

AUDIT REPORT

Central Baltic INTERREG V A Cross-border Co-operation Programme 2014 - 2020

DATE OF THE REPORT: 17/11/2017	
Audit number (as in the audit file):	CB-8/2017
Date of the final audit report:	17/11/2017
Accounting period	31/6/2016 - 1/7/2017
Audit scope	Progress report 0.1: € 11 764.70 (100%) Progress report 1.1: € 41 239.78 (100%) Total: € 53 004.48
Auditor(s)	Hannes Vahemäe, Auditor of II Audit Unit, Financial Control Department of Ministry of Finance of Estonia
Place of audit	Tallinn, Estonia
Project name	Sustainable urban nature routes using new IT solutions
Project Acronym	NATTOURS
Project Number	CB226
Priority Axis:	2. Sustainable use of common resources
Project Priority Specific Objectives:	SO 2.1 Natural and cultural resources developed into sustainable tourist attractions
Audited organisation and contact information	Environment Department of Tallinn City Government Harju 13, 10130 Tallinn



PART 1 - AUDIT SCOPE

According to Article 127(7) of Regulation (EU) No 1303/2013 the audit authority is responsible to carry out audits on operations on the basis of supporting documents constituting the audit trail and verify the legality and regularity of expenditure declared to the Commission, including the following aspects:

- a) that the operation was selected in accordance with the selection criteria for the operational programme, was not physically completed or fully implemented before the beneficiary submitted the application for funding under the operational programme, has been implemented in accordance with the approval decision and fulfilled any conditions applicable at the time of the audit concerning its functionality, use, and objectives to be attained;
- b) that the expenditure declared to the Commission corresponds to the accounting records and that the required supporting documentation demonstrates an adequate audit trail;
- c) that for expenditure declared to the Commission determined in accordance with Articles 67(1)(b) and (c) and 109 of Regulation (EU) No 1303/2013 and Article 14(1) of Regulation (EU) No 1304/2013, outputs and results underpinning payments to the beneficiary have been delivered, participant data or other records related to outputs and results are consistent with the information submitted to the Commission and that the required supporting documentation demonstrates an adequate audit trail.

Audit was conducted during the period: 18/08/2017 - 17/11/2017 (on-the-spot verification on 27th of September 2017 at the premises of the Lead Partner, Environment Department of Tallinn City Government)

PART 1.1 - Limitation of scope

There were no limitations of the scope.

PART 1.2 - AUDIT METHODOLOGY

The audit was carried out in compliance with internationally accepted auditing standards (the International Professional Practices Framework by the Institute of the Internal Auditors) and the audit strategy, which is approved by the audit authority and group of auditors representing each Central Baltic INTERREG VA Programme Member State.

The audit process comprised three stages:

a) Preparation and planning of the audit

The legal regulations, programme's and project's documentation and other relevant documentation were collected and analysed. Also, interviews or checklists were prepared for carrying out the administrative checks and on-the-spot controls of the auditor.

b) Fieldwork



Interviews with responsible staff were conducted, documents checked and testing performed. In order to attain the audit objectives, the audit check-list compiled by the Audit Authority was used. The on-spot visit to the auditee was held on 27.09.2017.

c) Reporting

On the basis of audit procedures, conclusions on the implementation of the project were made.

Preliminary report: 10/10/2017
Contradictory procedures: Report sent to the MA and the auditee as a draft: 10/10/2017 and 27/10/2017
Final report: 17/11/2017



PART 2 - FINANCIAL DATA OF OPERATION

Financial data of audited partner must be listed

Partner abbrv. LP/PP	Certified amount in the audit scope								
	Staff Costs	Office And Administration	Travel And Accomodation	External Expertise And Services	Equipment	Infrastructure And Works	Total Expenditure	(netrevenue)	Total
LP	€23 833.96	€3575.09	€12 203.42	€1500.01	€11 892.00	€0.00	€53 004.48	€0.00	€53 004.48
Total	€23 833.96	€3575.09	€12 203.42	€1500.01	€11 892.00	€0.00	€53 004.48	€0.00	€53 004.48

*Data available in eMS Section: CA Certificates > (open needed certificate) > Project report tables

Audited amounts outside the audit scope

Expenditure declared in the following Work packages and Budget lines (EUR):							
	BL1	BL2	BL3	BL4	BL5	BL6	Total
WP	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	0.00						



PART 3 - FINDINGS AND RECOMMENDATIONS

PART 3.1 GENERAL

During the audit, the auditor may identify and document audit findings. These findings are categorised by reference to the level of importance. The categories to classify the findings are as follows:

Major	Findings which have financial impact or any other high risk deficiencies.
Minor	Findings for which action should be taken to ensure full compliance but have no financial consequences.

PART 3.2 FINDINGS AND RECOMMENDATIONS PER BUDGET LINE

In this paragraph the findings and recommendations per audit area are included

E. Procurement procedures

Audit finding No E.1: The Lead Partner has not documented the lack of competitiveness enough (Major finding, without financial impact).

According to the programme manual section 3.6 of the Interreg Central Baltic programme, if the costs are estimated to exceed €5000 (including VAT), a price comparison must be made (if national public procurement level will not apply with lower limits). The comparison must be documented. It also states that, if the service represents unique skills or no other options are available elsewhere in the market, it may not be possible to get price comparisons. This must be documented in a detailed way to prove that the service couldn't have been bought from another supplier.

The Lead Partner has bought 3 outdoor people counters, which cost was €11 892 (including VAT and shipping cost of €190). The price for one counter was therefore €3240. No competitive price offers were taken. The lead partner has explained it as there was only one manufacturer of visitor counters for pedestrians - "Eco-Counter" (<http://www.eco-compteur.com/en/>).

During the audit procedures, the auditor did some research and found also other manufacturers/sellers. One manufacturer - "A & P Chambers Ltd" (<http://www.chambers-electronics.com/>) - responded to the auditor's price asking and made an offer for the counter as follows:

- a) Data logger solution:
 - RBX-EB with data logger: £1095 (about €1213.43¹)
 - Software with USB download lead: £95 (€105.27)
- b) Housing options:
 - Protective housing (pair): £276 (€305.85)
 - Plastic posts (pair): £350 (€387.85)
 - Metal posts (unpainted pair): £450 (€498.67)

¹ For the prices in euros, the auditor has used the central bank of Estonia exchange rates.



- Metal posts (painted pair): £520 (€576.24)

c) Carriage:

- Posts (for up to 2 units): £45 (€49.87)
- Protective housing (for up to 4 units): £20 (€22.16)

By choosing the most expensive solution for the counter, one counter's price would be €1917.1. So there is an estimated price difference of one counter around is €1300, which is about 40% less.

In accordance with the regulation No. 143 of the Government of Estonia from 01/09/2014, § 21 subsection 1, if it becomes apparent that the beneficiary has not complied with his obligations or requirements and in making the repayment decision the extent of damage cannot be assessed due to the nature of the incompliance with obligations or requirements, but there is a reasonable risk that the failure to comply has resulted in damage, the aid shall be recovered, depending on the severity of the violation of two, five, 10, or 25 percent of the subsidy allocated to the set of operations or activities, depending on the impact of circumstances on the eligibility of expenditure. The legal act mentioned, although not directly applicable, establishes a clear practice for Estonia and thus, the opinion of the auditor for reimbursement will be based on this.

In auditor's opinion there were other companies selling outdoor people' counters as well and the lead partner should have done better research to find the best solution (to compare the prices and specifics of the devices) for them.

Since the price asking was done in the early stages of 2016, there is not an accurate way to estimate the violation. Also the auditor refers to the estimated price difference, which is about 40% and the 10% deduction seems reasonable. In auditor's opinion there should be done a 10% deduction of the counters' price €11 892, which is €1189.2.

Recommendation: The Managing Authority is recommended to formalize the financial correction in amount of €1189.2, including the €1010.82 (85%) of programme's funds and €178.38 (15%) of own contribution.

Managing Authority's response: The Managing Authority agrees with the finding and with the recommendation in essence. Projects are guided to use the "unique skills" with caution; it is clear that here other options were available. The MA did an own search and it is clear that several providers exist.

As the Programme Manual states that financial corrections shall be made according to the COCOF guidelines, the MA would recommend the use of this guidance. However, as in this case of bid-at-three no reference is directly applicable, the MA agrees that it would be logical to use the national legislation as a reference and that the level of correction is reasonable.

Auditee's response:

Hereby we describe the process of asking competitive price offers for buying counters:

Right after the start of the project, Tallinn Environment Department and SEI Tallinn started to look for suitable pedestrian counters for Paljassaare bird conservation area. The main conditions for the counter were:

- 1) Invisibility or very good disguise. Paljassaare is 100% natural area, but experiences high level of vandalism. Any "fascinating" object that does not seem to belong there (including metal posts, metal boxes on the trees etc) will be stolen or vandalized within the first months without hesitation.
- 2) Counting range has to be at least 10 metres. The paths are 6–8 metres wide, bordered by ditches with trees and shrub. So the counting device has to be hidden away in the shrubs or trees in order to count all the passers-by on the paths.
- 3) Two-directional counting, that detects the direction of the movement (in or out of the site).



4) Reliable. The producer needs to be known and must have experience.

We asked around in Estonia and Finland, which producers are used in visitor counting either in urban areas or natural areas. EcoCounter came up in both countries. In Estonia, State Environment Board has been using their counters in several places around Estonia. And also the same producer was referred to in Helsinki's context.

Since we needed 3 price offers, Tallinn Environment Department and SEI Tallinn started looking for suitable producers from the web. We googled the keywords "pedestrian counter", "visitor counter", "traffic counter" and looked for potential producers on at least 5 Google result pages. Overwhelmingly, references to Eco-Counter came up, but also several other producers.

There were probably about three other similar producers, but they were offering products that are suitable for streets, not for using in nature. These were either vehicle and traffic counting products (suitable for detecting different sizes and types of vehicles) or electricity powered products that could be suitable for pedestrian and bicycle counting. Unfortunately, at that time we did not see it necessary to record the process, so right now it is not possible to recall with certainty anymore, which producers actually came up as a result of the Google search.

As to Chambers Electronics, we are quite confident, that this producer did not come up in the search at that time, since the brand name is unfamiliar to us. Since the Google search engine uses many tools and algorithms that are updated regularly to determine the order that websites are displayed in search results, it is not possible to restore the actual results of the particular search. It is highly likely, that Chambers Electronics has improved its website during the past 1,5 years in order to land on the front page of Google search.

At that time, spring 2016, we were confident, that Eco-Counter's Pyro Sensor is the only visitor counter available on the market that suites our needs in Paljassaare bird conservation area.

Would we have chosen Chambers Electronics, if we had come across it back in 2016?

No, we would not have.

If we consider the criteria, then the only suitable model from Chambers Electronics that is similar to Eco-Counter's Pyro Range products is RBX-EB, which covers paths 20m in width and distinguishes direction of movement. And indeed, the company Chambers Electronics seems reliable. The main shortcoming is the disguise of the product.

- RBX-EB and Pyro-Range products can both be installed inside a vandalproof box or inside posts, provided by the respective companies. The boxes and posts of both companies are bulky and clearly visible and conspicuous in the natural surroundings and would draw much unwanted attention. That is also the reason we did not choose Eco-Counter's PyroBox, nor Urban Post nor Recycled Post.
- RBX-EB does not have a small version of the counting device. The smallest option is RBX-EB in vandal-proof housing, with the size 120x120x90 mm. Eco-Counter has a small weatherproof option – Pyro Sensor – which is 18x40x90 mm. Pyro Sensor can be hidden much more efficiently in the urban nature and is not conspicuous.
- Pyro Sensor needs only one device: people passing through the infrared beam will be counted. RBX-EB always needs a pair of two posts or boxes that act as transmitter and receiver of radiowave. This pair-system can be more easily damaged.

Hence, the only way RBX-EB has an advantage over Pyro Sensor, is if it corresponds to 3 conditions:

- 1) if it is in a similar small size, comparable to Pyro Sensor, so that it can be hidden in nature;
- 2) if it has one device instead of a pair and
- 3) if it remains cheaper than Eco-counter's Pyro Sensor

Auditee's response 2:



As explained in our response to the audit on October 16, there were other companies selling visitor counters, but these counters were counting vehicles (not applicable in Paljassaare) and were not filling the requirements conditioned by the special location of Paljassaare. As mentioned in our response to the audit, even if Chambers Electronics would have come up in the Google search, we still could not have chosen Chambers Electronics, because it is not possible to hide it in nature and it could be easily vandalized.

Also we would like to reiterate that we did conduct a sufficiently thorough research to find the best solution for Paljassaare visitor counting, as we analysed the solutions offered by different producers on at least 5 search pages. It is impossible to restore the actual results of a particular search in Google that was conducted more than a year ago, since Google search engine uses many tools and algorithms that are updated regularly to determine the order that websites are displayed in search results. Additionally it is very likely that Chambers Electronics has used search engine optimization during the past 1,5 years in order to land on the front page of Google search. But again, as already explained, their products don't meet the requirements conditioned by the special location of Paljassaare.

There is no sense in asking comparative price offers for different products. No other company at that time was offering visitor counters that were suitable for the remote and unsecured location of Paljassaare.

Also, the specific requirements for the counters are mentioned in the explanation provided to the auditor on October 16:

Invisibility; Counting range of at least 10 metres; Two-directional counting; Reliable.

Final conclusion by the auditor: The finding was based on the information that was in the eMS and the information that was given during the audit. In eMS the auditee has added an explanation about counters. In the explanation, the Lead Partner referred that they did some research and stated that they found only one counters' manufacturer in Europe. But the explanation didn't give an overview which other companies they found and what specific requirements they were looking for the counters.

In this finding's comments, the auditee still doesn't give references which manufacturers were found during the research, but gives an overview what kind of counters (specific requirements) they needed for the project. The auditor agrees with auditee that right now it's impossible to recover the Google search findings that were 1.5 year ago. But the auditee should have documented it in a more detailed way (in the explanation, there should have been carried out the specific requirements that they were looking for, what the possible searching results were etc.) to confirm that the Eco-Counter really was the only one to choose and buy.

In the auditor's opinion, the specific rules that were given in the finding's comments are enough to tell now that at the time the Eco-Counter was one of the solutions.

Final recommendation: In future, the Lead Partner is recommended to document the lack of competitiveness more detailed. There should be documented the specific requirements that they are looking for and why the chosen solution is the best for the project.

F. Publicity and Visibility

Audit finding No F.1: The Lead Partner has not replaced a stolen people counter yet (Major finding, potential financial impact)

According to the section 3.7 of the Interreg Central Baltic programme: "the public availability of results is to be guaranteed also after project closure, preferably for at least 5 years." As the project's application shows, the counters are needed to compile the report of visitor surveys.

The audit procedures revealed that one of the procured counters was missing. According to the beneficiary's words, one counter was stolen somewhere between the period of January - February



2017 (the exact date is unknown, because they discovered the theft on the 23rd of February). The beneficiary contacted the police about that on phone, but since they didn't know the exact theft time, the police suggested not to report. As there is no report of the notification of the theft, there is also no written evidence of the theft.

Based on the project's documentation, the theft is not properly proved at the moment and the item purchased not present. Therefore there is the risk that the project will not be able to achieve all of its targets and the rule to guarantee the public availability of the results will not be complied. There is the risk of ineligible expenditure from the project.

Recommendation to the Managing Authority: The MA should specify the public availability rule in the Programme Manual, because right now it's not clear, what the beneficiary should do when something happens with the project outcome or with the result. Also the MA should specify what the beneficiary should do when the project is still on-going and something happens with the purchased items (like in this case - the item was stolen) during the project implementation.

Recommendation to the auditee: The auditee should replace the stolen people counter from its own funds. If the auditee doesn't do that, the Managing Authority is recommended to formalize a financial correction in a full amount of the counter not present.

Managing Authority's response: The MA points out, that the rule of public availability refers to project results (including outputs). In the case of Nattours, the people counters are not an output or result of the project. Rather, they are a tool for calculating the quantifiable impact of the project, i.e. number of visitors and potential increase. Thus, the current rule is not directly applicable in this case. The MA also refers to information received from the project, where they have diligently acted to get the information on the number of visitors also during the time when no counter was in place. At this stage mobile positioning was used as an alternative way. Also, there were 3 counters in Paljassaare and of these 1 was stolen. Thus, the project has at all times been able to count the visitors as planned. The project has now also confirmed that a new counter will be in place shortly.

The MA naturally can confirm, that the rule of keeping results publicly available is a key rule and will be followed. The MA, however, believes that the current explanations in the Programme Manual and Subsidy Contract as well as internal policies drafted in the DoMCS, FLC manual etc, give the MA enough power and also flexibility to ensure a proper follow up of this rule in case of anomalies or surprising events. The MA can share that in the period 2007-2013 there was one case of stolen office computers, and from 2014 this is the first case of stolen equipment. In neither case did the theft have a direct impact on the project results. As these cases are rare and individual, the MA would find it reasonable to treat the cases on an ad hoc basis, referring to the rules defined by the programme.

Auditee's response: We have ordered (on October 30) a new Pyro sensor to replace the stolen sensor. It will be delivered to Tallinn in 10 days.

Final conclusion by the auditor: The MA points out that the counters aren't an output or a result of the project. But they are needed to implement the project. Therefore, when the project is still on-going and something happens with the counter, it should be replaced (like the auditee has now done it).

The purpose to amend the Programme Manual was to give the beneficiaries more information how they should act and what they should do when something happens with the items that were bought during the project implementation. As these situations could result in ineligible expenditure, it is important to give the beneficiaries the necessary guidance.

Final recommendation: The MA should specify in the Programme Manual (or in similar document that's available for the project partner) what the project partner should do when something happens with the purchased items during the project implementation.



PART 4 - AUDIT CONCLUSION

The conclusion of the audit is based on the audit procedures carried out during the audit, including analysis of the information and documents gathered and interviews conducted with the auditee. Based on the audit work performed the auditors have obtained reasonable assurance that the expenditure declared under the audited operation “Sustainable urban nature routes using new IT solutions” (NATTOURS) No CB226 within Priority Axis 2 during the reference year 01.07.2016-30.06.2017 is, in all material aspects, legal and regular. Although two audit findings were reported during the audit.

PART 4.1 FOLLOW-UP

This audit report is compiled for use of the Audit Authority of the Central Baltic INTERREG VA 2014-2020 Programme and will be used to draw conclusions about functioning of the Management and control system of the above mentioned programme. Information in the report will be disclosed to all relevant parties involved in the management of the EU funds, including Commission services.

Parties responsible for audit finding follow-up:

1. Findings with Financial impact - The Audit Authority (AA) will inform the Managing Authority (MA) to take necessary actions to correct shortcomings in the system;
 - a. Deductions will be made by the MA;
 - b. Confirmation of deductions will be made by the AA;
 - c. If needed follow-up audit will be done by GoA member.
2. Findings without the Financial impact
 - a. The MA will be informed and evaluation will be done if further actions are needed;
 - b. Confirmation of actions will be followed-up by the AA and if needed by the GoA member.

Upon request from the MA the Auditee is responsible to implement the recommendations and deliver the proof to the MA.

Audit manager: Hannes Vahemäe <i>Position: Auditor of the II Audit Unit of the Financial Control Department of the Ministry of Finance of Estonia</i>	Signature: Signed electronically
Audit supervisor: Kadi Peets <i>Position: Head of the II Audit Unit of the Financial Control Department of the Ministry of Finance of Estonia</i>	Signature: Signed electronically

