



Council of the
European Union

Brussels, 30 November 2015
(OR. en)

14577/15

FIN 828

COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	5 October 2015
To:	Mr Jean ASSELBORN, 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 2014 together with the Authority's reply

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 2014.

This report is accompanied by the Authority's reply 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 2014 together with the Authority'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 Insurance and Occupational Pensions Authority
for the financial year 2014

together with the Authority's reply

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 1 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 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 statements³ and the reports on the implementation of the budget⁴ for the financial year ended 31 December 2014, and

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.

³ These include the balance sheet and 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.

- (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 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

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.

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 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 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 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.

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

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

COMMENTS ON BUDGETARY MANAGEMENT

11. The overall level of committed appropriations was high at 95 %. The level of committed appropriations carried over also remained high at 5,6 million euro, i.e. 26 % (2013: 5,2 million euro, i.e. 28 %), particularly for the operational budget (title III) at 4,7 million euro, i.e. 66 % (2013: 3,7 million euro or 85 %). Carry-overs are mainly related to specific contracts with a cumulative value of 2,4 million euro signed late in the year, particularly for the on-going development and maintenance of a database (1,8 million euro) and other IT services to be provided in 2015. Part of the committed appropriations carried over are related to budget transfers made in November and December 2014, when the Authority increased the operational budget (title III) by 1,1 million euro (19 %) through transfers from the staff budget (title I) of 858 828 euro and from administrative expenditure (title II) of 266 360 euro. The transfers were intended to compensate for shortfalls in the Authority's 2015 budget following substantial budget cuts decided by the discharge authorities. These shortfalls would not have allowed the Authority to continue implementing its multi-annual IT strategy, which was one of its core operational activities.

12. Although budget transfers, carry-overs and related commitments are in line with the specific provisions of the EU Financial Regulation and were executed following Management Board decisions, the extent to which 2015 activities will be covered by 2014 appropriations is at odds with the budgetary principle of annuality. There is a need to better align the funds made available in the agency's annual budgets with the financial needs for the implementation of its multi-annual IT strategy.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

13. 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 years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
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.	N/A
2013	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.	Completed
2013	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.	Completed

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2013	<p>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.</p>	N/A

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>	<p>Establish or ensure the functioning of the internal market, in accordance with the relevant provisions of the Treaties.</p> <p>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>
<p>Competences of the Authority</p> <p><i>(Regulation (EU) No 1094/2010 of the European Parliament and of the Council establishing the Authority, Articles 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;

	<p>– to take over, as appropriate, all existing and ongoing tasks from the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).</p>
<p>Governance (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 Director)</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 <i>Executive Director</i> may participate in meetings (<i>non-voting</i>)</p> <p><i>Tasks</i></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 Voting Members of the BoS (voting), one representative of the European Commission (voting for 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 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>
<p>Resources made available to the Authority in 2014 (2013)</p>	<p>Final Budget</p> <p>Final Budget Appropriations: 21 595 704 (18 767 470) euro</p> <p>Establishment Plan</p> <p>Statutory staff: 87 (80) posts authorized in the establishment plan, of which occupied: 87 (80)</p> <p>Establishment plan 100 % (100 %) fulfilled</p> <p>Contract staff posts: 37 planned in the budget, 33 occupied (22/19)</p> <p>Seconded National Expert posts: 21 (12) planned in the budget, of which occupied: 14 (11)</p> <p>Total: 134 (110) staff</p>
<p>Products and services in 2014</p>	<p>Regulatory tasks</p> <ul style="list-style-type: none"> – 18 drafts implementing technical standards prepared on Solvency II. – Consultation and finalisation of around 500 guidelines relating to Solvency II. – Associated impact assessments in respect of each draft implementing technical standard and each set of guidelines. – Consultation on how EIOPA will implement its statutory obligation to publish the risk-free rate of interest for a large number of currencies. – Enhanced annual report on number of cross-border IORPs. – Consultation paper on the solvency of IORPs. – Report on an EU single market in personal pensions. – Work on six peer reviews during 2014. – Revision of reports on the equivalence of the insurance framework of Bermuda, Japan and Switzerland. – Number of dialogues with important third countries including US and China. – Professional secrecy & gap analysis reports for Isle of Man, Canada, Albania, FYR Macedonia, Montenegro and Turkey. <p>Supervisory tasks</p> <ul style="list-style-type: none"> – Attendance of College of Supervisors' meetings and/or telephone conferences for 77 groups. – 127 meetings for 83 groups including the colleges for which a proportionate approach has been taken. – Altogether 144 meeting-days. – Proportionate approach was applied by EIOPA towards 15 colleges. – 23 groups are preparing an internal model application under Article 231 of the SII Directive aiming for day 1 approval where a joint decision is needed.

- Excellent examples of an approach to forming a shared view have been observed in 6 different NCAs. These examples are or will be published as Practical Solutions and Examples (PSEs) on the restricted area of EIOPA's website.
- Progress has been made in the preparation for the application process (detailed planning, milestones, and discussion of blocking points for the internal model colleges aiming for day one approval.
- Two events for Group Supervisors were organised.
- Proposal for an efficient collective signing procedure of the coordination arrangements was prepared during the year.
- Action Plan for Colleges 2015-2016 was disseminated.
- Interim and end of the year report on the Functioning of Colleges and the Accomplishments of the 2014 Action Plan.
- Continuous update of the Helsinki Plus list on the restricted area of EIOPA's website.
- EIOPA list of groups for which a College of supervisors is in place was updated and published.
- Guidelines on the operational functioning of colleges of supervisors including a template for a coordination arrangement and emergency plan have been published.
- Guidelines on information exchange on a systematic basis within college published for public consultation.
- EIOPA has held meetings with 4 supervisors. With 2 of them specifically on their experience with the supervision of branches, and with 1 on the implementation of its internally integrated approach towards the colleges they lead and attend.
- Common Internal Models Application Package was developed and its use promoted with an EIOPA Opinion.
- Five good practice notes on assessing internal models have been published on the members' area of the web site.
- A note "Practical Guidance on Internal Model Joint Decisions", which included a model timetable for the six months of the approval process was produced for NSAs.
- A benchmarking exercise on market risk in internal models across several countries was carried out.

Consumer protection and financial innovation

- Joint Consultation paper on cross selling.
- Joint Discussion Paper on Key Information Documents (KIDs).
- Consultation Paper on Product Intervention Powers under the Regulation on Key Information Documents for Packaged Retail and Insurance-Based Investment Products.
- Consultation Paper on the proposal for Guidelines on product oversight and governance arrangements by insurance undertakings.
- Consultation Paper on Conflicts of Interest in direct and intermediated sales of insurance-based products (PRIIPs).
- Discussion Paper on Conflicts of Interest in direct and intermediated sales of insurance-based investment products (PRIIPs).

- 3rd Consumer Trends Report.
- One minute guide: EIOPA Guidelines on Complaints-Handling by Insurance Intermediaries.
- Report on feed-back from National Competent Authorities regarding EIOPA's Opinion on Payment Protection Insurance.
- Towards an EU-single market for personal pension products: An EIOPA Preliminary Report (supervisory and consumer protection).
- Report on issues leading to detriment for occupational scheme members and beneficiaries and potential scope of action for EIOPA.
- Report on the implementation of the Test Achat ruling into national legislation.

Joint Committee

- Produced two joint reports on cross-sectorial risks and vulnerabilities in the EU financial system, which were submitted to the March and September meetings of Economic and Financial Committee of the Council (EFC-FST) and the European Systemic Risk Board (ESRB) and published on the ESAs websites.
- Published Joint Guidelines on the consistency of supervisory practices for financial conglomerates, developed in accordance with Article 11(1) of the Financial Conglomerates Directive (Directive 2002/87/EC).
- Submitted to the European Commission a joint draft Regulatory Technical Standard (RTS) on risk concentration and intra-group transactions, in accordance with Article 21a (1a) of the Financial Conglomerates Directive.
- Joint Committee published its updated 2014 list of identified Financial Conglomerates in October 2014. The list shows 71 financial conglomerates with the head of group in an EU/EEA country.
- Provided support to the Board of Appeal which decided on two appeal cases in 2014 and finalised one appeal case lodged in 2013.

Common supervisory culture

- Three cross-sector seminars.
- 17 seminars for national competent authorities.

Financial stability

- Two bi-annual Financial Stability Reports (incl. thematic articles).
- Completion of quantitative tools for modelling reserves and premiums.
- Production of quarterly Risk Dashboard.
- Completion of Europe-wide stress test for the insurance sector (including low yield module).
- Issuance of recommendations to NCAs for supervisory action in response to the stress test findings.
- Preparatory study on stress testing of the IORPs sector.
- Publication of revised and revamped annual insurance statistics.

Crisis management

- Implementation of process for regular consideration of the need for EIOPA preventive action in response to adverse developments and risks.
- Completion of studies on liquidity swaps, search for yield, monetisation of future profits and cyber risk.
- Extension of EIOPA's crisis management framework to the IORPs sector.
- Publication of EIOPA Opinion on Sound Principles for Crisis Prevention, Management and Resolution preparedness of NCAs.
- Creation of GSII Forum to ensure a common EU approach to implementation of the supervisory measures required for GSIIIs.

External relations

- 10 meetings, including a joint one with BoS, of IRSG and OPSG, ten official opinions and feedback statements on public documents, two own initiative papers and two responses to informal consultations.
 - 21 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 Executive Committee, Technical and Financial Stability Committee, Solvency & Actuarial Subcommittee and IAIS Annual Conference. EIOPA coordinated the selection process for a total of 6 seats in the IAIS Executive Committee belonging to the Western European and the Central and Eastern European and Transcaucasia Regions.
 - Strong contribution to the IAIS work on the development of global Insurance Capital Standards, through the Capital Development and the Field Testing Working Groups. Continuous interaction with EIOPA Members to foster increased coordination.
 - EU-US Insurance Project: the strategic Way Forward document was updated to reflect progress to date and new ambitions, regular Steering Committee Meetings, the Technical Committees progressing on plan and Public Event in Amsterdam.
 - Equivalence: Gap analysis of the (re)insurance regime of the Isle of Man and Canada. Revision of 2011 Equivalence assessments for Bermuda, Japan and Switzerland. Public consultation on the revised reports was published by the end of 2014. Finalisation of professional secrecy assessment of 4 countries in Central and Eastern Europe (Albania, FYR Macedonia, Montenegro, Turkey). In 2014, 10 meetings of the EIOPA Equivalence took place.
 - Implementation of the Operational Memorandum of Understanding signed between EIOPA and the World Bank, among other things by organising a Joint Seminar on Risk-Based supervision with focus on countries in Central and Eastern Europe, co-organisation of GIS Conference, and several high-level meetings between EIOPA and the World Bank.
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	Conferences / other public events 2014 <ul style="list-style-type: none">– Five conferences and events (Conference on Global Insurance Supervision (GIS), “Insurance Mediation Directive 1.5” and, “Personal Pensions” Public Events, annual EIOPA Conference and 2nd Joint ESAs Consumer Protection Day.
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Source: Annex supplied by the Authority.
