



**2015/2193(DEC)**

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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 2014  
(2015/2193(DEC))

Committee on Budgetary Control

Rapporteur: Derek Vaughan

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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 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 replies<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 2014, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendation of xx February 2016 on discharge to be given to the Institute in respect of the implementation of the budget for the financial year 2014 (xxxxxx/2016 – C8-xxxx/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 1605/2002<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 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 Communities<sup>5</sup>,
- 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>6</sup>, and in particular Article 108 thereof,

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<sup>1</sup> OJ C 409, 9.12.2015, p. 187.

<sup>2</sup> OJ C 409, 9.12.2015, p. 187.

<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 357, 31.12.2002, p. 72.

<sup>6</sup> 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 (A8-0000/2016),
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 replies<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 2014, pursuant to Article 287 of the Treaty on the Functioning of the European Union,
- having regard to the Council's recommendation of xx February 2016 on discharge to be given to the Institute in respect of the implementation of the budget for the financial year 2014 (xxxxxx/2016 – C8-xxxx/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 1605/2002<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 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 Communities<sup>5</sup>,
- 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>6</sup>,

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<sup>1</sup> OJ C 409, 9.12.2015, p. 187.

<sup>2</sup> OJ C 409, 9.12.2015, p. 187.

<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 357, 31.12.2002, p. 72.

<sup>6</sup> 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 (A8-0000/2016),
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 (A8-0000/2016),
- 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, in its report on the annual accounts of the European Institute of Innovation and Technology 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 respected 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 (KCA) incurred during 2010-2014; takes note that it conducted a review of the portfolio of KIC complementary activities to ensure that only those activities are accepted that meet all legal and operational requirements set for KCAs including to have a link with KIC added value activities funded by the Institute;

#### ***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 the previous year;
3. Acknowledges that the Institute faced uncertainties concerning its 2014 annual budget due

to the ongoing negotiations relating to the 2014-2020 Multiannual Financial Framework and Horizon 2020 throughout the year 2013; notes that the Institute's Governing Board decided to approach the 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 KIC's 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 appropriations not used will be re-entered in the Institute's budgets for the years 2015-2017 as stipulated in the Institute's financial rules;
5. Notes 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 from the Institute that, following its adoption of the principles on KIC's 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's 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; notes, furthermore, that the Institute will continue monitoring the KICs' progress towards financial sustainability and take specific corrective actions when necessary;

#### ***Procurement and recruitment procedures***

6. Notes from the Court's report that the Institute suffered from high staff turnover and instability at management level since its creation 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;
7. Acknowledges that, in order to mitigate the high staff turnover, the Institute identified improvements in the vacancy management which were to be implemented according to an action plan prepared by the Institute; notes, in addition, that the Institute put in place an



appraisal and re-classification system in autumn 2014 to provide a better career perspective to its staff; 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 20-25 % experienced in the 2012-2013 period; acknowledges from the Institute that in June 2015, there were only seven vacant positions out of 60 authorised posts, as well as that the remaining vacant positions were expected to be filled during 2015;

8. Understands from the Institute that one of the two Heads of Unit posts mentioned by the Court 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; 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 from the Institute that there has been progress on those issues and that management vacancies are gradually being filled;

#### ***Prevention and management of conflicts of interest and transparency***

9. Takes note that the Institute's Governing Board adopted a comprehensive revision of the Code of Good Conduct applicable to Governing Board members in June 2015; notes that, in line with the 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 from the Institute its 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***

10. 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, re-rated one from "critical" to "very important"; observes that the IAS still considered a number of actions as open; calls on the Institute to inform the discharge authority of the outcome of the next IAS evaluation as regards the implementation of those recommendations;

#### ***Internal controls***

11. Notes from the Court's report that the Institute gradually improved its financial verification of the KICs' cost claims; observes, however, that the operational verification of deliverables falls behind and that the KICs' annual business plans still includes 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 from

the Institute that the 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 a more robust methodology is now in place to assess the KICs' performance based on the reporting;

12. 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 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 these actions;
13. 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*

14. 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 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;
15. 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;
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16. Refers, for other observations of a cross-cutting nature accompanying its decision on discharge, to its resolution of [xx xxxx 2016]<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, P[8\_TA(-PROV)(2016)0000].