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REPORT

on discharge in respect of the implementation of the budget of the European
Institute of Innovation and Technology for the financial year 2013
(2014/2125(DEC))

Committee on Budgetary Control

Rapporteur: Ryszard Czarnecki

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	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 2013 (2014/2125(DEC))

The European Parliament,

- having regard to the final annual accounts of the European Institute of Innovation and Technology for the financial year 2013,
- having regard to the Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2013, 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 2013, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendation of 17 February 2015 on discharge to be given to the Institute in respect of the implementation of the budget for the financial year 2013 (05304/2015 – C8-0054/2015),
- having regard to Article 319 of the Treaty on the Functioning of the European Union,
- having regard to Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities³,
- 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 1605/2002⁴, 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 Technology⁵, 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

¹ OJ C 442, 10.12.2014, p. 184.

² OJ C 442, 10.12.2014, p. 184.

³ OJ L 248, 16.9.2002, p. 1.

⁴ OJ L 298, 26.10.2012, p. 1.

⁵ OJ L 97, 9.4.2008, p. 1.

Regulation applicable to the general budget of the European Communities¹,

- 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 Council², 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 (A8-0077/2015),
1. Postpones its decision on granting 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 2013;
 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).

¹ OJ L 357, 31.12.2002, p. 72.

² OJ L 328, 7.12.2013, p. 42.

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 2013 (2014/2125(DEC))

The European Parliament,

- having regard to the final annual accounts of the European Institute of Innovation and Technology for the financial year 2013,
- having regard to the Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2013, 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 2013, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendation of 17 February 2015 on discharge to be given to the Institute in respect of the implementation of the budget for the financial year 2013 (05304/2015 – C8-0054/2015),
- having regard to Article 319 of the Treaty on the Functioning of the European Union,
- having regard to Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities³,
- 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 1605/2002⁴, 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 Technology⁵, 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

¹ OJ C 442, 10.12.2014, p. 184.

² OJ C 442, 10.12.2014, p. 184.

³ OJ L 248, 16.9.2002, p. 1.

⁴ OJ L 298, 26.10.2012, p. 1.

⁵ OJ L 97, 9.4.2008, p. 1.

Regulation applicable to the general budget of the European Communities¹,

- 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 Council², 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 (A8-0077/2015),
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. Postpones the closure of the accounts of the European Institute of Innovation and Technology for the financial year 2013;
 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).

¹ OJ L 357, 31.12.2002, p. 72.

² OJ L 328, 7.12.2013, p. 42.

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 2013 (2014/2125(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 2013,
 - 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 (A8-0077/2015),
- A. whereas, according to its financial statements, the final budget of the European Institute of Innovation and Technology (“the Institute”) for the financial year 2013 was EUR 142 197 740 for commitment appropriations, representing an increase of 47,05 % compared to 2012, and EUR 98 760 073 for payment appropriations,
- B. whereas according to its financial statements, the overall contribution of the Union to the Institute's budget for 2013 amounted to EUR 93 462 181, representing an increase of 36,05 % compared to 2012,
- C. whereas the Court of Auditors, in its report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2013 (“the Court’s report”), has stated that it has obtained reasonable assurances that the Institute's annual accounts are reliable, but could not obtain sufficient appropriate audit evidence on the legality and regularity of the underlying transactions,

Follow-up of 2012 discharge

1. Notes from the Court’s report that regarding one comment made in the Court’s 2011 report and marked as “Ongoing” in the Court’s 2012 report, corrective actions were taken and the comment is marked in the Court’s 2013 report as “Completed”; notes furthermore that regarding the two comments made in the Court’s 2012 report, one corrective action was taken and the comment is now marked as “Completed” while one as "Ongoing";
2. Acknowledges from the Institute that:
 - it provided improved instructions to certifying auditors and in June 2013 communicated the updated instructions to the “Knowledge and Innovation Communities” (KICs), the recipients of the Institute’s grants; notes that the improved instructions should result in an increased level of assurance obtained from audit certificates;

- quantifiable targets were implemented in the guidelines issued for the KICs, which were revised in 2013 and 2014 in order to further improve the quality of the planning and reporting from the KICs;
- ex post audits on the 2010 Grant Agreement resulted in the recovery of all amounts unduly paid by the Institute;
- the prevention and management of conflicts of interests policies are being reviewed by the Institute's Internal Audit Capability (IAC) and the revised versions of the Codes of Conduct for the Institute's staff and its Governing Board Members are expected to be implemented; notes that the Institute will introduce a policy for members of the Institute's Governing Board and senior management to publish their declarations of interest; calls on the Institute to resolve this issue as a matter of urgency and to inform the discharge authority about the results of the remedial actions;
- the information on its activities' impact on Union citizens is provided through the Institute's website and has been made more accessible through the use of social media as well as through publishing the annual activity report and results of its work;

Basis for a qualified opinion on the legality and regularity of the underlying transactions

3. Is deeply concerned that for the second consecutive year the Court found no reasonable assurance on the legality and regularity of the Institute's grant transactions; notes that about 87 % of grant expenditure claimed by the beneficiaries is covered by certificates issued by independent audit firms, which are contracted by the beneficiaries themselves and their partners; regrets that although the Institute continued to make efforts to implement effective ex ante verifications and give better guidance to the independent audit firms, the Court found their quality as insufficient and noted that there is room for further improvement in their general work; calls on the Institute to address this issue and to inform the discharge authority about the steps taken by 1 September 2015;
4. Notes that in order to have a second layer of assurance on the legality and regularity of grant transactions, the Institute introduced complementary ex post verifications for grant transactions that were carried out by an independent audit firm; notes moreover that the audited cost claims correspond to 29 % of the total grant transactions made in 2013; regrets that the ex post verification results confirmed the ex ante verifications as still not being fully effective; is concerned that on the basis of the errors detected by the ex post verifications, the Institute decided in 2014 to recover 3 % of the audited 2012 grants; calls on the Institute to improve the effectiveness of the ex ante verifications and to inform the discharge authority on the state of play regarding steps to be taken by 1 September 2015;
5. Points out with concern that payments in respect of two framework contracts concluded in 2010 and 2012 using a negotiated procedure and amounting to EUR 770 000 were found as irregular as according to the audit, the use of a negotiated procedure was not justified; calls on the Institute to improve its internal procedures as regards procurement

and to inform the discharge authority on steps taken by 1 September 2015;

6. Points out with concern that the combined error rate related to grant issues and framework contract payments is between 2 % and 3 % of the Institute's total 2013 expenditure;

Qualified opinion on the legality and the regularity of the underlying transactions

7. Notes that according to the Court, except for the matters described above, the transactions underlying the annual accounts for 2013 are legal and regular in all material respects;

Comments on the legality and regularity of transactions

8. Regrets that according to the Court's report, the complementary activities of the KICs as beneficiaries of the Institute's grants will not be audited before 2015; is concerned that no appropriate evidence was available to the Court during its audit as regards the Institute's funding not surpassing the ceiling of 25% of the KICs' global expenditure; calls on the Institute to inform the discharge authority on the state of play regarding the abovementioned audit by 1 September 2015;

Budget and financial management

9. Notes from the Institute's final accounts that its budget monitoring efforts during the financial year 2013 resulted in a budget implementation rate of 96,97 % and that the execution rate of payments against payment appropriations was 96,86 %;
10. Notes with concern, however, that the budget implementation rate for Title I (staff expenditure) was low at 74 %; ascertains from the Court's report that this is mainly related to the high turnover of staff and the outstanding adoption of the regulations on salary adjustments; calls on the Institute in this regard to effectively address its staffing policies to avoid the high turnover of staff;

Commitments and carry-overs

11. Notes with concern that the Institute carried over committed appropriations under Title II (Administrative expenditure) amounting to EUR 193 420 or 24 %; acknowledges that these carry-overs mainly concerned invoices not yet received and ongoing IT projects; points out with concern that 29 % of the committed appropriations carried over from 2012 to 2013 were not implemented, largely due to overestimated costs for a Governing Board meeting;
12. Is concerned that under Title III (Operational expenditure), where the Institute had budgeted EUR 34 078 025 for KICs grants, the execution rate was relatively low at 82 %; takes note that the low execution rate is due to KICs not fully absorbing the available funding for 2012 activities; calls on the Institute to inform the discharge authority about actions it will take in order to increase absorption capability of the KICs

by 1 September 2015;

Internal audit

13. Observes from the Institute's annual activity report that its Internal Audit Function (IAF) resigned as of 31 December 2012 and the recruitment of the new Institute's Internal Auditor took longer than expected, as the vacancy notice had to be republished owing to an insufficient number of suitable applicants; takes note that the new Internal Auditor started on 1 January 2014 and therefore, no IAF audits were carried out in 2013;
14. Acknowledges from the Institute that in order to bridge the period between the departure of the former Internal Auditor and the arrival of the new one, it decided to set up an Audit Committee of the Governing Board which provides support to the Governing Board in increasing the quality of the follow-up and implementation of the audit recommendations, for which the Institute's Director bears sole responsibility;
15. Notes that in 2014, the Commission's Internal Audit Service (IAS) followed up the status of implementation of the accepted recommendations from the "Limited Review on Grant Management – Preparation of Annual Grant Agreements" in the Institute; notes moreover that this limited review resulted in six recommendations, of which one marked as "Critical" and four as "Very Important", and that the Institute responded to the six recommendations by a detailed action plan comprising 25 actions, amongst which 13 were due by 31 August 2013 or before and 10 were reported as "Ready For Review" by this date;
16. Regrets the fact that when the IAS performed a desk review of the status of implementation of these 10 actions, it concluded on 24 September 2013 that either the degree of implementation was insufficient or that additional on-the-spot checks were necessary to confirm the implementation in practice; takes note of the fact that the Institute subsequently reformulated some of the actions and revised the related deadlines to address the IAS remarks;
17. Is concerned about the IAS conclusions in its follow-up report which emphasises the risk that the Institute would not be able to fully implement all actions in time, in particular those actions scheduled for completion in the second quarter of 2014; finds the delays unacceptable given that the IAS considers that delays in the implementation would lead to an even increased risk for the organisation;
18. Acknowledges the Institute's commitment to monitor the ex ante verifications in order to obtain reasonable assurance on the legality and regularity of grant transactions;
19. Calls on the Institute to provide the discharge authority a detailed report on the implementation of IAS' recommendations as well as on actions taken regarding the recommendations by the Institute's IAF by 1 September 2015;

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20. Refers, for other observations of a cross-cutting nature accompanying its decision on discharge, to its resolution of ... 2015¹ on the performance, financial management and control of the agencies.

¹ Texts adopted of that date, P8_TA-PROV(2015)0000

RESULT OF FINAL VOTE IN COMMITTEE

Date adopted	23.3.2015
Result of final vote	+: 23 -: 4 0: 0
Members present for the final vote	Inés Ayala Sender, Ryszard Czarnecki, Dennis de Jong, Tamás Deutsch, Martina Dlabajová, Ingeborg Gräßle, Bernd Kölmel, Bogusław Liberadzki, Verónica Lope Fontagné, Monica Macovei, Georgi Pirinski, Petri Sarvamaa, Claudia Schmidt, Bart Staes, Michael Theurer, Marco Valli, Derek Vaughan, Anders Primdahl Vistisen, Joachim Zeller
Substitutes present for the final vote	Caterina Chinnici, Iris Hoffmann, Monika Hohlmeier, Benedek Jávor, Andrey Novakov, Julia Pitera, Miroslav Poche
Substitutes under Rule 200(2) present for the final vote	Laura Ferrara