2014 discharge: European Institute of Innovation and Technology (EIT)

2015/2193(DEC) - 15/09/2015 - 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 2014, 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 2014, and
- 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 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: 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. Without calling into question the unqualified opinion, the Court drew attention to the fact that the EIT financial contribution may not exceed 25 % of the KIC's global expenditure over the first five years, from 1 January 2010 to 31 December 2014. According to the figures reported by the KICs, this ceiling was respected. The EIT obtained audit certificates by 31 March 2015 on the costs of KIC complementary activities (KCA) incurred during 2010-2014. In addition to obtaining the audit certificates, in 2015 the EIT conducted a review of the portfolio of KIC complementary activities to ensure that only those activities are accepted that meet all legal and operational requirements set for KCAs including to have a link with KIC added value activities funded by the EIT.

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:

- **internal control**: the EIT noted that it has gradually improved its financial verification of the KICs' cost claims. However, the operational verification of deliverables is lagging behind. The KICs' annual business plans still include an inadequate definition of deliverables and there is no clear link between planned deliverables and eligible cost per partner and cost category. Also, the Court has

found cases where the full amount of the EIT grant was paid out even if some of the objectives set in the business plan have not been achieved;
- **budgetary management**: the Institute overestimated its budgetary needs for 2014 by EUR 13.1 million, i.e. 5.6 % and only 220 million of the EUR 233.1 million available were committed. The low implementation rate is mainly related to non-used appropriations for grants to fund KIC activities;
- **recruitment**: since its creation in 2009, the Institute has suffered from high staff turnover and instability at management level. In June 2014, the Governing Board decided to second the Institute' s Director on a long-term research mission to the European University Institute in Florence for the remaining eleven months of his mandate. The interim Director took over duties in August 2014 (just after his recruitment and appointment as Chief Operating Officer and is now the fourth person occupying the Director's post within a period of six years.

The Institute's reply:

- **internal control**: the EIT agreed that there is still room for improvement in the verification of KICs' performance. However, the ex-ante technical assessment of the implementation of KIC activities has already improved significantly in comparison with previous years;
- **budgetary management**: significant uncertainties surrounded the EIT's 2014 annual budget due to the ongoing negotiations related to the 2014-2020 Multiannual Financial Framework and Horizon 2020. Therefore, the EIT Governing Board took a prudent approach and decided in September 2013 to allocate only EUR 180 million, as a first tranche, for the 2014 grant agreements. After the 2014 annual budget had been confirmed, the EIT awarded further grants totalling EUR 38.5 million, as a second tranche, to the three KICs in March 2014. However, it was not possible to use the full amount of the remaining commitment appropriations, as KICs had requested less EIT grant than what would have been possible to be awarded on the basis of the remaining available EIT budget;
- **recruitment**: in order to mitigate the high staff turnover, the EIT has identified improvements in the vacancy management and they are being implemented according to an action plan. In addition, the EIT put in place an appraisal and re-classification system in autumn 2014 to provide a better career perspective to EIT staff.

Lastly, the Court of Auditors' report contains a summary of the **Institute's activities in 2014**. This is focused on the following:

Budget: EUR 235.4 million in commitment appropriations.

Activities:

- selection and nomination of two new KICs in the areas of Health and Raw Materials by the EIT Governing Board;
- decision of the Governing Board to allocate in 2015 a total of EUR 268 million to the funding of KIC Value Added Activities for the five KICs after the implementation of a process of Competitive Funding corresponding to 40 % of the overall budget;
- definition of key performance indicators;
- organisation of the EIT 2014 Call for Knowledge and Innovation Communities (KICs) Information Day in Budapest (Hungary) on 14 March 2014;
- development of a refined Strategy for the EIT Awards (including conceptualisation of a third category, i.e. EIT Innovators Award);
- development of a refined Concept for the EIT Roundtable of Entrepreneurs;
- adoption of the EIT Community Brand Book and launch on 1 December 2014.