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DRAFT SECOND 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

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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 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 its decision of 29 April 2015³ postponing the discharge decision for the financial year 2013, and the replies from the Director of the European Institute of Innovation and Technology,
- 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 Communities⁴,
- 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 1605/2002⁵, 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 Technology⁶, and in particular Article 21 thereof,

¹ OJ C 442, 10.12.2014, p. 184.

² OJ C 442, 10.12.2014, p. 184.

³ Texts adopted of that date, P8_TA(2015)0146.

⁴ OJ L 248, 16.9.2002, p. 1.

⁵ OJ L 298, 26.10.2012, p. 1.

⁶ OJ L 97, 9.4.2008, p. 1.

- 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 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 second report of the Committee on Budgetary Control (A8-0000/2015),
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 2013 / 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 its decision of 29 April 2015³ postponing the discharge decision for the financial year 2013, and the replies from the Director of the European Institute of Innovation and Technology,
- 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 Communities⁴,
- 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 1605/2002⁵, 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 Technology⁶, and in particular Article 21 thereof,

¹ OJ C 442, 10.12.2014, p. 184.

² OJ C 442, 10.12.2014, p. 184.

³ Texts adopted of that date, P8_TA(2015)0146.

⁴ OJ L 248, 16.9.2002, p. 1.

⁵ OJ L 298, 26.10.2012, p. 1.

⁶ OJ L 97, 9.4.2008, p. 1.

- 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 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 second report of the Committee on Budgetary Control (A8-0000/2015),
1. Approves the closure of the accounts of the European Institute of Innovation and Technology for the financial year 2013 / Postpones the closure of the accounts of the European Institute of Innovation and Technology for the financial year 2013;
 2. 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 for implementation of the budget for 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 second report of the Committee on Budgetary Control (A8-0000/2015),

Comments on the legality and regularity of transactions

1. Recalls that the Court of Auditors (“the Court”), in its report on the annual accounts of the European Institute of Innovation and Technology (“the Institute”) for the financial year 2013 (“the Court’s report”), found the quality of the certificates issued by independent audit firms insufficient, covering about 87 % of the grant expenditure; recalls furthermore that in order to address the shortcomings related to the quality of the audit certificates, the Institute improved the instructions provided to certifying auditors and communicated the updated instructions to the “Knowledge and Innovation Communities” (KICs), the recipients of the Institute’s grants, in June 2013;
2. Notes from the Institute that the improved instructions resulted in a considerable increase in the quality of audit certificates received in respect to 2013 grant transactions for which the final payments were made in 2014;
3. Acknowledges that, starting with the 2014 grant agreements, the Institute uses the same audit certificate methodology as all other programmes under the Horizon 2020 framework programme; notes that the use of a more detailed and consistent certification methodology has further increased the assurance obtained in the course of *ex ante* verifications;
4. Recalls that the Institute introduced complementary *ex post* verifications for grant transactions as a second layer of assurance on the legality and regularity of grant transactions; acknowledges that the Institute carried out “on the spot” audits covering around 40 % of the grants paid under the 2013 Grant Agreements; notes that these audits resulted in the recovery of EUR 263 239, out of the total audited amount of EUR 29 163 272; acknowledges that the detected error rate in the audited sample is 0,90 % and the residual error rate is 0,69 %, which is below the materiality threshold of 2 %;
5. Acknowledges from the Institute that it improved its procurement procedures since 2013 and took a proactive approach after the detection of errors by the Court; notes in

particular that the Institute cancelled the two framework contracts concluded in 2010 and 2012 where the use of the negotiated procedure was found as being irregular; notes furthermore that the Institute revised extensively 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 carried out a series of trainings on procurement for its staff;

6. Acknowledges that further to the consultancy assignment performed by the Institute's Internal Audit Capability (IAC), the Institute implemented the following actions:
 - developing a vade mecum on procurement which includes checklists for different procurement procedures and specific contracts under framework contracts;
 - ensuring that the procurement function verifies all requests for service before requesting an offer, which provides an additional layer of control;
 - ensuring that staff members are sufficiently trained through targeted training sessions;
 - clarifying the respective role of procurement, operational and contract management function as well as introducing improved checklists and routing slips;
 - documenting the procurement procedures within one single and practically usable repository which is proportionate to the size of the Institute;
7. Notes from the Institute that no procurement errors were detected in respect of the year 2014; notes furthermore that as the residual error rate in grant expenditure is 0,69 %, the combined error rate for administrative and operational expenditure is around 0,5 % of the total payments made in 2014; looks forward to the Court's report on the Institute's annual accounts for the year 2014 in order to confirm these findings;
8. Ascertains that the Institute obtained the audit certificates on the costs of KIC complementary activities incurred in the period 2010-2014; notes that the Institute carried out a review of the portfolio of KIC complementary activities to ensure that only the activities with a clear link to the KIC added value activities funded by the Institute are accepted;
9. Acknowledges that the Institute's funding provided to the KICs in the period 2010-2014 has not exceeded the 25 % ceiling as set out in the Framework Partnership Agreements between the KICs and the Institute;

Budget and financial management

10. Notes that the Institute improved the planning and monitoring procedures related to the budget implementation; takes note that these procedures now include a more rigorous assessment of all activities proposed with a budget impact over EUR 50 000, as well as the introduction of additional planning documents which ensure that the needs of human and financial resources are well identified and available to implement all planned

activities; notes, furthermore, that the link between planned activities and resource allocation has been strengthened by linking the Annual Work Programme with the annual budget;

11. Notes that the Institute has, together with the KICs, significantly improved the absorption capacity of the first-wave KICs for the 2010-2014 period, with an average annual growth rate of the Institute's absorbed grants at 85 %; notes furthermore that the Institute's Governing Board selected and designated two partnerships to become the second-wave KICs, which will further increase the absorption capacity from the year 2015 and increase the Institute's budget execution rate;
12. Recalls that the low budget implementation rate for Title I (staff expenditure) is mainly related to the high turnover of staff and the outstanding adoption of the regulations on salary adjustments; takes note that the analysis of staff exit interviews identified the lack of a clear career perspective, a difficult work environment and an unattractive salary package related to the correction coefficient for Hungary as the main reasons for the high staff turnover;
13. Acknowledges the actions taken by the Institute in order to mitigate the high staff turnover; notes in particular the improvements in the vacancy management, the establishment of an appraisal and re-classification system, providing a better career perspective and strengthening middle management level; welcomes the decrease in the staff turnover rate from 20-25 % in the period of 2012-2013 to 12 % in 2014; takes note that the four remaining vacant posts are to be gradually filled during 2015;

Internal audit

14. Acknowledges that the Commission's Internal Audit Service (IAS) issued a follow-up audit report in June 2014 regarding the status of the implementation of the action plan resulting from the "Limited Review on Grant Management – Preparation of Annual Grant Agreements"; takes note that the IAS closed two recommendations out of the original six and that one further recommendation was downgraded from "Critical" to "Very Important";
15. Acknowledges that the IAS carried out a fact-finding visit in the Institute in December 2014 in order to review the progress made in the implementation of open recommendations; acknowledges furthermore that the visit resulted in the IAS acknowledging further improvements made in the annual grant allocation process and that all detailed actions presented to the IAS during the visit, whether completed, ongoing or planned, are adequately addressing the risks highlighted in the IAS' limited review;
16. Notes that out of the 25 actions resulting from the action plan, 18 have been implemented and that the implementation of the remaining seven actions is ongoing; notes, moreover, that three out of those seven actions are to be implemented before the end of 2015, after the amended Framework Partnership Agreement between the Institute and the KICs has been signed; takes note from the Institute that the implementation of the remaining actions is progressing as planned;

17. Notes that the IAC carried out seven audit and consultancy engagements in 2014 and acknowledges the Institute’s actions taken on the IAC’s recommendations.