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#### COVER NOTE

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From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	30 October 2014
To:	Mr Linas LINKEVICIUS, President of the Council of the European Union
Subject:	Report on the annual accounts of the Executive Agency for Competitiveness and Innovations for the financial year 2013 together with the Agency's replies

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Delegations will find attached the European Court of Auditors' report on the annual accounts of the Executive Agency for Competitiveness and Innovation for the financial year 2013.

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

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Encl.: Report on the annual accounts of the Executive Agency for Competitiveness and Innovation for the financial year 2013 together with the Agency's replies.<sup>1</sup>

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<sup>1</sup> In English only. The other languages of this report are available on the European Court of Auditors' website: <http://eca.europa.eu/>.

ΕΒΡΟΠΕΪΣΚΑ ΣΜΕΤΗΑ ΠΑΛΑΤΑ  
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



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EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts  
of the Executive Agency for Competitiveness and Innovation  
for the financial year 2013

together with the Agency's replies

## **INTRODUCTION**

1. The Executive Agency for Competitiveness and Innovation (hereinafter “the Agency”, aka “EACI”), which is located in Brussels, is the former Intelligent Energy Executive Agency (IEEA). Its mandate and duration were modified by Commission Decision 2007/372/EC<sup>1</sup> amending Decision 2004/20/EC<sup>2</sup>.

The Agency was established for a period beginning on 1 January 2004 and ending on 31 December 2015, to manage EU actions in the field of energy, entrepreneurship and innovation, and sustainable freight transport<sup>3</sup>.

## **INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE**

2. The audit approach taken by the Court comprises analytical audit procedures, direct testing of transactions and an assessment of key controls of the Agency’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**

3. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union (TFEU), the Court has audited:

(a) the annual accounts of the Agency, which comprise the financial statements<sup>4</sup> and the reports on the implementation of the budget<sup>5</sup> for the financial year ended 31 December 2013, and

<sup>1</sup> OJ L 140, 1.6.2007, p. 52.

<sup>2</sup> OJ L 5, 9.1.2004, p. 85.

<sup>3</sup> ***Annex II*** summarises the Agency’s competences and activities. It is presented for information purposes.

<sup>4</sup> These 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.

- (b) the legality and regularity of the transactions underlying those accounts.

*The management's responsibility*

4. The management is responsible for the preparation and fair presentation of the annual accounts of the Agency and the legality and regularity of the underlying transactions<sup>6</sup>:

- (a) The management's responsibilities in respect of the Agency's annual accounts include designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies on the basis of the accounting rules adopted by the Commission's accounting officer<sup>7</sup>; making accounting estimates that are reasonable in the circumstances. The Director approves the annual accounts of the Agency after its accounting officer has prepared them on the basis of all available information and established a note to accompany the accounts in which he declares, *inter alia*, that he has reasonable assurance that they present a true and fair view of the financial position of the Agency in all material respects.
- (b) The management's responsibilities in respect of the legality and regularity of the underlying transactions and compliance with the principle of sound financial management consist of designing, implementing and maintaining

<sup>5</sup> These comprise the budgetary outturn account and the annex to the budgetary outturn account.

<sup>6</sup> Articles 62 and 68 in conjunction with Articles 53 and 58 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council (OJ L 298, 26.10.2012, p. 1).

<sup>7</sup> The accounting rules adopted by the Commission's accounting officer are derived from the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, where relevant, the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

an effective and efficient internal control system comprising adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used.

*The auditor's responsibility*

5. The Court's responsibility is, on the basis of its audit, to provide the European Parliament and the Council<sup>8</sup> with a statement of assurance as to the reliability of the annual accounts and the legality and regularity of the underlying transactions. The Court conducts 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 the Court to plan and perform the audit to obtain reasonable assurance as to whether the annual accounts of the Agency are free from material misstatement and the transactions underlying them are legal and regular.

6. The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and regularity of the underlying transactions. The procedures selected depend on the auditor's judgement, which is based on an assessment of the risks of material misstatement of the accounts and material non-compliance by the underlying transactions with the requirements in the legal framework of the European Union, whether due to fraud or error. In assessing these risks, the auditor considers any internal controls relevant to the preparation and fair presentation of the accounts, as well as the supervisory and control systems that are implemented to ensure the legality and regularity of underlying transactions, and designs audit procedures that are appropriate in the circumstances. The audit also entails evaluating the appropriateness of accounting policies, the reasonableness of accounting estimates and the overall presentation of the accounts.

<sup>8</sup> Article 162 of Regulation (EU, Euratom) No 966/2012.

7. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

***Opinion on the reliability of the accounts***

8. In the Court's opinion, the Agency's annual accounts present fairly, in all material respects, its financial position as at 31 December 2013 and the results of its operations and its cash flows for the year then ended, in accordance with the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

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

9. In the Court's opinion, the transactions underlying the annual accounts for the year ended 31 December 2013 are legal and regular in all material respects.

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

**COMMENTS ON BUDGETARY MANAGEMENT**

11. Although budget implementation rates for 2013 were satisfactory, the extent to which appropriations carried over from 2012 were cancelled in 2013 (215 000 euro, or 19 % of carry-overs) indicates weaknesses in the Agency's budget planning and is at odds with the budgetary principle of annuality. These cancellations are mainly related to provisional commitments made for routine administrative expenditure.

**FOLLOW-UP OF PREVIOUS YEAR'S COMMENTS**

12. An overview of the corrective actions taken in response to the Court's comments from the previous year is provided in **Annex I**.

This Report was adopted by Chamber IV, headed by Mr Pietro RUSSO,  
Member of the Court of Auditors, in Luxembourg at its meeting of  
16 September 2014.

*For the Court of Auditors*

Vítor Manuel da SILVA CALDEIRA

*President*

ANNEX I*Follow-up of previous year's comments*

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
<b>2012</b>	<p>The Agency's Internal Audit Capability (IAC) is also responsible for the Agency's ex post verifications, which form part of its internal control system. This reduces the IAC's resources for internal audit activities and means that it is not in a position to carry out independent audits in this area. This dual role is incompatible with the Internal Control Standards and International Standards for the professional practice of Internal Auditing.</p>	<b>Completed</b>
<b>2012</b>	<p>There is room for improving the recruitment procedures: selection criteria were not fully in line with those mentioned in the vacancy notice; certain selection criteria were weighted disproportionately; no threshold scores for the pre-selection phase and no maximum number of candidates for the reserve lists were set in advance; the justification for the exclusion of candidates at the final stage of the procedures was not always sufficiently documented and declarations on confidentiality and absence of conflict of interest were not always signed.</p>	<b>Completed</b>



**ANNEX II****Executive Agency for Competitiveness and Innovation (Brussels)****Competences and activities**

<p><b>Areas of Union competence deriving from the Treaty on the Functioning of the European Union (TFEU)</b></p>	<p>1. "Union policy on the environment shall contribute to [...] preserving, protecting and improving the quality of the environment; protecting human health; prudent and rational utilisation of natural resources; [and] promoting measures at international level to deal with regional or worldwide environmental problems, and in particular combating climate change."</p> <p><i>(Article 191 TFEU)</i></p> <p>2. "The Union and the Member States shall ensure that the conditions necessary for the competitiveness of the Union's industry exist [by taking] action aimed at speeding up the adjustment of industry to structural changes; encouraging an environment favourable to initiative and to the development of [...] and cooperation between undertakings; [and] fostering better exploitation of the industrial potential of policies of innovation, research and technological development. The Member States shall consult each other in liaison with the Commission and, where necessary, shall coordinate their action. The Commission may take any useful initiative to promote such coordination."</p> <p><i>(Article 173 TFEU)</i></p> <p>3. "The European Parliament and the Council shall [...] lay down common rules applicable to international transport to or from the territory of a Member State or passing across the territory of one or more Member States; [as well as] the conditions under which non-resident carriers may operate transport services within a Member State, [and] measures to improve transport safety."</p> <p><i>(Articles 91(1) and 100(2) TFEU)</i></p> <p>4. "Union policy on energy shall aim [...] to ensure the functioning of the energy market; ensure security of energy supply in the Union; promote energy efficiency and energy saving and the development of new and renewable forms of energy; and promote the interconnection of energy networks."</p> <p><i>(Article 194(1) TFEU)</i></p>
<p><b>Competences of the Agency</b></p> <p><i>(as defined in Commission Decision 2004/20/EC, amended by Decision 2007/372/EC)</i></p>	<p><b>Objectives</b></p> <p>Within the framework of the Lisbon strategy for growth and jobs, the European Union has taken measures to promote and develop competitiveness and innovation. These measures include the establishment of the Competitiveness and Innovation Framework Programme (CIP) 2007-2013 (Decision No 1639/2006/EC of the European Parliament and of the Council), notably with the programmes Intelligent Energy - Europe (IEE) and Entrepreneurship and Innovation (EIP). The main objectives are to foster competitiveness of enterprises, in particular SMEs; to promote all forms of innovation, as well as eco-innovation; to promote energy efficiency and new and renewable energy sources. The measures taken in the framework of the Lisbon strategy also include the second Marco Polo (MP) programme (Regulation (EC) No 1692/2006 of the European Parliament and of the Council). The main objectives are to reduce congestion, improve the environmental performance of the transport system and to enhance inter-modal transport, thereby contributing to efficient and sustainable transport systems and to competitiveness and innovation, especially of SMEs. Under these EU programmes, the Agency is responsible for all implementing tasks concerning EU aid, except for programme evaluation, monitoring of legislation and strategic studies, or any other action which comes under the exclusive competence of the European Commission.</p> <p><b>Tasks</b></p> <p>Implementing the EU programmes according to the delegations received from the Commission:</p> <ul style="list-style-type: none"> <li>- To manage all phases in the lifetime of specific projects.</li> <li>- To carry out all operations necessary to manage the EU programmes, in particular budget implementation, including the awarding of contracts and grants.</li> <li>- To gather, analyse and pass on to the Commission all the information needed to guide the implementation of the programmes, as well as to promote coordination and synergy</li> </ul>

	<p>among the programmes.</p> <ul style="list-style-type: none"> <li>- As regards the EIP, to be in charge of project management and network animation of the Enterprise Europe Network, eco-innovation pilot and market replication projects, and innovation actions with a high degree of standardisation (IP Base project).</li> </ul>
<b>Governance</b>	<p><b>Steering Committee</b></p> <p>Comprises five members appointed by the European Commission. It adopts the Agency's annual work programme after approval by the European Commission. It also adopts the administrative budget of the Agency and its annual activity report.</p> <p><b>Director</b></p> <p>Appointed by the European Commission.</p> <p><b>External audit</b></p> <p>European Court of Auditors.</p> <p><b>Discharge authority</b></p> <p>European Parliament, acting on a recommendation by the Council.</p>
<b>Resources made available to the Agency in 2013 (2012)</b>	<p><b>Budget</b></p> <p><i>Operational budget</i></p> <p>The total planned amount was 242,9 (241,3) million euro (of which 100 % came from the general budget of the EU). This amount was committed, and 213,9 million euro was paid, as approved by the Budgetary Authority. EACI implements the operational budget under the responsibility of the Commission.</p> <ul style="list-style-type: none"> <li>- IEE: 91,9 (83,9) million euro</li> <li>- EIP eco-innovation: 33,1 (35,0) million euro</li> <li>- EIP-Networks: 51,2 (57,4) million euro</li> <li>- MP: 66,8 (65,1) million euro</li> </ul> <p><i>Administrative budget</i></p> <p>The Agency had an administrative budget of 16,4 (16,4) million euro, for which EACI is independently responsible. The Agency's administrative budget was subsidised by the EU at a rate of 100 %.</p> <p><b>Staff at 31 December 2013</b></p> <ul style="list-style-type: none"> <li>- Total staff: 163 (162) budgeted posts, of which 161 (156) were occupied</li> <li>- Temporary staff: 37 (37) budgeted posts, of which 35 (37) were occupied</li> <li>- Contract staff: 126 (125) budgeted posts, of which 126 (119) were occupied</li> </ul>
<b>Products and services provided in 2013</b>	<p>EACI is responsible for the management of Union actions in the fields of energy; entrepreneurship and innovation (including eco-innovation); and sustainable freight transport, under the following Union programmes:</p> <ul style="list-style-type: none"> <li>• The following parts of the Competitiveness and Innovation Framework programme: Intelligent Energy Europe programme II (2007-2013); project management and animation activities of the Enterprise Europe Network; IPR projects and eco-innovation first application and market replication projects</li> <li>• The Marco Polo I (2003-2006) and II (2007-2013) programmes</li> <li>• The Intelligent Energy Europe I programme (2003-2006)</li> </ul> <p><b>Intelligent Energy Europe (IEE)</b></p> <p><i>Key activities</i></p> <ul style="list-style-type: none"> <li>• The Agency kept in close contact with potential beneficiaries: it answered more than 1 400 email enquiries and attended 18 information days. It also took part in more than 120 project meetings and organised 10 contractors' meetings, including one important event organised together with DG REGIO and two large Build Up Skills meetings with representatives from the construction, vocational training and energy sectors of 30 countries. Thousands of players in the energy sector also answered the 2013 call for proposals; more proposals</li> </ul>

were received by the Agency than ever before. The call for proposals led to the biggest evaluation exercise ever carried out by the Agency. More than 550 applications were received by the main deadline.

- Thanks to its close contacts with project beneficiaries and other market participants, the Agency provided informed feedback to DG ENER on a wide range of topics. The most significant contribution was on the Horizon 2020 Energy work programme (2014-2015). The Agency took an active part in the working groups established by DG RTD on cross-cutting issues, evaluation and submission, and performance indicators. It also contributed to all of the inter-service meetings and all of the Shadow Programme Committee meetings. Other contributions concerned the Communication on Energy Technology and Innovation, as well as policy work on mobilising financing for sustainable energy investments, building capacity, reinforcing market surveillance, promoting the uptake of nearly-zero energy buildings, and addressing biomass sustainability.
- The Agency also provided input on initiatives from other DGs, including DG MOVE's Urban Mobility Package; DG MARE's Communication on Blue Energy; DG AGRI's Standing Forestry Committee; and DG CONNECT's inter-service group on lighting. Through its new Build Up Skills initiative, the Agency mobilised players from the construction, vocational training and energy sectors, and provided DG ENER, DG EMPL, DG EAC and DG ENTR with national data and roadmaps concerning the training of the construction workforce.
- In 2013, the Agency dedicated further efforts to quantifying the impact of programmes. The Agency continued with its work in training project coordinators in the use of performance indicators. It also produced guidelines for calculating these indicators. The Agency showed that, since 2007, the IEE projects managed by the Agency had reached 40 million people across the EU through the media, delivered renewable energy equivalent to the annual electricity consumption of 6,7 million citizens, saved primary energy equivalent to the annual electricity use of 1,7 million households, and triggered nearly 3 billion euro in sustainable energy investments.
- Finally, the Agency was involved with the 2013 European Sustainable Energy Week. A high-level policy conference took place in Brussels; it attracted more than 3 000 participants. In addition, 91 other events took place in Brussels and 589 Energy Days were held across Europe. The Agency's extensive media work resulted in 253 media mentions, with a potential audience of almost 25 million people.

### **Eco-innovation**

#### *Key activities*

Eco-innovation is supported via the CIP through several types of measures (financial instruments, networks of national and regional actors, first application and market replication projects). The Agency is entrusted with the management of the eco-innovation first application and market replication projects with a budget of approximately 200 million euro for the 2008-2013 period.

In 2013, efforts were concentrated on the following areas.

- Completion of the implementation of the 2012 call for proposals. The majority of negotiations were completed in June and July. Some individual agreements were signed later in the year. In all, 46 grant agreements were signed.
- New call for proposals: the 2013 call for proposals, which was launched in May 2013, was followed by a successful European information day with 340 participants and 420 web viewers. During the event, 70 bilateral meetings were held. At these meetings, participants were able to discuss proposal ideas with members of staff familiar with eco-innovation. The Agency attended six national information days. This call for proposals attracted a record number of submissions (461).
- Experiences with close-to-market projects and the results of the study on results and impact of eco-innovation projects were shared with the Commission (Horizon 2020 working groups and the LIFE team). They were presented in a press event with Environment Commissioner Potočník.

### **Marco Polo programme**

#### *Key activities*

- The European information day in April attracted 173 participants (and a further 528 live web stream viewers). On this occasion, 42 bilateral meetings with potential Marco Polo beneficiaries were organised. To attract potential beneficiaries, an advertising campaign targeting 625 000 readers was launched.
- The 2013 call for proposals was published on 26 March; it closed on 23 August. A total of 61 proposals were received. Pre-evaluations were carried out between 9 and 20 September.
- In the 2012 call for proposals, from the 54 proposals received, 26 projects were successfully negotiated. The award decision was adopted on 23 May (after approval by DG MOVE);

- Management of on-going projects: 16 on-site verification visits took place. Additionally, the time to grant was drastically reduced between 2012 and 2013 (by 118 days), thanks to the efforts undertaken by the Marco Polo Unit to speed up the contracting process.
- During the last quarter, the practical arrangements for the transfer of the management of the Marco Polo Programme from EACI to INEA (from 1 January 2014). continued in close cooperation between the two Agencies. A message to stakeholders ensured that all were aware about the upcoming management changes.

#### **EIP programme – Enterprise Europe Network**

##### *Key activities*

The programme is made up of more than 600 partner organisations in more than 50 countries, including the 28 EU Member States. In addition to project management tasks for 92 contracts (specific grant agreements) and the IPeuropAware project, the EACI is also responsible for supporting the Enterprise Europe Network and for managing the IT tools and databases used for interactive communication among the network partners.

- In June 2013, the new IT system for the Network (the 'Merlin' project) was launched. This major and successful event was a key step towards modernising the IT tools used by Network partners, which will not only facilitate cooperation and communication among them but will also allow further improvements to be made efficiently.
- The annual conference in Vilnius, organised in association with the Lithuanian EU Council Presidency, held in order to promote events and policies of direct relevance to SMEs at EU level with Network partners, attracted 725 participants. A subsequent satisfaction survey showed very positive levels of feedback (86 % of respondents indicated that they were 'satisfied' or 'very satisfied').
- In 2013, the Agency continued to provide support to network partners in recruiting SMEs to take part in Missions for Growth, Vice-President Tajani's initiative to stimulate closer cooperation between the EU and the countries concerned as a means of generating growth and jobs on both sides. The Agency actively contributed to nine of these missions.
- In April, the Agency provided DG ENTR with a note with concrete ideas for the future of the Network under COSME. The note focused on the overall architecture of the Network and its regional consortia, the strengthening of the Network's regional footing, visibility, competence and excellent quality, differentiation of services and budgetary as well as contractual arrangements. The paper served as an input to help the Commission define the most suitable policy, taking into consideration the experiences gained in the day-to-day management of the Network over the past years.

Source: Annex supplied by the Agency.