

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
EUROPOS AUDITO RŪMAI

EURÓPAI SZÁMVEVŐSZÉK
IL-QORTI EWROPEA TAL-AWDITURI
EUROPESE REKENKAMER
EUROPEJSKI TRYBUNAŁ OBRACHUNKOWY
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EURÓPSKY DVOR AUDÍTOROV
EVROPSKO RAČUNSKO SODIŠČE
EUROOPAN TILINTARKASTUSTUOMIOISTUIN
EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the European Aviation Safety Agency
for the financial year 2011

together with the Agency's replies

INTRODUCTION

1. The European Aviation Safety Agency (hereinafter "the Agency" or "EASA"), which is located in Cologne, was established by Regulation (EC) No 1592/2002 of the European Parliament and of the Council¹. The Agency's tasks are to maintain a high level of civil aviation safety, ensure the proper development of civil aviation safety, establish certification specifications and certify aeronautical products².

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 (where relevant) 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, the Court has audited the annual accounts³ of the Agency which comprise the "financial statements"⁴ and the "reports on the implementation of the budget"⁵ for the financial year ended 31 December 2011, and the legality and regularity of the transactions underlying those accounts.

¹ OJ L 240, 7.9.2002, p. 1.

² The ***Annex*** summarises the Agency's competences and activities. It is presented for information purposes.

³ These accounts are accompanied by a report on the budgetary and financial management during the year which gives further information on budget implementation and management.

⁴ The financial statements include the balance sheet and the economic outturn account, the cash-flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

⁵ The budget implementation reports comprise the budget outturn account and its annex.

The Management's responsibility

4. As authorising officer, the Director implements the revenue and expenditure of the budget in accordance with the financial rules of the Agency, under his own responsibility and within the limits of the authorised appropriations⁶. The Director is responsible for putting in place⁷ the organisational structure and the internal management and control systems and procedures relevant for drawing up final accounts⁸ that are free from material misstatement, whether due to fraud or error, and for ensuring that the transactions underlying those accounts are legal and regular.

The Auditor's responsibility

5. The Court's responsibility is to provide, on the basis of its audit, the European Parliament and the Council⁹ with a statement of assurance as to the reliability of the annual accounts of the Agency and the legality and regularity of the transactions underlying them.

6. The Court conducted 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 that the Court plans and performs the audit to obtain reasonable assurance as to whether the annual accounts of the Agency are free of material misstatement and the transactions underlying them are legal and regular.

⁶ Article 33 of Commission Regulation (EC, Euratom) No 2343/2002 (OJ L 357, 31.12.2002, p. 72).

⁷ Article 38 of Regulation (EC, Euratom) No 2343/2002.

⁸ The rules concerning the presentation of the accounts and accounting by the Agencies are laid down in Chapters 1 and 2 of Title VII of Regulation (EC, Euratom) No 2343/2002 as last amended by Regulation (EC, Euratom) No 652/2008 (OJ L 181, 10.7.2008, p. 23) and are integrated as such in the Financial Regulation of the Agency.

⁹ Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002.

7. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the transactions underlying them. The procedures are selected based 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 requirement of the legal framework of the European Union, whether due to fraud or error. In assessing those risks, the auditor considers internal controls relevant to the preparation and fair presentation of the accounts and supervisory and control systems implemented to ensure legality and regularity of underlying transactions, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made, as well as evaluating the overall presentation of the accounts.

8. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for the opinions set out below.

Opinion on the reliability of the accounts

9. In the Court's opinion, the Agency's Annual Accounts¹⁰ present fairly, in all material respects, its financial position as of 31 December 2011 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 officer¹¹.

¹⁰ The Final Annual Accounts were drawn up on 29 June 2012 and received by the Court on 2 July 2012. The Final Annual Accounts, consolidated with those of the Commission, are published in the Official Journal of the European Union by 15 November of the following year. These can be found on the following website <http://eca.europa.eu> or <http://www.easa.europa.eu/>.

¹¹ The accounting rules adopted by the Commission's accounting officer are derived from International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, in their absence, International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

Opinion on the legality and the regularity of the transactions underlying the accounts

10. In the Court's opinion, the transactions underlying the annual accounts of the Agency for the financial year ended 31 December 2011 are legal and regular in all material respects.

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

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

12. The decrease in the country coefficient for Germany in June 2010 caused a significant surplus in the Agency's Title I (staff expenditure) appropriations for 2011. About 3 million euro (7 % of the appropriations) were transferred from Title I to various budget lines in Title III (operational expenditure), despite their low implementation rate in terms of payments¹². As permitted by EASA's Financial Regulation, this significant cross title transfer, which changed considerably the structure of the budget, was not put to the Agency's management board for approval¹³. This situation is however at odds with the budgetary principle of specification.

13. The transfer increased Title III appropriations to 13,7 million euro. However, at the end of the year 7,8 million euro were carried over to 2012. This is at odds with the budgetary principle of annuality.

¹² Budget line 3200 (development of business applications) increased by 37 % to 3,5 million euro; budget line 3600 (rule making) increased by 87 % to 1,4 million euro; budget line 3601 (international cooperation) increased by 123 % to 778 000 euro and budget line 3903 (research) increased by 550 % to 1,3 million euro.

¹³ According to both EASA's and the general Financial Regulation, only transfers of more than 10 % of the appropriations must be submitted to the Management Board for approval. However, unlike the general EU Financial Regulation, EASA's Financial Regulation does not limit transfers to a maximum of 30 % of the appropriations in the receiving budget lines.

COMMENTS ON KEY CONTROLS OF THE AGENCY'S SUPERVISORY AND CONTROL SYSTEMS

14. The Agency needs to improve the management of fixed assets. Assets are recorded in two different systems which can only be reconciled manually. Physical inventories should be better reported and summarised. The estimation of project cost of internally generated fixed assets was inadequate and deviations were not monitored. Not all internal staff costs were taken into account and the documentation of external costs was insufficient.

15. At the end of 2011, the Agency held bank balances of 55 million euro (2010: 49 million euro) at one bank only. There was no treasury policy in place to limit this risk while gaining appropriate investment returns.

OTHER COMMENTS

16. The Court identified further need to improve the transparency of staff selection procedures. There is no evidence that the Agency established the questions for written tests and interviews, the maximum number of candidates for the reserve list or the threshold scores for being put on this list before applications were examined.

17. The Agency's current lease contract requires it to restore the rented premises at the end of the lease and to restore them to their original condition. A provision of 1 million euro was made in the accounts on the basis of the Agency's estimate of dilapidation costs. However, the owner's estimate is 4 million euro. The Agency needs to obtain an independent external estimate of dilapidation costs and reflect them in the accounts accordingly.

18. The Court carried out an audit aimed at evaluating the policies and procedures for the management of conflict of interest situations for four European Agencies, including EASA. The results of the audit are presented in a separate document (Special Report 15/2012).

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 5 September 2012.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

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

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|---|---|
| <p>Areas of Union competence deriving from the Treaty</p> <p><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</p> <p><i>(The Agency's powers as defined in Regulation (EC) No 216/2008 of the Parliament and of the Council (the "Basic Regulation"))</i></p> | <p>Objectives</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>Tasks</p> <ul style="list-style-type: none"> - To issue opinions and recommendations to the 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 decisions regarding airworthiness and environmental certification, pilot certification, air operation certification, third country operators, inspections of Member States and investigation of undertakings; - To conduct standardization inspections of the competent authorities in the Member States associated States and ex Joint Aviation Authority (JAA) States <i>(in this case in accordance with working arrangements)</i>. |
| <p>Governance</p> | <p>Management Board</p> <p>Composition: consisting of one representative of each Member State and one representative of the Commission,</p> <p>Tasks: sets up an advisory body of interested parties.</p> <p>Executive Director</p> <p>Manages the Agency and is appointed by the Management Board on a proposal from the Commission.</p> <p>The Board of Appeal</p> <p>Decides on appeals against the Agency's decisions in certain respects such as certification, fees, charges and checks at undertakings.</p> <p>External audit</p> <p>The Court of Auditors.</p> <p>Discharge Authority</p> <p>Parliament, acting on a recommendation by the Council.</p> |
| <p>Resources made available to the Agency in 2011 (2010)</p> | <p>Final Budget</p> <p>Total budget: 138,7 (137,2) million euro, including</p> <p>Own revenue: 75,2 (73) million euro (54,2%)</p> <p>Union subsidy: 34,4 (34,2) million euro (24,8%)</p> <p>Contribution from non-EU countries: 1,7 (1,7) million euro (1,2%)</p> <p>Assigned revenue from fees and charges: 24,7 (27,1) million euro (17,8%)</p> <p>Other revenue: 1,4 (0,6) (1%)</p> <p>Other subsidies: 1,2 (0,7) (1%)</p> <p>Staff as at 31 December 2011</p> <p>574 (570) temporary staff in the establishment plan.</p> |

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| | <p>Posts occupied: 573 (523) Other staff: 68 (63), contract staff 57 (54), seconded national expert 11 (8), special advisor 0 (1)</p> <p>Total temporary staff: 574⁽¹⁾ (524) - Filled posts subsidy-financed: 223⁽²⁾ (206) - Filled posts fee-financed: 350⁽²⁾ (318)</p> |
| <p>Products and services in 2011 (2010)</p> | <p>Opinions</p> <p>7 Opinions for amendments to Regulations (EC) No 2042/2003 and (EC) 1702/2003</p> <p>Rulemaking Decisions</p> <p>15 Decisions related to Certification specifications (5), Acceptable Means of Compliance and Guidance Material (10)</p> <p>Additional deliverables in 2011 (which leads to Rules in the forthcoming years)</p> <p>21 Terms of Reference (ToRs), 20 Notice of Proposed Amendment (NPAs), 18 Comment Response Document (CRDs)</p> <p>International Cooperation</p> <p>8 Working Arrangements. 12 Implementation Procedure to the Working Arrangement. 25 recommendations provided to International Civil Aviation Organization (ICAO) State Letters.</p> <p>BASA (Bilateral Aviation Safety Agreement)</p> <p>Entry into force of the EU-US Bilateral Aviation Safety Agreement and EU-Canada Bilateral Aviation Safety Agreement.</p> <p>Support for the preparation of 2 Bilateral Oversight Board, 2 Certification Oversight Board and 2 Joint Maintenance Coordination Board meetings with the Federal Aviation Administration (FAA) and 1 Sub-committee on certification with Transport Canada Civil Aviation (TCCA).</p> <p>Certification decisions at 31 December 2011</p> <p>Type Certificates/Restricted Type Certificates (TCs/RTCs): 13⁽³⁾ Supplemental Type Certificates (STCs): 656 Airworthiness Directives (ADs): 271 Alternative Method of Compliance (AMOC): 53 European Technical Standard Order Authorisation (ETSOA): 236 Major changes/Major repairs/TC New Derivatives: 903 Minor changes/Minor repairs: 977 Aircraft Flight Manual (AFM): 383 Approval of flight conditions (PTF): 594 Certification Support for Validation (CSV): 8. Approval of Design organisations (AP and Alternative Procedures to DOA (AP-DOA): 495 Approval of Maintenance organisations (bilateral)⁽⁴⁾: 1533 Approval of Maintenance organisations (foreign)⁽⁴⁾: 278 Approval of Maintenance training organisations⁽⁴⁾: 45 Approval of Manufacturing⁽⁴⁾: 23</p> <p>Standardisation inspections (number of countries by type) at 31 December 2011</p> <p>In the field of Airworthiness (AIR): 26 In the field of Operations (OPS): 25 In the field of flight crew licensing (FCL): 22 In the field of flight simulation training devices (FSTD): 9</p> |

Source: Information supplied by the Agency.

- ⁽¹⁾ Two structural part-time pilots occupy one post.
- ⁽²⁾ The split of filled posts between fee-financed and subsidy-financed may change subject to possible revision of the cost-accounting allocation keys as of 31 December 2011.
- ⁽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 2011.

THE AGENCY'S REPLY

12. The surplus identified in title I resulted mainly from events outside the Agency's control and could not have been foreseen at the budget planning stage. Following careful consideration by senior management, the available title I funds were reallocated to high priority projects in line with the budget transfer rules laid down in the Agency's financial regulation.

13. The time consuming, however rapidly launched, tendering procedures heavily contributed to the high level of carry forward of commitments at year end. Moreover, the Agency's authorising officers always carefully balanced in their decisions the sometimes conflicting requirements of the principle of annuality and sound financial management and continuity.

14. The Agency agrees with the findings and is currently working on improving the inventory system and the financial management of internal IT projects costs. However, due to the high threshold of 500 000 euro, only very few IT projects will be concerned.

15. The Agency's current service contract with its main bank is backed by a Commission framework contract. However, the Agency will review this contract in order to further reduce its financial risk.

16. To further improve the transparency of its staff selection procedure, the Agency will ensure that evidence is made available to confirm that questions for interviews and tests are set up before the screening of received applications. A new template for Vacancy Notice specifies the maximum number of candidates for the reserve list, the threshold score for being invited for interviews and for being put on the reserve list.

17. The Agency continues its investigations in order to improve the current estimate of its future dilapidation cost. The amount of 1 065 000 euro provisioned in the 2011 account was, however, the best estimate provided by the Agency's lawyers as of March 2012.

18. The Agency has launched a consulting engagement under the framework contract of DG-BUDG on Internal Control Standards, aiming at defining and implementing an Agency-wide Policy on Code of Conduct, taking into account the Court report on Conflict of Interest.