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COVER NOTE

From:	Mr Vítor CALDEIRA, President of the European Court of Auditors
date of receipt:	9 October 2015
To:	Mr Jean ASSELBORN, President of the Council of the European Union
Subject:	Report on the annual accounts of the Innovation and Networks Executive Agency for the financial year 2014 together with the Agency's reply

Delegations will find attached the European Court of Auditors' report on the annual accounts of the Innovation and Networks Executive Agency for the financial year 2014.

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

Encl.: Report on the annual accounts of the Innovation and Networks Executive Agency for the financial year 2014 together with the Agency's reply.¹

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



EUROPEAN
COURT
OF AUDITORS

Report on the annual accounts
of the Innovation and Networks Executive Agency
for the financial year 2014

together with the Agency's reply

INTRODUCTION

1. The Innovation and Networks Executive Agency (INEA – hereinafter “the Agency”), which is located in Brussels, was set up by Commission Decision 2013/801/EU¹ to replace and succeed the Trans-European Transport Network Executive Agency. The Agency was established for a period beginning on 1 January 2014 and ending on 31 December 2024 for the management of EU actions in relation to the Connecting Europe Facility, the Horizon 2020 Research and Innovation Funding Programme, the trans-European transport network² and the Marco Polo Programme.

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 statements³ and the reports on the implementation of the budget⁴ for the financial year ended 31 December 2014, and
- (b) the legality and regularity of the transactions underlying those accounts.

¹ OJ L 352, 24.12.2013, p. 65.

² **Annex II** summarises the Agency’s competences and activities. It is presented for information purposes.

³ These include the balance sheet and the statement of financial performance, the cash flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

⁴ These comprise the budgetary outturn account and the annex to the budgetary outturn account.

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 transactions⁵:
- (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 officer⁶; 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 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 Council⁷ 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

⁵ 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).

⁶ 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.

⁷ Article 162 of Regulation (EU, Euratom) No 966/2012.

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.

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 2014 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 2014 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. The level of carry-overs for committed appropriations was high for title II at 0,8 million euro, i.e. 25 % (2013: 0,7 million euro / 27 %) and title III at 0,4 million euro, i.e. 56 % (2013:

0,1 million euro / 22 %). The main causes were the purchase of equipment for the additional office space rented to accommodate the Agency's increased staff, IT contracts concluded as planned in the second half of 2014 but invoiced in 2015, and expenditure related to Service Level Agreements with the Commission for which invoices were not received until 2015.

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 Milan Martin CVIKL, Member of the Court of Auditors, in Luxembourg at its meeting of 8 September 2015.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA

President

Follow-up of previous years' comments

Year	Court's comment	Status of corrective action (Completed / Ongoing / Outstanding / N/A)
2013	The Agency does not perform satisfactory ex ante verifications on the charges invoiced by the building manager for its premises. Most of the underlying contracts, invoices and receipts were not at the Agency's disposal.	Completed
2013	According to the Protocol on the privileges and immunities of the European Union ¹ and the EU VAT Directive ² , the Agency is exempt from indirect taxes. However, by the end of 2013 it had paid but not claimed back 113 513 euro in VAT on premises charges for the period 2011 to 2013.	Completed
2013	While budget implementation was satisfactory for titles I and III, the rate of committed appropriations carried over was high for title II at 27 % (666 119 euro). These carry-overs mainly related to IT goods and services contracted and/or ordered at year-end which will be provided as planned in late 2013 or in 2014 (296 486 euro), and invoices for 2013 expenses not received by year-end (286 197 euro).	N/A

¹ Protocol (No 7) on the privileges and immunities of the European Union (OJ C 115, 9.5.2008, p. 266).

² Council Directive 2006/112/EC (OJ L 347, 11.12.2006, p. 1).

**Innovation and Networks Executive Agency
(Brussels)**

Competences and activities

<p>Areas of Union competence deriving from the Treaty <i>(Articles 26, 170, 171, 172, 174, 179, 180 of the Treaty on the Functioning of the European Union)</i></p>	<p>The Union shall adopt measures with the aim of establishing or ensuring the functioning of the internal market. The internal market shall comprise an area in which the free movement of goods, persons, services and capital is ensured. The Union shall also have the objective of strengthening its scientific and technological bases by achieving a European research area in which researchers, scientific knowledge and technology circulate freely, and encouraging it to become more competitive, including in its industry.</p> <p>In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion.</p> <p>To help achieve these objectives, and to enable citizens in the Union, economic operators and regional and local communities to derive full benefit from the setting up of an area without internal frontiers, the Union shall contribute to the establishment and development of trans-European networks in the areas of transport, telecommunications and energy infrastructures. Action by the Union shall aim at promoting the interconnection and interoperability of national networks as well as access to them.</p> <p>In order to achieve these objectives, the Union shall establish a series of guidelines covering the objectives, priorities and broad lines of measures envisaged in the sphere of trans-European networks (TENs).</p> <p>The Union shall also encourage undertakings, including SMEs, research centres and universities, in their research and technological development activities of high quality; it shall support their efforts to cooperate with one another, aiming, notably, at permitting researchers to cooperate freely across borders and at enabling undertakings to exploit the internal market potential to the full, in particular through [...] the definition of common standards and the removal of legal and fiscal obstacles to that cooperation.</p>
<p>Competences of the Agency <i>Commission Decision 2013/801/EU of 23 December 2013 establishing the Innovation and Networks Executive Agency Decision C(2013) 9235 of 23 December 2013</i></p>	<p>Objectives</p> <p>Council Regulation (EC) No 58/2003 empowers the Commission to establish executive agencies to carry out tasks related to Union programmes. Under the new Decision C(2013) 9235 delegating powers to INEA the Agency manages the legacy of the TEN-T and Marco Polo programmes and the three sectors of the Connecting Europe Facility (transport, energy and telecommunication) promoting growth, jobs and competitiveness through targeted infrastructure investment at European level. It also manages parts of the Horizon 2020 programme in the research areas “Smart, green and integrated transport” and “Secure, clean and efficient energy” to foster growth by supporting research and innovation.</p> <p>INEA was therefore set up to manage Union action in the fields of the CEF and Horizon 2020 on the basis of the Financial Regulation and its Rules of</p>

<p><i>delegating powers to the Innovation and Networks Executive Agency</i></p>	<p>Application, the TEN-T Regulation, the Marco Polo Regulation, the CEF Regulation, the TEN-T and TEN-E Guidelines and the Horizon 2020 Regulations, and to continue to manage the TEN-T and Marco Polo Programmes. It is now under the supervision of its parent DGs – DG MOVE, DG ENER, DG CNECT and DG RTD – which retain responsibility for the respective policy issues.</p> <p>INEA is responsible for managing the technical and financial implementation of these programmes by following the entire project lifecycle. In its day-to-day work it aims to improve the effectiveness and flexibility of implementation at a lower cost while simultaneously mobilising a high level of expertise by recruiting more specialised staff. It also works to strengthen the links with key stakeholders, improve the coordination of funds with other EU instruments, raise the profile and benefits of EU funding and provide support/feedback to the Commission.</p>
<p>Governance</p>	<p>Steering Committee</p> <p>The Agency's activities are supervised by a Steering Committee comprising five members (one from each of the parent DGs and one from DG HR) and four observers appointed by the European Commission. The Committee adopts the Agency's organisation chart and its annual work programme after approval by the Commission, as well as the Agency's administrative budget, annual activity report and annual accounts.</p> <p>Director</p> <p>Appointed by the European Commission, the Director manages the Agency together with the Steering Committee, sets up management and internal control systems adapted to the tasks entrusted to the Agency, and prepares the reports to be presented to the Commission.</p> <p>Internal audit</p> <p>European Commission's Internal Audit Service (IAS) and the Agency's Internal Audit Capability (IAC).</p> <p>External audit</p> <p>European Court of Auditors.</p> <p>Discharge authority</p> <p>European Parliament acting on a recommendation from the Council. With respect to the Agency's implementation of its administrative budget, the discharge decision is addressed to the Director. The Commission remains accountable for the implementation of the operational budget delegated by the Commission to the Agency.</p>

<p>Resources available to the Agency in 2014</p>	<p>Operational budget 2014</p> <p>A total of 3 059 million euro in commitment appropriations was transferred to INEA for the management of the two Framework Programmes under the Multiannual Financial Framework for 2014-2020, namely the CEF (2 692 million euro) and Horizon 2020 (367 million euro).</p> <p>The total value of payments made by the Agency in 2014 was 606 million euro, of which 590 million euro was paid for the TEN-T Programme and 16 million euro for the completion of the Marco Polo Programme.</p> <p>INEA implements the Commission's operational budget under a delegation decision.</p> <p>Administrative budget 2014</p> <p>13,4 million euro in the form of a 100 % EU subsidy, which the Agency implements autonomously.</p> <p>Staff as at 31 December 2014</p> <p>Temporary staff: 49 posts listed in the establishment plan, of which 44 were occupied.</p> <p>Contract staff: 113 posts planned, of which 107 were occupied.</p> <p>Total staff: 162 (151 occupied).</p> <p>Assigned to:</p> <p>(a) operational activities: 121 (113 occupied)</p> <p>(b) administrative activities: 41 (38 occupied)</p>
<p>Products and services 2014</p>	<p>As well as the legacy of the TEN-T Programme, INEA took over the management of the Marco Polo II Programme from another executive agency (EASME) in February 2014. During the second half of 2014, INEA also gradually took over the newly delegated activities for the Connecting Europe Facility (for Transport and Energy) as well as for societal challenges 3 (Secure, clean and efficient energy) and 4 (Smart, green and integrated transport) under Horizon 2020. Handover of the delegated activities for the Connecting Europe Facility for Telecommunications was to take place at the end of January 2015.</p> <p>TEN-T Programme 2007-2013</p> <p>The proposals submitted under the 2013 annual and multiannual calls for proposals were evaluated and 106 proposals for 320,7 million euro were selected for funding. Subsequently, 104 new financing decisions were adopted (two decisions were cancelled before adoption). At the end of 2014, INEA was managing 439 ongoing projects. One ongoing action from the TEN-T Programme for 2000-2006 also remained open. INEA made full use of payment appropriations, with an average net time to pay of 17 days.</p> <p>Marco Polo II Programme</p> <p>Following the evaluation of the 2013 Marco Polo call for proposals by EASME and the subsequent handover of the programme, INEA prepared and signed 26 new grant agreements. At the end of 2014, 80 projects were still ongoing. INEA made full use of payment appropriations, with an average net time to pay of 27 days.</p> <p>Connecting Europe Facility - Transport</p> <p>In close cooperation with DG MOVE, INEA prepared the 2014 multiannual and annual calls for proposals for total funding of 11 billion euro and 930 million euro respectively (the calls were published in September 2014, with a proposal</p>

deadline in February 2015).

Connecting Europe Facility - Energy

In close cooperation with DG ENER, INEA prepared the 2014 multiannual call for proposals for total funding of 750 million euro (call closure in August 2014). Subsequently, the proposals received under this call were evaluated and 34 proposals for 647,3 million euro were selected for funding. The Agency is now preparing the corresponding grant agreements.

Connecting Europe Facility - Telecommunications

Arrangements for the handover were agreed in close cooperation with DG CNECT. By the end of January 2015, INEA was to take over the preparation of grant agreements following the 2014 Safer Internet call, the launch of the 2014 e-Identification call and the preparation of other calls to be launched in 2015.

Horizon 2020 – Energy

INEA supported the parent DGs in the evaluation of three H2020 - Energy calls for proposals and the corresponding sub-calls. Following finalisation of the ranking lists, 28 proposals were transferred to the Agency and the grant agreement preparation phase was successfully finalised within the eight-month deadline.

Horizon 2020 - Transport

INEA supported the parent DGs during the evaluation phase of the H2020 - Transport open calls for proposals. Handover of these calls was to take place at the start of the grant agreement preparation phase in early 2015. In addition, the grant agreement preparation phase was successfully finalised for one proposal handed over to INEA in August. Three projects under the Blue Growth call were transferred in November; the preparation of grant agreements for these projects is now ongoing under the Agency's responsibility.

Source: Annex supplied by the Agency.