Basic information

2016/2191(DEC) DEC - Discharge procedure	Procedure completed
2015 discharge: European Institute of Innovation and Technology (EIT) **Subject** 8.70.03.05 2015 discharge	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
CONT Budgetary Control	AYALA SENDER Inés (S&D)	05/08/2016
	Shadow rapporteur ZDECHOVSKÝ Tomáš (PPE) FITTO Raffaele (ECR) ALI Nedzhmi (ALDE) DE JONG Dennis (GUE/NGL) JÁVOR Benedek (Verts/ALE) VALLI Marco (EFDD) KAPPEL Barbara (ENF)	

Committee for opinion	Rapporteur for opinion	Appointed
ITRE Industry, Research and Energy	The committee decided not to give an opinion.	

European Commission

Commission DG	Commissioner
Budget	GEORGIEVA Kristalina

Key events

Date	Event	Reference	Summary
11/07/2016	Non-legislative basic document published	COM(2016)0475	Summary
04/10/2016	Committee referral announced in Parliament		
22/03/2017	Vote in committee		

30/03/2017	Committee report tabled for plenary	A8-0127/2017	Summary
26/04/2017	Debate in Parliament		
27/04/2017	Decision by Parliament	T8-0171/2017	Summary
27/04/2017	Results of vote in Parliament		
27/04/2017	End of procedure in Parliament		
29/09/2017	Final act published in Official Journal		

Technical information

Procedure reference	2016/2191(DEC)
Procedure type	DEC - Discharge procedure
Stage reached in procedure	Procedure completed
Committee dossier	CONT/8/07513

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Committee draft report		PE593.866	09/02/2017	
Amendments tabled in committee		PE599.890	06/03/2017	
Committee report tabled for plenary, single reading		A8-0127/2017	30/03/2017	Summary
Text adopted by Parliament, single reading		T8-0171/2017	27/04/2017	Summary

Council of the EU

Document type	Reference	Date	Summary
Supplementary non-legislative basic document	05873/2017	21/02/2017	Summary

European Commission

Document type	Reference	Date	Summary
Non-legislative basic document	COM(2016)0475	11/07/2016	Summary

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
CofA	Court of Auditors: opinion, report	N8-0123/2016 OJ C 449 01.12.2016, p. 0112	13/09/2016	Summary

Additional information		
Source	**Document**	**Date**
European Commission	EUR-Lex	

Final act	
Budget 2017/1678 OJ L 252 29.09.2017, p. 0243	Summary

2015 discharge: European Institute of Innovation and Technology (EIT)

2016/2191(DEC) - 13/09/2016 - 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 2015, 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 2015, 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 2015 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.

Qualified opinion on the legality and regularity of the transactions underlying the accounts: the Court notes that the EU contribution to the Institute's budget in the period 2014 to 2020 is provided under the Horizon 2020 financial envelope which implies that the Institute has to apply Horizon 2020 (H2020) rules.

Accordingly, the Institute aligned its Financial Regulation with effect from 1 January 2014 to H2020 rules and as of that date only a uniform flat rate of 25 % is applicable for the calculation of indirect eligible costs related to grants. Following the assessment of the 2014 business plans the EIT had informed the KICs in October 2013 that this might happen. However, the 2014 grant agreements signed in February 2014 with the KICs continue to provide for a flat rate of 40 % for non-profit public bodies, higher education establishments, research organisations and SMEs, which is contrary to the relevant provision.

Furthermore, a transition period for the application of the rules on the flat rate is not provided for in the Horizon 2020.

In the absence of a valid legal basis, the flat rate of 40 % for the reimbursement of indirect eligible cost is **irregular.** The total amount overpaid in applying this flat rate is **EUR 5.5 million, corresponding to 3 % of the 2015 grant transactions.**

The Court also notes the errors found as a result of ex post verification of a sample of 2015 grant transactions lead to a residual error rate of 2 % for the 2014 grant transactions. The combined error rate of the matters described above is 5 % of the 2015 grant transactions or **4.9 % of the total 2015 expenditure.**

Accordingly, the Court gave a **qualified opinion on the legality and regularity of the transactions underlying the accounts of the EIT.**

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 Court noted that the EIT mobilises funds from public and private sources and use its resources in accordance with its Regulation. In spite of this, the contribution from the Horizon 2020 financial envelope accounted for 99 % of its 2015 budget. Even though the Institute is allowed to re-enter unused appropriations (appropriations not committed during the year or de-committed by the year end) in the budgets of the following 3 years, it had not adapted its process in time to re-enter 26.6 million euro available from the 2014 grant agreements in the 2015-2017 budgets. The level of carry-overs for committed appropriations was accordingly and mainly relate to contracts for IT services going beyond year-end;
- **irregularities**: the Court noted that the original target set by the Commission for the Institute to obtain financial autonomy was 2010. However it obtained only partial financial autonomy in June 2011 under the condition of continued ex ante approval of grant related transactions and of procurements above EUR 60 000. The Court also noted that the Institute funds the EIT Digital Master's programme in which 16 European universities participate. The model for reimbursing the universities' costs combines a lump sum maximum EUR 8 000 plus actual costs including flat rate based indirect costs. On average **a total of EUR 15 000 per student** was paid to the universities in 2015 on this basis (including the lump sum). However, the model has never been formally defined and does not allow a distinction between activities covered by the lump sum and those covered by the actual costs. The Institute should move towards a clear and formally defined model based on a single method for declaring costs such as a substantiated single lump sum. Lastly, the Court indicates that one KIC paid **gross bonuses of EUR 646 000 to 55 of its staff** (individual bonuses as much as EUR 100 000), which the Institute reimbursed at 100 %. Paying such bonuses using only public funds is an unusual practice and they should be taken into account in the ceiling for the EIT funding of individual salaries, which will be applied with effect from the 2016 grant agreement.

The Institute's reply:

- **budgetary management**: the EIT **disagreed with the conclusion of the Court of Auditors,** as no 'overpayment' or irregular payment was made for the reimbursement of indirect costs of KICs under the 2014 grant agreements. It indicated that the legislation applicable to the EIT financial assistance on 31 December 2013, the EIT Financial Rules, explicitly allowed the use of a 40 % flat rate for reporting indirect costs by higher education institutions, research organisations, non-profit public bodies and SMEs. Therefore, the use of the flat rate of 40 % by these bodies was legal and regular under the 2014 grant agreements. It also stated that the entry into force of the new Regulation on the Horizon 2020 Rules for Participation and Dissemination should not have affected the continuation of the actions concerned (i.e. the 2014 Business Plans of the KICs, which were established and assessed by the EIT in 2013) until the award of financial assistance by the EIT. This award should have been carried out under the legislation applicable on 31 December 2013. Consequently, the error rate of 2015 grant transactions, as calculated by the EIT, is 1.46 %, and not that stated by the Court;
- **irregularities**: the EIT indicated that the education activities covered by lump sums and actual costs can be distinguished in the EIT Digital Masters Programme. The lump sum tuition fees cover the costs of the universities related to the participation of students in technical courses. On the other hand, the activities reported based on actual costs relate to the EIT Digital specific learning outcomes and provide added value for students compared to the standard masters programmes offered by the participating universities. The EIT accepted that it should move towards a single lump sum model for financing KICs' Masters programmes in order to simplify the cost reporting. **With respect to bonuses**, the EIT indicated that bonuses, as variable components of the basic remuneration of KIC management staff, comply with all relevant rules and regulations. More precisely, the variable complements were authorised by the employment contracts, they were determined on the basis of objective conditions, which were documented by the KIC Legal Entity and verified by EIT. The net amount actually paid to employees depends on the applicable withholding tax rate and the employees' individual tax situation. On the basis of a tax rate of ca. 40 %-50 % of the gross amount reported by the Court of Auditors, the net amount was on average around EUR 6 000-7 000 per person. While the practice of reimbursing bonuses, as variable and performance-based components of remuneration, may be unusual, the objectives pursued by KICs as business-driven organisations, such as aiming for financial sustainability, are also unusual and cannot be found in other programmes. The use of variable elements as part of the basic remuneration **can provide a strong incentive for good performance and ensure that value for money is achieved**.

Lastly, the report contained a summary of the **EIT's key figures in 2015**:

- **Budget**: EUR 231.7 million (in payment appropriations);
- **Staff**: 50 full time (staff includes officials, temporary and contract staff and seconded national experts).

2015 discharge: European Institute of Innovation and Technology (EIT)

2016/2191(DEC) - 21/02/2017 - Supplementary non-legislative basic document

Having examined the revenue and expenditure accounts for the financial year 2015 and the balance sheet as at 31 December 2015 of the European Institute of Innovation and Technology (EIT), as well as the Court of Auditors' report on the annual accounts of the Institute for the financial year 2015, accompanied by the Institute's replies to the Court's observations, the Council recommended the European Parliament to give a discharge to the Director of the Institute in respect of the implementation of the budget for the financial year 2015.

The Council welcomed the Court's opinion that the Institute's annual accounts present fairly, in all material respects, its financial position as at 31 December 2015 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of the Institute's Financial Regulation, and that the underlying transactions for 2015 are legal and regular **with the exception of** the matter regarding flat rate for calculating indirect eligible costs related to grants for non-profit public bodies higher education establishments, research organisations and small and medium-sized enterprises that was **higher than the rate applicable according to Horizon 2020 rules** and the Institute's Financial Regulation. The Council noted the Court's observation that the application of this flat rate was irregular, and of the Institute's reply that transitional rules in the Horizon 2020 legal basis provide for the use of the higher flat rate by the bodies mentioned above for reporting indirect costs.

It called on the Institute and the Court to clarify the matter and to reach an agreement on the correct interpretation of rules as soon as possible.

Other comments were made by the Council as regards:

- **financial programming**: the Council invited the Institute to improve its financial programming and monitoring of the budget implementation, to reduce the level of commitments remaining unused at the end of the financial year, to make use of the provision in its Financial Regulation to re-enter unused appropriations in the budgets of the following years, and to actively seek to raise funds from private sources as stipulated in its founding regulation;
- **reimbursements**: the Council asked the Institute to define formally all of its reimbursement schemes, including a clear distinction between lump sum models and actual costs reimbursements. It also reminds that grant agreements have to be signed before the starting date of the actions funded by the grant;
- **salaries**: the Council called on the Institute to respect the principle of sound financial management in the remuneration of its staff and to comply with all relevant rules and regulations when deciding on the payment of bonuses.

2015 discharge: European Institute of Innovation and Technology (EIT)

2016/2191(DEC) - 27/04/2017 - Text adopted by Parliament, single reading

The European Parliament decided to **grant discharge** to the Director of the European Institute of Innovation and Technology (EIT) in respect of the implementation of the Institute's budget for the financial year 2015.

The vote on the decision on discharge covers the closure of the accounts (in accordance with Annex IV, Article 5 (1) (a) to Parliament's Rules of Procedure).

Noting that the Court of Auditors has stated that it has obtained reasonable assurances that the Institute's annual accounts for the financial year 2015 are reliable and that the underlying transactions are legal and regular, Parliament adopted by 503 votes to 108 with 13 abstentions, a resolution containing a series of recommendations, which form an integral part of the decision on discharge and which add to the general recommendations set out in the resolution on performance, financial management and control of EU agencies.

These recommendations may be summarised as follows:

- **Qualified opinion on the legality and regularity of the underlying transactions**: Parliament recalled that the Union contribution to the Institute's budget in the 2014 to 2020 financial period is provided under the financial envelope of the Horizon 2020. According the Institute's former financial rules (repealed with effect from 1 January 2014), the threshold for a flat rate reimbursement of indirect costs for non-profit public bodies, higher education establishments, research organisations or SMEs could have been raised to 40 %. Parliament noted that the Institute, in its 2014 grant agreements signed in February 2014, provided for a 40 % flat rate reimbursement of indirect eligible costs **contrary to the Horizon 2020 rules** already in force at the time. Horizon 2020 did not apply to the Institute and the Court therefore identified those **reimbursements as irregular**. Errors were also found as a result of ex-post verification of a sample of 2015 grant transactions.
- **Institute's financial statements**: the final budget of the Institute for the financial year 2015 was EUR 266 566 618, representing an increase of 14.35 % compared to 2014.

Parliament also made a series of observations regarding budgetary and financial management, commitment and carry-overs, procurement and recruitment procedures, the prevention and management of conflicts of interests and internal audits and controls.

It noted that the original target set by the Commission for the Institute to obtain financial autonomy was 2010. However, the Institute obtained **partial financial autonomy in June 2011**, on the condition of continued ex-ante approval of grant related transactions and of procurements above EUR 60 000.

It also noted that the Institute requested the Commission to re-launch the process leading to full financial autonomy and that the Commission set out the roadmap and timetable of the process in May 2016. The Commission's financial autonomy assessment is expected in the first half of 2017. The Institute hopes that full financial autonomy will be granted before the end of 2016 and asked that it reports to the discharge authority on developments related to this matter.

European visibility: lastly, Parliament noted with concern that **general visibility of the Institute is low** and some of the KIC partners are not aware of their affiliation with the Institute; calls for better visibility and promotion of the Institute brand as a unique innovation community. It welcomed the recent success in listing 18 Institute community members in the Forbes 30 under 30 list, featuring Europe's best young innovators and entrepreneurs.

2015 discharge: European Institute of Innovation and Technology (EIT)

2016/2191(DEC) - 30/03/2017 - Committee report tabled for plenary, single reading

The Committee on Budgetary Control adopted the report by Inés AYALA SENDER (S&D, ES) on discharge in respect of the implementation of the budget of the European Institute of Innovation and Technology (EIT) for the financial year 2015.

The committee called on the European Parliament to grant the Director of the Institute discharge in respect of the implementation of the Institute's budget for the financial year 2015.

Members noted that the Court of Auditors stated that it had obtained reasonable assurance that the annual accounts of the Institute for the financial year 2015 were reliable, but it could not obtain sufficient appropriate audit evidence on the legality and regularity of the underlying transactions. They

called on the Parliament to approve the closure of the Institute's accounts. They made, however, a number of recommendations that needed to be taken into account when the discharge is granted, in addition to the general recommendations that appear in the draft resolution on performance, financial management and control of EU agencies:

- **Qualified opinion on the legality and regularity of the underlying transactions**: Members recalled that the Union contribution to the Institute's budget in the 2014 to 2020 financial period is provided under the financial envelope of the Horizon 2020. According the Institute's former financial rules (repealed with effect from 1 January 2014), the threshold for a flat rate reimbursement of indirect costs for non-profit public bodies, higher education establishments, research organisations or SMEs could have been raised to 40 %. Members noted that the Institute, in its 2014 grant agreements signed in February 2014, provided for a 40 % flat rate reimbursement of indirect eligible costs contrary to the Horizon 2020 rules already in force at the time. Horizon 2020 did not apply to the Institute and the Court therefore identified those reimbursements as **irregular**. Errors were also found as a result of *ex-post* verification of a sample of 2015 grant transactions.
- **Institute's financial statements**: the final budget of the Institute for the financial year 2015 was EUR 266 566 618, representing an increase of 14.35 % compared to 2014.

Members also made a series of observations regarding budgetary and financial management, commitment and carry-overs, procurement and recruitment procedures, the prevention and management of conflicts of interests and internal audits and controls.

They noted that the original target set by the Commission for the Institute to obtain financial autonomy was 2010. However, the Institute obtained **partial financial autonomy in June 2011**, on the condition of continued *ex-ante* approval of grant related transactions and of procurements above EUR 60 000.

Lastly, they noted that the Institute requested the Commission to re-launch the process leading to full financial autonomy and that the Commission set out the roadmap and timetable of the process in May 2016. They noted that the Institute hopes that full financial autonomy will be granted before the end of 2016 and asked that it reports to the discharge authority on developments related to this matter.

2015 discharge: European Institute of Innovation and Technology (EIT)

2016/2191(DEC) - 11/07/2016 - Non-legislative basic document

PURPOSE: presentation by the Commission of the consolidated annual accounts of the European Union for the financial year 2015, as part of the 2015 discharge procedure.

Analysis of the accounts of the **European Institute of Innovation and Technology (EIT)**.

CONTENT: the organisational governance of the EU consists of institutions, agencies and other EU bodies whose expenditure is included in the general budget of the Union.

The EU's operational expenditure of these institutions takes different forms, depending on how the money is paid out and managed.

From 2014 onwards, the Commission classifies its expenditure as follows:

- **Direct management**: the budget is implemented directly by the Commission services.
- **Indirect management**: the Commission confers tasks of implementation of the budget to bodies of EU law or national law, **such as the EU agencies**.
- **Shared management**: under this method of budget implementation tasks are delegated to Member States. About 80 % of the expenditure falls under this management mode covering such areas as agricultural spending and structural actions.

This Commission document concerns the EU's consolidated accounts for the year 2015 and details how spending by the EU institutions and bodies was carried out. The consolidated annual accounts of the EU provide financial information on the activities of the institutions, agencies and other bodies of the EU from an accrual accounting and budgetary perspective.

It is the responsibility of the Commission's Accounting Officer to prepare the EU's consolidated annual accounts and ensure that they present fairly, in all material aspects, the financial position, the result of the operations and the cash flows of the EU institutions and bodies, including the European Institute of Innovation and Technology (EIT), with a view to granting discharge.

Discharge procedure: the final step of a budget lifecycle is the discharge of the budget for a given financial year. It represents the political aspect of the external control of budget implementation and is the decision by which the European Parliament, acting on a Council recommendation, "releases" the Commission (and other EU bodies) from its responsibility for management of a given budget by marking the end of that budget's existence. The European Parliament is the discharge authority within the EU.

The discharge procedure may produce three outcomes: (i) the granting; (ii) postponement or; (iii) the refusal of the discharge.

The final discharge report including specific recommendations to the Commission for action is adopted in plenary by the European Parliament and are subject to an annual follow up report in which the Commission outlines the concrete actions it has taken to implement the recommendations made.

Each agency is subject to its own discharge procedure, including the EIT.

The European Institute of Innovation and Technology (EIT): the EIT, which is located in Budapest (HU), was set up by Regulation (EC) No 294/2008 of the European Parliament and of the Council. Its objective is to contribute to sustainable European economic growth and competitiveness by reinforcing the innovation capacity of the Member States and the European Union through raising awareness among potential partner organisations.

As regards the EIT’s accounts, these are presented in detail in the document on the consolidated annual accounts of the European Union for 2015:

Commitment appropriations:

- committed: EUR 276 million;
- paid: EUR 251 million;
- carried-over: 0.

Payment appropriations:

- committed: EUR 247 million;
- paid: EUR 224 million;
- carried-over: EUR 1 million.

For further details on expenditure, please refer to the final accounts of the EIT.

2015 discharge: European Institute of Innovation and Technology (EIT)

2016/2191(DEC) - 27/04/2017 - Final act

PURPOSE: to grant discharge to the European Institute of Innovation and Technology (EIT) for the financial year 2015.

NON-LEGISLATIVE ACT: Decision (EU) 2017/1678 of the European Parliament on discharge in respect of the implementation of the budget of the European Institute of Innovation and Technology for the financial year 2015.

CONTENT: with the present decision, the European Parliament grants discharge to the Director of the European Institute of Innovation and Technology in respect of its budget for the financial year 2015.

This decision is in line with the European Parliament's resolution adopted on 27 April 2017 and comprises a series of observations that form an integral part of the discharge decision (please refer to the summary of the opinion of 27 April 2017).

Amongst Parliaments main observations in the resolution accompanying the discharge decision, the latter noted that the Institute intends to conclude its internal rules on whistleblowing in the first half of 2017. It also called on the Institute to publish annual reports on the number of whistleblower cases and on how they were followed up and to provide those annual reports to the discharge authority.

Parliament expressed concern about the fact that the Institute has not taken specific initiatives in order to increase transparency relating to its contacts with stakeholders and lobbyists. A proactive transparency policy with regard to lobbyists is called for.

Noting the Institute's complex operational framework and management problems which have impeded its overall effectiveness, Parliament called for further coordination at EU level with the relevant Commission's DGs, and the interaction between the KICs and other Union initiatives to be strengthened.

Lastly, Parliament reiterated its call for the overall visibility of the Institute to be enhanced as some of the KIC partners are not even aware of their affiliation with the Institute.