



Irregularities

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Irregularities

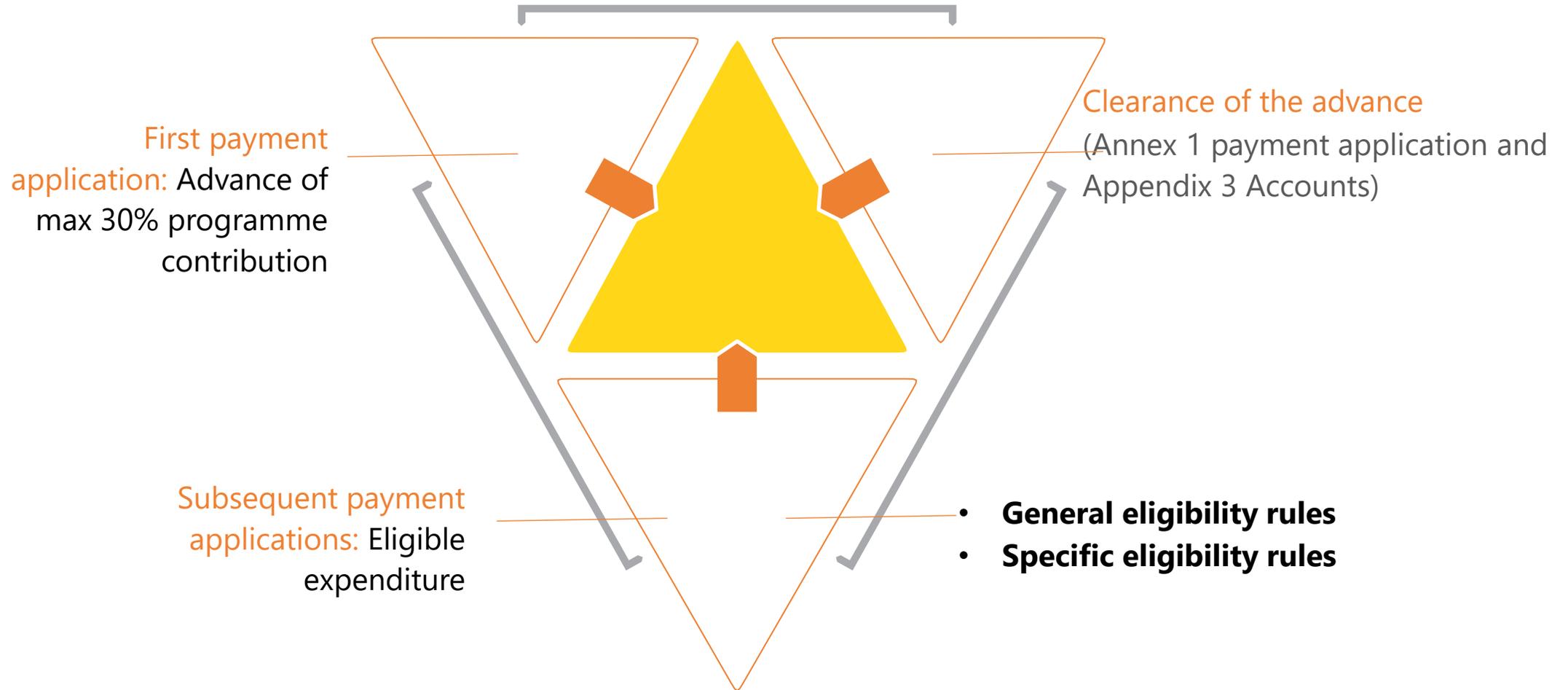
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Audit of FIs

Irregularities



Financial corrections by MS

Article 103 CPR

❖ **General rule:**

- Irregular expenditure declared to the Commission => Financial corrections
- For individual irregularities => the support cancelled **cannot** be used for the same operation affected by irregularities
- For systemic irregularities => the support cancelled **cannot** be used for any operation affected by the systemic irregularities

❖ **Derogation for FIs – Art. 103(5) CPR:**

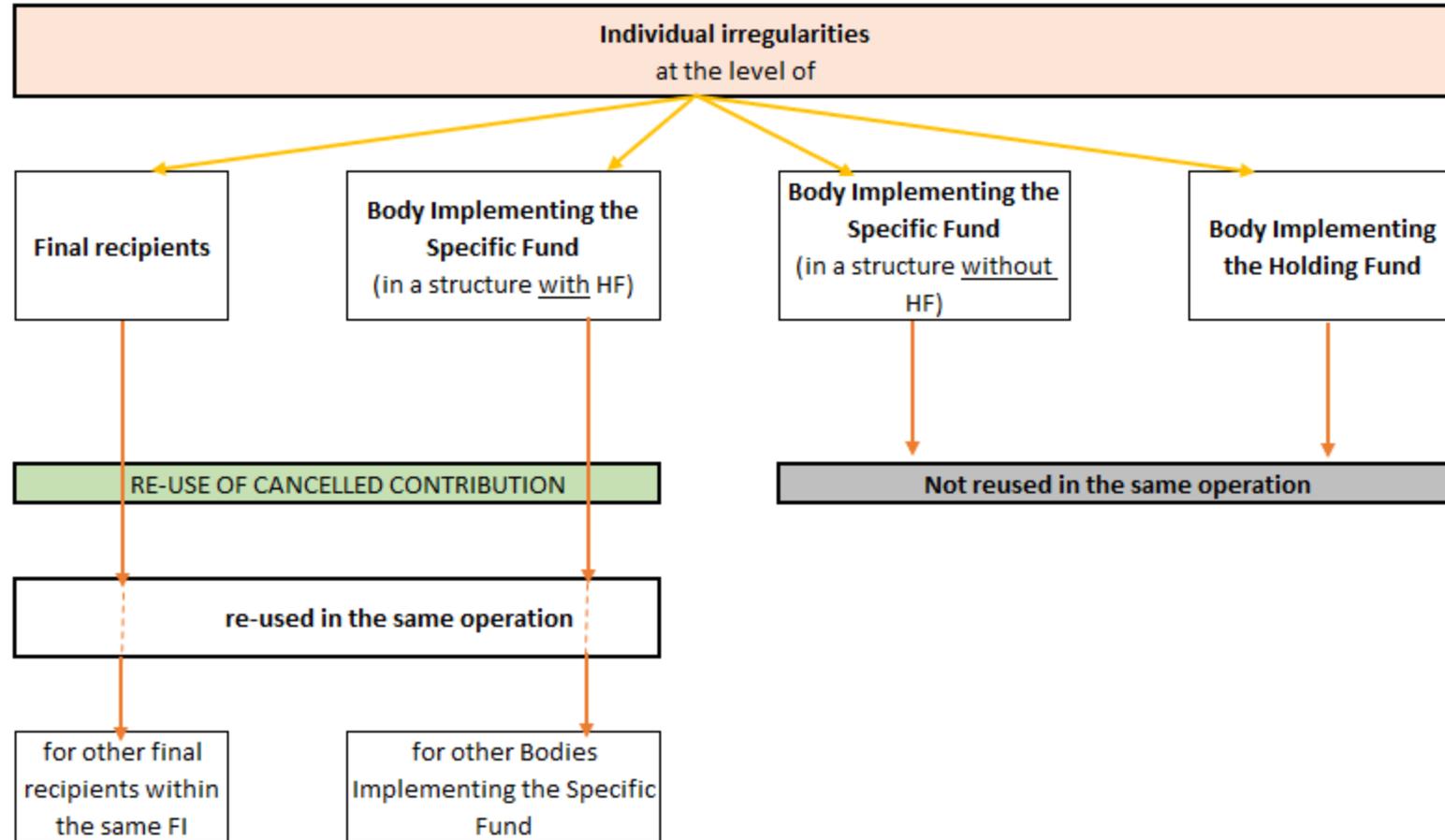
- For systemic irregularities => the support cancelled **cannot** be used for any operation affected by the systemic irregularities
- For individual irregularities the support cancelled can be replaced by eligible expenditure incurred at the same level by a body implementing the FI or final recipient not affected by the irregularity

❖ **Cumulative conditions: non-recoverable irregularities – Art 103(6) CPR**

- Irregularity at the level of the final recipient (with Body Implementing a Specific Fund) or at the level of Body Implementing a Specific Fund / final recipients (with Body Implementing a Holding Fund);
- There is no fault on the part of the bodies implementing FI in the fulfilment of their obligations;
- Bodies implementing FI carried out all applicable contractual and legal measures to recover expenditure.

Financial corrections by MS

Art. 103 CPR



TIPS AND TRICKS

How to avoid irregularities

- FI is as an operation as any grant operation, but it has **specific eligibility rules** to be considered during audit.
- Make sure the **eligibility rules** are clear, unambiguous. Everything you state in a **funding agreement** can be later a source of irregularities.
- **Early monitoring visits** by the Body Implementing a Holding Fund to the Bodies Implementing a Specific Fund are a useful measure for the prevention of irregularities and inconsistencies.
- Well established **controls** from early on can prevent systemic irregularities later.
- Privilege **system audits at the beginning** of programming period.
- Constitute a **buffer** is highly recommended to compensate eventual ineligible expenditure when clearing the advance.
- Clear expectations and requirement by different parties and continuous **communication**.
- Once the control and monitoring system is well established => **reliance** can be taken by MA (i.e. risk based controls) and AA (notably in its system audits).



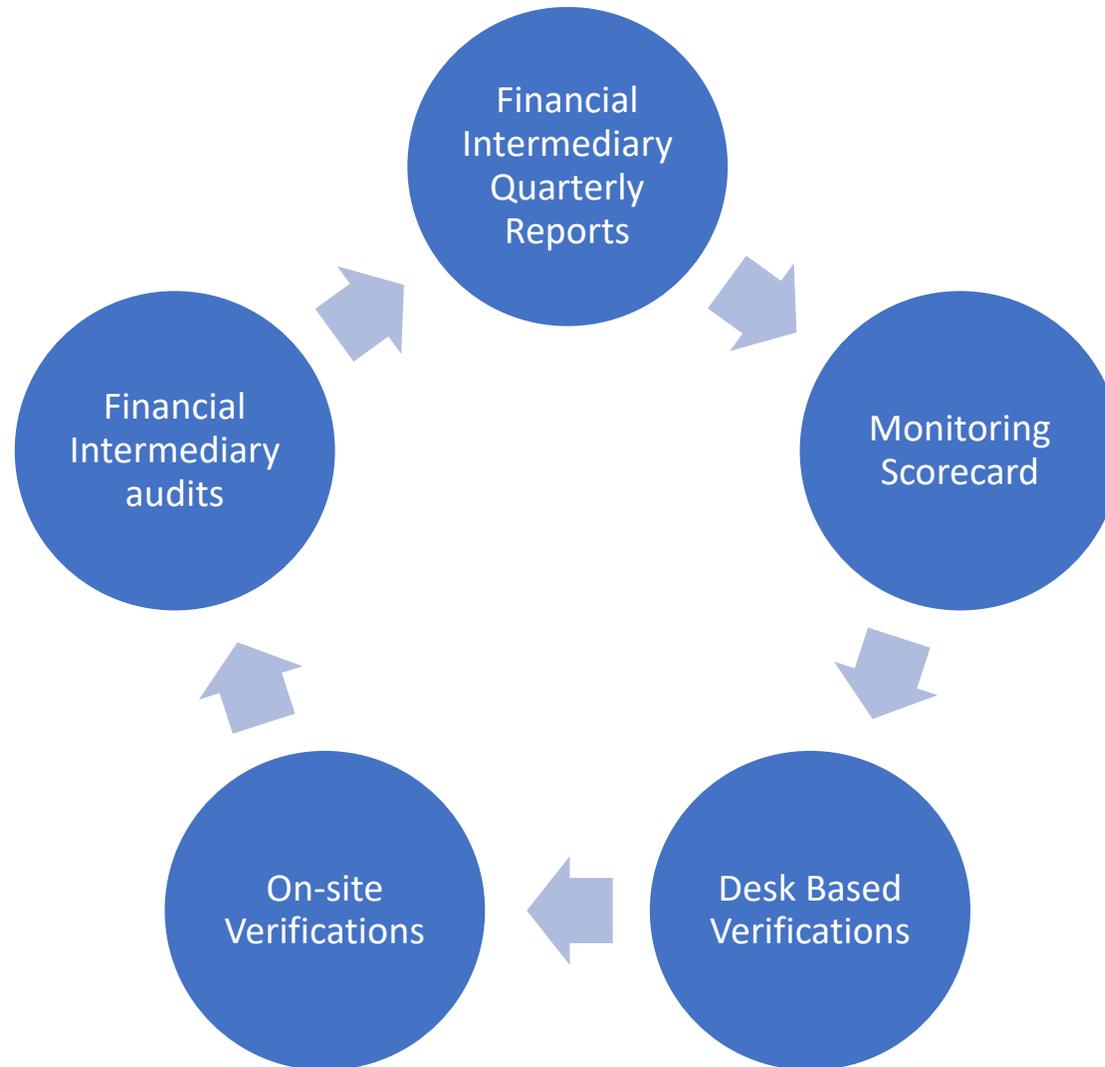
EIB Decentralised Financial Instruments monitoring – Loan products

Andres Karotamm, Head of DFI Mandate Services Unit, European Investment Bank

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DFI Monitoring cycle



Examples of observations

Lack of efficient double-financing verifications

Visibility requirements

Wrong state aid amounts

Absence of proofs to confirm the eligibility

Incorrectly reported data in intermediary reports

Misalignments between intermediary reports and supporting documents (bank statements, contracts)

Cases of double-financing

Loan Agreement clauses not compliant with OA

Recommendations

- Double-financing – stamping of invoices (as a good practice), self declaration, cross-checks in databases (if possible)
- Lack of documents and audit trail – versioning, file handling, sampling and data monitoring
- Wrong data in reports – Enhancement of automatic controls, standardized data entries, automate data transfer, implement four-eyes on data validation
- Non-compliant agreements – compliance controls, involve legal counsel, keep track on changes

Training, knowledge management, early monitoring, awareness of regulatory framework, rules, contracts, guides, etc...



EIF Eligibility Monitoring – Guarantees

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EIF eligibility monitoring - guarantees

Monitoring visits/desk monitoring

Main steps

Activity made at the level of the Intermediary (i.e no direct contact with the Final Recipients)

Risk-based selection of FRTs which are to be reviewed in-depth, with a preference given to FRTs with the higher risk of ineligibility.

Typical documentation requested from the Intermediary:

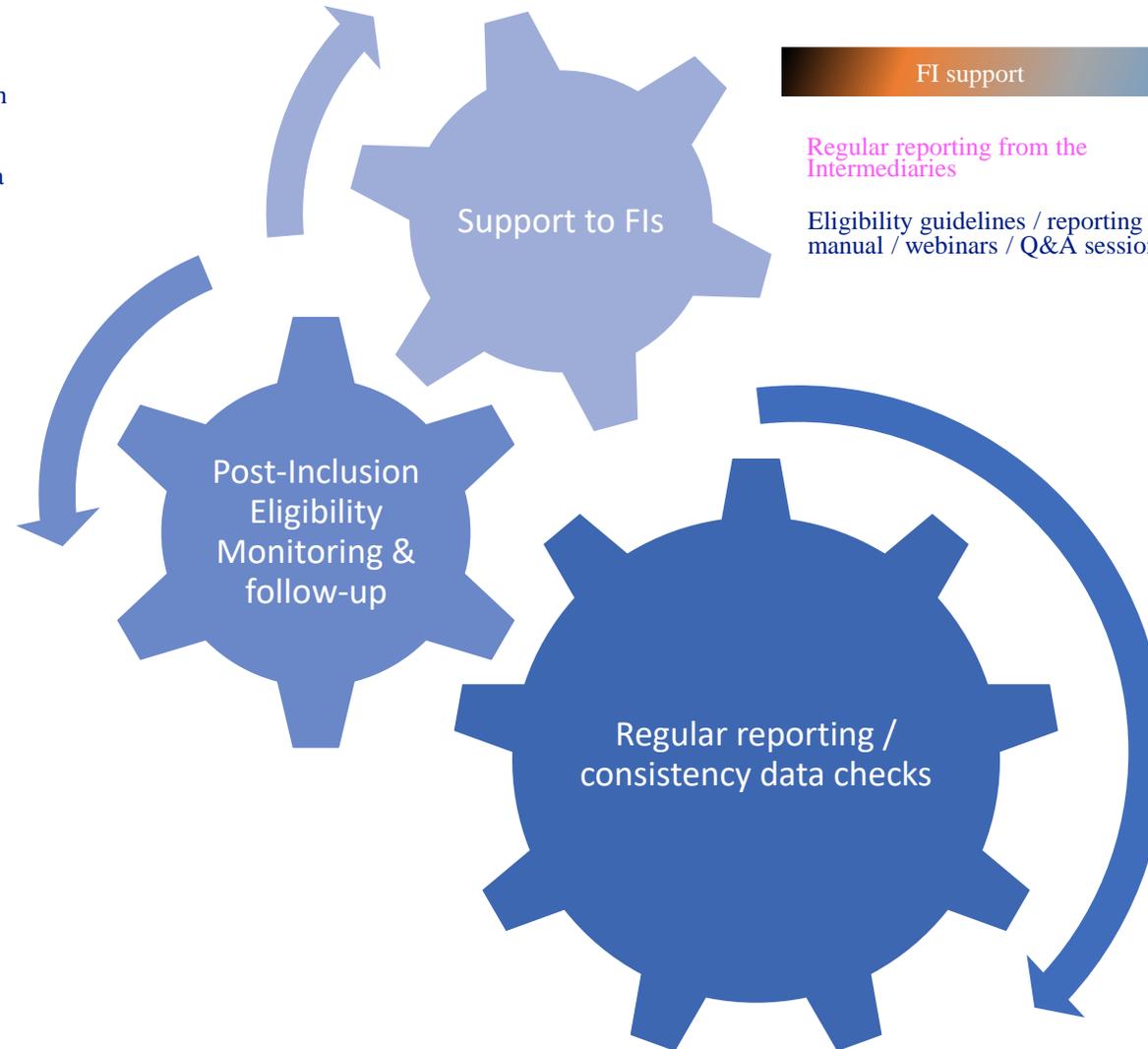
- ✓ Key eligibility-related checkpoints in place in its internal processes (including state aid, where applicable).
- ✓ FRT contract signed between the Intermediary and final recipients;
- ✓ credit proposal/ approval;
- ✓ financial statements & other recipients' documents (e.g. certificate of incorporation of FR);
- ✓ Proof of disbursement to the Final Recipients;
- ✓ checklists used by the FI for reviewing the eligibility (if any);
- ✓ business plan or any other documents on the purpose of the transaction;
- ✓ records evidencing any pricing reduction;
- ✓ Invoices (where applicable for example in case of separation of activities) ;
- ✓ in case of default: additional documentation on the occurrence of the credit event and calculation of loss amount.

Preparation of the internal report highlighting findings

Delivery of a formal letter of findings & recommendations for corrective actions to the Intermediary

If no corrective actions are possible (at this stage or following the Intermediary's feedback), any FRT(s) affected by the detected eligibility issue is excluded from the portfolio

Interaction with the Intermediary concerning recommendations and /or corrective/remedial actions that are to be implemented



FI support

Regular reporting from the Intermediaries

Eligibility guidelines / reporting manual / webinars / Q&A sessions;

Reporting stage

Regular reporting from the Intermediaries

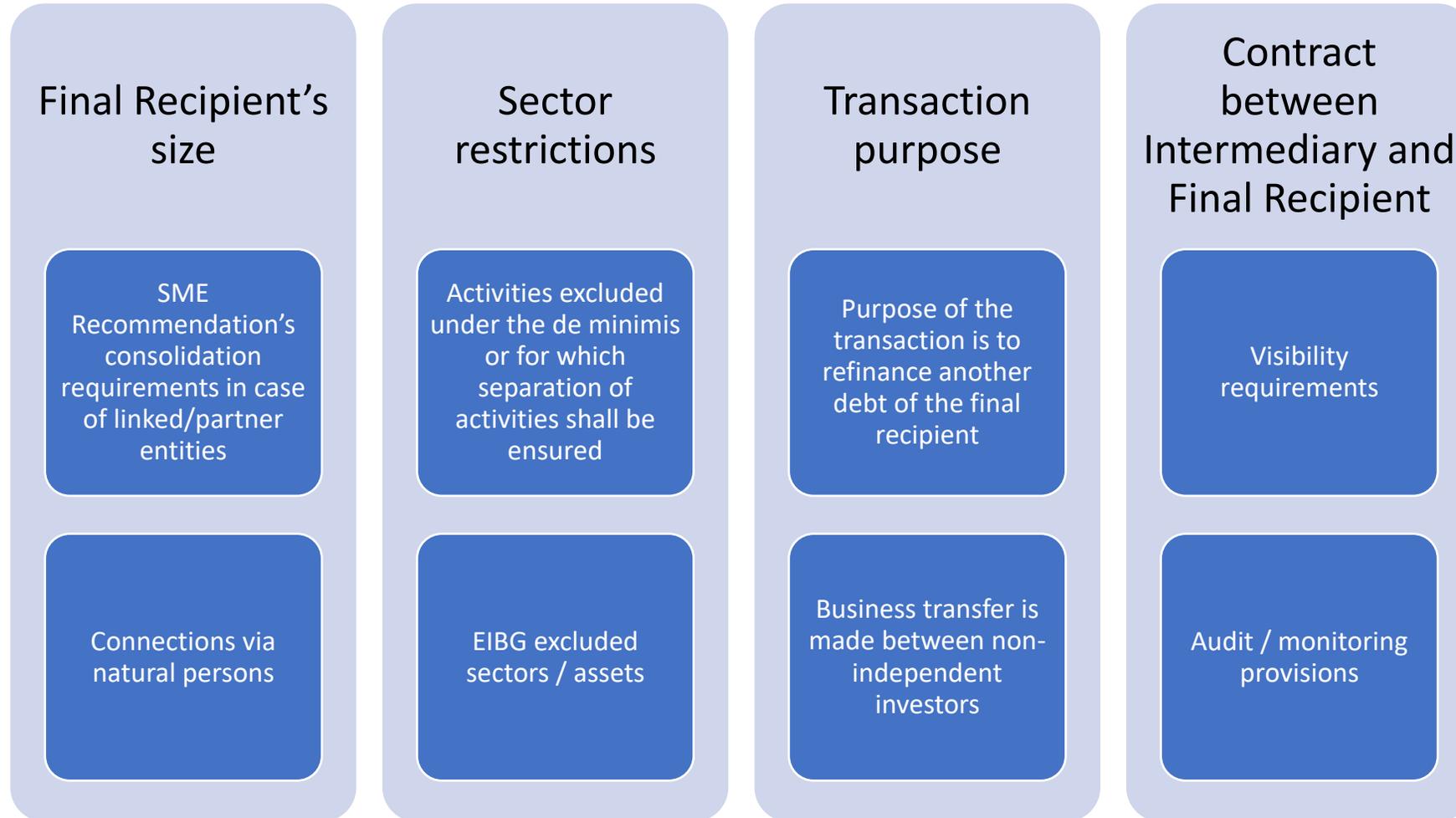
Line-by-line information on final recipients and final recipient transactions originated in the reference period;

Data checks

Rule-based checks on consistency of the reported data against several aspects, including eligibility parameters (checks such as expected data format, dictionary values, eligibility thresholds as per OA);

Orbis SME classification tool screening

Example of some typical monitoring observations



Eligibility – suggestions to intermediaries

- **Purpose** of the transaction to be well documented:
 - To be in line with the allowed purposes of finance (e.g. investments in tangible assets, intangible assets, working capital, business transfer or others);
 - Not to finance restricted or excluded activities/assets;

- **Use of checklist to document the process followed to check eligibility:**
 - The occurrence and time of the eligibility assessment made;
 - The internal service responsible;
 - To ensure maintenance of documentation/audit trail

- **SME status checks :**
 - Collection of financial statements for calculation of headcounts, asset, turnover covering at least 2 (out of 3 years) based on the signature date for linked/partner entities (important AWU calculation);
 - Use of external databases or Commission tool (where possible);

- **Training material :**
 - Internal product term-sheet with main eligibility terms;
 - Internal training to the salesforce;



Thank you!

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