

Major irregularity reported in the Annual Accounts - Case study - Central Baltic Programme

Florence Aalto | 28.05.2019 | Marseille

Introduction

Basic info

- About the Programme
- About the Audit Authority
- About the sampling methodology

ACR 2017

- Audit results
- Qualification of the major irregularity
- Reporting to EC

Consequences

- For the Programme
- For the audit works

• 2018 audit works

- Thematic State Aid System Audit works
- Findings & recommendations issued

• ACR 2018

- Results of the 2018 audit works
- Current status & error rate
- Final timeline



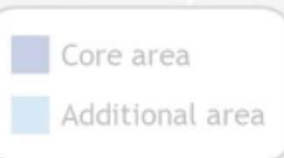
Basic info

- About the Programme
- About the Audit Authority
- About the sampling methodology



About the Programme

-  Finland (including Åland), Estonia, Latvia and Sweden
-  Four priorities:
 -  Competitive economy,
 -  Sustainable use of common resources,
 -  Well-connected region and
 -  Skilled and socially inclusive region
-  97 projects currently approved for funding
-  623 partners
-  133M€ ERDF inc. 8M€ TA
-  106M€ ERDF allocated
-  63M€ confirmed in eMS by CA



About the Audit Authority

Head of the Audit Authority

GoA
members
ESTONIA

GoA
members
FINLAND

GoA
members
LATVIA

GoA
members
SWEDEN

GoA
member
ÅLAND

- 👁 1 Head of the AA
 - 👁 Audit strategy & Audit manual update
 - 👁 Sampling methodology
 - 👁 System audits
 - 👁 Audits of accounts
 - 👁 Reporting to EC
- 👁 12 GoA members in the MS involved
 - 👁 Audits of operations in MS
 - 👁 Review, commenting & validation of Audit strategy, Audit manual & ACR
 - 👁 Participation to GoA meetings

About the sampling methodology

- Number of items in population too small for effective implementation of statistical sampling
- Sampling method for ETC programmes two-stage design Option 3
 - Sampling unit is the operation
 - Sub-sampling unit is the project partner
- 2 samples drawn
- Operations selected randomly using excel formula



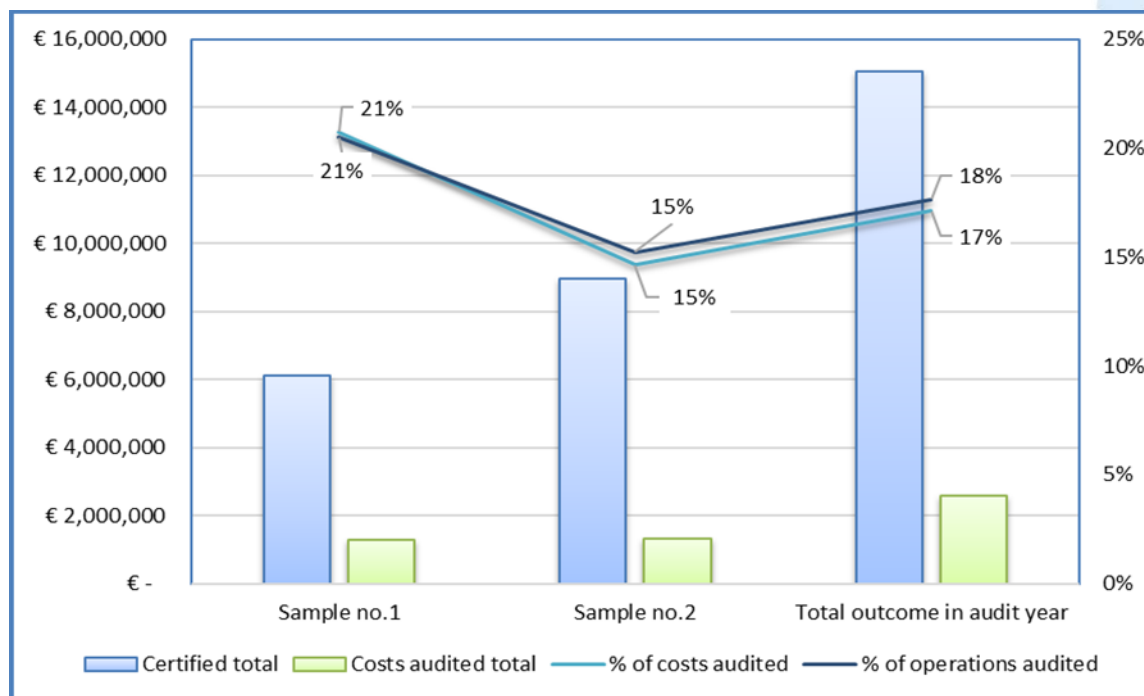
ACR 2017

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Audit results

- 2nd year with expenditure to audit
- Aim still for high coverage & then decrease
- Few minor irregularities spotted but 1 main issue related to state aid



Operations with findings with financial impacts (out of 15 audited)	3
Number of operations with findings which have financial impacts in sample 1	2
Operation 1	
▪ Incorrect exchange rate	978,87 €
▪ Miscalculation on salary	273,70 €
▪ Miscalculations in travel reports	23,27 €
▪ Costs before project start	100,00 €
Operation 2	
▪ Reported salaries too high	939,58 €
▪ Ineligible costs related to gifts	2,40 €
Number of operations with findings which have financial impacts in sample 2	1
Operation 3	
▪ Expenditure suspected to fall under state aid	418 851,43 €

Audit results - Operation 3

- 👁 Reduce time-consumption & improve transport flows of goods in 3 strategic transport corridors between Estonia and Finland
- 👁 Integrated system for automated & paperless management of transit documents & for tracking movement of goods in real-time
- 👁 2 partners (1 Estonian LP & 1 Finnish PP)
- 👁 Total budget 2M€

Issues



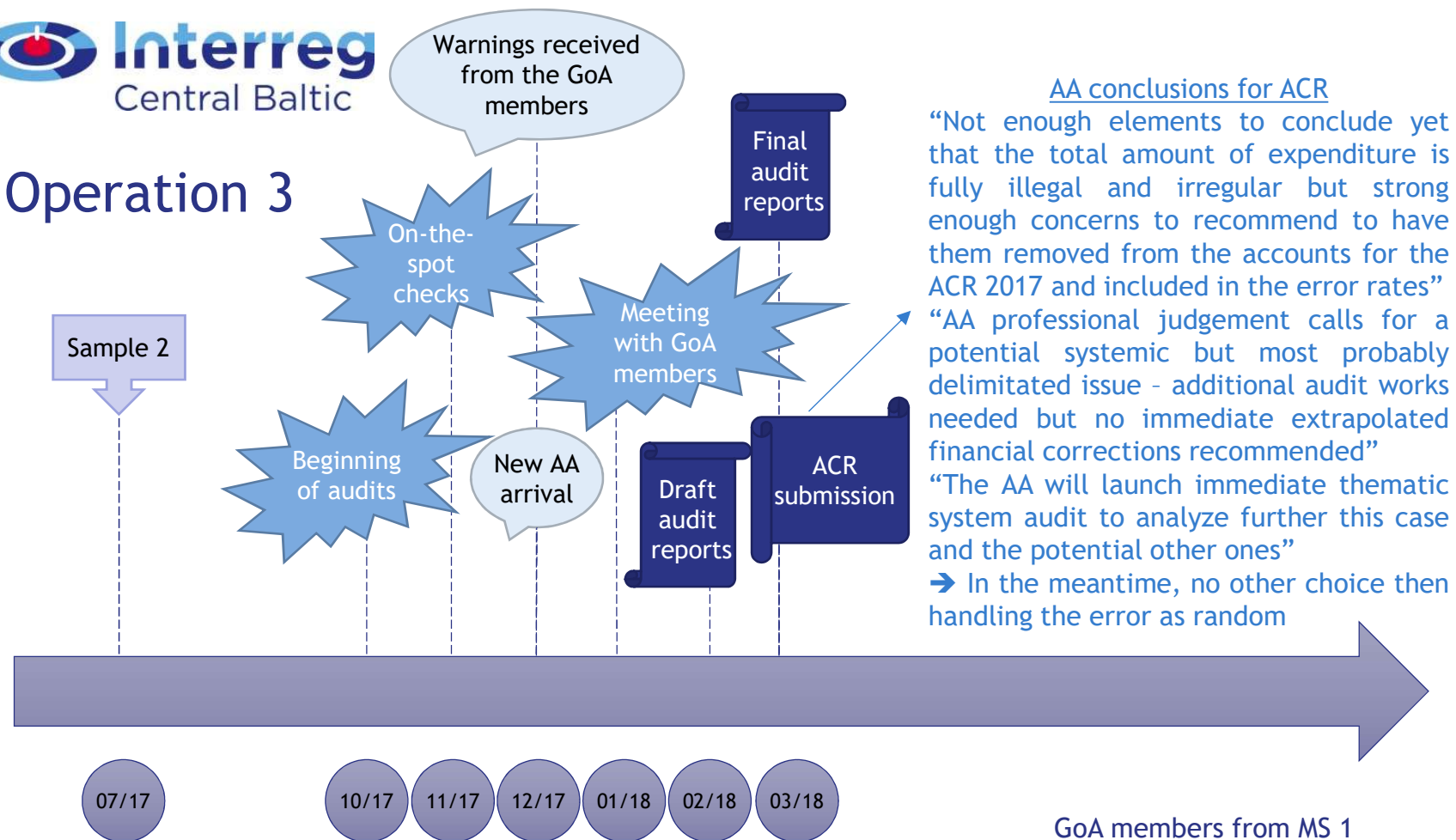
- Commercial potential of the solution
- Other similar commercial solutions existing & market potential
- Assessors' possible confusion with the notions of economic activity, exercising public powers, outputs accessible to all for free, public use

MA's reaction before the sampling was drawn

- To the company creation, trademark & global project evolution
- Raising of concerns related to state aid, missing & misleading information in the application & sound financial management
- Next progress reports were blocked & no more expenditure certified



Operation 3



AA conclusions for ACR

“Not enough elements to conclude yet that the total amount of expenditure is fully illegal and irregular but strong enough concerns to recommend to have them removed from the accounts for the ACR 2017 and included in the error rates”

“AA professional judgement calls for a potential systemic but most probably delimited issue - additional audit works needed but no immediate extrapolated financial corrections recommended”

“The AA will launch immediate thematic system audit to analyze further this case and the potential other ones”

→ In the meantime, no other choice then handling the error as random

Qualification of the major irregularity

State aid suspicions & discussions

Different opinions when time to conclude

GoA members from MS 1

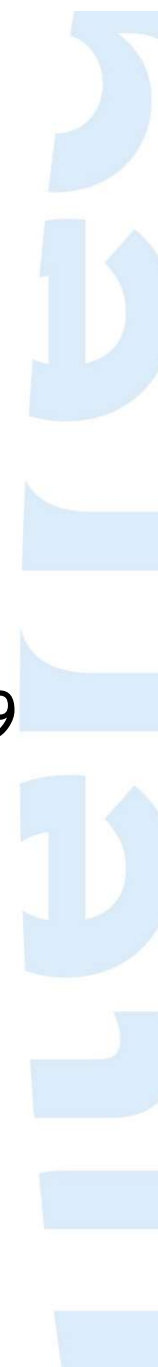
“Unlawful state aid at the time of the application not spotted by the Programme’s assessors”

GoA members from MS 2

“No unlawful state aid at the time of the application but suspicions at the time of the audit due to partners’ behavior and the project evolution not in line with the application”

Reporting to EC

- Description of the issue in ACR §5.7
 - Presentation of the case
 - Status of the audit works & different opinions within the GoA
 - AA proposal how to handle the case for the annual closure
- Explanations on the qualification of the error in ACR §5.9
 - Additional works needed so in the meantime error handled as random
 - AA's arguments why the error is most likely systemic but delimited
 - State aid cases delicate and different from each other
 - Particular case involving also bad intentions from the project
 - Many projects already audited with no similar issues reported
 - State aid experience and strategy in place within the Programme
 - MA noticed the state aid risks during the project's implementation
 - Amounts placed under on-going assessment deducted from the accounts



Reporting to EC

👁️ TPER in ACR §5.9

- 👁️ TPER if error is random = 14,61% & RTER = 14,60%
- 👁️ TPER if error is systemic but delimited = 2,91% & RTER 2,89%

👁️ Impact on Audit Opinion in ACR §9.1

- 👁️ Without the issue within Operation 3 the TPER would have been <1% & the MCS would have potentially been considered Category 1
 - 👁️ The new risks identified during the audits of operations kept it assessed Category 2 - pending for the coming thematic system audit
 - 👁️ If the professional judgement of the AA is confirmed & the issue is systemic but delimited the TPER will be above 2% but the RTER will be almost 0%
- ➔ AA's opinion is Qualified (qualifications have a limited impact)

👁️ Additional audit works & action plan listed in ACR §9.2



Consequences

- For the Programme
- For the audit works






Consequences

For the Programme

-  Interruption of the payment deadline from 03 to 08/2018 included
-  Cash flow handling and communication problematics
-  Being prepared to order the recovery of the funds paid to Operation 3

For the audit works

-  The ACR didn't provide sufficient assurance about the MCS to the EC
-  Additional works launched to conclude on Operation 3's case
-  Additional works to launch a thematic state aid system audit and confirm the nature of the error of Operation 3 if confirmed



2018 audit works

- Thematic State Aid System Audit works
- Findings & recommendations issued



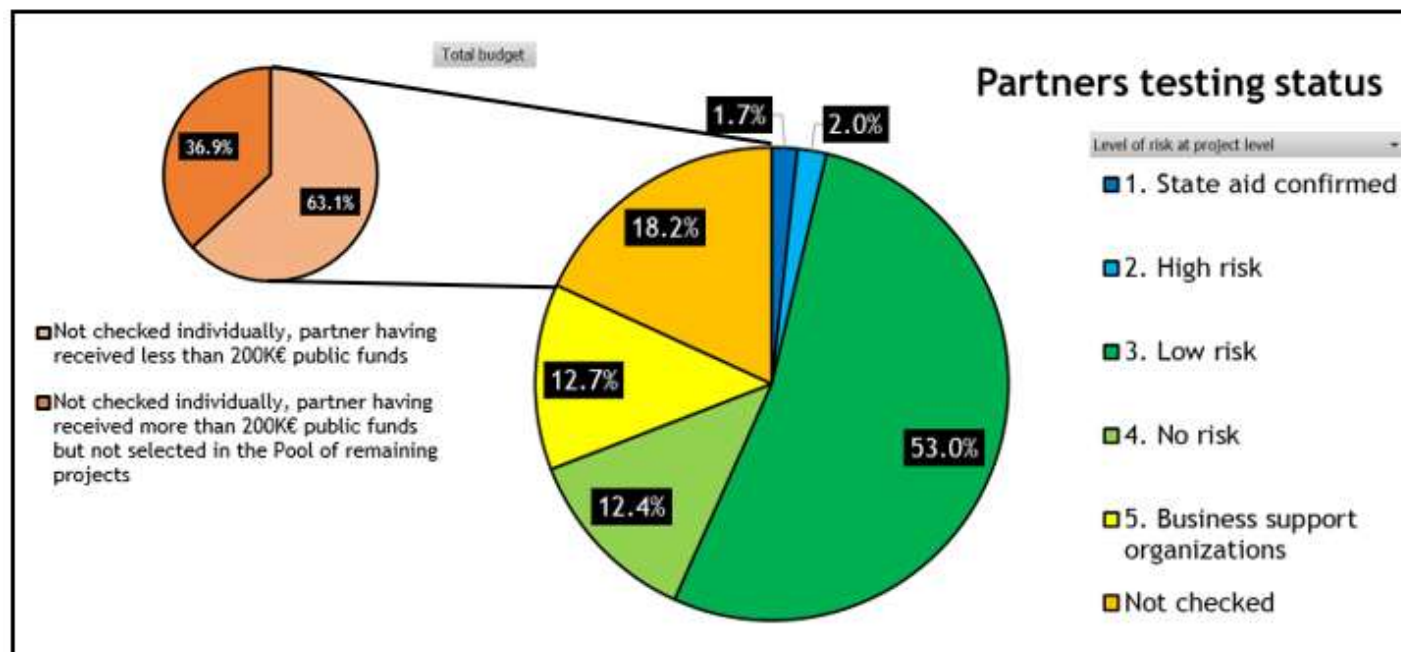
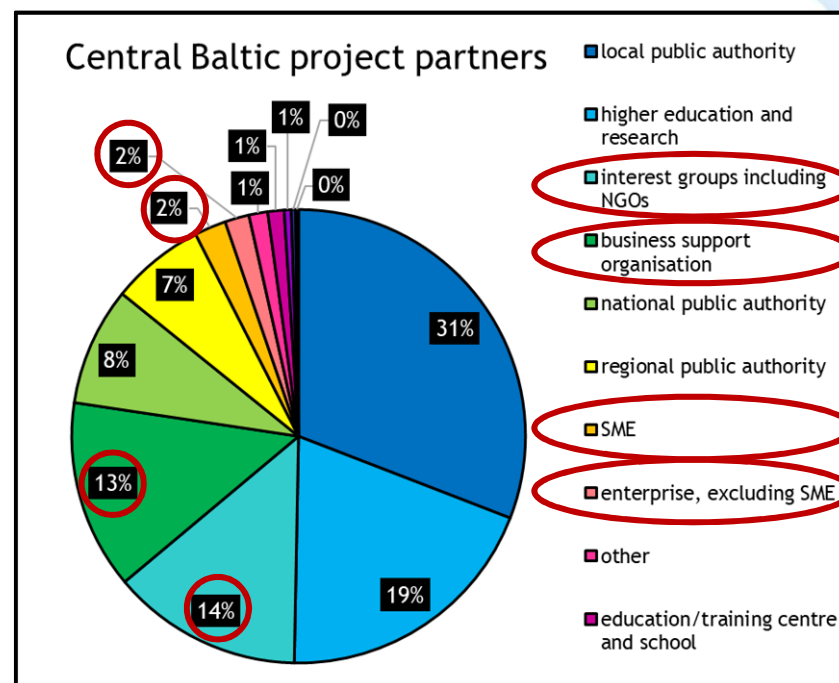
Thematic State Aid System Audit works

- Finalization of Operation 3's analysis
 - Involvement of National State Aid experts
 - Additional researches regarding similar cases, partners' activities within and outside the project and the potential market
 - Additional involvement and exchanges with the GoA members
- Analysis of the MCS' State Aid assessment & controls



Thematic State Aid System audit works

Results of the partners mapping
Zoom on risky partners
Additional individual testing



No additional issues or major risks identified

Findings & recommendations issued

- 👁️ State aid confirmed for two projects
 - 👁️ Operation 3 - both partners (order of recovery issued)
 - 👁️ Another Operation also spotted during the audits of operations as potentially risky as well - one partner (registered under cumulative de minimis)
- 👁️ Error in de minimis calculation for another project (threshold exceeded but registered under cumulative de minimis)
- 👁️ Recommendations issued
 - 👁️ Launch the needed actions towards Operation 3 and two other cases spotted
 - 👁️ Document & store the State Aid assesment of each partner in eMS systematically & through the EC State Aid checklist
 - 👁️ Integration of State Aid considerations inside the assessors' scoring list
 - 👁️ Reinforce the link and cooperation between the MA/JS and the National State Aid experts (workshop and consultations)
 - 👁️ Stricter follow-up of the amounts granted under de minimis
 - 👁️ Stronger communication with partners & Programme's bodies about State Aid (requirements, assesement, regulations, EC notice, registration, risks)
- ➔ The Operation 3's issue is systemic but delimited
- ➔ The final TPER of ACR 2017 is 4,28% and RTER is 0,12%
- ➔ All the needed corrections had already been done in the accounts
- ➔ The MA agreed to implement all the AA's recommendations

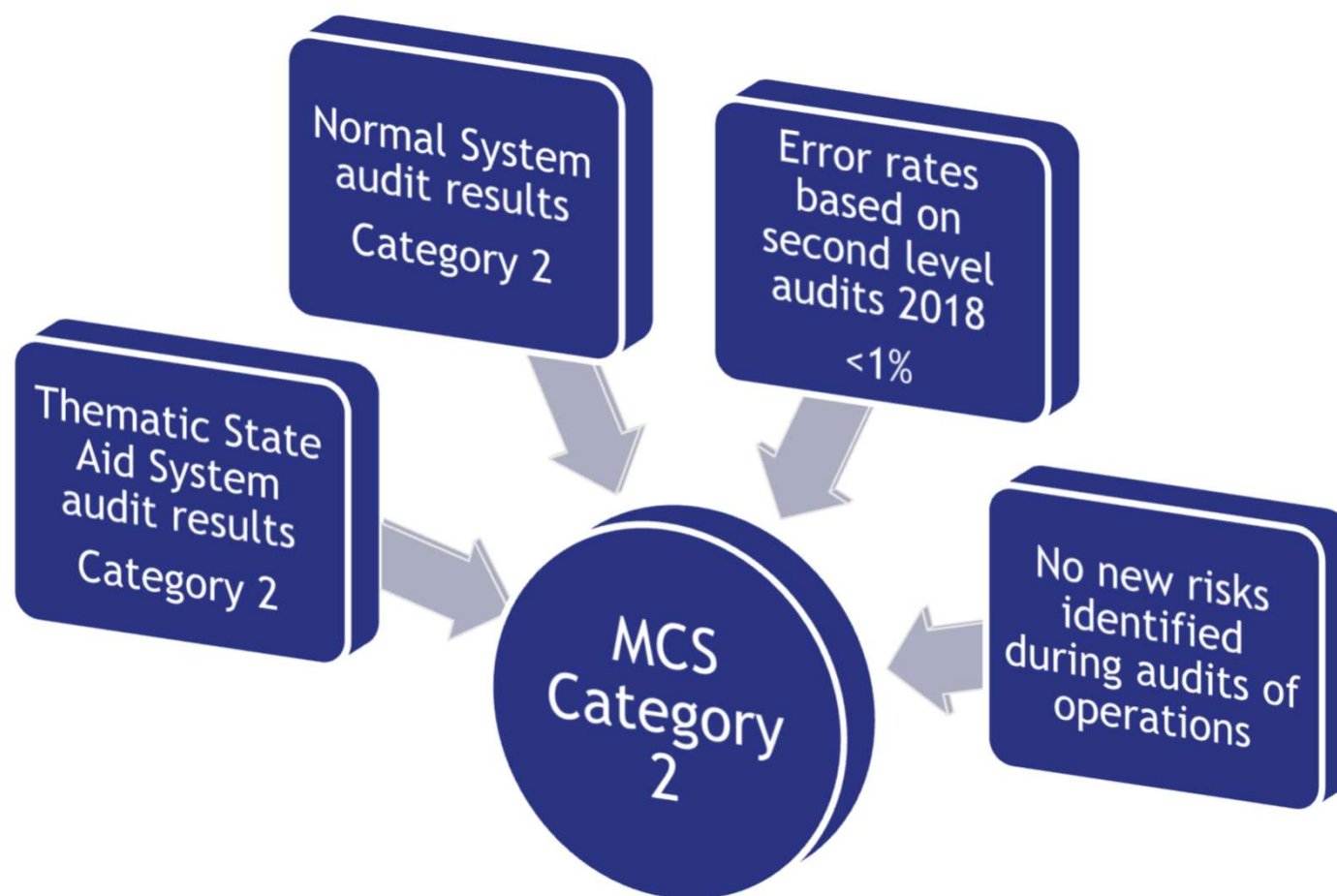
ACR 2018

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Results of the 2018 audit works

Management & Control Systems

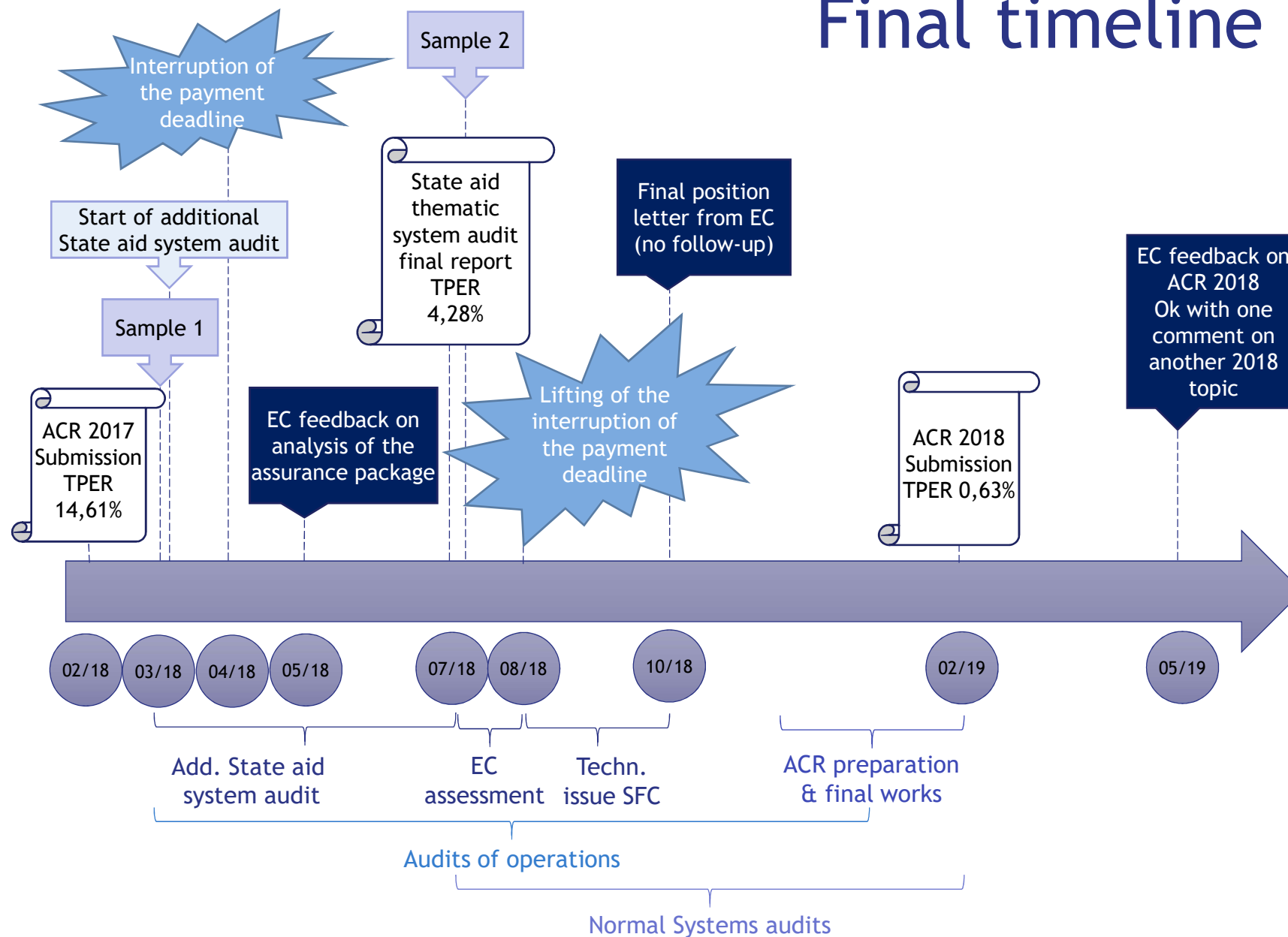


Current status & error rate

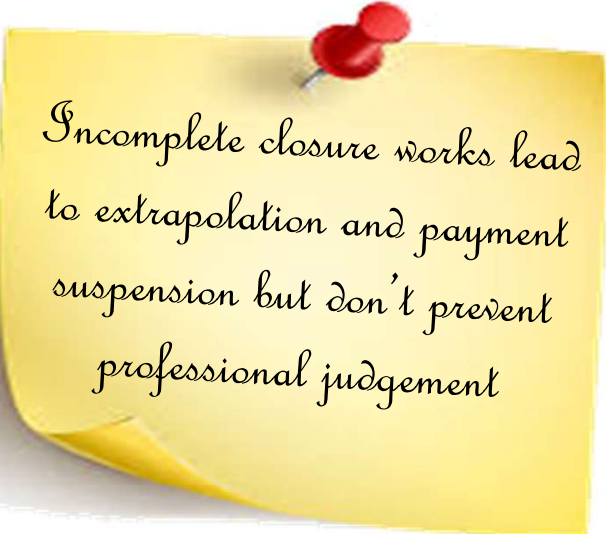
- 👁️ Lifting of the Interruption of the payment deadline
 - ✓ Order of recovery sent to LP by the Programme
 - ✓ Proof from CA systems that the amounts related to Operation 3 are excluded for good
 - 👁️ ACR 2017 validated
 - 👁️ MA has ordered the recovery of the funds paid to Operation 3 based on the audits results (state aid) + their other own elements
 - 👁️ Findings & conclusions of audit works carried widely explained and listed in ACR 2018
 - 👁️ Additional State Aid case spotted by the GoA members of one MS during 2018 audits of operations but opinion not shared by the Head of the AA (additional report issued & different opinions discussed with EC auditors & listed in ACR 2018)
- ➔ Current TPER = 0,63%



Final timeline



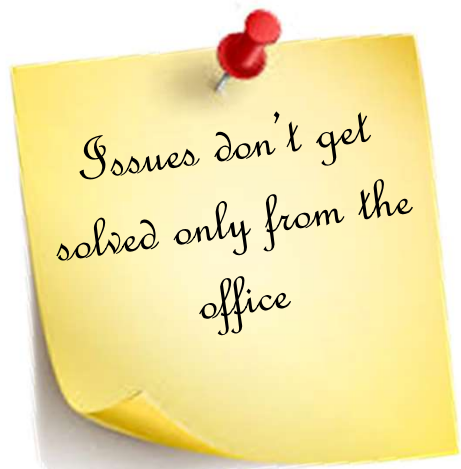
Few personal notes for the end



Incomplete closure works lead to extrapolation and payment suspension but don't prevent professional judgement



Communication is key in times of issues



Issues don't get solved only from the office



Same rules and guidances but still different opinions and judgements



Any questions
or comments?

- Comments regarding the elements presented?
- Other elements not mentioned you would like to underline?





THANK YOU!

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Varsinais-Suomen liitto
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