

2016 discharge: European Institute of Innovation and Technology (EIT)

2017/2176(DEC) - 19/09/2017 - 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 2016, 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 focused on the annual accounts of the European Institute of Innovation and Technology (EIT). The Institute's objective is to contribute to sustainable European economic growth and competitiveness by reinforcing the innovation capacity of the Member States and the European Union. It awards grants to an increasing number of 'Knowledge and Innovation Communities' (KICs), linking the higher education, research and business sectors with one another and aiming thereby to boost innovation and entrepreneurship.

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 2016, 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 2016 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.

The report also made 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:

- **budgetary management:** the level of carry-overs for committed appropriations for administrative expenditure was high for at EUR 400 000. These carry-overs mainly relate to contracts for IT services going beyond year-end and for meeting costs for which invoices had not yet been received;
- **internal controls:** the Court found weaknesses related to *ex post* verifications of procurement procedures carried out by KIC LEs. Urgent actions are needed to secure a robust application of the Horizon 2020 legislative framework and to further improve the start-up process of new KICs. Corrective action shall be taken in this regard;
- **irregularities:** the Court noted significant shortcomings of KIC Legal Entities (KIC LEs) procurement procedures. The coordination and representation of the KICs is carried out by KIC LEs which are almost fully financed by the Institute. The Court in its audit gave particular

attention to the procurement procedures carried out by these entities which it considers to be a **high-risk area**. There is currently **legal uncertainty** as to whether KIC LEs represent contracting authorities. The Institute, together with the Commission's services, is discussing the matter in order to achieve legal certainty for KIC LEs in the future.

The Institute's reply:

- **budgetary management:** EIT stated that the total amount reported by the Court consists of planned carry-overs that were necessary due to the nature of activities such as services going beyond year-end and meetings held in December 2016 for which invoices were only received in January 2017. These planned carry-overs do not indicate weaknesses in the budgetary management of the EIT but are a standard budget management tool.
- **internal controls:** the Institute noted that none of the risks identified jeopardise the robust application of the Horizon 2020 legislative framework and the EIT has already taken actions to address this issue;
- **irregularities:** the EIT agrees that the procurement processes of the particular KIC Legal Entities had weaknesses in the audited year. The EIT recognised this issue and carried out a pilot monitoring activity on the procurement procedures of one Legal Entity in 2016 and made targeted recommendations for improvement in this area. Similar monitoring activities have been conducted for all other KIC Legal Entities in 2017 and action plans for improvement have been put in place. The opinion of the EIT has been that KIC Legal Entities **do not fall under the EU public procurement directives**. However, the EIT has recently received contradicting legal opinions in the matter, which indeed leads to legal uncertainty. Nevertheless, it is important to note that, regardless of their status, ensuring best value for money for contracts concluded by KIC Legal Entities is a legal obligation in the EIT-KIC grant agreements that are based on the Horizon 2020 model grant agreement. In addition, the EIT, in consultation with the Commission services, will establish requirements for KIC Legal Entities ensuring compliance with the general principles of the EU public procurement directives.

Lastly, the report contained a summary of the **EIT's key figures in 2016:**

- **Budget:** EUR 283 million (in payment appropriations);
- **Staff:** 59 full time (staff includes officials, temporary and contract staff and seconded national experts).