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# DRAFT REPORT

on discharge in respect of the implementation of the budget of the European  
Institute of Innovation and Technology for the financial year 2016  
(2017/2176(DEC))

Committee on Budgetary Control

Rapporteur: Bart Staes

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## 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 2016 (2017/2176(DEC))**

*The European Parliament,*

- having regard to the final annual accounts of the European Institute of Innovation and Technology for the financial year 2016,
  - having regard to the Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2016, together with the Institute's reply<sup>1</sup>,
  - having regard to the statement of assurance<sup>2</sup> 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 2016, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
  - having regard to the Council's recommendation of ... February 2018 on discharge to be given to the Institute in respect of the implementation of the budget for the financial year 2016 (00000/2018 – C8-0000/2018),
  - 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 1605/2002<sup>3</sup>, 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 Technology<sup>4</sup>, and in particular Article 21 thereof,
  - 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 Council<sup>5</sup>, and in particular Article 108 thereof,
  - having regard to Rule 94 of and Annex IV to its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control (A8-0000/2018),
1. Grants the interim director of the European Institute of Innovation and Technology

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<sup>1</sup> OJ C 417, 6.12.2017, p. 131.

<sup>2</sup> OJ C 417 6.12.2017, p. 131.

<sup>3</sup> OJ L 298, 26.10.2012, p. 1.

<sup>4</sup> OJ L 97, 9.4.2008, p. 1.

<sup>5</sup> OJ L 328, 7.12.2013, p. 42.

discharge in respect of the implementation of the Institute's budget for the financial year 2016 / Postpones its decision on granting the interim director of the European Institute of Innovation and Technology discharge in respect of the implementation of the Institute's budget for the financial year 2016;

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 interim 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 2016 (2017/2176(DEC))**

*The European Parliament,*

- having regard to the final annual accounts of the European Institute of Innovation and Technology for the financial year 2016,
  - having regard to the Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2016, together with the Institute's reply<sup>1</sup>,
  - having regard to the statement of assurance<sup>2</sup> 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 2016, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
  - having regard to the Council's recommendation of ... February 2018 on discharge to be given to the Institute in respect of the implementation of the budget for the financial year 2016 (00000/2018 – C8-0000/2018),
  - 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 1605/2002<sup>3</sup>, 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 Technology<sup>4</sup>, and in particular Article 21 thereof,
  - 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 Council<sup>5</sup>, and in particular Article 108 thereof,
  - having regard to Rule 94 of and Annex IV to its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control (A8-0000/2018),
1. Approves the closure of the accounts of the European Institute of Innovation and

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<sup>1</sup> OJ C 417, 6.12.2017, p. 131.

<sup>2</sup> OJ C 417, 6.12.2017, p. 131.

<sup>3</sup> OJ L 298, 26.10.2012, p. 1.

<sup>4</sup> OJ L 97, 9.4.2008, p. 1.

<sup>5</sup> OJ L 328, 7.12.2013, p. 42.

Technology for the financial year 2016 / Postpones the closure of the accounts of the European Institute of Innovation and Technology for the financial year 2016;

2. Instructs its President to forward this decision to the interim 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 2016 (2017/2176(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 2016,
  - having regard to Rule 94 of and Annex IV to its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control (A8-0000/2018),
- A. whereas in the context of the discharge procedure, the discharge authority stresses the particular importance of further strengthening the democratic legitimacy of the Union institutions by improving transparency and accountability, implementing the concept of performance-based budgeting and good governance of human resources;
- B. whereas, according to its statement of revenue and expenditure<sup>1</sup>, the final budget of the European Institute of Innovation and Technology (the “Institute”) for the financial year 2016 was EUR 293 796 532,54, representing an increase of 4,51 % compared to 2015; whereas the overall contribution of the Union to the Institute's budget for 2016 amounted to EUR 252 158 953,03;
- C. whereas the Court of Auditors (the “Court”), in its report on the Institute's annual accounts for the financial year 2016 (the “Court's report”), has stated that it has obtained reasonable assurances that the Institute's annual accounts are reliable and that the underlying transactions are legal and regular;

#### ***Follow-up of the 2012, 2014 and 2015 discharges***

1. Deeply regrets the number of outstanding issues and ongoing corrective measures in response to the Court's comments in 2012, 2014 and 2015 related in particular to funding condition, *ex-ante* verification of cost statements, funding from public and private sources, unused appropriations, financial autonomy, the respect of the principle of sound financial management; urges the Institute to complete the corrective actions as soon as possible in 2018;

#### ***Budget and financial management***

2. Notes from the Institute's final accounts that its budget monitoring efforts during the financial year 2016 resulted in a budget implementation rate of 95 %, representing a significant increase compared to the previous year (compared to 90,58% in 2015); notes that the payment appropriations execution rate was high at 99 %, representing an increase of 3,41 % compared to 2015;

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<sup>1</sup> OJ C 84, 17.03.2017, p.205

### *Commitments and carry-overs*

3. Notes from the Court's report that the level of carry-overs for committed appropriations for Title II was high, at 40 % (EUR 400 000), compared to 44 % in 2015; acknowledges that those carry-overs relate mainly to contracts for IT services going beyond year-end and for meetings for which invoices had not yet been received;
4. Notes that carry-overs may often be partly or fully justified by the multiannual nature of the agencies' operational programmes, do not necessarily indicate weaknesses in budget planning and implementation, and are not always at odds with the budgetary principle of annuality, in particular if they are planned in advance and communicated to the Court;

### *Staff policy*

5. Notes from the Court's report that the Institute had four directors from its creation in 2008 until July 2014; observes that since August 2014 the position of director, and, since February 2013, another managerial position, have been filled on an ad interim basis; acknowledges the Court's comment that this is not only in contradiction with the one-year maximum period set for interim placements in the Staff Regulations, but also the frequent changes and long interim solutions cause uncertainty to stakeholders and strategic continuity; acknowledges the Institute's reply that it is not in a position to comment on the recruitment procedure for the Institute's director, as that is managed by the Commission; notes that the Institute will complete the recruitment of the other management position post in 2017;
6. Notes that in 2016, the Institute recruited 15 staff and one seconded national expert, which brought the total number of staff to 59 on 31 December 2016, corresponding to an increase by nine compared to 31 December 2015, with 6 ongoing selection processes;
7. Observes from the Institute's establishment plan that 36 posts (out of 39 posts authorised under the Union budget) were occupied on 31 December 2016, compared to 39 on 31 December 2015;
8. Notes with satisfaction that by reference to the number of posts occupied on 31 December 2016, there is almost a gender balance, with 56 % female to 44 % male staff;
9. Stresses that work-life balance should be part of the Institute's staff policy; stresses that the budget spent on well-being activities amounts to approximately EUR 226 per member of staff corresponding to 0,5 day per member of staff; observes that the average number of sick leave is 11,67 days per member of staff;
10. Supports the training and information sessions on ethics and integrity, including the fight against harassment organised to increase staff awareness; suggests regularly organising training and information sessions;
11. Notes with satisfaction the fact that the Institute did not receive any complaints, law-suits or reported cases linked to hiring or dismissal of staff in 2016;
12. Notes that the majority of posts belong to the operational or neutral activities (70 %),



whereas the administrative support and coordination roles correspond to 30 % of all posts;

### ***Procurement***

13. Acknowledges from the Institute that it is structurally understaffed, as confirmed in the Court's Special Report No 4/2016 on the Institute; notes that the amount of grant managed per person at the Institute is significantly higher than for any other Union research grant programme: while the budget managed per staff member under the 7th Framework Programme was between EUR 12 500 000 and EUR 20 400 000, the Institute project officers manage annual grants up to EUR 90 000 000; notes that the resulting high workload and responsibility has a serious effect on staff turnover affecting the Institute's core business;
14. Notes that, for the 2016 period, grants were awarded and grant agreements were signed in April 2016; acknowledges that despite an improvement in 2016, the delays in grant award decisions and signatures create uncertainty and undermine partners' willingness to commit resources and to start activities at the beginning of the year;
15. Notes that the latest calls for new knowledge and innovation communities (KICs), for which the thematic areas were defined in the strategic innovation agenda of the Institute for the years 2014 to 2020 showed limited competition; notes that the 2016 call for two additional KICs (food and added-value manufacturing) received three proposals, whereby the single proposal for added-value manufacturing KIC was not selected for quality reasons; notes that an excellent partnership has been designated except for EIT Manufacturing; notes with satisfaction that the Institute has concluded on several mitigating measures, which will reduce the risk of receiving only one proposal for a theme in the future; calls on the Institute to report to the discharge authority on the content and efficiency of those measures;

### ***Performance-based budgeting***

16. Welcomes the three main achievements identified by the Institute in 2016, namely that:
  - its first three Innovation Communities (EIT InnoEnergy, EIT Climate-KIC and EIT Digital) reached full maturity and deliver an increasing number of innovative products, services and skilled entrepreneurial talents from its education programmes;
  - it became Europe's largest innovation network that makes a significant contribution to Europe's competitiveness, growth and job creation, bringing Union level value added to the European innovation landscape;
  - it implemented the EIT Regional Innovation Scheme as an important element of the EIT Community's outreach strategy, financed from grants earmarked by the Institute and involving stakeholders from 16 additional European countries, mostly from Central and Eastern Europe, which were not previously engaged in the Institute's activities;

### ***Internal controls***

17. Notes that the Court found weaknesses in relation to *ex-post* verifications of procurement procedures carried out by KIC legal entities; notes that the Court concluded differently on the legality and regularity of two procurement procedures, where the Institute accepted the direct award or excessive extension of contracts;
18. Acknowledges that the Institute has set up internal control processes intended to ensure the adequate management of risks relating to the legality and regularity of the underlying transactions, including *ex-ante* verification, specific *ex-ante* measures applied to grant transactions and *ex-post* verification;
19. Notes that in 2016, three exception reports and twelve non-compliance events were recorded, for a total value of EUR 5 654 245 (compared to EUR 7 140 586 in 2015); notes, however, that EUR 5 500 000, representing 99,7 % of the total value, related to a single event, namely an administrative delay of the legal basis that has been corrected in 2016; acknowledges that the Institute has put in place mitigating measures to address the internal control weaknesses identified in the exception reports and non-compliance events registered during 2016, for instance, the Institute continuously updates and improves its financial circuits, workflows, checklists and routing slips;

#### ***Anti-fraud strategy***

20. Observes that the Institute has developed an anti-fraud strategy for the period of 2015 to 2017, which includes an internal survey on antifraud knowledge among the staff, benchmarking the antifraud awareness, a mandatory in-house anti-fraud training, an annual assessment on conflict of interest situations for members of the Institute governing board was performed and related mitigating measures were identified and implemented when required;

#### ***Internal audit***

21. Notes that the internal audit service carried out an audit in April 2016 on “Transition to Horizon 2020”, which covered the legal transition to the Horizon 2020 rules and regulations as well as the start-up grants provided to the two second-wave KICs designated in 2014; notes that the final audit report was issued in December 2016 with three recommendations, none of them being critical; notes that the Institute has accepted the recommendations and set up an action plan which will be implemented in 2017;
22. Notes that the Institute’s governing board approved the 2016 annual audit plan proposed by the internal audit capability (IAC); notes that the IAC carried out three assignments in 2016, including an audit on information technology (IT), a consultancy on potential efficiency gains in the field of human resources management and a follow-up to past consultancy assignments; notes that the IAC issued 41 new recommendations in 2016, including 8 rated as ‘very important’, 11 as ‘important’ and 22 as ‘desirable’ and that the Institute’s management has accepted all recommendations resulting from the 2016 IAC assignments;

#### ***Prevention and management of conflicts of interests, transparency and democracy***

23. Acknowledges that the Institute’s whistleblowing policy is being drafted and will be sent to the European Data Protection Supervisor for prior check before its adoption by

the Institute's governing board; notes, moreover, that the upcoming policy will contain a channel for anonymous internal reporting; asks the Institute to keep the discharge authority informed of its progress with regard to this matter;

24. Acknowledges that, in July 2017, the Institute adopted a new policy on the selection of independent external experts, which addresses the implementation of Article 89 of the Regulation (EU) No 1271/2013 regarding the sources of selection, the treatment of recommendations and provides for conflict of interest criteria;
25. Notes that the Institute will put in place a detailed and proactive transparency policy related to its contacts with stakeholders as part of its annual work programme 2018; asks the Institute to keep the discharge authority informed of progress with regard to this matter;
26. Notes with satisfaction the organisation of in-house training sessions including on ethics and integrity, fraud prevention and detection, project management, key performance indicators and Horizon 2020 on financial management and audit;
27. Regrets that the Institute does not make public the minutes of its management board meetings; calls on the Institute to change its policy in that regard;

#### ***Other comments***

28. Notes that in 2016, the Court published two special reports affecting the Institute: Special Report No 4/2016 "The European Institute of Innovation and Technology must modify its delivery mechanisms and elements of its design to achieve the expected impact", which was published on 14 April 2016, and Special Report No 12/2016 "Agencies' use of grants: not always appropriate or demonstrably effective", which was published on 21 April 2016; notes with satisfaction that measures have been taken to implement the Court's recommendations;
29. Notes that the original target set by the Commission for the Institute to obtain financial autonomy was 2010; notes, furthermore, that the Institute obtained a 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 by the Commission's DG Education and Culture; acknowledges that the Institute requested the Commission to re-launch the process leading to full financial autonomy; acknowledges, furthermore, that the Commission set out the roadmap and timetable of the process in May 2016 and that the Institute submitted a completed self-assessment to the Commission in October 2016; calls on the Institute to report to the discharge authority on progress;
30. Notes that the Commission has created a Horizon 2020 common support centre in order to ensure coherence among bodies implementing the programme covering aspects such as legal services, IT tools, grant management, dissemination and exploitation of research results; notes, however, that the Institute has no direct access to the support centre but needs approval on a case-by-case basis from its Commission parent DG; acknowledges that this limitation affects the efficiency of the Institutes operations;

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31. Refers, for other observations of a cross-cutting nature accompanying its decision on discharge, to its resolution of ... 2018<sup>1</sup> on the performance, financial management and control of the agencies.

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<sup>1</sup> Texts adopted of that date, P8\_TA-PROV(2018)0000.