

2013 discharge: European Institute of Innovation and Technology (EIT)

2014/2125(DEC) - 16/09/2014 - Court of Auditors: opinion, report

PURPOSE: presentation of the EU Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology (EIT) for the financial year 2013, together with the Institute's replies.

CONTENT: in accordance with the tasks conferred on the Court of Auditors by the Treaty on the Functioning of the European Union, the Court presents to the European Parliament and to the Council, in the context of the discharge procedure, a Statement of Assurance as to the reliability of the annual accounts of each institution, body or agency of the EU, and the legality and regularity of the transactions underlying them, on the basis of an independent external audit.

This audit concerned, amongst others, the annual accounts of the European Institute of Innovation and Technology (EIT).

Statement of assurance: pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

- the annual accounts of the Institute, which comprise the financial statements and the reports on the implementation of the budget for the financial year ended 31 December 2013;
- the legality and regularity of the transactions underlying those accounts.

Opinion on the reliability of the accounts: in the Court's opinion, the Institute's annual accounts present fairly, in all material respects, its financial position as at 31 December 2013 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.

Basis for a qualified opinion on the legality and regularity of the underlying transactions: the Court noted that no reasonable assurance on the legality and regularity of grant transactions can be made. In 2013, the Institute made final payments and clearings of pre-financings (transactions) for grants amounting to EUR 84.1 million (2012 activities). Grant expenditure represents some 97% of total 2013 expenditure. All grant transactions are subject to review by the Commission before authorisation by EIT. The Institute itself continued to make considerable efforts to implement effective ex ante verifications with the aim of providing reasonable assurance on the legality and regularity of grant transactions. Supporting documents obtained from the KICs and their partners were reviewed by EIT in the case of particular risks identified.

The Court found however that, although the quality of the audit certificates is improving, in part due to better guidance, there is room for further improvement in the work of the independent audit firms, in general.

In order to have a second layer of assurance on the legality and regularity of grant transactions, EIT contracted complementary ex post verifications for grant transactions that were carried out by an independent audit firm. On the basis of the errors detected by the ex post verifications, EIT decided in 2014 to recover a total amount of EUR 575 593, corresponding to 3% of the audited 2012 grants.

The Court noted **significant material procurement errors**. Payments amounting to some EUR 665 000 and EUR 105 000, in respect of two framework contracts which had been concluded in 2010 and 2012 using a negotiated procedure, were made in 2013. From the audit it emerged that the **use of a negotiated procedure was not justified**, the resulting payments are therefore irregular.

The report also makes a series of observations on the budgetary and financial management of the Institute, accompanied by the latter's response. The main observations may be summarised as follows:

The Court's comments:

- **legality and regularity of transactions:** the Court noted that the Framework Partnership Agreements (FPA) with the three KICs stipulate that the EIT financial contribution may cover up to 25% of the KIC's global expenditure over the first four years, from 1 January 2010 to December 2013. According to the figures reported by the KICs, this ceiling was respected by all three KICs. However, as these figures will not be audited before 2015, there is no appropriate audit evidence that the EIT funding did not exceed this 25% ceiling;
- **budgetary management:** in 2013, the budget implementation rate was low, at 74% of the EU contributions for staff expenditure, which is mainly related to the high turnover of staff and the outstanding adoption of the regulations on salary adjustments. As regards carry-overs under administrative expenditure, these mainly concerned invoices not yet received and ongoing IT projects and operational expenditure (KIC grants).

The Institute's replies:

- **qualified opinion:** the EIT is committed to further improve the instructions provided to certifying auditors in order to remedy the weaknesses identified by the Court of Auditors and to increase the level of assurance obtained from audit certificates. In accordance with the ex-post audit strategy of the EIT, KIC Partners to be audited are selected primarily on the basis of a risk assessment for maximum efficiency of limited resources. However, in order to be in a position to provide a representative error rate, the EIT selects part of the sample on a random basis. This ensures a more balanced coverage of KIC Partners over the duration of the Framework Partnership Agreements. As regards **Grant Agreements 2012**, while the overall error rate was indeed 3% of the audited grants, as reported by the Court of Auditors, the detected error rate in the random sample was only 1.37%. The detected error rate is by definition not representative as it remained below the materiality threshold of 2%. As for **procurement**, the EIT has taken a proactive approach in order to launch immediate mitigating actions in the area of procurement (extensive revision of the internal procedures, circuits and templates to fully comply with the respective public procurement rules, with special attention to the sound planning and estimation of needs; the use of Commission framework contracts and procurement procedures to award new service contracts; training for EIT staff on procurement;
- **regularity of transactions:** the EIT stated that it will obtain audit certificates on costs of KIC complementary activities in the first quarter of 2015 and compliance with the 25% ceiling set out in the Framework Partnership Agreements will be verified on the basis of final figures in the first half of 2015. If the 25% ceiling is not met, the corresponding amount will be recovered from the KIC(s);
- **budgetary management:** the EIT stated that the overall implementation rate of commitment appropriations for staff expenditure was 84%. While it is true that the implementation rate of EU contribution was 74%, as reported by the Court of Auditors, it is important to note that 100%.

Lastly, the Court of Auditors' report contains a **summary of the Institute's activities in 2013**. This is focused on the following:

Budget: EUR 142.2 million in commitment appropriations.

Activities:

- organisation of EIT Forum meetings with KICs (a platform created to establish regular dialogue between the Director of the Institute and the KIC CEOs);
- financing of the KIC: allocation in the year 2014 of a total of EUR 180 million budget to the funding of KIC Value Added Activities plus a supplementary budget allocation to the KICs of EUR 40 million for 2014 to be allocated separately and equally split on the basis, inter alia, of the follow-up of strategic recommendations;
- management of three KICs in the year 2013 a total budget of EUR 125 615 015 for EIT funding of KIC Value Added Activities and a budget of EUR 750 535 096 for non-EIT Funding of KAVA activities and complementary activities;
- creation of KIC partners involved in the three KICs in 2013 reached a maximum of 487 organisations from Climate-KIC (187), EIT ICT Labs (105), and KIC InnoEnergy (195);
- setting Key Performance Indicators;
- organisation of ‘Fostering Innovation and Strengthening Synergies within the EU’ Conference in Dublin (IE);
- publication of ‘Analysis of Synergies fostered by the EIT in the EU Innovation Landscape’ study;
- roundtable of Entrepreneurs on the topic ‘Matching Entrepreneurship with Venture Capital’ was organised in Grundlsee (AT);
- launch of the EIT Alumni Community on 11 November in Budapest (HU);
- dissemination of a larger number of success stories derived from the implementation of KIC activities.