



CORTE DEI CONTI

DIVISION OF ENTITY SUPERVISION

DETERMINATION AND REPORT  
ON THE RESULTS OF THE AUDIT OF THE  
FINANCIAL PERFORMANCE OF FONDAZIONE  
HUMAN TECHNOPOLE  
(FHT)

2019

Determination no. 28 of 30 March 2021



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Rapporteur: Counsellor Alessandro Napoli

Collaborator

for the investigation and processing of

data: Mr Fulvio Donati

Determination no. 28/2021



## CORTE DEI CONTI

### DIVISION OF ENTITY SUPERVISION

at the hearing held via videoconference on 30 March 2021, pursuant to Art. 85, paragraph 8 *bis*, of Decree Law 18 of 17 March 2020, converted with modifications by Law 27 of 24 April 2020, as amended by Law 126 of 13 October 2020, which converted Decree Law 104 of 14 August 2020, and the “Technical and Operational Rules” adopted with order no. 153 of 18 May 2020 and order no. 287 of 27 October 2020 issued by the Presiding Judge of the Court of Auditors;

having regard to Article 100, paragraph 2, of the Italian Constitution;

having regard to the consolidated laws governing the Court of Auditors approved with Royal Decree 1214 of 12 July 1934; having regard to Law 259 of 21 March 1958 and Law 20 of 14 January 1994;

having regard to Law 232 of 11 December 2016, and in particular Article 1, paragraphs 116 to 123;

having regard to the Decree of the President of the Council of Ministers (DPCM) of 27 February 2018, and in particular Article 9, paragraph 3, with which the Fondazione Human Technopole (FHT) “*is placed under the supervision of the Court of Auditors, to be exercised pursuant to the terms and conditions set out in Article 12 of Law 259 of 21 March 1958*”;

having regard to the financial statements of the aforementioned Foundation, concerning its financial performance during 2019, and the attached management report and independent auditors’ report, sent to the Court in compliance with Article 4 of the cited Law 259 of 1958;

having examined the records;



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having heard the rapporteur, Counsellor Alessandro Napoli and, as he proposed, having discussed and deliberated on the report with which the Court, acting on the basis of the acquired documents and elements, reports to the Presidents of the two Chambers of Parliament on the results of the audit of the financial performance of the Fondazione Human Technopole in 2019;

having found that, after having thus fulfilled its legal obligations, pursuant to Article 7 of the cited Law 259 of 1958, send the annual financial statements to those Presidents – accompanied by the management report and the independent auditors' report – and the report as previously approved, which is submitted together with this decision as an integral part thereof;

### THEREFORE

sends the appended report to the Presidents of the two Chambers of Parliament, with which the Court reports on the results of its audit of the financial performance of the Human Technical Foundation pursuant to Article 7 of Law 259 of 1958, together with the final accounts for 2019 and the management report and independent auditors' report.

RAPPORTEUR  
*Alessandro Napoli*

PRESIDING JUDGE  
*Andrea Zacchia*

DIRECTOR  
*Fabio Marani*  
filed at the secretariat

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## **PREFACE**

With this report, the Court of Auditors reports to Parliament, pursuant to Article 7 of Law 259 of 21 March 1958, on the results of its audit performed, in accordance with the terms and conditions of Article 12 of the aforementioned law, on the financial performance of the Fondazione Human Technopole (referred to hereinafter as “FHT” or “Foundation” or “Entity”) in the financial year 2019, with a number of comments on subsequent events.

The preceding Report to Parliament, concerning the financial year 2018, was approved by the Division with determination no. 35 of 11 May 2020, published in Atti parlamentari – XVIII Legislatura (Parliamentary Proceedings – 18th Legislature) – Document XV, no. 286.

Unless indicated otherwise, the tables and graphics were elaborated by the Court of Auditors using data provided by the Entity.

# 1. STATUTORY FRAMEWORK AND GENERAL ASPECTS

The Human Technopole Project was established with Decree Law 185 of 25 November 2015, converted by Law 9 of 22 January 2016. For the initiatives involving State participation in the activities to develop the areas used by the company Expo s.p.a., that statutory source assigned to the Istituto Italiano di Tecnologia (hereinafter, "IIT"), having its registered office in Genoa, a contribution of Euro 80,000,000 for the year 2015, to realise the integrated, multidisciplinary scientific and research project on health, genomics and data science, specifically named "*Human Technopole*" (the "HT project").

During that initial phase, IIT acquired title to the legal relationships that had to be established to launch the infrastructural, logistical, technological and organisational execution of the Human Technopole project.

Subsequently, to increase public and private investment in the research sectors focused on prevention and health, in accordance with the National Research Programme, with Law 232 of 11 December 2016, Article 1, paragraphs 116 to 123, the Fondazione Human Technopole was established "*to create an integrated multidisciplinary scientific and research infrastructure of national interest in the health, genomic, nutrition and data science and decision science sectors and to realise the scientific and research project named Human Technopole*".

Pursuant to Article 1, paragraph 117, of the cited Law 232 of 2016, the founding members of FHT are the Ministry of Economy and Finance, the Ministry of Health, and the Ministry of University and Research.

Pursuant to Article 1 of the Regulation approved with Decree of the President of the Council of Ministers (DPCM) 28 of 27 February 2018, which regulates the activity of the Foundation, the Foundation is a private law entity, governed by Articles 14 and following of the Italian Civil Code, Law 232 of 2016, and the By-laws for realisation of the project by the same name.

FHT, which is subject to the principles of a foundation with participating members (Article 1, paragraph 2 of the By-laws), is vested with regulatory, administrative, proprietary, organisational, accounting and financial independence and is subject to the policy making and supervisory authority of the Ministry of Health, the Ministry of Economy and Finance, and the Ministry of University and

Research, especially with regard to examination of the financial statements and annual report

on the results of activities that the Foundation sends to the supervisory Ministries (Article 2, paragraph 2, of the By-laws).

Article 11 of the Regulation also prescribes that the relations between FHT and IIT shall be governed by a specific agreement to be made within sixty days after the Regulation enters into force, as approved with a DPCM, after being proposed by the Ministry of Economy and Finance. That agreement between the two entities was executed on 12 December 2018 and implemented with the DPCM of 3 September 2019.

Moreover, the aforementioned agreement specifies the financial aspects of the residual resources allocated to the HT project that were then effectively transferred to the Foundation on 27 December 2019.

As previously mentioned by this Court in its report on the financial performance of FHT in 2018, the Budget Act 2020 (Law 160 of 27 December 2019 – Articles 275 and following) introduced measures of objective importance for the activity of the Entity.

Lawmakers designated the Fondazione Human Technopole as a scientific infrastructure centre supporting Italian scientific research, obligated to operate on the basis of an integrated multidisciplinary approach in accordance with the principles of full accessibility by the Italian scientific community, transparency and publication of its activities, verifiability of its results achieved in compliance with best international practices.

To summarise statutory provisions, in particular the Foundation must perform a series of activities on the basis of a special agreement to be made with its founding members and other lenders as specified by law, including:

- periodically identify, through its own bodies, the high technology infrastructural facilities – in the sectors of FHT activity – once they are identified after public consultations sponsored by the three supervising Ministries, open to the national scientific community, with use of the majority of annual resources authorised for expenditure in the Government budget pursuant to the law establishing FHT, in the scope of the area identified in this agreement;
- realise and expand the aforementioned infrastructural facilities on the premises of the Foundation, assuring the human, financial, and instrumental resources necessary for their operation and providing, at the same time that each facility is realised,

- a fair share of resources to be allocated to the notices of call in the respective competitive procedures for access;
- promote constant dialogue with the national research system, including the National Research Agency to maximise the compatibility and integration of the Foundation facilities with those present in the national research system;
  - launch and coordinate the annual competitive procedures for selection, in compliance with best international practices, of projects for access to the infrastructure facilities submitted by researchers or groups of researchers belonging to universities, Scientific Institutes for Research, Hospitalisation and Health Care (Istituti di Ricovero e Cura a Carattere Scientifico – “IRCCS”) and public research entities, to whom primary use of the infrastructure facilities of the Foundation is to be granted;
  - establish a special Independent Research Project Review Committee at the Foundation itself, composed of individuals from outside the Foundation who are scientists without affiliations or existing positions at universities, IRCCS and Italian public research entities), and of the Foundation Scientific Committee Chairman, who is an ex officio member.

The aforementioned convention was executed pursuant to the law.

Finally, Article 49-*bis* of Decree Law 34 of 19 May 2020, converted by Law 77 of 17 July 2020, has established a special centre for innovation and technology transfer in the life sciences field based in Lombardy. That centre involves FHT as follows:

- “1. To promote innovative processes proposed by public and private participants in the Lombardy regional research and innovation system, such as scientific institutes for research, hospitalisation and health care (Istituti di Ricovero e Cura a Carattere Scientifico – “IRCCS”), universities, the Consiglio Nazionale delle Ricerche (National Research Council), research centres, small and medium enterprises and innovative start-ups, expenditure of up to Euro 10 million is authorised for the year 2020 and Euro 2 million annually beginning from 2021, as the State contribution to the expenses for promoting and financing highly innovative research projects realised in collaboration with the undertakings of the Human Technopole as envisaged in Article 1, paragraphs 116 to 123, of Law 232 of 11 December 2016, through an entity named “Centro per l’innovazione e il trasferimento tecnologico nel campo delle scienze della vita” (Centre for Innovation and Technology Transfer in the Life Sciences), based in Lombardy.*
- 2. The Centre referred to in paragraph 1 encourages collaboration between private participants in the innovation system and Italian and European research institutes, guaranteeing widespread distribution of*

*research results and knowledge transfers, while supporting patent activities and the development of intellectual property. The Centre promotes collaborative research activities among enterprises and innovative start-ups for the development of biotechnologies, artificial intelligence technologies for genetic, proteomic and metabolomic analyses, diagnostic technologies, active surveillance, the protection of fragile individuals, improvement of the quality of life and active ageing.*

*3. The Fondazione Human Technopole implements specific organisational measures and dedicated management solutions, with the implementation of separate bookkeeping of the use of resources allocated for that purpose”.*

FHT is presently conducting in-depth studies of this initiative, especially with regard to the legal nature of the Centre and its relationship with FHT.

Paragraph 4 of the aforementioned article, revising Article 1, paragraph 121, of Law 232 of 2016, has prescribed that *“the contributions made by the State budget to the endowment fund and the operating fund of the Foundation are credited on a non-interest bearing account opened at the State Treasury, and registered in the name of the Foundation”.*

## **2. BODIES**

The rules for the Foundation bodies are contained in the By-laws (Articles 10 and following) and are also detailed in the Regulation (Article 4).

The President, the Consiglio di Sorveglianza, the Director, the Management Committee, the Scientific Committee and the Board of Auditors are Foundation bodies pursuant to its By-laws.

### **2.1 The President**

The President is the legal representative of FHT and presides over the Consiglio di Sorveglianza (Article 11 of the By-laws). The President has strategic policymaking powers, manages the institutional and public relations of the Foundation, and promotes training and educational activities on the economic and social impact of the scientific research conducted by the Foundation.

The President of the Foundation is assigned an all-inclusive gross annual salary of Euro 120,000.

### **2.2 The Consiglio di Sorveglianza**

Pursuant to Articles 12 and 13 of the By-laws, the Consiglio di Sorveglianza performs general policymaking and control over the Foundation. In particular, it audits use of the resources, ensures the excellence of the Foundation and compliance with the rules governing appointment of the members of the Foundation bodies, supervises the general coordination of internal control functions, and manages the scientific evaluation process of the activities supported by the Foundation.

Pursuant to the provisions of the By-laws, that body must be composed of thirteen members, meeting the specific professional prerequisites prescribed by Article 12 of the By-laws, which also govern the terms and conditions for their appointment, which may be confirmed only once. Seven members, including the President, were appointed with the DPCM of 16 May 2018. The Consiglio di Sorveglianza operated with this limited number of members pursuant to and upon first-time application of Article 12, paragraph 4, of the By-laws. At its meeting on 29 April 2019, the Consiglio di Sorveglianza, acting on request by the Presidency of the Council of Ministers of Italy and pursuant to Article 12, paragraph 2, sub-paragraph b), point 5, of the By-laws,

designated its two members who had to be scientists specialising in fields relevant to the Human Technopole project and international public health experts, who work principally outside Italy.

The Consiglio di Sorveglianza of the Foundation was still composed of those seven members, including the President, at 31 December 2019.

The Presidency of the Council of Ministers appointed the four new members of the Consiglio di Sorveglianza with the DPCM of 29 January 2020: the two scientific experts mentioned hereinabove and the other two designated members, one chosen by the Advisory Board of the Chairmen of Public Research Institutions (“Consulta dei Presidenti degli enti pubblici di ricerca”) and one as mutually agreed by the City of Milan and the Region of Lombardy.

Therefore, there are eleven standing members of the Consiglio di Sorveglianza, including the President.

One member still has to be designated by the Conference of Italian University Presidents (“Conferenza dei rettori delle università italiane”) before the composition of the Board is complete as prescribed by the By-laws. Moreover, an additional member of the Consiglio di Sorveglianza may be designated by the participating shareholders upon agreement amongst themselves, on condition that, either singly or jointly, they pay at least the three per cent annual contribution of the State. However, *rebus sic stantibus*, there are no participating shareholders of the Foundation.

The Consiglio di Sorveglianza met ten times during 2019.

## **2.3 The Director**

Pursuant to Article 14 of the By-laws, the Director is responsible for implementation of the multi-year strategic plan, chairs the Management Committee and is selected from a field of internationally renowned scientists, possessing an academic curriculum vitae and proven ability to manage large-scale multidisciplinary scientific organisations. The Director is appointed by the Consiglio di Sorveglianza for a four-year term at the conclusion of a competitive international selection process. That appointment may be renewed just once.

The executive employment relationship with the current Director began on 1 January 2019.

## 2.4 The Management Committee

The Management Committee is responsible for “*the activities needed to guarantee the orderly operation of the Foundation [...], as prescribed in the By-laws*” (Article 4, paragraph 8, of the Regulation).

Pursuant to Article 15 of the By-laws, it is formed of five members, including the Director, appointed by the Consiglio di Sorveglianza after a competitive procedure. They serve for a four-year term and may be reappointed just once.

A member of the Committee resigned on 25 February 2019, and the Consiglio di Sorveglianza replaced that member by appointing a new one on 25 June 2019.

The aforementioned administrative body met nine times during 2019.

## 2.5 The Scientific Committee

The Scientific Committee of the Foundation is an advisory body assigned a wide range of activities by the By-laws, including evaluation of the scientific activity of the Foundation, its organisation over the medium term and the proper allocation of resources (both economic and human) to the various existing projects.

The composition of that body calls for fifteen members, appointed by the Consiglio di Sorveglianza for a four-year term.

In light of the functions it performs in the Foundation, the Consiglio di Sorveglianza decided to postpone its appointment until after the first group of scientists was hired, given that its high operating costs would not be consistent with the activity that it is effectively mandated to perform. Nevertheless, the Board did decide to appoint a scientific advisor, by designating the then Scientific Director of the Italian Institute of Technology as the unpaid *Chief Scientific Advisor*.

That individual was placed in charge of the Human Technopole project organisation during the one and a half years preceding establishment of the Foundation.

After the *Chief Scientific Advisor* resigned, the Consiglio di Sorveglianza implemented its resolution of 26 July 2019 by establishing a procedure for selection of the members of a scientific advisory body, which was temporarily delegated (until no later than 1 January 2022) the duties, responsibilities and functions



of the Scientific Committee, having a smaller numerical composition. Its coordinator and the first five members were appointed by the Consiglio di Sorveglianza during the meeting on 15 November 2019. One of the five designated members did not accept the appointment. Therefore, the aforementioned Scientific Advisory Board currently has four members in addition to its coordinator. The annual gross compensation totals Euro 40,000 for the coordinator and Euro 15,000 for the other members.

## **2.6 The Board of Auditors**

The Board of Auditors monitors the compliance Foundation administration and bookkeeping, prepares its reports on the year-end financial statements, reports on them to the Management Committee, and conducts cash audits. The Board of Auditors is composed of three standing members and three alternate members, who are appointed for a three-year term and may be reappointed only once. They must be listed in the register of statutory auditors and are appointed by decree of the Prime Minister on proposal by the Ministry of Economy and Finance after being nominated by the Founding Ministries.

The State Agencies responsible for appointing the Board of Auditors under the By-laws did so with a significant delay after the Foundation commenced operations. Therefore, the Board of Auditors itself was installed only on 29 October 2019, with consequent difficulties until then in terms of the organisational compliance of the Foundation, procedural complications for its activity, and higher costs stemming from the acquisition of legal opinions<sup>1</sup>, as was pointed out in the previous report for the 2018 financial year.

The Board of Auditors met seven times during 2019.

## **2.7 The Organismo di Vigilanza pursuant to Legislative Decree 231 of 2001**

On 29 April 2019, the Consiglio di Sorveglianza appointed the first member, from outside FHT, to serve on the board supervising the functioning and compliance with the organisational and management models prescribed in Article 6, paragraph 1, sub-paragraph b) of Legislative Decree 231 of 8 June 2001, which is vested with independent powers of initiative and control pursuant to Article 2 of the By-laws.

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<sup>1</sup> The total costs incurred by FHT for that legal assistance amounted to Euro 48,750, plus incidental charges, but considering that the first invoice covers the range of services provided by the law firm to FHT.

The composition of the aforementioned organismo di vigilanza was subsequently complemented by the Consiglio di Sorveglianza with two additional members on 27 July 2019, one of whom was from inside the Foundation and the other an independent professional.

The aforementioned resolution by the Consiglio di Sorveglianza of 29 April 2019 also established the regulatory framework for the compensation due to that body, which was then broken down into the amount of Euro 15,000 per annum for the President and Euro 10,000 per annum for one of the two members, insofar as the third member is a senior manager of FHT itself.

## **2.8 The compensation of members of the management Bodies**

The gross annual compensation owed to the President (Euro 120,000), to each member of the Consiglio di Sorveglianza, other than the President (Euro 30,000), to each member of the Management Committee other than the Director (Euro 30,000), to the President of the Scientific Committee (Euro 80,000) and to each member of that Committee (Euro 20,000), is set in the Regulation. In the case of the members of the Consiglio di Sorveglianza and the Management Committee, the Regulation only indicates the maximum amount (Article 6), which nonetheless represents the amount effectively allowed and owed in light of the internal acts of implementation. The compensation of the Board of Auditors is set in the decree of their appointment (Article 19, paragraph 1, By-laws). On the basis of the DPCM of 3 September 2019 that appointed them, that compensation amounts to Euro 12,000 per annum for the President and Euro 10,000 for the other two members.

Pursuant to Article 6, paragraph 5, of the Regulation, the Director's compensation "*is set with a specific decree by the President of the Council of Ministers, as proposed by the Minister of Economy and Finance*".

In the absence of the aforementioned DPCM, beginning in the financial year 2019, FHT made an executive employment agreement with the Director, effective from 1 January 2019 and expiring on 31 December 2022, agreeing an all-inclusive gross annual pay package of Euro 240,000. Therefore, the Foundation self-imposed the maximum limit for public employee compensation, which is equal to that amount<sup>2</sup>.

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<sup>2</sup>With regard to fringe benefits, the Director, just like the other Senior Managers of the Foundation, is covered by the insurance policies envisaged in Article 12 of the National Collective Bargaining Agreement "Corporate Executives of Producers of Goods and Services" of 30 July 2019, for non-occupational accidents, occupational diseases, death and permanent disability.

The Court objectively holds that the aforementioned DPCM must be adopted without delay, as that is the legally qualified source that can set the compensation of the top management body of FHT. The current contractual arrangement in force between FHT and the Director will then have to be coordinated with the provisions contained in the decree to be issued.

The following table summarises the expense effectively incurred for the bodies of the Foundation in 2019, in terms of “business cost”, i.e. inclusive of the taxes, social security and insurance costs incurred by FHT, excluding expense account reimbursements<sup>3</sup>:

**Table 1 – Spending on FHT bodies (including the Organismo di Vigilanza)**

Bodies	Amount
President	153,498
Consiglio di Sorveglianza	220,692
Management Committee	143,177
Board of Auditors (appointed on 03/09/2019)	12,288
Organismo di Vigilanza(1 member appointed on 29/04/2019; addition of 2 more members on 27/07/2019)	16,268
Scientific Advisory Body (appointed on 15/11/2019)	8,246
<b>Total</b>	<b>573,903</b>

Source: elaboration by the Court of Auditors using FHT data

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<sup>3</sup> FHT explained during the audit that the “business cost” in 2019 also includes part of the compensation accrued in 2018 and disbursed the following year. This refers to the President for Euro 10,000 (monthly compensation for December 2018), the Management Committee for Euro 17,596 (compensation for October-December 2018) and the Consiglio di Sorveglianza for Euro 12,500 (monthly compensation for December 2018).

### 3. INSTITUTIONAL ACTIVITY

Pursuant to Article 5, paragraph 1, of the By-laws and Article 1 of the Regulation, the Foundation pursues the aim of giving greater stimulus to the development of human and long-life technologies, by boosting public and private investment in the preventive medicine and health research areas, as consistent with the National Research Programme. FHT develops an integrated, multidisciplinary approach to health, genomics, nutrition, and data and decision science, particularly in regard to the Human Technopole scientific and research project, inter alia in connection with the university and research institution system. The activities of the Foundation are based on the principles of economy, efficiency and openness to the public.

To achieve its own institutional objectives, FHT manages the financing envisaged in Article 1, paragraph 121, of Law 232 of 2016 (i.e. the annual State contributions) and Article 5, paragraph 2, of the cited Decree Law 185 of 25 November 2015, as converted into Law 9 of 22 January 2016 (i.e. the residual amounts of the initial allocation to IIT for the HT project, subsequently transferred by IIT in 2019).

The Foundation operates through the creation of multi-year, non-profit programmes and projects to be developed, inter alia in collaboration with other authorities, research institutions, universities, and public and private organisations inside and outside Italy, through specific agreements and conventions (Article 5, paragraph 2, of the By-laws).

Beginning from the financial year 2019, FHT acquired title to all the steps of the HT Project that had been developed up to that time.

In effect, the activity operated by the Foundation in 2019 generally concerned the start-up of scientific and administrative activities, the selection of key figures and the development of campus infrastructure, while also outlining the programmes to be developed in the near future. The framework for development of research activity was outlined for the scientific area. Plans call for the creation of five centres to perform that activity, and they will constitute the initial nucleus of scientific activities of FHT: the centres for genomics, computational biology, neurogenomics, structural biology and the centre for decisions and society analysis (“Centro per le analisi decisioni e società” – “CADS”), with the latter being sponsored jointly with the Polytechnic University of Milan).

Consistently with the FHT objective to establish and develop collaborative relationships with the Italian biomedical research sector, relationships and discussions about possible areas for synergy were undertaken with various universities, research centres, clinical research institutes, scientific societies and research networks. A number of those interactions led to the execution in 2019 of formal partnership and/or scientific collaboration agreements with the Foundation (e.g. with the Università degli Studi di Milano Statale [Milan State University] and the European School of Molecular Medicine – SEMM).

The Foundation has informed this Court that there was no litigation during the year examined here, and that it did own any institutional equity interests.

With regard to its public contracting activity, supported inter alia by specific legal advice, the Foundation itself complies with European Union and Italian public tendering procedures in its capacity as a “*public law entity*” and, consequently, as a “*public contracting authority*”. It does so in light of its fulfilling the three prerequisites of its status as a legal entity, subjection to dominant public influence, and satisfaction of non-industrial and non-commercial needs in the general interest, as prescribed by Article 3, paragraph 1, sub-paragraph d) of Legislative Decree 50 of 18 April 2016, as stated in the following terms:

- public or private legal entity: the By-laws of FHT affirm that the Foundation “*is a private legal entity*” (Article 1, paragraph 1);
- subjection to dominant public influence: according to the By-laws, the founding members of FHT are the Ministry of Economy and Finance, the Ministry of Health, and the Ministry of University and Research, which are responsible for supervision of the Foundation (see Art. 2, paragraphs 1-2, By-laws). Moreover, the equity capital of the Foundation is formed of contributions by the founding Ministries and increased by additional contributions by the State, and by resources provided by public and private entities and individuals (Article 7, By-laws). *Ergo*, fulfilment of this second prerequisite is found both in terms of financing and in terms of control, *a fortiori* considering that, up to the present day, public financing has been essentially exclusive;
- satisfaction of non-industrial and non-commercial needs in the general interest: in this sense, FHT is a non-profit organisation (Article 5, paragraph 2, sub-paragraph b, of the By-laws) for the purpose of: “*giving greater stimulus to the development of human and long-life technologies*”

(Article 5, paragraph 1, By-laws), by making contracts, agreements or conventions that serve research and technological development activities.

So, given this general framework, the Foundation has also explained the following methodological approach to this Court in terms of application.

The entity participates in the contractual procurement system organised by Consip, when available, and uses the national electronic market to procure goods and services below the European Union threshold limit. If the goods and services are not found on the electronic market or the aforementioned contractual procurement system, the Foundation checks whether or not there are any procurement contract schemes in the regional system. When it is unable to fulfil its own needs even there, the Foundation then proceeds to make its purchase on an independent basis, in accordance with the contracting rules prescribed by law, with it also possessing an online list of vendors since 2020. That list has been implemented on a special regional platform and is used by FHT for bids to purchase goods and services below the European Union threshold limit. Finally, when it is necessary to make purchases above the European Union threshold limit, the Foundation has informed this Court that, in application of the Italian Code of Contracts, the procedures for selection of the contractor consist of open and restricted tendering procedures.

Actually, in 2019, the Foundation has explained to this Court that, partly due to the limited size of the organisation by reason of time, nearly all of its needs that arose in 2019 were fulfilled through direct awards of contract. More specifically, 169 agreements were made during that year pursuant to Legislative Decree 50 of 2016, of which 167 through direct award, one through a negotiating procedure without a call to tender, and one through acceptance of an agreement.

## 4. ADMINISTRATIVE STRUCTURE AND HUMAN RESOURCES

### 4.1 Registered office and real estate assets

The Foundation has its registered office in Milan and may establish branches, representative offices, delegations and offices inside and outside Italy, pursuant to Article 1 of the By-laws.

On 3 August 2017, the owner of the areas, Arexpo S.p.a. (“Arexpo”), and IIT signed a framework agreement that regulated the start-up phase for realisation of the HT Project on the former Expo site.

As previously mentioned, the installation on the site envisaged by the framework agreement calls for use by FHT of various buildings owned by Arexpo, and in particular, the “Initial Installation Structures”, i.e.: “Palazzo Italia”, buildings of the “Cardo Nord Ovest” (subsequently renamed the “*South Pavilion*”), the building named “US6” (subsequently renamed the “*North Pavilion*”). Moreover, the campus configuration also calls for a parcel of land measuring a total of about 22,000 square metres, on which a new FHT building will stand (the “*South Building*”), with green spaces and supporting technical areas.

With regard to Palazzo Italia, the Cardo Nord Ovest/*South Pavilion* and US6/*North Pavilion*, the framework agreement prescribes that the installation of the Foundation shall be realised after Arexpo executes the repurposing work agreed by the parties in the same framework agreement and that FHT shall move in upon completion of the aforementioned work, with it doing so on the basis of a long-term lease (25 years) or possible purchase and, during performance of the work, by means of successive free-loan agreements. This is without prejudice to the recognised right of the Foundation to purchase the buildings at any time.

Then, Arexpo and IIT signed the free-loan agreement on 22 December 2017 to use part of Palazzo Italia in accordance with the provisions of the framework agreement.

After the Foundation was formed in consequence of the agreement signed on 12 December 2018 with IIT, FHT took over as party to the agreements made by IIT.

In view of expanding its own spaces, FHT commissioned a technical and administrative due diligence report on the entire building and found both technical problems (e.g. related to water leaks) and lack of documentation (e.g. absence of any comprehensive certificate of occupancy and final inspections). Although they did not prevent partial use of the spaces by the first group of Foundation employees, they were used as the basis for subsequent discussions between Arexpo and FHT during 2020, in anticipation of the strategic decision between a long-term lease and purchase<sup>4</sup>.

For the sake of thoroughness, we note that the Foundation bodies decided in February 2020 to purchase Palazzo Italia and its appurtenances. In detail, the preliminary sales contract was signed on 25 June 2020. The final agreement was signed on 31 July 2020 for a total purchase price of Euro 34,387,343, plus taxes. The Foundation has explained that the aforementioned technical and documentation problems have been largely resolved, partly in consequence of agreements reached with Arexpo concerning the latter's obligation to execute certain completion work by December 2021. This, with FHT withholding about Euro 2 million of the purchase price as security for proper execution of the aforementioned work and the potential negative interference it might have on Foundation operations.

With regard to the buildings to be “repurposed” for use by FHT, i.e. the aforementioned *US6/North Pavilion* and *Cardo Nord-Ovest/South Pavilion*, Arexpo is scheduled to complete that work and research activities are supposed to start up there by the end of the first half of 2021.

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<sup>4</sup> A letter of intent was signed at the end of 2019, envisaging the possibility of proceeding to purchase or long-term lease of Palazzo Italia.



Finally, another real estate development agreement was signed on 24 May 2019 to complete the activity of the Foundation in the “MIND” area, even over the long term. On the one hand, that agreement regulates the housing of laboratories in prefabricated temporary buildings (*Incubators*) and, on the other hand, the designs for construction of a new building (the aforementioned “*South Building*”). The economic value of the two projects totals about Euro 11.4m, plus VAT, for the temporary laboratories (subsequently increased to Euro 15.75m, plus VAT), and Euro 9.30m, plus VAT, for the design and approval of the aforementioned “*South Building*”.

In terms of the timeline, the Foundation explained to this Court, during the audit, that on the basis of updated planning figures, the temporary structures can be completed and research activity can commence by the end of the first half of 2021, and the *South Building* will be reasonably completed by the beginning of 2026, after the planning process, the tender procedure and execution of the construction work, which is estimated to take about three years.

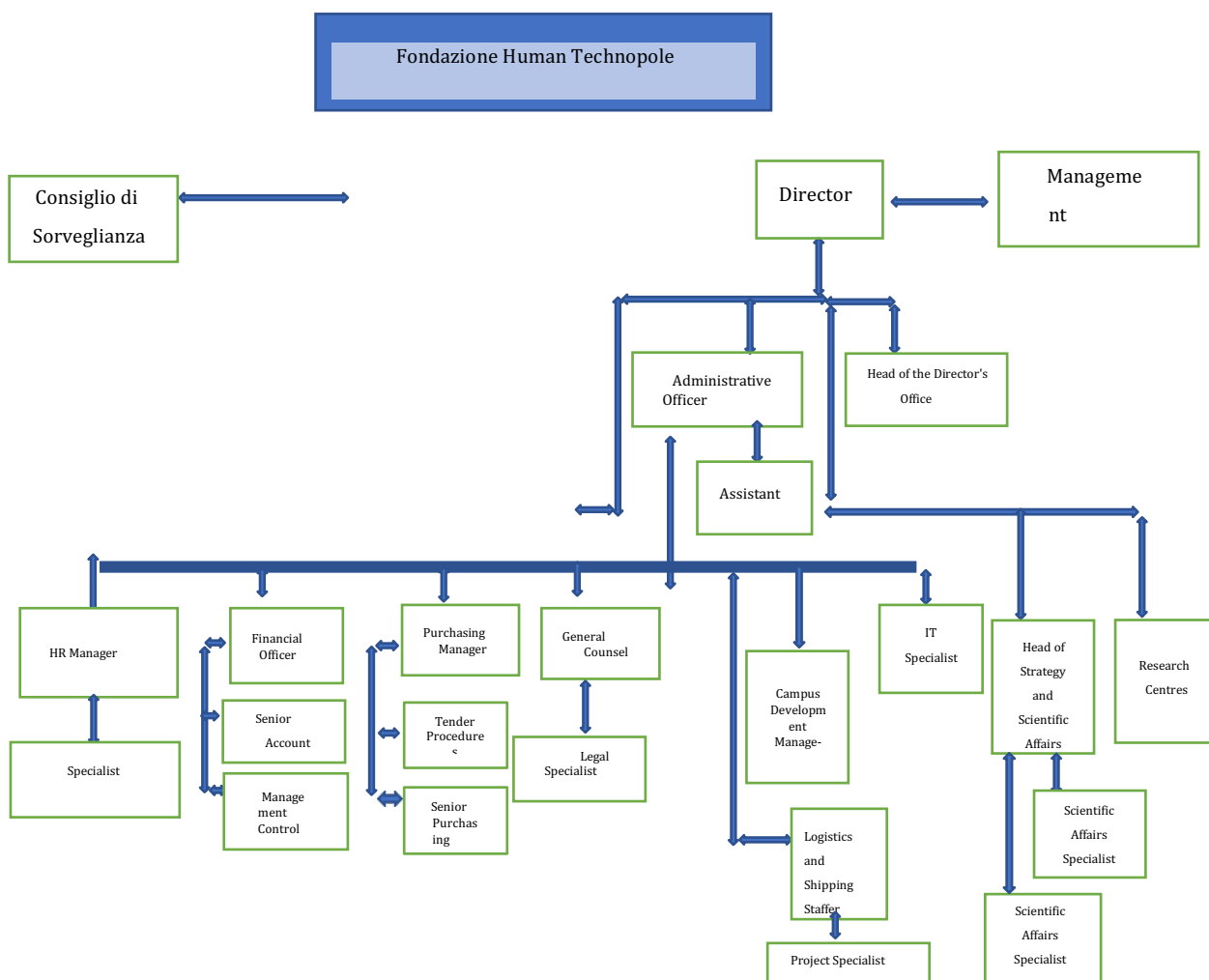
## 4.2 The corporate structure

### 4.2.1 Organisational chart and cost of employees

Reference is made to what was illustrated in the report on the financial statements for the year 2018 with regard to statutory and regulatory aspects.

The following table shows the organisational chart of human resources on the payroll at 31 December 2019.

Figure 1 - Organisational Chart at 31 December 2019



Source: elaboration by the Court of Auditors using FHT data

In the following table, the corporate payroll is broken down by category.

**Table 2 – Corporate payroll broken down by category**

Personne I	31/12/19
Senior Managers	10
Managers	6
White collar employees	12
Blue collar employees	-
<b>Total</b>	<b>28</b>

Source: notes to the financial statements of FHT

So, the payroll at 31 December 2019 comprised 28 employees, of whom 10 were department heads classified as senior managers and 6 were classified as managers. Among these, during 2019 FHT introduced the position of *Head of Operations* and several managerial positions in the staff functions. Moreover, several Head and Group Leaders of the research centres were selected and identified.

Pending construction of the structures used as laboratories, during 2019 FHT then made collaboration agreements with most of the candidates chosen for the aforementioned top positions at the research centres, so that they, together with the Director, could begin defining their strategies and operational implementation (spaces, equipment, technologies, resources). The subsequent hiring of most of them was scheduled for the second half of 2020 or beginning 2021 on the basis of the planned development of the FHT Campus.

The types of contracts that governed the employment relationships at 31 December 2019 were essentially those as follows:

- employees (twenty-eight individuals, of whom sixteen with open-ended contracts and twelve with fixed-term contracts): fixed-term contract or open-ended contract, with application, according to the position, of the National Collective Bargaining Agreement for the Chemical-Pharmaceutical Industry of 19 July 2019 or, alternatively, for the managerial and top management positions, of the National Collective Bargaining Agreement for Industrial Executives of 30 July 2019;
- continuous and coordinated contractual relationships: twelve individuals among researchers and information technology staff from IIT;

- staff from temporary employment agency: one individual.

Procedurally, the Foundation notes that pursuant to Article 8 of the By-laws, it implemented hiring procedures during 2019 in compliance with the principles of transparency in hiring, especially concerning evaluation of fulfilment of the attitudinal and professional prerequisites for the positions to be filled. This was done with the exception of the staff already employed by IIT and previously hired from the latter on the basis of a public call for applications referring explicitly to the HT Project, and who were hired directly by the Foundation beginning 1 January 2019. In these cases, their move between the two research institutions took place through termination of their fixed-term contract with IIT and their rehiring by FHT.

For all other hiring with a fixed-term or open-ended contract, instead, that took place in 2019, the Foundation attests that it first published help-wanted ads on the FHT website (and on other national and international hiring sites), with the recruitment and evaluation process being handled by committees or panels of interviewers.

More in detail, the specific policy “Reclutamento delle risorse umane presso *Human Technopole*” (“Recruitment of Human Resources by Human Technopole”), as approved by the Consiglio di Sorveglianza on 15 November 2019, applies in this case. It prescribes different comparative methods according to whether research, administrative or other duties are involved.

The total cost of employees associated with the employment relationships in the strict sense, including all cost items, totalled Euro 2,306,935 as reported in the financial statements 2019 and broken down on the following table.

**Table 3 – Cost of employees**

wages/salaries	1,702,827.43
social security and insurance costs	474,767.81
accrual of employee severance indemnities	104,662.93
reimbursement for expenses and business trips	24,676.83
<b>TOTAL COST TO HT</b>	<b>2,306,935.00</b>

No individual or general incentive system was implemented for employee compensation in 2019.

Finally, with regard to independent consultants, the Foundation commissioned professionals with specific expertise from outside its organisation during that financial year.

In particular, FHT obtained legal advice and assistance at a total cost of Euro 266,153, accounting and tax advice at a total cost of Euro 68,620, information technology assistance at a total cost of Euro 137,860, media and communication assistance for a total of Euro 113,420, and technical support unrelated to the preceding categories for a total cost of Euro 159,060<sup>5</sup>.

The Foundation affirms that, when it did not believe that the external contracts could be classified as advisory services in the strict sense, they were issued in compliance with the provisions of the Italian Public Contracts Code.

While welcoming the expected drafting by FHT of a special internal policy document in this regard, the Court highlights the importance of the principles of economy, effectiveness and publicity on which the Foundation must base its own management, inter alia in terms of its comparative procedure and close, pre-emptive analysis of the actual lack of adequate internal professional expertise, with regard to the general range of external mandates it issues, including consultants in the strict sense.

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<sup>5</sup> Those costs include VAT and incidental charges, and the relevant object may vary from the financial report information given the wide range of definitions of the term “advisory services”, which are not necessarily unequivocal.

## 5. FINANCIAL STATEMENTS

Pursuant to Article 13, paragraph 3, sub-paragraph c), and Article 21, paragraph 2 of the By-laws, and on proposal by the Management Committee, the Consiglio di Sorveglianza of the Foundation approves the financial statements accompanied by the report of the Board of Auditors by the deadline of 30 April every year.

On 16 April 2020, the Consiglio di Sorveglianza approved the financial statements for the year 2019, accompanied by the Board of Auditors' Report.

In that report, the Board of Auditors affirmed that, on the basis of its assessments and reviews, the financial statements gave a true and fair view of the assets, liabilities and financial position of the Foundation at 31 December 2019, of its net income and cash flow for the year ended at that date in compliance with the national laws and regulations governing their basis of preparation. The financial statements also underwent voluntary certification by the independent auditor.

Concerning its general accounting policies, FHT prepares the financial statement in accordance with the national accounting principles issued by the Organismo Italiano di Contabilità (Italian Accounting Organisation) and, when applicable, the documents issued by its Technical Panel for the Development of Accounting Principles for Non-Profit Entities and the Guidelines for Preparation of the Annual Financial Statements of the same entities.

As a preliminary matter, it must be noted that the Foundation is party to an existing centralised cash management relationship with a bank selected after the evaluation of bids by six banks<sup>6</sup>, alongside the expanding implementation of the non-interest bearing account registered to FHT at the National Treasury (Tesoreria dello Stato) pursuant to the cited Article 49, paragraph 4 *bis*, of Decree Law 34 of 2020.

The annual financial statements are comprised by the balance sheet, income statement, statement of cash flow and notes to the financial statements and are accompanied by the management report.

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<sup>6</sup> During the audit, FHT certified to this Court that its choice was made on the basis of several criteria: economy (e.g. no fee charged to executed bank transactions), standing of the bank, visibility and territorial presence.

## **5.1 Balance Sheet**

The balance sheet has been organised into macro-categories, according to the principle of showing growing liquidity, while the groups and items are broken down by kind. The various balance sheet items are shown net of adjustments.

**Table 4 – Balance Sheet**

ASSETS	2018	2019
<b>B) Non-current assets</b>		
<b>I. Intangible assets</b>	-	-
<b>II. Property, plant and equipment</b>		<b>863,774</b>
1) Land and buildings	-	-
2) Plant and machinery		1,421
3) Industrial and commercial equipment	-	-
4) Other assets		167,069
5) Fixed assets under construction and advances		695,284
<b>III. Financial assets</b>	-	-
<b>Total Non-current assets</b>		<b>863,774</b>
<b>C) Current assets</b>		
I. Inventories	-	-
<b>II. Receivables</b>		<b>254,361,946</b>
1) trade receivables – within 12 months	-	-
4) receivables from parent companies – within 12 months	-	-
5-bis) Tax receivables – within 12 months	-	91,540
5-quarter) Receivables from others – within 12 months	-	254,270,406
<b>IV. Cash and cash equivalents</b>	<b>6,393,730</b>	<b>79,160,928</b>
1) Bank and postal deposits	6,393,730	79,160,734
3) Cash and cash equivalents on hand	-	194
<b>Total Current assets</b>	<b>6,393,730</b>	<b>333,522,874</b>
<b>D) Accrued income and prepaid expenses</b>	-	<b>187,462</b>
<b>TOTAL ASSETS</b>	<b>6,393,730</b>	<b>334,574,110</b>
LIABILITIES	2018	2019
<b>A) Shareholders' equity</b>		
I. Endowment fund and reserves	-	77,230,557
II. Assets subject to lien	-	-
III. Assets restricted by decision of GovernanceBodies	-	-
IV. Provision for institutional activity - Operating Fund	-	255,454,097
VII. Rounding reserve	-	1
VIII. Profit (loss) from previous year	-	28,766
IX. Profit (loss) for the year	28,766	0
<b>Total Shareholders' equity</b>	<b>28,766</b>	<b>332,713,421</b>
<b>B) Provisions for risks and charges</b>	-	-
<b>C) Employee termination benefits</b>	-	<b>83,791</b>
<b>D) Payables</b>		
4) bank borrowings – within 12 months	-	2,092
7) trade payables – within 12 months	4,880	1,342,918
12) Tax payables – within 12 months	32,753	176,978
13) payables to social security institutions	14,520	161,107
14) Other payables – within 12 months	56,678	55,771
<b>Total Payables</b>	<b>108,831</b>	<b>1,738,866</b>
<b>E) Accrued expenses and deferred income</b>	<b>6,256,133</b>	<b>38,032</b>
<b>TOTAL LIABILITIES</b>	<b>6,393,730</b>	<b>334,574,110</b>



Property, plant and equipment, recognised at their purchase cost, inclusive of incidental charges and non-deductible VAT and adjusted by the corresponding accumulated depreciation, totalled Euro 863,774 in 2019. They include assets sold in February 2019 by the Istituto Italiano di Tecnologia after stipulation of the cited agreement on 12 December 2018. The assets were purchased for the amount of Euro 90,557. -

The fixed assets under construction and advances totalled Euro 695,284. They concern the auxiliary contracting activity performed by Arexpo in the competition to design the new building to be used as the future home of the Foundation laboratories (the South *Building*), and the competition for the installation and construction of temporary buildings (the aforementioned *Incubators*) to be used as the first laboratories until the new building is completed.

The amount of depreciation charged for property, plant and equipment for their impairment due to use of the assets by IIT was recognised for the amount of Euro 12,086 in the financial statements. The receivables carried as current assets in 2019 totalled Euro 254,361,946.

In this regard, it must be reiterated that Article 1, paragraph 121 of Law 232 of 2016 authorised expenditure broken down over the years, as indicated hereunder, for the purpose of setting up the Foundation and executing its project:

**Table 5 - Spending authorisation pursuant to Law 232 of 2016**

Amount	Year
10,000,000	2017
114,300,000	2018
136,500,000	2019
112,100,000	2020
122,100,000	2021
133,600,000	2022
140,300,000	2023 (and subsequent years)

Source: elaboration by the Court of Auditors using FHT data

The receivables recognised as current assets include the receivables from the Government for those contributions, covering the years 2017, 2018 and 2019, for the portion not collected at the closing date of 2019, and amounted to Euro 254,268,480, as summarised in the following table:

**Table 6 - Receivables from the Government for contributions pursuant to Law 232 of 2016**

Period	Contributions pursuant to Law 232 of 2016	Contributions disbursed by reference year	Residual contributions
2017	10,000,000	6,531,520	3,468,480
2018	114,300,000	-	114,300,000
2019	136,500,000	-	136,500,000
<b>Total</b>	<b>260,800,000</b>	<b>6,531,520</b>	<b>254,268,480</b>

Source: notes to the financial statements of FHT

At 31 December 2019, the amount of annual contributions already paid out by the Ministry of Economy and Finance (“MEF”) totalled Euro 6,531,520, partly covering the amounts due for the financial year 2017, of which: Euro 275,387 used by FHT in 2018, Euro 5,070,516 used in 2019 and Euro 1,185,617 disbursed by the Ministry of Economy and Finance but not yet used at the closing date of the financial statements 2019.

The Foundation effectively received the amount of Euro 6,531,520 in the year 2018. In 2019 the Foundation did not receive any financial contribution in the form of cash from the MEF. Pursuant to Article 1, paragraph 121, of Law 232 of 2016, *“the contribution in question is disbursed on the basis of the progress of work on the Human Technopole Project”*, with lawmakers thus having conditioned disbursement of the state contributions from year to year on the various phases of implementation of the project. This is notwithstanding the amounts already available and usable by the Foundation as a cash advance, as did occur in 2019, pending its subsequent reporting.

The tax receivables from the Tax Authorities for tax withholding charged to employees totalled Euro 91,056 and the tax receivable – pursuant to Decree Law 66 of 24 April 2014, converted with amendments by Law 89 of 23 June 2014 – totalled Euro 484.

The cash and cash equivalents and cash on hand are recognised at their face value, for the amount at the end date of the year.<sup>7</sup>

The residual liquidity, Euro 6,393,730 in 2018, and Euro 79,160,928 in the current year, increased by Euro 72,767,198.

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<sup>7</sup> In the notes to the financial statements, the Foundation reports that it has deposited Euro 500,000 on a current account held at Intesa-San Paolo as collateral in favour of the bank, which was necessitated by the issuance of a guarantee in favour of Arexpo for Euro 1,000,000. That guarantee was required when the framework agreement made at the time between IIT and Arexpo was transferred under the agreement made by the Foundation and IIT.

The accrued income and prepaid expenses totalled Euro 187,462, of which Euro 135,281 for scholarships to the Polytechnic University of Milan.

With regard to shareholders' equity, the endowment fund, largely comprised of the restricted provision for start-up of the activity of the Human Technopole scientific project, pursuant to Article 5 of Decree Law 185 of 24 April 2014, converted with amendments by Law 9 of 22 January 2016. That fund, which had been originally allocated to IIT for a budgeted amount of Euro 80,000,000, was subsequently recalculated in the amount of Euro 79,900,000 by Decree of the President of the Council of Ministers of 16 September 2016. That endowment fund was recognised by FHT in its accounts in 2019, after IIT transferred the remaining resources amounting to Euro 77,140,000. The total amount of the endowment fund reported on the balance sheet is Euro 77,230,557, which is the sum of the aforementioned residual financial resources of IIT and the amount of the assets (furniture and decorations, portable personal computers, monitors, etc.) previously purchased by IIT for FHT, during the start-up phase of the project, totalling Euro 90,557.

The Foundation has pointed out that, pursuant to Article 6, paragraph 4 of the By-laws and Article 3 of the Regulation, the aforementioned endowment fund is inaccessible and restricted to fulfilment of the purposes set out in the By-laws.

In recognition of the appropriations made pursuant to Article 1, paragraph 121, of Law 232 of 2016, the shareholders' equity accounts of the Foundation include the Operating Fund, which totalled Euro 255,454,097 at the end of 2019.

That includes the contributions owed by the MEF for the years 2017, 2018 and 2019, for the portion not used at the end date of 2019. The Foundation has pointed out that, pursuant to Article 6, paragraph 4 of the By-laws and Article 3 of the Regulation, the Operating Fund is restricted to covering operating expenses.

Essentially, the contributions appropriate annually by the MEF are initially recognised at one line item of shareholders' equity, represented by the aforementioned operating fund. Its contra entry on the balance sheet is, instead, a corresponding financial receivable from the MEF. During the year, the operating fund is used to the extent that the Foundation gradually assumes more and more spending obligations, thereby increasing the income statement item "contributions for current expenses". Moreover, the effective operation of activities also generates costs accruing in the financial year, with balance sheet contra entries at trade payables

and accrued expenses. Additionally, in strictly financial terms, the transfer of contributions to the Fund reduces the receivable from MEF and increases the account “Banks”.

The following table illustrates the changes in and due dates of the payables.

**Table 7 – Payables, changes and due dates**

	Amount at beginning of year	Amount during the year	Amount at end of year
Bank borrowings		2,092	2,092
Trade payables	4,880	1,338,038	1,342,918
Tax payables	32,753	144,225	176,978
Payables to social security and welfare institutions	14,520	146,587	161,107
Other payables	56,678	(907)	55,771
<b>Total Payables</b>	<b>108,831</b>	<b>1,630,035</b>	<b>1,738,866</b>

Source: notes to the financial statements of FHT

The payables for the financial year 2019 totalled Euro 1,738,866, at the face value considered representative of their discharge value and substantially compliant with the amortised cost principle.

The item trade payables, totalling Euro 1,342,918, includes:

- the amount of the payables for recorded invoices, totalling Euro 938,157, including Euro 695,284 for the auxiliary contracting activity performed by Arexpo for the “*South Building*” and “*Incubators*”, as previously illustrated, and Euro 11,323 for the voluntary account audit commissioned from an independent firm (Euro 4,880 in 2018);
- the amount of invoices to be received for services performed and accrued in the year and orders delivered but not invoiced by the end date of the year totalled Euro 404,761.

The tax payables, amounting to Euro 176,978, include the liabilities for tax withholding charged as withholding agent and for the direct taxes for the year represented by IRAP (regional tax on productive activity). The payables to social security institutions, amounting to Euro 161,107, consist of the value of the social security contributions for collaborators accrued but not yet paid at the closing day of the year.

The other payables, totalling Euro 55,771, comprise the remaining payables not included in the preceding items due to their nature.

The accrued expenses and deferred income show a net amount of Euro 38,032 (Euro 6,256,133 in 2018), consisting of Euro 7,388 for scholarships to the University of Milan, Euro 27,233 for compensation paid to the governance bodies and Euro 3,411 for the Board of Auditors.

## 5.2 Income Statement

The income statement was prepared in accordance with the format dictated by Articles 2425 and 2425 *bis* of the Italian Civil Code. That format is characterised by the structure of costs and revenue of actual production, presented in scalar form and whose contents are ordered according to their nature.

**Table 8 – Income Statement**

	2018	2019	% Change 2019/2018
<b>A) Value of production</b>			
5) Other revenue and income	-	-	
a) miscellaneous	1	121,445	100
b) contributions for current expenses	275,387	5,070,516	1741
<b>Total value of production</b>	<b>275,388</b>	<b>5,191,961</b>	<b>1785</b>
<b>B) Costs of production</b>			
6) For raw materials, supplies, consumables and merchandise	-	30,599	100
7) For services	241,196	2,551,697	957.9
8) Leases and rentals	-	191,545	100
9) Employees	-	2,306,935	100
a) Wages and salaries	-	1,727,504	100
b) Social security and welfare contributions	-	474,768	100
c) Employee termination benefits	-	104,663	100
e) Other costs	-	-	
10) Amortisation, depreciation and impairment	-	41,585	100
a) Amortisation	-	-	
b) Depreciation	-	29,499	100
c) other impairment of non-current assets	-	12,086	100
d) Impairment of receivables held as current assets and cash and cash equivalents	-	-	
11) Change in raw materials, supplies, consumables and merchandise inventories	-	-	
12) Accruals for risks and charges	-	-	
13) Other accruals	-	-	
14) Other operating costs	24	4,588	19016
<b>Total costs of production</b>	<b>241,220</b>	<b>5,126,949</b>	<b>2025.4</b>

<b>Difference between value and costs of production (A-B)</b>	<b>34,168</b>	<b>65,012</b>	<b>90.3</b>
<b>C) Financial income and expenses</b>	92	72	-21.7
15) Income from equity investments	-	-	
16) Other financial income	92	-	-100
d) Income other than the preceding other	92	-	-100
17) bis Foreign exchange gains and losses	-	72	100
<b>D) Adjustments to financial assets and liabilities</b>	-	-	
<b>Pre-tax income (A - B ±C±D)</b>	<b>34,260</b>	<b>65,084</b>	<b>90.0</b>
20) Current, deferred and prepaid income tax for the year	5,494	65,084	1084.6
a) current taxes	5,494	65,084	1084.6
<b>Profit/(loss) for the year</b>	<b>28,766</b>	<b>0</b>	<b>-100</b>

Source: Financial Statements FHT

Income and expenses were recognised on an accrual basis, independently of the date of collection and payment, and the principle of prudence, inter alia according to conservation of the value of the equity of the Fondazione Human Technopole and its status as a going concern.

The Foundation has pointed out that, in application of accounting principle no. 1 for non-profit entities, the contributions received for current expenses, both pursuant to law and contractual provisions, related to specific activities of the Foundation are recognised on an accrual basis, according to the incurred expenses to which they refer, independently of their collection.<sup>8</sup>

As previously mentioned, the state contribution was received entirely in 2018: FHT has recognised the portion related to costs incurred during the year under “other revenue and income” on the income statement, while deferring the portion accruing in subsequent years through recognition as deferred income.

More exactly, FHT recognised the value of production for the year in question in the amount of Euro 5,191,961. That amount originated from disbursement of the contribution pursuant to the cited Article 1, paragraph 121, of Law 232 of 2016, which was collected in 2018 for a total amount of Euro 6,531,520, correlated with the corresponding amount of operating costs incurred in the years 2019 and 2018. In detail, the value of production results from the sum of the contributions for current expenses by the MEF, totalling Euro 5,070,516, and Euro 121,445 for other revenue, which essentially refer to the charge-back of costs by FHT and reimbursements received for various reasons by the Foundation.

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<sup>8</sup> The principle prescribes that “if a correlation can be found between income not constituting consideration, that income may be associated with the expenses for the year. That correlation may constitute a fundamental corollary of the accrual principle of the operating events characterising the institutional activities and expresses the need to counterbalance the expenses for the year, regardless of whether they are certain or presumed, with the associated income”. Since these are contributions directly related to the continuing operations of the Foundation, they are recognised in the income statement at item A5) Other Revenue and income when they are recognised separately in the sub-account “Contributions for current expenses”.

**Table 9 – Operating costs**

Description	31/12/2019	31/12/2018	Changes
Raw materials, supplies and merchandise	30,599	-	30,599
Services	2,551,697	241,196	2,310,501
Leases and rentals	191,545	-	191,545
Wages and salaries	1,727,504	-	1,727,504
Social security and welfare contributions	474,768	-	474,768
Employee severance indemnities	104,663	-	104,663
Depreciation	29,499	-	29,499
Other impairment of non-current assets	12,086	-	12,086
Other operating costs	4,588	24	4,564
<b>Total</b>	<b>5,126,949</b>	<b>241,220</b>	<b>4,885,729</b>

Source: notes to the financial statements of FHT

The item costs for raw materials, supplies, consumables and merchandise, and costs for services, totalled Euro 30,599 and consists of the costs incurred for the procurement of consumables, directly in consequence of research activities and overhead costs incurred by the Foundation.

The costs for services, which totalled Euro 241,196 in 2018, totalled Euro 2,551,697 in 2019, representing an increase of Euro 2,310,501.

The following table illustrates the relevant items in detail.

**Table 10 – Costs for services**

Breakdown of costs for services	Amount
Contract workers/temporary workers (bodies and continuing and coordinated collaboration, temporary employees)	750,169.69
Technical/legal/information technology consultants	704,967.93
Arexpo Global Service	364,052.12
Travel expenses/hotel expenses/expense account reimbursements	183,905.32
Software costs	162,878.89
PhD researcher costs	103,383.05
Training courses (including mandatory training)	25,967.71
Insurance	22,100.04
Other costs for services (including translations, moves, installations)	234,272.24
<b>Total</b>	<b>2,551,696.99</b>

Source: elaboration by the Court of Auditors using FHT data

The costs for employees consist of the entire expense for employees, including promotions from one category to another, automatic cost-of-living increases, the cost of unused holiday leave, and accruals mandated by law and collective bargaining agreements.

Depreciation totalled Euro 29,499.



The depreciation was calculated on the basis of the useful life of the asset and its use in the production phase.

The other write-downs were charged according to the impairment resulting from use of the assets by IIT, during the period when they were in its possession, inasmuch as those assets were sold at their historic initial purchase cost.

The net reported amount of foreign exchange gains, Euro 72, consists of the difference between the amount of gains, Euro 238, and the amount of losses, Euro 166.

Pre-tax income totalled Euro 65,084 and was fully used by the regional tax on productive activity (IRAP) applicable for 2019, while the net amount at 31 December 2018 had been Euro 5,494, and thus with a change of Euro 59,590.

Therefore, financial year 2019 ended in balance.

With regard to the net income for the year, considered in terms of general rules and also prospectively, FHT submitted the following information for reconstruction to this Court during the audit, specifying that the relevant methodological approach was agreed in advance with the Board of Auditors. So, in the absence of positive results from commercial activity, the Foundation notes that the result reported in the income statement is structurally in balance, given the provisions of the law establishing the foundation (Law 232 of 11 December 2016), according to which *“the contribution in question is disbursed on the basis of the progress of work on the Human Technopole Project”*. Consequently, at the bookkeeping level, it is mandatory that the activities of FHT and the relevant costs be closely “linked” to the contributions for current expenses. In other words, in the context of the methodological approach adopted by the Foundation, the progress of the project translates into the need to report all costs incurred in order to receive the same amount in contributions appropriated for FHT. Commercial activity, instead, reflects business risk and, consequently, its net income may be in balance, a loss, or a profit, according to the trend of revenue as compared with costs. The Foundation concludes its discussion of this matter by affirming that this is without prejudice to the fact that any losses from the commercial activity in future would be effectively sterilised by the contributions for current expenses recognised as part of Foundation revenue covering its aggregate costs.

### **5.3 Cash Flow Statement**

The Cash Flow Statement, prepared on the basis of the statement mandated by Article 2423, paragraph 1, Italian Code of Civil Procedure, constitutes a component of the financial statements, together with the balance sheet, income statement and notes to the financial statements.

Accounting principle OIC 10, which defined the criteria for the preparation and presentation of the cash flow statement, has prescribed a single format according to the liquidity principle. The flows of cash and cash equivalents are presented separately from the cash flow from continuing operations, cash flow from investment activity, and cash flow from financing activity. Moreover, the same principle leaves the option of representing the cash flow from continuing operations by using the direct or indirect method. The Foundation has opted for the indirect method.

The Cash Flow Statement shows that the cash flow before changes in net working capital totalled Euro 190,460. After the changes in net working capital and adjustments, the cash flow from continuing operations decreased by Euro 259,014,190, just as did investment activity (Euro -905,359), which was fully absorbed by the increase in financing activity (Euro 332,686,747). Therefore, cash and cash equivalents increased by Euro 72,767,198.

The following table presents the Cash Flow Statement 2019.

**Table 11 – Cash Flow Statement**

Cash flow	2018	2019	Change % 2019/2018
<b>A. Cash flow from continuing operations (indirect method)</b>			
Profit (loss) for the year	28,766	-	-100
Income tax	5,494	65,084	1085
Interest expense (interest income)	(92)	0	100
(Dividends)	-	-	
(Gains)/losses from disposal of assets	-	-	
<b>1. Profit (loss) for the year before income tax, interest, dividends, and gains/losses from sales in net working capital</b>	<b>34,168</b>	<b>65,084</b>	<b>90.48</b>
<b>Adjustments for non-monetary items without a contra entry in net working capital</b>			
-Accruals to provisions	-	83,791	100
-Amortisation and depreciation	-	29,499	100
-Impairment	-	12,086	100
Adjustments to financial assets and liabilities of derivative financial instrument without any monetary movement	-	-	
-Other adjustments for non-monetary elements	-	-	
<b>Total adjustments for non-monetary items without a contra entry in net working capital</b>	<b>-</b>	<b>125,376</b>	<b>100</b>
<b>2. Cash flow before changes in net working capital</b>	<b>34,168</b>	<b>190,460</b>	<b>457.4</b>
<b>Total changes in net working capital</b>			
-Decrease/(increase) in inventories	-	-	
-Decrease/(increase) in trade receivables	-	-	
-Increase/(decrease) in trade payables	4,880	1,338,038	2734
-Decrease/(increase) in accrued income and prepaid expenses	-	(187,462)	-100
-Increase/(decrease) in accrued expenses and deferred income	6,256,133	(6,218,101)	-199
-Other decreases/(Other increases) in net working capital	98,457	(254,034,597)	
<b>Total changes in net working capital</b>	<b>6,359,470</b>	<b>(259,102,122)</b>	<b>-4,174.3</b>
<b>3. Cash flow after changes in net working capital</b>	<b>6,393,638</b>	<b>(258,911,662)</b>	<b>-4,149.5</b>
Other adjustments			
-Interest received/(paid)	92	-	100
-(Income tax paid)	-	(102,528)	-100
-Dividends received	-	-	
-(Use of provisions)	-	-	
-Other receipts/(payments)	-	-	
<b>Total other adjustments</b>	<b>92</b>	<b>(102,528)</b>	<b>-100</b>
<b>CASH FLOW FROM CONTINUING OPERATIONS (A)</b>	<b>6,393,730</b>	<b>(259,014,190)</b>	<b>-4,151.1</b>

<b>B. Cash flow from investment activity</b>				
	Property, plant and equipment	-	(905,359)	-100
	(Investments)	-	(905,359)	-100
	Divestments	-	-	
	Intangible assets	-	-	
	(Investments)	-	-	
	Divestments	-	-	
	Financial fixed assets	-	-	
	(Investments)	-	-	
	Divestments	-	-	
	Financial assets that are not fixed assets	-	-	
	(Investments)	-	-	
	Divestments	-	-	
	Sale of business units net of cash and cash equivalents	-	-	
	<b>CASH FLOW FROM INVESTING ACTIVITY (B)</b>	-	<b>(905,359)</b>	<b>-100</b>
<b>C. Cash flow from financing activity</b>				
	Loan capital	-	-	
	-Increase (decrease) in short-term bank borrowings	-	2,092	100
	-Acquisition of loans	-	-	
	-(Repayment of loans)	-	-	
	Equity capital			
	-increase in Endowment Fund	-	77,230,557	100
	-increase in Operating Fund	-	255,454,096	100
	<b>CASH FLOW FROM FINANCING ACTIVITY (C)</b>	-	<b>332,686,747</b>	<b>100</b>
	<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A ± B ± C)</b>	<b>6,393,730</b>	<b>72,767,198</b>	<b>1038</b>
	Foreign exchange effect on cash and cash equivalents	-	-	
	Cash and cash equivalents at beginning of year			
	-bank and postal deposits	-	6,393,730	100
	-cheques	-	-	
	-cash and cash equivalents on hand	-	-	
	<b>Total cash and cash equivalents at beginning of year</b>	<b>6,393,730</b>	<b>-</b>	<b>-100</b>
	Cash and cash equivalents at end of year			
	-bank and postal deposits	6,393,730	79,160,734	1138
	-cheques	-	-	
	-cash and cash equivalents on hand	-	194	100
	<b>Total cash and cash equivalents at end of year</b>	<b>6,393,730</b>	<b>79,160,928</b>	<b>1138</b>

Source: Financial Statements FHT

## 6. CONCLUSIONS

The Human Technopole Project was first envisaged in Article 5 of Decree Law 185 of 25 November 2015, converted with amendments by Law 9 of 22 January 2016. For participation by the State in the projects to develop the areas used for the big Expo event, that statute allocated a contribution of Euro 80,000,000 for the year 2015 to the Istituto Italiano di Tecnologia, to realise the integrated, multidisciplinary scientific and research project on health, genomics and data science.

Subsequently, the Human Technopole Foundation was established pursuant to Article 1, paragraphs 116-123 of Law 232 of 11 December 2016, *“to create an integrated multidisciplinary scientific and research infrastructure of national interest in the health, genomic, nutrition and data science and decision science sectors and to realise the scientific and research project named Human Technopole”*. This was done to increase public and private investments in the prevention and health research sectors, in accordance with the National Research Programme.

The governance bodies of the Foundation were functioning in 2019. The offices of President, the Consiglio di Sorveglianza, the Management Committee, and the Director were legitimately filled for the entire year, while the Board of Auditors and the scientific advisory body had members for just part of the year. This latter body was temporarily assigned (not extending after 1 January 2022), duties, responsibilities and functions of the Scientific Committee, albeit with a smaller numerical composition. The Organismo di Vigilanza pursuant to Legislative Decree 231 of 8 June 2001 was also staffed and functioning for only a part of the year. In particular, the Board of Auditors was sworn in on 29 October 2019, due to a delay in the procedure for appointment of its members by the State Agencies legally responsible for doing so. Pursuant to Article 6, paragraph 5, of the FHT Regulation, the Director's compensation *“is set with a specific Decree by the President of the Council of Ministers, as proposed by the Minister of Economy and Finance”*. In the absence of the aforementioned DPCM, beginning in the financial year 2019, FHT made an executive employment agreement with the Director, effective from 1 January 2019 and expiring on 31 December 2022, agreeing an all-inclusive gross annual pay package of Euro 240,000. Therefore, the Foundation imposed the maximum limit on itself for the compensation of public employees, which is equal to that amount. The Court objectively

holds that the aforementioned DPCM must be adopted without delay, as that is the legally qualified source that can set the compensation of the top management body of FHT. The current contractual arrangement in force between FHT and the Director will then have to be coordinated with the provisions contained in the decree to be issued.

With regard to human resources, the total cost of employees reported in the financial statements 2019 was Euro 2,306,935, as opposed to a total of Euro 1,702,827 in wages and salaries. The figure refers to the entire payroll at 31 December 2019, consisting of 28 employees, of whom 10 were department heads classified as senior managers and 6 were classified as managers.

Procedurally, the Foundation notes that pursuant to Article 8 of the By-laws, it implemented hiring procedures during 2019 in compliance with the principles of transparency in hiring, especially concerning evaluation of fulfilment of the attitudinal and professional prerequisites for the positions to be filled. This was done with exception of the staff already employed by IIT and previously hired from the latter on the basis of a public call for applications referring explicitly to the HT Project, and who were then hired directly by the Foundation beginning 1 January 2019. In these cases, their move between the two research institutions took place through termination of their fixed-term contract with IIT and their rehiring by FHT. Instead, for all other hiring and collaborations with a fixed-term or open-ended contract that took place in 2019, the Foundation attests that it first published help-wanted ads on the FHT website (and on other national and international hiring sites), with the recruitment and evaluation process being handled by committees or panels of interviewers.

With regard to its public contracting activity, given its nature as a public law entity, the Foundation has explained to the Court that, in 2019, *inter alia* in light of the reduced dimensions of the organisation *ratione temporis*, almost all of its purchasing requirements were covered through the direct award of contracts. More specifically, 169 agreements were made during that year pursuant to Legislative Decree 50 of 2016, of which 167 through direct award, one through a negotiating procedure without a call to tender, and one through acceptance of an agreement.

Finally, with regard to independent consultants, the Foundation commissioned professionals with specific expertise from outside its organisation in 2019. In particular, FHT affirms that, when it did not believe that the external contracts could be classified as advisory services in the strict sense, they were issued in compliance with the provisions of the Italian Public Contracts Code. While welcoming the expected drafting by FHT of a special internal policy document in this regard, the Court highlights the importance of the principles of economy, effectiveness and publicity on which the Foundation must base its own management, inter alia in terms of its comparative procedure and close, pre-emptive analysis of the actual lack of adequate internal professional expertise, with regard to the general range of external mandates it issues, including consultants in the strict sense.

With regard to accounting aspects, the Foundation is party to an existing centralised cash management relationship with a bank selected after the evaluation of bids by six banks, alongside the expanding implementation of the non-interest bearing account registered to FHT at the National Treasury (Tesoreria dello Stato) pursuant to the cited Article 49, paragraph 4 bis, of Decree Law 34 of 2020.

With regard to the balance sheet, the receivables recognised as current assets total Euro 254,361,946. This item is dominated by the receivables from the State for the contributions envisaged in Article 1, paragraph 121 of Law 232 of 11 December 2016, for the years 2017, 2018 and 2019, for the portion not collected at the closing date of 2019, totalling Euro 254,268,480.

With regard to shareholders' equity, the endowment fund is comprised by the restricted provisions for start-up of the Human Technopole scientific project, initially allocated to IIT for a budgeted amount of Euro 80,000,000, which was then recalculated in the amount of Euro 79,900,000 by the DPCM of 16 September 2016. That fund was recognised by FHT in 2019, after the transfer in 2019 by IIT of remaining financial resources totalling Euro 77,140,000, for a total amount of Euro 77,230,557, as the sum of the aforementioned residual financial resources of IIT and the amount of the assets (furniture and decorations, portable personal computers, monitors, etc.) previously purchased by IIT for FHT, during the start-up phase of the project, totalling Euro 90,557. Pursuant to Article 6, paragraph 4 of the By-laws and Article 3 of the Regulation, the aforementioned endowment fund is inaccessible and restricted to fulfilment of the purposes set out in the By-laws.

In recognition of the appropriations made to FHT by the MEF as prescribed by law, the shareholders' equity accounts of the Foundation include the Operating Fund, which totalled Euro 255,454,097 at the end of 2019. That includes the contributions pursuant to Article 1, paragraph 121, of Law 232 of 2016, for the years 2017, 2018 and 2019, for the portion not used at the end date of the financial year. Pursuant to Article 6, paragraph 4 of the By-laws and Article 3 of the Regulation, the Operating Fund is restricted to covering operating expenses.

From the establishment of FHT until 31 December 2019, the total amount of annual contributions already paid by the MEF was Euro 6,531,520, as partial coverage of the amounts owed for 2017, of which: Euro 275,387 used by FHT in 2018, Euro 5,070,516 used in 2019, and Euro 1,185,617 paid out by the MEF but not yet used by the Foundation at the end of 2019.

The aforementioned total amount of Euro 6,531,520 was received by FHT in 2018. Therefore, the Foundation did not receive any cash contribution from the MEF during 2019, given that, pursuant to Article 1, paragraph 121 of Law 232 of 2016 *"the contribution in question is disbursed on the basis of the progress of work on the Human Technopole Project"*. In fact, lawmakers conditioned disbursement of the state contributions from year to year on the various phases of implementation of the project. This is notwithstanding the amounts already available and usable by the Foundation as a cash advance, as did occur in 2019, pending its subsequent reporting.

The Income Statement closed in balance.

The state contribution was recognised by allocating the portion related to costs incurred during the year under "other revenue and income" on the income statement, while deferring the portion accruing in subsequent years through recognition as deferred income. The value of production for the year in question has been recognised by FHT in the amount of Euro 5,191,961. So, that amount originated from disbursement of the contribution made pursuant to Article 1, paragraph 121, Law 232 of 2016, which, as previously mentioned, was received in 2018 and totalled Euro 6,531,520, for the amount related to the corresponding amount of operating costs for the year.

The costs of production totalled Euro 5,126,949, of which Euro 2,551,697 for services and Euro 2,306,935 as the "business cost" for salaries.





COURT OF AUDITORS - DIVISION OF ENTITY SUPERVISION

