

# Conclusions and recommendations of the National Audit Office

## Business subsidies

The number of business subsidies has increased in recent years, but at the same time, the number of companies receiving subsidies has decreased. A total of EUR 4,136 million in business subsidies was paid from the state budget in 2016 (in 2015, the figure was EUR 3,265 million). The focus in the audit was on twelve different types of subsidies, covering a quarter of all business subsidies paid in 2016.

The aim in the compliance audit of business subsidies was to determine whether the applying for and the granting and payment of business subsidies and the monitoring of their use have been in accordance with the law. Furthermore, the aim was to determine whether the internal control of business subsidies is appropriately arranged.

The Act on Discretionary Government Transfers contains provisions on the general grounds for granting discretionary government transfers. Among these is that the transfer must be considered necessary. The transfer can be deemed necessary if a project could not be carried out without the transfer or if a socially useful project could only be implemented at a significantly slower pace or with reduced scope without the transfer. Discretionary government transfers are not needed if the applicant for the transfer could finance the project or activity from its own funds or through other funding comparable to equity funding.

The estimation and determination of whether a transfer is necessary was found to be difficult because the conclusion in the audit was that, as a rule, external financing could always bring some additional value to a project. In fact, the legislation and the criteria derived from it should be clarified so that business subsidies would not become automatic sources of funding for companies who could also arrange their project funding from other sources. When estimating the necessity of a subsidy, attention should always be paid to the general objectives of the programme to be funded and the activities of the organisation granting the subsidy, as well as the general principles under which the necessity of a subsidy is determined, as laid out in the Government proposal for the Act on Discretionary Government Transfers.

According to the audit findings, there have been procedures that are in non-compliance with the law in six different business subsidies and inadequacies in internal control. Wood production subsidies have been granted in violation of the law without requiring written applications for the subsidy. In addition, not all documents containing the research funding decisions have been appropriately signed, and subsidy decisions have not always been justified in the manner required under the Administrative Procedure Act.

When determining the amount of expenditure used as the basis for calculating the discretionary government transfers for ambulance helicopter activities, the statutory compensations for patient transports have not always been considered as deductions. This is in violation of the Act on Discretionary Government Transfers and the state budget.

Business development aid has been paid in violation of the law to projects started prior to the application for subsidies and costs incompatible with the relevant conditions have been accepted as eligible costs. Furthermore, accounting vouchers have not been archived as required by law.

The need for the subsidies must always be assessed

The application for subsidies must be submitted before starting the project

In addition, the audit also revealed deficiencies in internal control on documentation, compliance with the conditions, and guidelines and support schemes concerning the business development aid and the support for research, development and innovation activities.

Compatibility with the single market of all the business subsidies covered in the audit had been reviewed before they had been granted, and adequate measures had been taken to ensure that the subsidies are in compliance with the state aid provisions of the EU.

On the basis of the audit, the National Audit Office issues the following recommendations.

#### The Finnish Forest Centre

- must ensure that subsidies are only granted on the basis of written applications
- must use uniform application forms and ensure that all required information is entered on the forms. Forms that are out of date may no longer be used.

#### The Ministry of Transport and Communications

- must add a reporting requirement to the agreement between the ministry and VR on subsidies for rail services.

#### Tekes – the Finnish Funding Agency for Innovation

- must take measures to ensure that the documents containing the research funding decisions sent after the funding decisions are appropriately signed
- must provide more specific grounds for the subsidy decisions deviating from the applications
- must ensure that the economic analysis, review of the recipient's economic situation in connection with the payment of the subsidies and the changes taking place in the project are adequately documented.

#### The Ministry of Economic Affairs and Employment

- must pay attention to the supervision of the conditions for the commitments and ensure that Finnvera plc has proper internal controls for its credit and guarantee operations concerning the commitments
- should increase the supervision of the use of the discretionary government transfers granted to the internationalisation of enterprises and promotion of entrepreneurship. In addition to reviewing the information provided by the recipients, the supervision should also be carried out through audits
- must, without delay, make a decision on the payment of the management fee for interest equalisation to Finnish Export Credit Ltd so that the fee can be paid in the State Treasury within the period laid down in the law
- should issue instructions on how the TE Offices and the KEHA Centre, which act as the authorities administering government transfers, meet their obligations, as the authorities administering government transfers, to ensure adequate and proper su-

pervision of the government transfers required under the Act on Discretionary Government Transfers.

#### The Development and Administrative Services Centre for ELY Centres and TE Offices, ELY Centres and TE Offices

- must ensure that no subsidies are paid to projects that have been started before the application for the subsidies has been submitted. In the payment of the subsidies, particular attention must be paid to accounting events and invoices dated close to the project start day
- must review projects that, on the basis of the audit, have been started before the application for the subsidies has been submitted or the start of which could not be determined and take the necessary measures
- must ensure that costs that are incompatible with the detailed conditions laid out in the subsidy decision are not accepted as eligible costs
- must ensure that accounting vouchers are archived as laid down in section 46 of the State Budget Decree
- must pay attention to ensuring that subsidies already granted to the same purposes are presented as itemised entities
- must highlight in the draft decisions on business development aid the manner in which the aid adds to the value of the project or helps to make it more extensive. It is recommended that comparative data on the impacts of the aid on the project implementation is presented
- must take measures aimed at improving internal control so that it can be ensured that no further errors are made in the compliance with the conditions laid out in the decisions, vouchers or documentation
- must, in cooperation with the Ministry of Economic Affairs and Employment, ensure that the guidelines for business development aid are updated and made more specific
- must, in cooperation with TE Offices, systematically review the information on decisions entered into the URA system so that any deviations can be detected. This work must be done after the decisions have been made
- should, to the extent possible, create and introduce system-based controls helping to ensure the correctness of the decisions on granting and paying pay subsidies
- must pay more attention to the selection of the correct type of subsidies in the processing of pay subsidies
- should always examine the contact notifications made in the URA system before pay subsidy decisions are made if economic and production-related factors have been given as the grounds for ending an employment relationship. The information impacting the decision must systematically be relayed to the unit preparing the pay subsidy decisions and the KEHA Centre.

#### The Ministry of Social Affairs and Health

- must consider the statutory Kela compensations directed at the operations as an item reducing the need for discretionary government transfers when government transfers are budgeted and granted. Any subsidies paid for first aid research should be budgeted and granted separately

- must ensure that the annual reviews of the use of the subsidies granted to ambulance helicopter activities are processed without delay so that any corrective measures can be initiated immediately.