



AUDIT
OFFICE



REPUBLIC
OF CYPRUS

SUBSIDY SCHEME FOR ENTERPRISES AND SELF-EMPLOYED PERSONS

Executive Summary



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AUDITED ENTITY

**Ministry of Finance
Tax Department**

Executive Summary

In the context of dealing with the COVID-19 pandemic, which was officially declared as such by the World Health Organization on 11.3.2020, the Ministry of Health, exercising the powers conferred upon it by the Quarantine Law, Cap. 260, issued Declarations for the implementation of measures to prevent the spread of the new coronavirus.

The Ministry of Finance (MoF), in an effort to support the enterprises and self-employed persons which were negatively affected by the aforementioned measures imposed by the Government, implemented the “Subsidy Scheme for Enterprises and Self-Employed persons that are under total or partial mandatory suspension, in accordance with orders of the Ministry of Health and relevant decisions of the Council of Ministers, whose turnover was affected due to the effects of the pandemic of COVID-19” (the “Scheme”), on the basis of the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak of the European Commission (the “Commission”).

Hereinafter, any reference to ‘enterprises’ should be considered as including Self-Employed persons.



The scope of our audit included the assessment of the appropriateness of the implementation of the Scheme’s provisions, as this was approved by the Commission, including the distinction between eligible and not eligible enterprises, the verification of the accuracy of the subsidy calculations, based on the provisions set by the MoF, and the payment to the beneficiaries by the Tax Department (TD), on the basis of the applicable institutional framework.

The most important findings that have arisen from the audit are summarily presented below:

- ◆ We identified significant deviations in the implementation of the Scheme by the MoF, relative to the provisions of the Scheme as approved by the Commission, which render the payments made to potentially ineligible enterprises and any overpayment, as unlawful state aid.

We recommended that the MoF proceeds with recalculation of the state aid amounts on the basis of the provisions of the Scheme, as approved by the Commission, taking into account all suggestions made by our Office regarding the deviations we have identified, and takes actions for the recovery of unlawful state subsidies.

- ◆ The payment of state aid amounts under the Scheme, commenced before the submission of the Scheme to the office of the Commissioner for State Aid Control, for notification of the

Directorate General for Competition of the Commission, and accordingly prior to receiving the required relevant approval from the Commission.

We recommended that the submission of state aid schemes to the responsible parties/offices is done promptly and the commencement of payments is done in accordance with the State's obligations emanating from the relevant European acquis.

- ◆ The MoF did not comply with its obligations for publishing and reporting relevant information on each individual aid above €100.000 granted under the measure, and €10.000 for the primary agriculture and fisheries sectors, and the submission of an annual report within 12 months from the moment of granting, even though the payment of state aid commenced on 1.2.2021.

We recommended that the MoF complies with its publishing and reporting obligations towards the Commission, and the preparation and submission of the annual report, to ensure, inter alia, the principle of transparency.

- ◆ The TD did not carry out audits to verify whether those receiving state aid under the Scheme complied with their obligation to resume their business activities after the abolition of the restrictive measures.

We recommended that the MoF, in coordination with the TD, performs relevant audits to identify those beneficiaries who have received state aid under the Scheme and did not comply with their obligation to resume their business activities after the abolition of the restrictive measures during 2021, and to take actions to recover the relevant amounts.

- ◆ The MoF did not maintain minutes of the meetings when the important decisions regarding the setting of criteria and other parameters of the Scheme were made; instead, the relevant directions were given either orally or through the internal mail. In addition, we could not locate at the TD's offices, physical or electronic files relating to the Scheme, as approved by the Commission.

We recommended that, for the purposes of transparency and better control, the various criteria and the procedure for determining them should be recorded in detailed minutes, in which the decisions taken should be clearly stated, by analogy with what applies to collective bodies, in accordance with the General Principles of the Administrative Law, Law (L.158(I)/1999).

- ◆ There was no recorded procedure for the implementation of the Scheme, including the allocation of responsibilities between the MoF and the TD, regarding the implementation and monitoring of the relevant actions at all stages of the process, for the avoidance of errors or overlapping of responsibilities. It is noted that based on the decision of the Council of Ministers dated 8.1.2021, the Minister of Finance was authorized, among other things, to determine the procedure for the implementation of the Scheme.
 - ◆ We have not been provided with sufficient audit evidence which supports the MoF's claim, that it had assigned to the TD, from the outset, the responsibility for carrying out checks on all eligibility conditions as outlined in the Scheme, prior to any payments of state aid, other than
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to check whether enterprises represented international business companies, which were not eligible and should be excluded.

- ◆ We could not identify written, clear instructions of the Tax Commissioner or other authorized person to the officials of the TD, registered in the relevant files of the TD, regarding the checks they should be performing based on the conditions of the Scheme, prior to making any payments of state aid to the potential beneficiaries. As a result, amounts of state aid were paid to potentially ineligible enterprises.
- ◆ The MoF did not consider the possibility to request from the TD, either at the outset, or at the point of final determination of the categories of economic activity that would be eligible for support under the Scheme, to perform a search on its internal database and identify and exclude cases that were not beneficiaries or did not meet other relevant conditions of the Scheme.

We recommended that the MoF, during the formulation of similar Schemes, ensures that any conditions and/or exceptions are duly taken into consideration when processing information submitted by other government departments, to the extent this is possible.

- ◆ The Minister of Finance appointed an officer to conduct an Administrative Investigation at the TD to determine the reasons for the erroneous payments to ineligible enterprises in the context of the Scheme, and identify possible responsibilities. According to the Investigation, which was completed in November 2021, 503 enterprises were identified that did not meet the criteria of the Scheme, to which state aid was paid in the total amount of €15,99million.

We emphasized that any state aid paid to ineligible enterprises and any overpayment constitute unlawful state aid and must obligatorily be recovered.

- ◆ We noted that the MoF, during the implementation of the Scheme, included as eligible for state aid, sectors of economic activity for which, although there was no obligation to suspend their activities from the Decrees of the Ministry of Health, it considered that they were negatively affected by the restrictive measures, due to the nature of their operations, whilst, for a limited number of sectors of economic activity, it applied a geographical separation, deeming as potentially eligible enterprises, within the specific economic activities, only those registered at the district offices of Paphos and Famagusta, as it considered that these districts were affected to a greater extent due to their dependency from tourism.

We recommended that the MoF investigates whether payments were made to non-beneficiaries, due to the differentiation of the eligible sectors of economic activity during the implementation of the Scheme, vis-à-vis the approved Scheme by the Commission. Should the MoF identify such cases, we have recommended that it initiates immediately actions to recover said amounts.

- ◆ In the case of travel agencies, we noted that no uniform economic data was used in calculating the amount of state aid, and accordingly some enterprises were favored and others were disadvantaged.

We recommended that, should the MoF deems necessary to perform revised calculations and take corrective actions, that it seeks and secures prior approval by the Commission.

- ◆ The Scheme's conditions, for state-aid calculation purposes, relating to the sectors of economic activity of Retail Trade, were differentiated relative to the other sectors of economic activity. As a result, the principle of equality was not preserved, as the beneficiaries of the Retail Trade of Nicosia, Larnaca and Limassol districts, who were affected to a greater extent and presented a reduction of their Turnover between 35% and 100%, received a lower amount of aid than beneficiaries of other categories of economic activity, where the general model was used. At the same time, a number of enterprises of Nicosia, Larnaca and Limassol districts, which did not meet the condition applied under the general model for a reduction in their Turnover by at least 35%, received state aid.

In addition, for the retail enterprises of Paphos and Ammochostos districts, the state aid amount was calculated based on the general model, with the aim of supporting them to a greater extent, as the MoF considered that they were more heavily affected, due to their dependence on tourism. This differentiation though, resulted in the enterprises of Retail Trade of Paphos and Ammochostos districts which did not meet the condition for a reduction of their Turnover by at least 35%, as defined by the Scheme for the general model, to receive no state aid as they were not eligible for support.

- ◆ Our review of the records for calculating state aid amounts under the general model, we noted the payment of state aid to categories of economic activity that were excluded from support per the relevant exclusion list published by the MoF, exclusion for state aid purposes of economic activities that were not included in the exclusion list of the MoF, as well as errors of omission, calculation, duplication and in limited cases, violation of the maximum amount of state aid allowed under the Scheme to specific categories of economic activity.

We recommended that the MoF abides by the General Principles of Administrative Law, and that it investigates the specific cases and initiates necessary actions to recover the overpayments. In addition, should the MoF wishes to review, for the purposes of providing additional state aid, whether there are categories of economic activity that should have been considered as eligible but they were excluded, that it seeks and obtains prior approval by the Commission.

- ◆ We noted that during the examination of objections filed, the responsible committee did not maintain proper register for monitoring the objections, and in certain cases introduced a new eligibility parameter, in derogation from the Scheme as this was approved by the Commission, thereby violating the principle of equality and transparency.