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## COVER NOTE

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From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	8 October 2015
To:	Mr Jean ASSELBORN, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Banking Authority for the financial year 2014 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 2014.

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 2014 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 2014

together with 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>1</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<sup>2</sup>.

## **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 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 Authority, which comprise the financial statements<sup>3</sup> and the reports on the implementation of the budget<sup>4</sup> for the financial year ended 31 December 2014, and
- (b) the legality and regularity of the transactions underlying those accounts.

<sup>1</sup> OJ L 331, 15.12.2010, p. 12.

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

<sup>3</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>4</sup> These comprise the budgetary outturn account and the annex to the budgetary outturn account.

***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 transactions<sup>5</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>6</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.
- (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 Council<sup>7</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

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

<sup>6</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.

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

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 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>8</sup>.

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 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.

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<sup>8</sup> 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**

11. 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.

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

12. An overview of the corrective actions taken in response to the Court's comments from the 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 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)
<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>2013</b>	In 2013, the overall level of committed appropriations was 90 % as compared to 89 % in 2012, varying between 87 % for title I (staff expenditure), 98 % for title II (administrative expenditure) and 92 % for title III (operational expenditure). The commitment rate for title I was negatively impacted by the Court of Justice's decision against the indexation of staff salaries for the period 1 July 2011 to 30 June 2013 (1,8 million euro).	<b>N/A</b>
<b>2013</b>	Although the overall level of carry-overs decreased significantly to 3 876 564 euro (17 % compared with 6 547 808 euro (36 %) for the previous year, carry-overs of committed appropriations remained relatively high for title II at 1 974 511 euro (35 %) and title III at 1 651 203 euro (36 %). These carry-overs mainly result from the planned procurement of IT infrastructure and IT services, for which the contracts were concluded as planned in December 2013 and the related services will be provided in 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 2014 the Authority had signed contracts with 15 of the 17 schools attended by children of staff members.

**European Banking Authority****(London)****Competences and activities**

<p><b>Areas of Union competence deriving from the Treaty</b> <i>(Articles 26 and 114 of the Treaty on the Functioning of the European Union)</i></p>	<p><i>Article 26</i></p> <p>“1. The Union shall adopt measures with the aim of establishing or ensuring the functioning of the internal market, in accordance with the relevant provisions of the Treaties.</p> <p>2. The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of the Treaties.</p> <p>3. The Council, on a proposal from the Commission, shall determine the guidelines and conditions necessary to ensure balanced progress in all the sectors concerned.”</p> <p><i>Article 114</i></p> <p>“1. Save where otherwise provided in the Treaties, the following provisions shall apply for the achievement of the objectives set out in Article 26. The European Parliament and the Council shall, acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market.”</p>
<p><b>Competences of the Authority</b> <i>(Regulation (EU) No 1093/2010 of the European Parliament and of the Council)</i> <i>(Regulation (EU) No 1022/2013 of the European Parliament and of the Council, amending Regulation (EU) No 1093/2010)</i></p>	<p><b>Objectives</b></p> <ul style="list-style-type: none"> <li>(a) Improving the functioning of the internal market, including, in particular, a sound, effective and consistent level of regulation and supervision;</li> <li>(b) ensuring the integrity, transparency, efficiency and orderly functioning of financial markets;</li> <li>(c) strengthening international supervisory coordination;</li> <li>(d) preventing regulatory arbitrage and promoting equal conditions of competition;</li> <li>(e) ensuring the taking of credit and other risks are appropriately regulated and supervised;</li> <li>(f) enhancing customer protection.</li> </ul> <p><b>Tasks</b></p> <ul style="list-style-type: none"> <li>(a) To contribute to the establishment of high-quality common regulatory and supervisory standards and practices;</li> <li>(b) to develop and maintain up to date a European supervisory handbook on the supervision of financial institutions in the Union as a whole;</li> <li>(c) to contribute to the consistent application of legally binding Union acts;</li> <li>(d) to facilitate the delegation of tasks and responsibilities among competent authorities;</li> </ul>



	<ul style="list-style-type: none"> <li>(e) to cooperate closely with the ESRB<sup>1</sup>;</li> <li>(f) to organise and conduct peer review analyses of competent authorities;</li> <li>(g) to monitor and assess market developments in the area of its competence;</li> <li>(h) to undertake economic analyses of markets to inform the discharge of the Authority's functions;</li> <li>(i) to foster depositor and investor protection;</li> <li>(j) to promote 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 depositors and investors throughout the Union and developing methods for the resolution of failing financial institutions and an assessment of the need for appropriate financing instruments;</li> <li>(k) to fulfil any other specific tasks set out in this Regulation or in other legislative acts;</li> <li>(l) to publish on its website, and to update regularly, information relating to its field of activities;</li> </ul>
<b>Governance</b>	<p><b>Board of Supervisors</b> Composed of the Chairperson, one representative per Member State (head of NSA<sup>2</sup>), Commission, ECB<sup>3</sup>, ESRB, EIOPA<sup>4</sup> and ESMA<sup>5</sup>.</p> <p><b>Management Board</b> Composed of the Chairperson and six other members of the Board of Supervisors.</p> <p><b>Chairperson</b> Appointed by Board of Supervisors.</p> <p><b>Executive Director</b> Appointed by Board of Supervisors.</p> <p><b>Board of Appeal</b> Joint body of the three ESAs.</p> <p><b>External audit</b> European Court of Auditors.</p> <p><b>Discharge authority</b> European Parliament.</p>

<p><b>Resources made available to the Authority in 2014 (2013)</b></p>	<p><b>2014 Budget</b>  33,6 (26) million euro  Including:  European Union subsidy: 13,4 (10,4) million euro  Contributions from Member States: 19,6 (15,2) million euro  Contributions from observers: 0,6 (0,4) million euro</p> <p><b>Posts filled as of 31 December 2014</b>  111 temporary staff (93) – of which five offer letters sent to and accepted before 31 December 2014, with starting dates in the first months of 2015, however, due to notice periods  22 contract staff (14)  22 Seconded National Experts (17)</p>
<p><b>Products and services in 2014</b></p>	<ul style="list-style-type: none"> <li>▪ Conduct of 66 public consultations (on draft Regulatory and Implementing Technical Standards developed under the CRDIV/CRR, the Banking Recovery and Resolution Directive (BRRD), Markets in Financial Instruments Regulation (MiFIR), the European Markets Infrastructure Regulation (EMIR), Payments Account Directive (PAD), Mortgage Credit Directive (MCD) and Financial Conglomerates Directive (FICOD)), organisation of 32 public hearings<sup>6</sup>.</li> <li>▪ Submission of 22 draft Regulatory Technical Standards and 10 draft Implementing Technical Standards to the European Commission for final endorsement (including mandates on banks' own funds, credit risk, market risk, liquidity and remuneration under the CRDIV/CRR legislative framework as well as several mandates under the BRRD).</li> <li>▪ Issuance of 17 guidelines (on different topics such as recovery plan scenarios, high earners data collection or the security of internet payments) and one recommendation to national competent authorities (on the use of the Legal Entity Identifier).</li> <li>▪ Coordination of the 2014 EU-wide stress test to assess the resilience of 123 EU banks to adverse economic developments, so as to understand remaining vulnerabilities, complete the repair of the EU banking sector and increase confidence. In addition, the EBA developed a common methodology and played an important role in ensuring comprehensive, consistent, and comparable disclosure of the results.</li> <li>▪ Provision of 13 opinions addressed to the Commission, European Parliament and Council, and one technical advice to the European Commission on the prudential filter for fair value gains and losses arising from the institution's own credit risk related to derivative liabilities.</li> <li>▪ Adoption of a formal recommendation addressed to the Bulgarian National Bank (BNB) and the Bulgarian Deposit Insurance Fund (BDIF) notifying that they are breaching EU Law (Article 1(3)(i) and Article 10 of the Deposit Guarantee Schemes Directive – DGSD).</li> <li>▪ Provision of three comment letters addressed to IASB (on the conceptual framework for financial reporting, on disclosure and on accounting for dynamic risk management) and two comment letters on auditing addressed to the IAASB (on the proposed strategy for 2015–2019 and the proposed work program for 2015–2016).</li> </ul>

- One peer review completed on the implementation of the EBA's guidelines on credit concentration risk.
- Application, maintenance and enhancement of the Single Rulebook Questions and Answers tool on the EBA' website for institutions, supervisors and other stakeholders.
- Issuance of 23 thematic reports in various areas of EBA expertise (including reports on the consistency of banks' risk-weighted assets, consumer trends report, report on the results of the Basel monitoring exercise, reports on banks' liquidity, report on bench-marking of recovery plans, report on reconciliation of statistical and supervisory reporting, report on own funds deduction of net pensions/assets).
- Development of semi-annual banking sector and cross-sectoral risk reports, quarterly risk dashboards, weekly reporting on liquidity and funding conditions of European banks and on banking market indicators, regular updates on risks and vulnerabilities provided to the EU institutions and bodies.
- Extensive work in the regular thematic analysis of a number of areas including the finalisation of the work on consistency of outcomes in risk weighted assets (RWAs).
- Active participation in meetings and activities of colleges of national supervisory authorities, including the promoting and monitoring of supervisory cooperation in colleges, assistance in the process of establishment of resolution colleges.
- Work related to EURIBOR and benchmark-related issues, performed jointly with the ESMA, including monitoring the implementation of the recommendations to Euribor-EBF (published in February 2014) and the work on data collection and potential design of a transactions-based Euribor representing unsecured wholesale funding cost of EU banks.
- Annual assessment of banks' implementation of Pillar 3 disclosure requirements.
- Contribution to the Basel Committee on Banking Supervision's Regulatory Consistency Assessment Programme (RCAP).
- Chairmanship of the Joint Committee of the European Supervisory Authorities (ESAs), with a focus on cross-sectoral risks, including conduct of business risk, and on consumer protection.
  - In the area of joint ESAs' work on consumer protection, focus on the development of regulatory products as mandated in the Packaged Retail Investment and Insurance-based products legislation (PRIIPs), publication of a Discussion Paper on Key Information Documents (KIDs), finalisation of common guidelines on complaints handling, issuance of a reminder to financial institutions regarding self-placement, i.e. placements of their own instruments with their retail clients, issuance of common principles on product oversight and governance, and organisation of a second Joint Consumer Protection Day.
- In the area of joint ESAs' work on cross-sectoral risks, production of two joint reports on identification of key cross-sectoral risks and vulnerabilities in the EU financial system.
- In the area of joint ESAs' work on financial conglomerates, finalisation of

guidelines on the consistency of supervisory practices for financial conglomerates, and publication of annual list of identified financial conglomerates.

- Leadership of the ESAs' operational and secretarial support to the Board of Appeal of the ESAs.
- Providing input and contribution to the process of the European Commission's audit of the European System of Financial Supervision, jointly with the other ESAs, and input to the audit by the European Court of Auditors of the EBA and its performance in setting up the new arrangements for regulation and supervision.
- Provision and coordination of 19 seminars and training activities to staff of EU national supervisory authorities (out of which four provided jointly with the other ESAs); hosting a legal workshop for policymakers, supervisors, and legal academics, and the third policy research workshop for economists, supervisors and academics to discuss the measurement of the riskiness of banks in a consistent manner.
- Fourteen meetings of the Board of Supervisors (eight physical meetings, six teleconferences), six meetings of the Management Board (all physical meetings), and seven meetings of the Banking Stakeholder Group (two of which were held jointly with the Board of Supervisors).
- Fulfilment of the Establishment plan (the EBA published 69 vacancy notices (41 Temporary Agents, 9 Contract Agents and 19 Seconded National Experts) for which 1 850 candidates applied and 173 were interviewed in 2014; no appeals were lodged with the EBA's Executive Director or Ombudsman).
- Further improvement of the administration and transparency of the recruitment process.
- Introduction of a conflict of interest declaration procedure for new staff, prior to the start of their contract, from January 2014.
- Further improvement of induction training for newly recruited staff.
- Definition and implementation of traineeship policy, recruitment of first trainees in December 2014 with starting dates in 2015.
- Revision of the language training policy for eligible staff with a focus on cost effectiveness and sound financial management.
- Introduction of flexi-time arrangements for the EBA's staff, including the software and related procedures, effective since April 2014.
- In relation to Allegro, further modifications and improvements (modifications reflecting the European Commission's General Implementing Procedures on Staff Appraisal, simplification of the performance appraisal report, notification emails, amendments to missions at weekends, sick leave with and without certificate booking – taken away from the staff to be done by Human Resources only).
- Achieved 99,8 % budget execution on 2014 budget.
- Processed 469 financial commitment transactions and 2 711 payment transactions.
- Improved payment time statistics and generated no late payment interest.
- Implemented improved budget monitoring and reporting tools.

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	<ul style="list-style-type: none"><li>▪ Held multiple training sessions on the financial circuit and procurement rules.</li><li>▪ Successfully completed 12 procurement procedures, all in line with the EU procurement rules.</li><li>▪ Renewed 29 contracts which initially had been signed in 2013 for a period of 12 months.</li></ul>
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<sup>1</sup> European Systemic Risk Board

<sup>2</sup> National Supervisory Authority

<sup>3</sup> European Central Bank

<sup>4</sup> European Insurance and Occupational Pensions Authority

<sup>5</sup> European Securities and Markets Authority

<sup>6</sup> Some public hearings covered more than one EBA regulatory proposal

*Source:* Annex supplied by the Authority.

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