

**RESOLUTION OF THE EUROPEAN PARLIAMENT****of 3 April 2014****with observations forming an integral part of its Decision on discharge in respect of the implementation of the budget of the European Institute of Innovation and Technology for the financial year 2012**

THE EUROPEAN PARLIAMENT,

- having regard to the final annual accounts of the European Institute of Innovation and Technology for the financial year 2012,
  - having regard to the Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2012, together with the Institute's replies <sup>(1)</sup>,
  - having regard to the Council's recommendation of 18 February 2014 (05849/2014 - C7-0054/2014),
  - 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 Communities <sup>(2)</sup>, and in particular Article 185 thereof,
  - 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,
  - having regard to its previous discharge decisions and resolutions,
  - having regard to Rule 77 of, and Annex VI to, its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control (A7-0234/2014),
- A. whereas according to its financial statements, the final budget of the European Institute of Innovation and Technology ('the Institute') for the financial year 2012 was EUR 95 300 000 for commitment appropriations, representing an increase of 48,87 % compared to 2011, and EUR 77 090 000 for payment appropriations,
- B. whereas according to its financial statements, the overall contribution of the Union to the Institute's budget for 2012 amounted to EUR 68 697 863, compared to EUR 8 043 439,83 in 2011,

<sup>(1)</sup> OJ C 365, 13.12.2013, p. 142.

<sup>(2)</sup> OJ L 248, 16.9.2002, p. 1.

<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.

- C. whereas the Court of Auditors has stated that it has obtained reasonable assurances that the Institute's annual accounts for the financial year 2012 are reliable, but could not obtain sufficient appropriate audit evidence on the legality and regularity of the underlying transactions,

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

1. Regrets that the Court of Auditors found the quality of the audit certificates is inadequate in many instances; notes that in order to have a second layer of assurances on the legality and regularity of grant transactions, at the end of 2012, the Institute introduced complementary *ex post* verifications for grants related to 2011 activities, which were carried out by independent audit firms and are assessed as reliable; regrets that the *ex post* verification results confirmed that *ex ante* verifications were not fully effective;
2. Deplores the fact that no *ex post* verifications have been carried out for transactions related to grants for 2010 activities (EUR 11 300 000); deplores the fact, furthermore, that given the limited assurances that can be drawn from *ex ante* verifications, there is no reasonable assurance as to the legality and regularity of these transactions and the Court of Auditors could not obtain sufficient appropriate audit evidence on the legality and regularity of the audited grant transactions related to 2010 activities;

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

3. Notes that according to the Court of Auditors, except for the possible effects of the matters described in the basis for a qualified opinion, the transactions underlying the annual accounts for the year 2012 are legal and regular in all material respects;

#### **Commitments and carry-overs**

4. Notes that out of the committed appropriations carried over from 2011 amounting to some EUR 22 000 000, some EUR 10 000 000 (45 %) were cancelled in 2012; acknowledges that the high level of cancellations is mainly due to lower than estimated costs claimed by beneficiaries under the 2011 grant agreements (EUR 9 200 000, or 92 % of cancelled carry-overs);

#### **Transfers**

5. Notes with satisfaction that according to the annual activity report, as well as the Court of Auditors' audit findings, the level and nature of transfers in 2012 have remained within the limits of the financial rules;

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

6. Notes that for the year 2012, neither sampled transactions nor other audit findings have led to any comments on the Institute's procurement procedures in the Court of Auditors' annual audit report;
7. Notes that the Court of Auditors made no comments in its annual audit report for 2012 as regards the Institute's recruitment procedures;

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

8. Acknowledges that the Institute has two framework rules regulating conflicts of interests; calls on the Institute to inform the discharge authority whether it intends to update those framework rules according to the Commission's Guidelines on the Prevention and Management of Conflicts of Interests in EU Decentralised Agencies;
9. Observes that the declarations of interests of members of the Governing Board, the Executive Director and senior management are not publicly available; calls on the Institute to remedy the situation as a matter of urgency;

#### **Internal audit**

10. Acknowledges from the Institute that in 2012, the Commission's Internal Audit Service (IAS) carried out an independent assessment on the design adequacy of the internal control systems related to the preparation of annual grant agreements, which led to one critical and four very important recommendations to the Institute;

11. Notes that following the assessment carried out by the IAS, the Institute prepared an action plan addressing the critical recommendation, with a total of 11 actions, of which eight were scheduled for implementation before 31 July 2013; notes that the four very important recommendations were to be mitigated through the implementation of a total of 12 actions (three before 31 July 2013); notes, furthermore, that the IAS considers that the action plan adequately addresses the risks and will mitigate them if implemented in a timely manner;

#### **Internal controls**

12. Regrets the fact that budgets for grant agreements signed in 2010 and 2011 were not sufficiently specific, which resulted in payments in 2012; observes that there was no link between the approved funds and the activities to be implemented and that grant agreements did not set individual thresholds for specific cost categories (i.e. staff costs, sub-contracting, legal services, etc.) and did not include rules for the procurement of goods and services by the Knowledge and Innovation Communities and their partners;
13. Notes that the Institute also carried out technical verifications for all funded projects as part of its *ex ante* verifications; regrets, however, that the lack of quantifiable targets hampered an effective assessment of project activities and results; believes that such a situation could and should have been avoided and calls on the Institute to remedy it and to inform the discharge authority on the progress in this regard within the framework of the 2012 discharge follow-up;
14. Acknowledges from the Institute that on the basis of the final audit reports, all the amounts unduly paid (EUR 1 044 512,28 for 2010 and EUR 1 242 317,31 for 2011) have been recovered; acknowledges that a comprehensive grant assurance strategy, covering both *ex ante* and *ex post* controls, was put in place by the Institute in the period 2012-2013;
15. Notes with concern that the Institute did not have an internal auditor for the entire calendar year 2013, as the previous auditor left the Institute on 31 December 2012, and the current auditor took over the task only on 1 January 2014; believes that such a situation should have been avoided, especially given the problems shown to exist in the Institute as regards the 2012 discharge;

#### **Performance**

16. Requests that the Institute communicate the results and impact its work has on European citizens in an accessible way, mainly through its website;
17. Refers, in respect of the other observations accompanying its Decision on discharge, which are of a horizontal nature, to its resolution of 3 April 2014 <sup>(1)</sup> on the performance, financial management and control of the agencies.

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<sup>(1)</sup> Texts adopted, P7\_TA(2014)0299 (see page 359 of this Official Journal).