

# AUDIT REPORT

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

DATE OF THE REPORT: 18/10/2017	
Audit number (as in the audit file):	CB-9/2017
Date of the final audit report:	18/10/2017
Accounting period	31/6/2016 - 1/7/2017
Audit scope	Progress report 0.1: € 8235.29 (100%); Progress report 1.1: € 17 751.08 (100%) Audited total: € 25 986.37
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	Sparkling Startups
Project Acronym	SPARKS
Project Number	CB588
Priority Axis:	1. Competitive economy
Project Priority Specific Objectives:	SO 1.1 New Central Baltic knowledge intensive companies
Audited organisation and contact information	Tartu Science Park Foundation Riia 181a, 51014 Tartu



## 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: 23/08/2017 - 18/10/2017 (on-the-spot verification on the 22<sup>nd</sup> of September 2017 at the premises of the Lead Partner, Tartu Science Park Foundation)

### 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 22.09.2017.

**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
Final report:	18/10/2017



## 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	€ 13 980.54	€ 2097.06	€ 9908.77	€ 0.00	€ 0.00	€ 0.00	€ 25 986.37	€ 0.00	€ 25 986.37
<b>Total</b>	<b>€ 13 980.54</b>	<b>€ 2097.06</b>	<b>€ 9908.77</b>	<b>€ 0.00</b>	<b>€ 0.00</b>	<b>€ 0.00</b>	<b>€ 25 986.37</b>	<b>€ 0.00</b>	<b>€ 25 986.37</b>

\*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
<b>Total</b>	<b>0.00</b>						



## 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:

<b>Major</b>	Findings which have financial impact or any other high risk deficiencies.
<b>Minor</b>	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 carried out a public procurement procedure for Travel and Accommodation services (Minor finding, without financial impact).**

According to the Estonian Public Procurement Act § 5, the lead partner Tartu Science Park Foundation is a contracting entity.

During the audit procedures, it occurred that the lead partner doesn't have a contract to receive Travel and Accommodation services. During on-the-spot check, the beneficiary told that they had a contract with CWT Estonia AS some years ago, but right now they don't have any contracted partner. When they need to travel somewhere, then they just contact with CWT Estonia AS. In Report 1, there was only one invoice issued by CWT Estonia AS and its cost was €160.

Although the cost (and the planned project's budget for Travel and Accommodation) doesn't exceed the amount of national threshold (or 5000€), the lead partner is a contracting entity according to the national legislation and has to follow the Public Procurement Act.

As the planned costs in total for the Budget Line do not exceed the threshold of €5000 (according to the Program Manual's subsection 3.6, no price comparison has to be made), the auditor considers the findings in the context of project implementation as minor, with no financial impact.

**Recommendation:**

The auditee should evaluate the total costs of travel and accommodation services for the whole organization as stipulated with the Public Procurement Act and in case the total amount exceeds the national threshold for service contracts, a public procurement procedure for travel and accommodation services should be carried out. If the auditee doesn't carry out a public procurement procedure, there might be financial impact.

**Managing Authority's response:**

Travel costs can be seen from two perspectives: the use of the service of a travel company or the individual price of a travel. If a service is bought, normal tendering procedures have to be followed. In case individual travels are purchased directly, bid-at-three for the travel wouldn't be needed. This is due to the fact that the travel is not a typical service and there are several other aspects that have



to be taken into account apart from the price (availability of connections, number of connections, timetable of connections vs meeting times) wherefore a simple bid-at-three is not relevant.

**Auditee's response:**

We will organize tender process to select travel and accommodation service provider for the whole organization and will have service contract for a minimum duration of 01.01.2018 until 31.12.2018 as it is also the financial year for our organization and enables correct process flow and monitoring of tender procedures.

**Final conclusion by the auditor:**

As the audit finding was addressed towards the whole organization of the Lead Partner, the auditor accepts the auditee's response to follow the requirements set with the national Public Procurement Act and to organize a tender procedures for the coming financial year.

**D.State Aid**

**Audit finding No D.1: The auditee gives direct state aid and it should be registered/declared in the national state aid register (Major finding, potential financial impact).**

Programme Manual states that "the Lead Partner is responsible for identifying the amounts of De Minimis received by target group companies. The services can be for example provided as face-to-face consultations by external experts to support the company, paying expenses of companies' representatives for travel and accommodation to take part in events, participation fees of companies, costs related to trade fairs etc."

According to the project application and during the audit procedures, it occurred that the project is financing travel and accommodation costs to the start-ups, when they visit Finland. In auditor's opinion, it is a state aid to the beneficiaries and it should be declared to the national state aid register.

Compensation to the final beneficiaries wasn't declared in Lead Partner's Report 1, but the costs will be reported with next progress reports.

**Recommendation:**

Before granting the de minimis aid to the start-ups, the auditee should check from the national state aid register whether the final beneficiary is allowed to receive additional state aid under the De-minimis rule. Then the auditee should inform the MA and national registrar about giving State Aid under the De-Minimis rule to the beneficiaries.

**Managing Authority's response:**

The MA agrees with the finding and recommendation. The procedure is explained for the project in more detail in the Programme Manual v 2.4.

**Auditee's response:**

In concern to auditors remark about giving de-minimis aid to target group companies we will follow the guidelines of Ministry of Finance, guidelines of Central Baltic Programme (foremost its Programme Manual) and national legislation regulating de-minimis aid processes and we will proceed accordingly to register support given to target group companies in registry of state aid "Riigiabi ja vähese tähtsusega abi registris (RAR)" as its foreseen in abovementioned documents. We will submit necessary data to RAR as soon as possible, but not later as 31.12.2017. We have made background checks in the respective registry and have confirmed that all supported companies by the project have necessary free de-minimis aid amount (up to 200k€) available as of today.

**Final conclusion by the auditor:** There's no additional comments from the auditor.



## **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 “Sparkling Startups” (SPARKS) No CB588 within Priority Axis 1 during the reference year 01.07.2016-30.06.2017 is, in all material aspects, legal and regular.

As there have been made two audit findings, there might be potential financial impact on the eligible costs reported with the future progress reports.

### **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 relevant parties involved of management of the EU funds, including Commission services.

Parties responsible of 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.

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

