



Plenary sitting

A8-0117/2016

8.4.2016

REPORT

on discharge in respect of the implementation of the budget of the European
Institute of Innovation and Technology for the financial year 2014
(2015/2193(DEC))

Committee on Budgetary Control

Rapporteur: Derek Vaughan

CONTENTS

	Page
1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION	3
2. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION	5
3. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION	7
RESULT OF FINAL VOTE IN COMMITTEE RESPONSIBLE.....	12

1. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on discharge in respect of the implementation of the budget of the European Institute of Innovation and Technology for the financial year 2014 (2015/2193(DEC))

The European Parliament,

- having regard to the final annual accounts of the European Institute of Innovation and Technology for the financial year 2014,
- having regard to the Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2014, together with the Institute's replies¹,
- having regard to the statement of assurance² as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors for the financial year 2014, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendation of 12 February 2016 on discharge to be given to the Institute in respect of the implementation of the budget for the financial year 2014 (05584/2016 – C8-0091/2016),
- having regard to Article 319 of the Treaty on the Functioning of the European Union,
- having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002³, and in particular Article 208 thereof,
- having regard to Regulation (EC) No 294/2008 of the European Parliament and of the Council of 11 March 2008 establishing the European Institute of Innovation and Technology⁴, and in particular Article 21 thereof,
- having regard to Commission Regulation (EC, Euratom) No 2343/2002 of 19 November 2002 on the framework Financial Regulation for the bodies referred to in Article 185 of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities⁵,
- having regard to Commission Delegated Regulation (EU) No 1271/2013 of 30 September 2013 on the framework financial regulation for the bodies referred to in Article 208 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council⁶, and in particular Article 108 thereof,

¹ OJ C 409, 9.12.2015, p. 187.

² OJ C 409, 9.12.2015, p. 187.

³ OJ L 298, 26.10.2012, p. 1.

⁴ OJ L 97, 9.4.2008, p. 1.

⁵ OJ L 357, 31.12.2002, p. 72.

⁶ OJ L 328, 7.12.2013, p. 42.

- having regard to Rule 94 of and Annex V to its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control (A8-0117/2016),
1. Grants the Director of the European Institute of Innovation and Technology discharge in respect of the implementation of the Institute's budget for the financial year 2014;
 2. Sets out its observations in the resolution below;
 3. Instructs its President to forward this decision, and the resolution forming an integral part of it, to the Director of the European Institute of Innovation and Technology, the Council, the Commission and the Court of Auditors, and to arrange for their publication in the *Official Journal of the European Union* (L series).

2. PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

on the closure of the accounts of the European Institute of Innovation and Technology for the financial year 2014 (2015/2193(DEC))

The European Parliament,

- having regard to the final annual accounts of the European Institute of Innovation and Technology for the financial year 2014,
- having regard to the Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2014, together with the Institute's replies¹,
- having regard to the statement of assurance² as to the reliability of the accounts and the legality and regularity of the underlying transactions provided by the Court of Auditors for the financial year 2014, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendation of 12 February 2016 on discharge to be given to the Institute in respect of the implementation of the budget for the financial year 2014 (05584/2016 – C8-0091/2016),
- having regard to Article 319 of the Treaty on the Functioning of the European Union,
- having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002³, and in particular Article 208 thereof,
- having regard to Regulation (EC) No 294/2008 of the European Parliament and of the Council of 11 March 2008 establishing the European Institute of Innovation and Technology⁴, and in particular Article 21 thereof,
- having regard to Commission Regulation (EC, Euratom) No 2343/2002 of 19 November 2002 on the framework Financial Regulation for the bodies referred to in Article 185 of Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities⁵,
- having regard to Commission Delegated Regulation (EU) No 1271/2013 of 30 September 2013 on the framework financial regulation for the bodies referred to in Article 208 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council⁶,

¹ OJ C 409, 9.12.2015, p. 187.

² OJ C 409, 9.12.2015, p. 187.

³ OJ L 298, 26.10.2012, p. 1.

⁴ OJ L 97, 9.4.2008, p. 1.

⁵ OJ L 357, 31.12.2002, p. 72.

⁶ OJ L 328, 7.12.2013, p. 42.

and in particular Article 108 thereof,

- having regard to Rule 94 of and Annex V to its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control (A8-0117/2016),
1. Notes that the final annual accounts of the European Institute of Innovation and Technology are as annexed to the Court of Auditors' report;
 2. Approves the closure of the accounts of the European Institute of Innovation and Technology for the financial year 2014;
 3. Instructs its President to forward this decision to the Director of the European Institute of Innovation and Technology, the Council, the Commission and the Court of Auditors, and to arrange for its publication in the *Official Journal of the European Union* (L series).

3. MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

with observations forming an integral part of the decision on discharge in respect of the implementation of the budget of the European Institute of Innovation and Technology for the financial year 2014 (2015/2193(DEC))

The European Parliament,

- having regard to its decision on discharge in respect of the implementation of the budget of the European Institute of Innovation and Technology for the financial year 2014,
 - having regard to Rule 94 of and Annex V to its Rules of Procedure,
 - having regard to the report of the Committee on Budgetary Control (A8-0117/2016),
- A. whereas, according to its financial statements, the final budget of the European Institute of Innovation and Technology (“the Institute”) for the financial year 2014 was EUR 233 115 437, representing an increase of 65,54 % compared to 2013; whereas the increase resulted mainly from its expanded portfolio and number of beneficiaries, as well as a change in the Institute’s founding regulation;
- B. whereas, according to its financial statements, the overall contribution of the Union to the Institute's budget for 2014 amounted to EUR 169 807 303, representing an increase of 81,69 % compared to 2013;
- C. whereas the Court of Auditors (“the Court”), in its report on the Institute’s annual accounts for the financial year 2014 (“the Court’s report”), stated that it had obtained reasonable assurances that the Institute's annual accounts were reliable and that the underlying transactions were legal and regular;

Emphasis of matter

1. Notes from the Court's report that the ceiling of 25 % of global expenditure was complied with for the “Knowledge and Innovation Communities” (“KICs”), the recipients of the Institute’s grants, over the first five years; notes, furthermore, that the Institute obtained audit certificates on the costs of KIC complementary activities (“KCAs”) incurred during 2010 to 2014; takes note that it conducted a review of the portfolio of KCAs to ensure that only those activities that meet all the KCAs’ legal and operational requirements, including the requirement of a link with KIC added value activities funded by the Institute, are accepted;

Budget and financial management

2. Notes that the Institute's budget monitoring efforts during the financial year 2014 resulted in a budget implementation rate of 94,13 %, representing a decrease of 2,84 % compared with 2013; notes, furthermore, that the payment appropriations execution rate was 92,79 %, representing a decrease of 4,07 % compared with 2013;
3. Acknowledges that the Institute faced uncertainties concerning its 2014 annual budget due

to the ongoing negotiations relating to the 2014 to 2020 Multiannual Financial Framework and Horizon 2020 throughout the year 2013; notes that the Institute's Governing Board decided to approach budget planning in a prudent manner by allocating only a part of the budget for the 2014 grant agreements as a first tranche; notes, however, that a high amount of commitment appropriations remained unused; observes that this was due to a low request of grant from the KICs as well as because awarding higher amounts would have put at risk the full implementation of the KICs' business plans; acknowledges that the operational activities of the Institute and the KICs are by nature multiannual, and that this is reflected in a derogation specific to the Institute which allows it to re-enter any cancelled appropriations into its budget in the following three years;

4. Notes from the Court's report that the Institute overestimated its budgetary needs for 2014 by EUR 13 100 000 and only EUR 220 000 000 of the EUR 233 100 000 available were committed; notes that this is mainly related to non-used appropriations for grants (EUR 11 400 000) to fund KIC activities; observes that the KICs' business plans, on the basis of which grant agreements were signed, did not require the use of total 2014 appropriations available to the Institute and the unused appropriations will be re-entered in the Institute's budgets for the years 2015 to 2017, as stipulated in the Institute's financial rules;
5. Notes with concern from the Court's report that, while the KICs are to develop strategies for financial sustainability, to date, and in the fifth year of their existence, they remain fully dependent on financing by the Institute and KIC partners; acknowledges that, following the Institute's adoption of the principles on KICs' financial sustainability, all KICs have made the latter one of their priority objectives and activities are reviewed accordingly to create a return of income from activities as well as the establishment of several revenue streams; notes that the Institute's Governing Board adopted a set of principles in March 2015 stating that the maximum Institute's contribution to a KIC will be reduced from up to 100 % funding after 10 years of a KIC designation to 80 %, on average, in year 11 and thereafter progressive reductions: 60 % in year 12, 40% in year 13, 20% in year 14 and 10 % in year 15; encourages the Institute to consider a tighter schedule for the reductions; notes, furthermore, that the Institute will continue monitoring the progress of KICs towards financial sustainability and take specific corrective actions when necessary;
6. Welcomes that the Institute revised its internal procedures, circuits and templates in order to fully comply with the respective public procurement rules, with special attention given to the sound planning and estimation of needs; acknowledges that the Institute recruited an additional procurement officer in 2015 and that it conducted a series of procurement training courses for its staff;

Procurement and recruitment procedures

7. Notes, according to the Court's report, that the Institute suffered from high staff turnover and instability at management level since its establishment in 2009; observes that 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; observes that the interim Director took over his duties in August 2014 just after his recruitment and appointment as Chief Operating Officer, being the fourth person occupying the Director's post within a period of six years; acknowledges

that the vacancy notice to recruit a new Director was published in July 2015; notes that the Commission is responsible for the recruitment process; asks the Institute to inform the discharge authority on the progress made in this regard;

8. Acknowledges the actions taken by the Institute in order to mitigate the high staff turnover, in particular the fact that the Institute introduced improvements in vacancy management which were to be implemented according to its action plan and that the Institute put in place an appraisal and re-classification system in autumn 2014 to provide a better career perspective for its staff and to strengthen the middle management level; notes, moreover, that it revised and improved its training policy, as well as that exit interviews are now carried out with all staff analysing the reasons for departure; acknowledges that, as a result of the implemented actions, staff turnover in the Institute dropped to 12 % in 2014 as compared with the 20 to 25 % experienced in the period 2012 to 2013; acknowledges that in June 2015, there were only seven vacant positions out of 60 authorised posts in the Institute and that the remaining vacant positions were expected to be filled during 2015;
9. Understands that one of the two Institute's Head of Unit posts mentioned in the Court's report as being vacant since 2013 was filled in August 2015 and that the other has been advertised and the selection process is ongoing, with the vacancy expected to be filled in the first half of 2016; ascertains from the Court's report that both posts were occupied ad interim from 2013, which is in contradiction with the Staff Regulations that stipulate a maximum period of one year for such an arrangement; acknowledges that in 2014 one post was occupied by the Chief Operating Officer who served as the interim Director at the same time and who thus fulfilled three roles simultaneously; acknowledges that there has been progress on those issues and that the Institute's management vacancies are gradually being filled; calls on the Institute to proceed ambitiously with its effort to improve its recruitment procedures, and to take further measures to tackle the instability at management level in the interests of ensuring better operational continuity; calls on the Institute to inform the discharge authority of progress made with regard to recruitment;

Prevention and management of conflicts of interest and transparency

10. Welcomes the Institute's Governing Board's adoption of a comprehensive revision of the Code of Good Conduct applicable to Governing Board members in June 2015; notes that, in line with that new Code of Conduct, the annual declarations of interests and independence of the Institute's Governing Board members have been published on its website; acknowledges the Institute's plan to publish on its website the declarations of interest of senior management as part of the revision of the Code of Conduct applicable to its staff; calls on the Institute to proceed with that action and to report to the discharge authority once it is completed;

Internal audit

11. Notes that the Commission's Internal Audit Service ("IAS") carried out a follow-up audit in February 2014 in order to review the implementation of actions stemming from the "limited review" it performed in 2012; notes that the IAS issued a final follow-up report in June 2014, in which it acknowledged progress made by the Institute, closed two recommendations out of the original six and re-rated one from "critical" to "very important"; observes that the IAS considered a number of actions as remaining open; calls

on the Institute to complete the actions in question without delay and to inform the discharge authority of the outcome of the next IAS evaluation as regards the implementation of those recommendations;

Internal controls

12. Notes from the Court's report that the Institute gradually improved its financial verification of the KICs' cost claims; notes with concern, however, that the operational verification of deliverables falls behind and that the KICs' annual business plans still include an inadequate definition of deliverables, as well as that no clear link between planned deliverables and eligible cost per partner and cost category exists; is concerned about the cases identified by the Court where full amount of the Institute's grant was paid out even if some of the objectives set in the business plan had not been achieved; acknowledges that the Institute's level of detail in the *ex-ante* technical assessment of the implementation of KIC activities has improved significantly in comparison with previous years and that the Institute put in place a more robust methodology to assess the KICs' performance based on the reporting;
13. Acknowledges that the Institute's internal control standards are largely implemented; notes, however, that further improvements are needed in certain areas such as grant management, procurement and IT; takes note of the fact that the Institute prepared a comprehensive register of audit and other recommendations requiring further action; calls on the Institute to inform the discharge authority on the status of implementation of those actions;
14. Ascertains that the Institute's Internal Audit Capability ("IAC") issued 39 recommendations, including one rated as "critical", on the Institute's conflict of interests policy, as well as 23 recommendations rated as "very important", concerning vacancy management, procurement and management of conflict of interests and sensitive posts; takes note that the Institute accepted all the IAC recommendations and prepared action plans to implement and monitor them;

Performance

15. Notes that in order to reduce costs and promote best practices in the area of public procurement, the Institute participates in a number of inter-institutional procurement procedures of the Commission; takes note of the fact that the Institute and the European Police College signed a Memorandum of Understanding in 2014 given their geographical proximity, with a view of sharing joint procurement procedures;
16. Takes note of the Institute's Communications Strategy, its presence on social media and the dissemination of its activities; notes furthermore the Institute's new dynamic and interactive website launched in 2014 which should keep external stakeholders informed, increase the Institute's visibility and reach Union citizens more effectively;
17. Calls on the Institute to enhance its procedures and practices aimed at safeguarding the financial interests of the Union and to actively contribute to a results-oriented discharge process;

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18. Refers, for other observations of a cross-cutting nature accompanying its decision on discharge, to its resolution of [xx xxxx 2016]¹ [on the performance, financial management and control of the agencies].).

¹ Texts adopted of that date, P[8_TA(-PROV)(2016)0000].

RESULT OF FINAL VOTE IN COMMITTEE RESPONSIBLE

Date adopted	4.4.2016
Result of final vote	+ : 15 - : 3 0 : 0
Members present for the final vote	Louis Aliot, Inés Ayala Sender, Dennis de Jong, Martina Dlabajová, Ingeborg Gräßle, Verónica Lope Fontagné, Monica Macovei, Dan Nica, Gilles Pargneaux, Georgi Pirinski, Petri Sarvamaa, Claudia Schmidt, Bart Staes, Marco Valli, Derek Vaughan, Anders Primdahl Vistisen, Tomáš Zdechovský
Substitutes present for the final vote	Marian-Jean Marinescu
Substitutes under Rule 200(2) present for the final vote	Bodil Valero