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COVER NOTE

From:	Mr Klaus-Heiner LEHNE, President of the European Court of Auditors
date of receipt:	28 November 2017
To:	Mr Märt KIVINE, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Aviation Safety Agency for the financial year 2016 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 2016.

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 2016 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 2016

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in Cologne, was established by Regulation (EC) No 1592/2002 of the European Parliament and of the Council¹ which was repealed by Regulation (EC) No 216/2008². The Agency has been given specific regulatory and executive tasks in the field of aviation safety.
2. **Table 1** presents key figures for the Agency³.

TABLE 1: KEY FIGURES FOR THE AGENCY

	2015	2016
Budget (million euro)	185,4	193,4
Total staff as at 31 December ⁴	779	774

Source: data provided by the Agency.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

3. 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.

¹ OJ L 240, 7.9.2002, p. 1.

² OJ L 79, 19.3.2008, p. 1–49

³ More information on the Agency’s competences and activities is available on its website: www.easa.europa.eu.

⁴ Staff includes officials, temporary and contract staff and seconded national experts.

OPINION

4. We have audited:

- (a) the accounts of the Agency which comprise the financial statements⁵ and the reports on the implementation of the budget⁶ for the financial year ended 31 December 2016, and
- (b) the legality and regularity of the transactions underlying those accounts,

as required by Article 287 of the Treaty on the Functioning of the European Union (TFEU).

Reliability of the accounts***Opinion on the reliability of the accounts***

5. In our opinion, the accounts of the Agency for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Agency at 31 December 2016, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with its Financial Regulation and with accounting rules adopted by the Commission's accounting officer. These are based on internationally accepted accounting standards for the public sector.

Legality and regularity of the transactions underlying the accounts**Revenue*****Opinion on the legality and regularity of revenue underlying the accounts***

6. In our opinion, revenue underlying the accounts for the year ended 31 December 2016 is legal and regular in all material respects.

⁵ The financial statements comprise the balance sheet, the statement of financial performance, the cashflow statement, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

⁶ The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

Payments*Opinion on the legality and regularity of payments underlying the accounts*

7. In our opinion, payments underlying the accounts for the year ended 31 December 2016 are legal and regular in all material respects.

Responsibilities of management and those charged with governance

8. In accordance with Articles 310 to 325 of the TFEU and the Agency's Financial Regulation, management is responsible for the preparation and presentation of the accounts on the basis of internationally accepted accounting standards for the public sector and for the legality and regularity of the transactions underlying them. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them. The Agency's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts.

9. In preparing the accounts, management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

10. Those charged with governance are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the accounts and underlying transactions

11. Our objectives are to obtain reasonable assurance about whether the accounts of the Agency are free from material misstatement and the transactions underlying them are legal and regular and to provide, on the basis of our audit, the European Parliament and the Council or other respective discharge authorities with a statement of assurance as to the reliability of the accounts and the legality and regularity of the transactions underlying them. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement or non-compliance when it exists. These can arise from fraud or error and are considered material if,

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

12. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and the regularity of the transactions underlying them. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement of the accounts and of material non-compliance of the underlying transactions with the requirements of the legal framework of the European Union, whether due to fraud or error. In making those risk assessments, internal control relevant to the preparation and fair presentation of the accounts and legality and regularity of underlying transactions, are considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the accounts.

13. For revenue, we verify the subsidy received from the Commission and assess the Agency's procedures for collecting fees and other income, if any.

14. For expenditure, we examine payment transactions when expenditure has been incurred, recorded and accepted. This examination covers all categories of payments other than advances at the point they are made. Advance payments are examined when the recipient of funds provides justification for their proper use and the Agency accepts the justification by clearing the advance payment, whether in the same year or later.

15. In preparing this report and Statement of Assurance, we 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 Regulation⁷.

Other matter

16. Without calling into question its opinion, the Court draws attention to the fact that the United Kingdom (UK) notified the European Council on 29 March 2017 of its decision to withdraw from the European Union. An agreement setting out the arrangements for its withdrawal will be negotiated.

⁷ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

The Agency's 2016 budget was financed 70 % by fees from the aviation industry and 30 % from European Union funds. A future decrease of the Agency's revenue resulting from the UK's decision to leave the EU is possible.

17. The comments which follow do not call the Court's opinion into question.

COMMENTS ON THE LEGALITY AND REGULARITY OF TRANSACTIONS

18. Although 2016 Industry financed activities resulted in a deficit of 7,6 million euro, budgetary results fluctuate over the years⁸ and the Agency has accumulated a 52 million euro surplus from this category of activity. The Agency's founding Regulation establishes that Industry fees levied should be adequate to cover the Agency's cost for the related certification activities. It does not, however, foresee an accumulated surplus.

OTHER COMMENTS

19. Over the period 2014 to 2016, the Agency spent 9,4 million euro (4,4 million euro in 2016) from its accumulated surplus in financing the 12,4 million euro refurbishment (and removal) cost for the Agency's relocation to a new building. The Commission also contributed 3 million euro from the EU budget for this purpose. This financing split between industry and Union contributions was in line with the standard cost allocation methodology employed by the Agency and resulted in these works being financed, in large part from industry fees.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

20. An overview of the corrective action taken in response to the Court's comments from previous years is provided in the **Annex**.

⁸ In 2014 and 2015, there were surpluses of 15,3 million and 16,9 million euro, respectively.

This Report was adopted by Chamber IV, headed by Mr Baudilio TOMÉ MUGURUZA,
Member of the Court of Auditors, in Luxembourg at its meeting of 19 September 2017.

For the Court of Auditors

Klaus-Heiner LEHNE

President

Follow-up of previous years' comments

Year	Court's comments	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.	Completed¹
2015	Carry-overs of committed appropriations were high for Title II (administrative expenditure) at 4,4 million euro, i.e. 20,2 % (2014: 3,6 million euro, i.e. 22 %) and for Title III (operational expenditure) at 2 million euro, i.e. 32,0 % (2014: 2 million euro, i.e. 38,1 %). These carry-overs mainly relate to IT developments that were ordered near the end of the year, as well as, rule making activities and research projects which go beyond 2015.	N/A

¹ A Seat Agreement between the Agency and the Member State has been finalised and came into effect from 17 August 2017.

THE AGENCY'S REPLY

16. The agency takes note of the Court's observation. A working group has been established to look into this matter and has performed a first analysis on the potential risks and impact of Brexit.

20. The founding and the financial regulations include provisions for the treatment of Industry fees as assigned revenue. Consequently, the Agency accounts for any surplus or deficit related to the fees and charges activities in an accumulated surplus. This accumulated surplus fluctuates from year to year depending on the result of the financial year. Between 2010 and 2015 the surplus or deficit fluctuated between a 5,9 million deficit and a 16,9 million surplus. This accumulated surplus or buffer provides coverage for deficit and amounts to 6 months of continued operation. The Agency intends to amend both its Financial and Fees and charges regulations to better formalise this treatment of an accumulated surplus.

21. In accordance with article 88 of the Agency's FR, the chair of the Agency's Management Board informed the Budgetary Authority (European Parliament and Council) on the project of the Agency's new headquarters. A detailed report, including in particular the funding scheme, was transmitted on 22nd of May 2013 and consequently:

- The Agency acted in accordance with the information communicated to the Budget authority.
- There is an annual communication on the building in accordance with the article 87 of the FR which has been sent to the Budgetary Authority every year.
- The EP approved the report and the funding mechanism in line with the funding scheme of the Agency.