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THE EUROPEAN UNION**

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COVER NOTE

from:	Mr Vítor CALDEIRA, President of the Council of the European Union
date of receipt:	7 November 2012
to:	Mrs Erato KOZAKOU-MARCOULLIS, President of the Council of the European Union

Subject:	Report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2011 together with the Institute's replies
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Madam,

I enclose in all the official languages of the European Union a copy of the Court of Auditors' report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2011.

This report is accompanied by the Institute's replies and will shortly be published in the Official Journal of the European Union.

(Complimentary close).

(s.) Vítor CALDEIRA

Encl.: Report on the annual accounts of the European Institute of Innovation and Technology for the financial year 2011 together with the Institute's replies.

ЕВРОПЕЙСКА СМЕТНА ПАЛАТА
TRIBUNAL DE CUENTAS EUROPEO
EVROPSKÝ ÚČETNÍ DVŮR
DEN EUROPÆISKE REVISIONSRET
EUROPÄISCHER RECHNUNGSHOF
EUROOPA KONTROLLIKODA
ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA



CORTE DEI CONTI EUROPEA
EIROPAS REVĪZIJAS PALĀTA
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EURÓPAI SZÁMVEVŐSZÉK
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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts
of the European Institute of Innovation and Technology
for the financial year 2011

together with the Institute's replies

INTRODUCTION

1. The European Institute of Innovation and Technology (hereinafter "the Institute"), which is located in Budapest, was created by Regulation (EC) No 294/2008 of the European Parliament and of the Council¹. The Institute's objective is to contribute to sustainable European economic growth and competitiveness by reinforcing the innovation capacity of the Member States and the European Union. The Institute awards grants to "Knowledge and Innovation Communities", which link the higher education, research and business sectors with one another thereby boosting innovation and entrepreneurship².
2. The Commission granted financial autonomy to the Institute on 8 June 2011. Therefore the audited period for the 2011 financial year runs from 8 June to 31 December 2011.

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

3. The audit approach taken by the Court comprises analytical audit procedures, direct testing of transactions and an assessment of key controls of the Institute's supervisory and control systems. This is supplemented by evidence provided by the work of other auditors (where relevant) and an analysis of management representations.

STATEMENT OF ASSURANCE

4. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union, the Court has audited the annual accounts³ of the

¹ OJ L 97, 9.4.2008, p. 1.

² The **Annex** summarises the Institute's competences and activities. It is presented for information purposes.

³ These accounts are accompanied by a report on the budgetary and financial management during the year which gives further information on budget implementation and management.

Institute, which comprise the "financial statements"⁴ and the "reports on the implementation of the budget"⁵ for the financial year ended 31 December 2011, and the legality and regularity of the transactions underlying those accounts.

The Management's responsibility

5. As authorising officer, the Director implements the revenue and expenditure of the budget in accordance with the financial rules of the Institute, under his own responsibility and within the limits of the authorised appropriations⁶. The Director is responsible for putting in place⁷ the organisational structure and the internal management and control systems and procedures relevant for drawing up final accounts⁸ that are free from material misstatement, whether due to fraud or error, and for ensuring that the transactions underlying those accounts are legal and regular.

The Auditor's responsibility

6. The Court's responsibility is to provide, on the basis of its audit, the European Parliament and the Council⁹ with a statement of assurance as to the reliability of the annual accounts of the Institute and the legality and regularity of the transactions underlying them.

⁴ The financial statements include the balance sheet and the economic outturn account, the cash-flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

⁵ The budget implementation reports comprise the budget outturn account and its annex.

⁶ Article 33 of Commission Regulation (EC, Euratom) No 2343/2002 (OJ L 357, 31.12.2002, p. 72).

⁷ Article 38 of Regulation (EC, Euratom) No 2343/2002.

⁸ The rules concerning the presentation of the accounts and accounting by the Agencies are laid down in Chapters 1 and 2 of Title VII of Regulation (EC, Euratom) No 2343/2002, as last amended by Regulation (EC, Euratom) No 652/2008 (OJ L 181, 10.7.2008, p. 23), and are integrated as such in the Financial Regulation of the Institute.

⁹ Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002.

7. The Court conducted its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions. These standards require that the Court plans and performs the audit to obtain reasonable assurance as to whether the annual accounts of the Institute are free of material misstatement and the transactions underlying them are legal and regular.

8. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the transactions underlying them. The procedures are selected based on the auditor's judgment, including an assessment of the risks of material misstatement of the accounts and of material non-compliance of the underlying transactions with the requirement of the legal framework of the European Union, whether due to fraud or error. In assessing those risks, the auditor considers internal controls relevant to the preparation and fair presentation of the accounts and supervisory and control systems implemented to ensure legality and regularity of underlying transactions, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made, as well as evaluating the overall presentation of the accounts.

9. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for the opinions set out below.

Opinion on the reliability of the accounts

10. In the Court's opinion, the Institute's Annual Accounts¹⁰ present fairly, in all material respects, its financial position as of 31 December 2011 and the results of its operations and its cash flows for the year then ended, in accordance with

¹⁰ The Final Annual Accounts were drawn up on 28 June 2012 and received by the Court on 10 July 2012. The Final Annual Accounts, consolidated with those of the Commission, are published in the Official Journal of the European Union by 15 November of the following year. These can be found on the following website: <http://eit.europa.eu>.

the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer¹¹.

Opinion on the legality and the regularity of the transactions underlying the accounts

11. In the Court's opinion, the transactions underlying the annual accounts of the Institute for the financial year ended 31 December 2011 are legal and regular in all material respects.

12. The comments which follow do not call the Court's opinions into question.

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

13. The rate of execution of the Institute's budget for the audited period of financial autonomy (see paragraph 2) was low. Comparing payments with appropriations committed, the rate was 56 % for Title I (staff expenditure), 30 % for Title II (administrative expenditure) and 11 % for Title III (operational expenditure).

14. Grant agreements resulting in payments in 2011 were systematically signed by the European Commission (Directorate General for Education and Culture) and the Institute after most of the activities had already been implemented. Between September and December 2011, the Institute made final payments¹², amounting to 4,2 million euro, related to three grant agreements that were signed well after the start of activities¹³. This is an issue in terms of good financial management.

¹¹ The accounting rules adopted by the Commission's accounting officer are derived from International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, in their absence, International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

¹² Advance payments had been made by the European Commission.

¹³ In one case, the contract was signed 14 days before the end of the 13 month implementation period.

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 11 September 2012.

For the Court of Auditors

Vitor Manuel da SILVA CALDEIRA
President

European Institute of Innovation and Technology (Budapest)**Competences and activities**

Areas of Union competence deriving from the Treaty <i>(Article 173 of the Treaty on the Functioning of the European Union)</i>	<p>The Union and the Member States shall ensure that the conditions necessary for the competitiveness of the Union's industry exist.</p> <p>For that purpose, in accordance with a system of open and competitive markets, their action shall be aimed at:</p> <ul style="list-style-type: none"> - speeding up the adjustment of industry to structural changes, - encouraging an environment favourable to initiative and to the development of undertakings throughout the Union, particularly small and medium-sized undertakings, - encouraging an environment favourable to cooperation between undertakings, - fostering better exploitation of the industrial potential of policies of innovation, research and technological development.
Competences of the Institute <i>(Council Regulation (EC) No 294/2008)</i>	<p>Objectives</p> <p>The Institute's objective is to contribute to sustainable European economic growth and competitiveness by reinforcing the innovation capacity of the Member States and the Community. It shall do this by promoting and integrating higher education, research and innovation of the highest standards.</p> <p>Tasks</p> <p>In order to achieve its objective, the Institute shall:</p> <ul style="list-style-type: none"> (a) identify its priority fields; (b) raise awareness among potential partner organisations and encourage their participation in its activities; (c) select and designate KICs in the priority fields and define their rights and obligations by agreement; provide them with appropriate support; apply appropriate quality control measures; continuously monitor and periodically evaluate their activities; and ensure an appropriate level of coordination between them; (d) mobilise funds from public and private sources and use its resources in accordance with this Regulation. It shall in particular seek to raise a significant and increasing proportion of its budget from private sources and from income generated by its own activities; (e) encourage the recognition in the Member States of degrees and diplomas which are awarded by higher education institutions that are partner organisations and which may be labelled EIT degrees and diplomas; (f) promote the dissemination of good practices for the integration of the knowledge triangle in order to develop a common innovation and knowledge transfer culture; (g) seek to become a world class body for excellence in higher education, research and innovation; (h) ensure complementarity and synergy between the Institute's activities and other Community programmes.
Governance	<p>Governing Board</p> <p>Composition:</p> <p>The Institute's Governing Board (GB) consists of 18 appointed members providing a balance between experience and excellence in business, higher education and research, and four representative members proposed by the Knowledge and Innovation Communities (KICs). As foreseen in the Regulation, the four representative members identified by KICs joined the Board in 2011. The European Commission is observer.</p> <p>Tasks:</p> <p>The Governing Board is responsible for steering the activities of the Institute, for the selection, designation and evaluation of the KICs, and for all other strategic decisions.</p> <p>Executive Committee</p> <p>Composition:</p> <p>The Executive Committee consists of five GB members, including the Chairperson and Vice-Chairperson. It is chaired by the Chairperson of the Governing Board.</p> <p>Tasks:</p> <p>The Executive Committee oversees the running of the Institute and takes such decisions as are</p>

	<p>necessary between meetings of the Governing Board.</p> <p>Director Appointed by and responsible to the Governing Board for the administrative and financial management of the Institute; the Institute's legal representative. Mr Jose Manuel Leceta was appointed on 19 May 2011.</p> <p>External audit Court of Auditors.</p> <p>Discharge Authority Parliament, acting on a recommendation from the Council.</p>
Resources made available to the Institute in 2011	<p>Final Budget 65,85 million euro (The Institute was granted financial autonomy on 8 June 2011, the budget having been implemented by the European Commission until that date.)</p> <p>Staff as at 31 December 2011 Authorised: 52 (35) Occupied: 40 (24) Other posts: 0 (0) Total: 40 (24) ,assigned to the following duties: - operational tasks: 19 (10) - administrative and support tasks: 21 (14)</p>
Products and services in 2011	<ul style="list-style-type: none"> - Participation of the Chairman of the Governing Board in the Informal Competitiveness Council meeting of 12 April 2011. - Organisation of the first "EIT's Vision for the Future" stakeholder conference in Budapest (HU) on 14 April 2011. - Submission of the Institute's Draft Strategic Innovation Agenda (SIA) to the European Commission on 15 June 2011. - Participation of the Director of the Institute in the 'Friends of EIT' event hosted by the European Parliament with Commissioner Vassiliou and KIC CEOs on 21 September 2011. - Organisation of the first "Youth and Entrepreneurship" conference in Kraków (PL) on 20-21 October 2011, with 200 participants. - Launch of the EIT Forum with KICs (a platform created to establish regular dialogue between the Director of the Institute and the KIC CEOs). First Forum held in Budapest on 11 November 2011. - Joint contribution by the Chairman of the Institute's Governing Board, the Institute's Director and KIC CEOs at the 1st Innovation Convention organised by the European Commission, 5-6 December 2011. The number of KIC partners has increased steadily, from 75 in 2010 to around 400 in 2012. The Institute's total contribution is around 160 million euro (slightly less than 25% of the KICs' total budget) for the period 2010-2012. Some key results achieved by the KICs in 2010 and 2011 comprise the following: Climate KIC: a legal entity, financially structured, with a management team led by a CEO, and five co-locations and six regional innovation centres established. Among other activities, the KIC has also launched the Contextual Learning Journey Summer School, with 50 participants in 2010 and 70 participants in 2011; a portfolio of 12 Innovation and 4 pathfinder projects; the 'Pioneers into Practice' programme. EIT ICT Labs: a legal entity, financially structured, with a management team led by a CEO, and five co-locations. Among other activities, it has launched a Master School based on 7 technical majors and 1 minor in Innovation & Entrepreneurship; Summer Schools attended by 368 students; an Entrepreneurship Support System at each node; 19 companies coached, including 4 new start-ups catalysed by the KIC; 5 new potential products and services. KIC InnoEnergy: a legal entity, financially structured, with a management team led by a CEO, and six co-locations. Among other activities, it has launched 4 Master of Sciences and 3 Executive programs with 155 students; awarded 120 scholarships; launched a portfolio of 35 innovation projects in six thematic fields, with 45 industries involved; presented 82 Business Plans for new ventures; nurtured 27 companies; pre-identified 56 patents; registered 7 new patents; implemented 45 processes related to KIC technologies in 29 SMEs; 20 potential products and services. - First success stories derived from the implementation of KIC activities. - 129 332 unique visits to the website (138 072)

Source: Information supplied by the Institute.

THE INSTITUTE'S REPLY

14. There is a seasonal distribution of expenditures particularly as regards grants. Grant agreements were concluded at the beginning of the year, and consequently the pre-financing payments were executed prior to the Institute's financial autonomy. As grants represent about 90% of the Institute's budget, their impact on budget execution is significant. Execution rates are considerably higher for the entire calendar year than for the audited period of financial autonomy. However, in order to improve budget execution, the Institute has introduced a monthly reporting on budget implementation and a review process for assessing in detail the implementation of the budget and the EIT work programme, thereby formulating corrective and reorientation actions in due course if needed, through the year.

Other comments

EIT acknowledges the Court' comment and is committed to decrease the gap between the starting date of the grant agreements and the date of signature. The gap was reduced from 2010 to 2012 (i.e. the grant agreement 2012 was signed in March and April with the KICs). Meanwhile, the EIT, in cooperation with the KICs, has established a roadmap, including the issuance of templates for business plan and reports, which will lead to the signature of the grant agreements 2013 in early 2013 (i.e. January).