basic Regulation, the Agency has been established, among other things:</p> <ul style="list-style-type: none"> – to issue opinions and recommendations to the European 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 the appropriate decisions regarding airworthiness and environmental certification, pilot certification, air operation certification, third country operators, inspections of Member States and investigation of undertakings for the application of the Basic Regulation and its implementing rules; – to conduct standardization inspections of the competent authorities of the EU Member States, associated States (Swiss, Norway, Iceland, Liechtenstein) and other States which have <i>working arrangements</i> with EASA.
<p>Governance</p>	<p>Management Board</p> <p>According to Article 34(1) of the Basic Regulation, the management Board is composed of one representative of each Member State and one representative of the Commission.</p> <p>Tasks</p> <p>The powers and tasks of the Management Board are described in Article 33(2) of the Basic Regulation and are, among others:</p> <ul style="list-style-type: none"> – appointment of the Executive Director and the Directors on a proposal

	<p>from the Executive Director;</p> <ul style="list-style-type: none"> – adoption of the annual general report on the Agency's activities; – adoption of the Agency's work programme for the coming year; – appointment of the members of the Board of Appeal pursuant to Article 41 of the Basic Regulation; – establishment of its Rules of Procedure; – establishment, if it so wishes, of working bodies to assist in carrying out its functions, including the preparation of its decisions and monitoring the implementation thereof. <p>Executive Director</p> <p>Manages the Agency and is appointed by the Management Board on a proposal from the European Commission.</p> <p>The Executive Director is completely independent in the performance of his/her duties.</p> <p>Functions and powers of the Executive Director are described in Article 38 of the Basic Regulation.</p> <p>The Board of Appeal</p> <p>Decides on appeals against the Agency's decisions in accordance with Article 44 of the Basic Regulation 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 2014 (2013)</p>	<p>Final Budget</p> <p>Total budget: 162,3 (151,2) million euro, including:</p> <ul style="list-style-type: none"> – own revenue: 88,3 (83,8) million euro (54,4 %) – union subsidy: 34,2 (34,9) million euro (21,1 %) – contribution from non-EU countries: 2,0 (1,7) million euro (1,2 %) – assigned revenue from fees and charges: 27,8 (24,2) million euro (17,1 %) – other revenue: 1,0 (0,9) (0,6 %) – other subsidies: 9,0 (5,7) (5,6 %) <p>Staff as at 31 December 2014</p> <p>685 (692) temporary staff in the establishment plan</p> <p>Posts occupied: 650 (647)</p> <p>Posts occupied by other staff: 96 (100) in total, of which contract staff: 81 (85); seconded national experts: 15 (15); special advisors: 0 (0).</p> <p>Total temporary staff: 651⁽¹⁾ (648)</p> <p>Temporary staff subsidy-financed: 213⁽²⁾ (219)</p> <p>Temporary staff fee-financed: 438⁽²⁾ (429)</p>
<p>Products and services in 2014 (2013)</p>	<p>Opinions</p> <p>5 Opinions.</p> <p>Rulemaking Decisions</p>

30 Decisions related to: Certification specifications (9); Acceptable Means of Compliance and Guidance Material (21).

Additional deliverables in 2014 (which will lead to Rules in the forthcoming years)

24 Terms of Reference (ToRs), 29 Notices of Proposed Amendment (NPAs), 18 Comment Response Document (CRDs).

International Cooperation

10 Working Arrangements.

2 modifications of Appendices to a Working Arrangement.

21 recommendations provided on International Civil Aviation Organization (ICAO) State Letters.

BASA (Bilateral Aviation Safety Agreement)

Support for the development of the relevant instruments required for the practical implementation of the BASA between the EU and Brazil.

Support for the implementation of the EU – US Bilateral Aviation Safety Agreement (BASA), including for the preparation of the board meetings, support for the preparation of sub-committee meetings, and the annual Flight Standards meeting with the Federal Aviation Administration (FAA).

Support for the implementation of the EU – Canada Bilateral Aviation Safety Agreement (BASA), including for the preparation of the board meetings and support for the preparation of sub-committee meetings.

Support for the European Commission for the development of new Annexes to the EU-US BASA (Flight Crew Licensing, Flight Simulation Training Devices, Pilot Training Organisations).

Support for the development of the relevant instruments required for the practical implementation of the BASA between the EU and USA.

Certification decisions at 31 December 2014

Type Certificates/Restricted Type Certificates (TCs/RTCs): 12⁽³⁾

Supplemental Type Certificates (STCs): 515

Airworthiness Directives (ADs): 368

Alternative Method of Compliance (AMOC): 60

European Technical Standard Order Authorisation (ETSOA): 227

Major changes/Major repairs/TC New Derivatives: 1 184

Minor changes/Minor repairs: 665

Aircraft Flight Manual (AFM): 219

Approval of flight conditions (PTF): 399

Flight Simulation Training Devices (FSTD): 394

Design Organisation Approval (DOA): 311

Alternative Procedures to DOA (AP-DOA): 274

Approval of Maintenance organisations (bilateral)⁽⁴⁾: 1 609

Approval of Maintenance organisations (foreign)⁽⁴⁾: 339

Approval of Maintenance training organisations⁽⁴⁾: 55

Approval of Manufacturing⁽⁴⁾: 29

Approval of Flight Crew Licencing Organisations⁽⁵⁾: 12

	Approval of ATM/ANS Organisations ⁽⁴⁾ : 4 Standardisation inspections (number of inspections by type) at 31 December 2014 In the field of Airworthiness (AIR): 22 In the field of Operations (OPS): 18 In the field of flight crew licensing (FCL): 13 In the field of medical flight crew licensing (MED): 12 In the field of flight simulation training devices (FSTD): 10 In the field of Air Traffic Management / Air Navigation Services (ANS): 18 In the field of Safety Assessment of Foreign Aircraft (SAFA): 14
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¹ Two structural part-time pilots occupy one post.

² The split between fee-financed and subsidy-financed posts has changed due to revision of the cost-accounting allocation keys in 2014.

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 2014.

⁵ The organisation approval activity is subdivided into a main surveillance activity of already approved *organisations (with a renewal every years)* and an activity linked to new approvals. The data supplied concern the total number of approvals on 31 December 2014

Source: Annex supplied by the Agency.