

## Regional councils' administration of EU funds

The audit concerned the administration, steering and control of EU funds in which the regional councils serve as intermediary bodies. The main question and objective was to investigate whether EU funds supplied through regional councils are administered according to legislation, regulations and guidelines. Legality and propriety were evaluated particularly on the basis of compliance with legislation.

The audit mainly concerned the European Regional Development Fund (ERDF) and included six regional councils acting as intermediary bodies under the Act on the National Management of Structural Fund Programmes as well as the Ministry of Employment and the Economy, which serves as the managing authority.

The audit observed shortcomings in the monitoring of budget authorisations, the allocation of the use of authorisations to the fiscal year, practices regarding advance payments to regional councils and the handling of interest income from advance payments in the budget and the Ministry of Employment and the Economy's accounts.

In monitoring authorisations the Ministry of Employment and the Economy has marked regional councils' authorisations as used as soon as these have been allocated to regional councils. In this case recording practice deviates from the norm in public administration. Regulations issued by the Ministry of Finance state that in the course of monitoring an authorisation, it should be recorded as used when a contract, commitment or binding decision regarding the application of funds is made on the basis of the authorisation. This is what is done in monitoring authorisations to other intermediary bodies involving structural funds.

In the opinion of the National Audit Office, recording an authorisation as used as soon as it has been granted to an intermediary body is not in line with the provisions in the State Budget Act. This procedure has had an impact on the Ministry of Employment and the Economy's accounts. At the end of 2010 the regional councils had outstanding authorisations totalling roughly 68 million euros. According to the State Budget Act, an authorisation can only be used during the budget year in question. An

authorisation can be renewed in the following budget, with the renewable amount not exceeding the figure indicated in the accounting unit's financial statements.

The Ministry of Employment and the Economy makes advance payments to the regional councils for structural fund projects on the basis of evaluations supplied by the regional councils concerning the amount of financing that is required. The audit found that the open advance payments on regional councils' books totalled 38.1 million euros at the end of 2010. The Government decision on the application of general regulations concerning the budget set out preconditions for advance payments. If legislation allows payments to be made in advance but leaves the amount and timing of advance payments to an authority's discretion, payment that is excessive or unnecessarily frontloaded must be avoided. The audit did not find special grounds for advance payments. In the opinion of the National Audit Office, advance payments have been excessive and unnecessarily frontloaded.

In accordance guidelines issued by the Ministry of Employment and the Economy, the regional councils have subtracted interest income accrued in connection with advance payments from their evaluations of required funds addressed to the Ministry of Employment and the Economy. In practice project financing exceeds the relevant appropriations in the state budget. Nor has information on interest income been reported in the Ministry of Employment and the Economy's accounts. In 2010 about 1.3 million in interest income at the disposal of regional councils was recognised by the end of the year.

According to the State Budget Act, transfer expenditure cannot be included in the scope of net budgeting. According to the budget, the item earmarked for structural fund projects has been gross budgeted. The National Audit Office considers that the Ministry of Employment and the Economy has in fact recognised interest income on funds granted to the regional councils to a gross budgeted item, which is contrary to the State Budget Act.

In other respects the audit did not find essential failings in the administration of financing supplied by the European Regional Development Fund.