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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 Banking Authority for the financial year 2016 together with the Authority's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the European Banking Authority for the financial year 2016.

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 Banking Authority for the financial year 2016 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 Banking Authority
for the financial year 2016

together with the 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 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 depositor and investor protection.

2. **Table 1** presents key figures for the Authority².

TABLE 1: KEY FIGURES FOR THE AUTHORITY

	2015	2016
Budget (million euro)	33,4	36,5
Total staff as at 31 December ³	156	161

Source: data provided by the Authority.

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 Authority’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 331, 15.12.2010, p. 12.

² More information on the Authority’s competences and activities is available on its website: www.eba.europa.eu.

³ Staff includes officials, temporary and contract staff and seconded national experts.

OPINION

4. We have audited:

- (a) the accounts of the Authority which comprise the financial statements⁴ and the reports on the implementation of the budget⁵ 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 Authority for the year ended 31 December 2016 present fairly, in all material respects, the financial position of the Authority 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.

⁴ 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.

⁵ 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 Authority'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 controls 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 Authority'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 Authority'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 Authority 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 controls 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 controls. 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 Authority'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. Advance payments are examined when the recipient of funds provides justification for their proper use and the Authority 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 Authority's accounts as stipulated in Article 208(4) of the EU Financial Regulation⁶.

Emphasis of 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.

⁶ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

The provisional accounts and related notes of the Authority, which is located in London, were prepared using the limited information available at the date of signature (28 February 2017).

17. In view of upcoming decisions on the future location of the Authority, it has disclosed as contingent liabilities in the Financial Statements its residual 14 million euro cost related to the office lease contract (assuming its cancellation by the end of 2020) and the fact that other potential cost associated with a removal such as, for example, the relocation of staff together with their families cannot yet be estimated. Furthermore, the Authority's budget is financed by 40 % from European Union funds and by 60 % through direct contributions from EU Member States. A future decrease of the Authority's revenue resulting from the UK's decision to leave the EU is possible.

FOLLOW-UP OF PREVIOUS YEARS' COMMENTS

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

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 12 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)
2012	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. Total 2012 education contributions amounted to some 76 000 euro. They are not covered by the Staff Regulations and therefore irregular.	Ongoing¹
2015	Carry-overs of committed appropriations for Title II (administrative expenditure) were high at 1 487 794 euro, i.e. 28 % of the total committed appropriations under this title (2014: 3 431 070 euro, i.e. 48 %). These include an unresolved issue regarding the outstanding VAT to be paid on the balancing charge of the Authority's new building and an invoice concerning business rates by the UK Valuations Office (combined value 538 938 euro).	N/A
2015	Weaknesses were noted in the estimation of IT needs, in particular concerning outsourced services, which affect the Authority's budgetary management of related expenses.	N/A

¹ As at the end of 2016 the Authority had signed contracts with 23 schools attended by children of staff members.

THE AUTHORITY'S REPLY

The Authority has taken note of the Court's report.