



EUROPEAN  
COURT  
OF AUDITORS

# **Report on the annual accounts of the European Institute of Innovation and Technology (EIT) for the financial year 2019,**

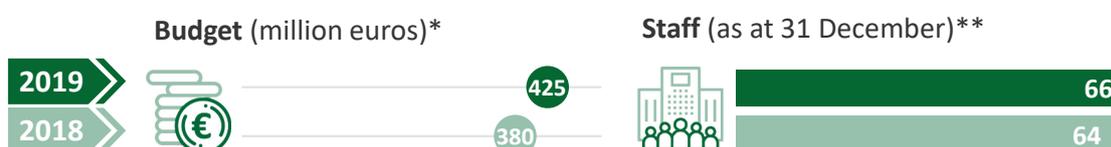
together with the Institute's reply

# Introduction

**01** The European Institute of Innovation and Technology (“the Institute”, or “EIT”), is located in Budapest. It was created by Regulation (EC) No 294/2008 of the European Parliament and of the Council of 11 March 2008<sup>1</sup> (the founding Regulation) as amended by Regulation (EU) No 1292/2013 of the European Parliament and of the Council of 11 December 2013<sup>2</sup>. Its 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 an increasing number of “Knowledge and Innovation Communities” (KICs), linking the higher education, research and business sectors with one another with the aim of boosting innovation and entrepreneurship. KICs coordinate the activities of hundreds of partners. The grants provided by the Institute reimburse partners’ costs and costs stemming from the KICs’ coordination activities. In 2019, operating expenses in relation to the KIC grants amounted to 434 million euros, representing 98 % of the total expenses in 2019.

**02** *Graph 1* presents key figures for the Institute<sup>3</sup>.

## Graph 1: Key figures for the Institute



\* Budget figures are based on the total payment appropriations available during the financial year.

\*\* “Staff” includes EU officials, EU temporary agents, EU contract staff and seconded national experts, but excludes interim workers and consultants.

Source: Consolidated annual accounts of the European Union for the financial year 2018 and Provisional consolidated annual accounts of the European Union Financial year 2019; Staff figures provided by the Institute.

<sup>1</sup> OJ L 97, 9.4.2008, p. 1.

<sup>2</sup> OJ L 347, 20.12.2013, p. 174.

<sup>3</sup> More information on the Institute’s competences and activities is available on its website: <https://eit.europa.eu/>.

## Information in support of the statement of assurance

**03** 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 and an analysis of information provided by the Institute's management.

## The Court's statement of assurance provided to the European Parliament and the Council – Independent auditor's report

### Opinion

**04** We have audited:

(a) the accounts of the Institute 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 2019 and

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

as required by Article 287 of the Treaty on the Functioning of the European Union (TFEU).

### Reliability of the accounts

#### Opinion on the reliability of the accounts

**05** In our opinion, the accounts of the Institute for the year ended 31 December 2019 present fairly, in all material respects, the financial position of the Institute at 31 December 2019, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with its Financial Regulation and with accounting rules adopted by the Commission's accounting

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<sup>4</sup> The financial statements comprise the balance sheet, the statement of financial performance, the cash flow statement, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

<sup>5</sup> The reports on implementation of the budget comprise the reports which aggregate all budgetary operations and the explanatory notes.

officer. These are based on internationally accepted accounting standards for the public sector.

## **Legality and regularity of the transactions underlying the accounts**

### **Revenue**

#### **Opinion on the legality and regularity of revenue underlying the accounts**

**06** In our opinion, revenue underlying the accounts for the year ended 31 December 2019 is legal and regular in all material respects.

### **Payments**

#### **Opinion on the legality and regularity of payments underlying the accounts**

**07** In our opinion, the payments underlying the accounts for the year ended 31 December 2019 are legal and regular in all material respects.

## **Basis for opinions**

**08** We conducted our audit in accordance with the IFAC International Standards on Auditing (ISAs) and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the 'Auditor's responsibilities' section of our report. We are independent, in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) and with the ethical requirements that are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Responsibilities of management and those charged with governance**

**09** In accordance with Articles 310 to 325 of the TFEU and the Institute's Financial Regulation, management is responsible for preparing and presenting the Institute's accounts on the basis of internationally accepted accounting standards for the public sector and for the legality and regularity of the transactions

underlying them. This includes the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Institute's management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements comply with the official requirements which govern those statements. The Institute's management bears the ultimate responsibility for the legality and regularity of the transactions underlying the Institute's accounts.

**10** In preparing the accounts, the Institute's management is responsible for assessing the Institute's ability to continue as a going concern. It must disclose, as applicable, any matters affecting the Institute's status as a going concern, and use the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

**11** Those charged with governance are responsible for overseeing the Institute's financial reporting process.

### **The auditor's responsibilities for the audit of the accounts and underlying transactions**

**12** Our objectives are to obtain reasonable assurance about whether the accounts of the Institute are free from material misstatement and the transactions underlying them are legal and regular, and to provide, on the basis of our audit, the European Parliament and the Council or the other respective discharge authorities with statements of assurance as to the reliability of the Institute's accounts and the legality and regularity of the transactions underlying them. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit will always detect a material misstatement or non-compliance when it exists. These can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these accounts.

**13** For revenue, we verify subsidies received from the Commission or cooperating countries and assess the Institute's procedures for collecting fees and other income, if any.

**14** For expenditure, we examine payment transactions when expenditure has been incurred, recorded and accepted. This examination covers all categories of payments (including those made for the purchase of assets) other than advances at the point they are made. Advance payments are examined when the recipient

of funds provides justification for their proper use and the Institute accepts the justification by clearing the advance payment, whether in the same year or later.

**15** In accordance with the ISAs and ISSAIs, we exercise our professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the accounts and of material non-compliance of the underlying transactions with the requirements of the legal framework of the European Union, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement or non-compliance resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the accounts, including the disclosures, and whether the accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Institute to express an opinion on the accounts and transactions underlying them. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

- Considered the audit work of the independent external auditor performed on the Institute's accounts as stipulated in Article 70(6) of the EU Financial Regulation, where applicable.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit. From the matters on which we communicated with the Institute, we determine those matters that were of most significance in the audit of the accounts of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**16** The observations which follow do not call the Court's opinion into question.

### Observations on the legality and regularity of transactions

**17** Our audit of payment transactions showed that the Institute's control procedures generally worked as intended. We noted one exception: the Institute had made a payment of 1 200 euros for the reimbursement of travel and subsistence expenses, although the applicable service contract did not provide for such reimbursements.

### Observations on internal controls

**18** In our special report No 4/2016<sup>6</sup>, we noted that the large increase in the EIT's budget and the growing number of KICs (Knowledge and Innovation Communities) had not been accompanied by any significant increase in the number of posts. In our follow-up of this special report carried out in 2019, we observed that the EIT's budget would increase by a further 600 million euros, or 25 %, under the 2021-2027 Multiannual Financial Framework (MFF), compared to the current MFF, while the number of staff remained capped at 70. We conclude that there is still a risk that the

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<sup>6</sup> SR No 4/2016: 'The European Institute of Innovation and Technology must modify its delivery mechanisms and elements of its design to achieve the expected impact', page 40, paragraph 82.

EIT will not have sufficient capacity to deal with its increased workload in future, and that this risk has increased further, instead of being mitigated, since our first audit.

## Follow-up of previous years' observations

**19** An overview of the action taken in response to the Court's observations from previous years is provided in the **Annex**.

This Report was adopted by Chamber IV, headed by Mr Alex Brenninkmeijer, Member of the Court of Auditors, in Luxembourg on 22 September 2020.

*For the Court of Auditors*

A handwritten signature in black ink, appearing to read 'K-H Le', written in a cursive style.

Klaus-Heiner Lehne

*President*

## Annex - Follow-up of previous years' observations

Year	Court's observations	Action taken to respond to Court's observations (Completed / Ongoing / Outstanding / N/A)
2014	While the KICs are to develop strategies for financial sustainability, they remain dependent on funding by the EIT and KIC partners.	<b>Ongoing</b>
2015	In its special report No 4/2016, the Court concluded that the funding condition that the EIT's contribution to the KICs may not exceed 25 % was of little or no added value.	<b>Completed</b>
2015	The EIT's founding Regulation provides that "the EIT shall mobilise funds from public and private sources ... and seek to raise a significant and increasing proportion of its budget from private sources and from income generated by its own activities".	<b>Completed</b>
2016/2017	The EIT's Director changed four times between the creation of the Institute in 2008 and July 2014. Since August 2014, the position of the Director has been filled on an ad interim basis.	<b>Completed</b>
2016	Despite the large increase in the budget from 309 million euros (2008-2013) to 2,4 billion euros (2014-2020) and the increase in the number of KICs from three to six at the end of 2016, the Institute's authorised number of posts did not change significantly.	<b>Outstanding (Not under the Institute's control)</b>

Year	Court's observations	Action taken to respond to Court's observations (Completed / Ongoing / Outstanding / N/A)
2017	In 2017 the Institute introduced a paperless system for payments, entailing modifications to the Institute's procedures and its accounting system. However, the accounting system had not been re-validated since 2012.	<b>Completed</b>
2017	As in previous years, the KICs did not fully use the grant amounts awarded by the EIT.	<b>Ongoing</b>
2017	The EIT monitored KIC's performance and calculated some performance corrections. These corrections, however, have had no financial impact for any of the KICs, because EIT applies only the higher of the financial and performance corrections.	<b>Outstanding (Not under the Institute's control)</b>
2017	In 2017 all KICs have adopted sustainability strategies in line with the EIT's guidance, which was an important step towards a more sustainable future for the KICs. However, revenue generated by the KICs and co-funding by KIC-partners remains very low.	<b>Ongoing</b>
2017	The EIT publishes vacancy notices on its own website and on the DG HR website, but usually not on the website of the European Personnel Selection Office (EPSO).	<b>Ongoing</b>
2017	E-procurement: by the end of 2017 the Institute had introduced e-invoicing for certain procedures, but not e-tendering and e-submission.	<b>Completed</b>

Year	Court's observations	Action taken to respond to Court's observations (Completed / Ongoing / Outstanding / N/A)
2017	According to its statutes, the EIT can only offer its temporary staff fixed-term contracts with a maximum duration of five years, extendable once for another five years. This could potentially hamper the continuity of operations.	<b>Ongoing</b> <b>(Not under the Institute's control)</b>
2018	The Institute paid 3 000 euros in education allowances to staff members for whom the Institute was already paying tuition fees, which represents an irregular double-financing of education not permitted by the EU Staff Regulations. The Institute should regularise the situation and cover education costs in compliance with the legal framework.	<b>Completed</b>
2018	The Institute paid the remuneration of a member of the Governing Board to the wrong person over a period of one and half years. The Institute should improve internal control procedures to make sure that payments are made to the correct recipients.	<b>Completed</b>
2018	The ex-ante controls performed by EIT on the IT framework contract were not effective. The Institute should adapt ex-ante controls on payments under such contracts and ensure there is a competitive procedure for all procurements.	<b>Completed</b>

Year	Court's observations	Action taken to respond to Court's observations (Completed / Ongoing / Outstanding / N/A)
2018	The Institute was late in paying the agreed pre-financing to two KICs, despite grant operations being the Institute's core business. The Institute should manage cash needs in a timely manner and avoid any risk of late payment interest and of reputational damage.	Completed
2018	Progress towards sustainability remains limited despite adopted plans in line with the EIT guidance for all KICs. The EIT should concentrate on lean management structures, review the portfolio of activities pursued and promote alternative revenue sources to increase financial independence from the EIT.	Ongoing

## The Agency's reply

**17.** The payment in question refers to the travel and subsistence expenses incurred by an interim staff member who carried out a mission in interest of the service. The reimbursement of the expenses was therefore justified. It is important to note that due to the critical under-staffing in light of its mandate and budget, the EIT has to rely on the additional support provided by interim staff. Nevertheless, the EIT acknowledges that the framework contract for interim services does not foresee reimbursement of costs and will make the necessary legal adjustments.

**18.** The EIT has been structurally under-staffed to perform its tasks as confirmed in various reports by the Court of Auditors and as is recognised by the EIT Governing Board. The European Commission has been asked to address the structural understaffing of the EIT and provide an adequate level of resources in its establishment plan. Unfortunately, these requests were not granted. Despite its structural under-staffing, the EIT has been able to achieve lower error rates than the average for the Horizon 2020 due to its improved grant assurance strategy. However, with the sharp increase in the number of grant beneficiaries and even more ambitious targets set for the MFF 2021-2027, the EIT may not be able to maintain the same level of controls without increasing the number of staff working on grant management activities.

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