



**Estonia-Latvia
Cross-Border Co-operation Programme
2014-2020**

Project No:	Est-Lat 43
Project name:	How the Shammies Learned
Project Partners Name (LP/PP):	Digital Learning Systems OÜ (LP)
Fund:	European Regional Development Fund
Target objective:	SO 1.2: More jointly developed products and services in the programme area
Audit No:	ELP-5/2018
Audit organisation:	Ministry of Finance

Final audit report

25.01.2019



REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

SUMMARY OF AUDIT RESULTS

Audit outcome:

Based on the audit work performed, the auditor has obtained reasonable assurance that the expenditure declared is generally in all material aspects legal and regular and in compliance with the programme rules. However, the auditor has made two significant findings.

Audit opinion¹: Significant findings

- [Finding No 1.1: The partner has received funds twice for one cost document. Ineligible costs €200.00 \(significant\);](#)
- [Finding No 4.1: The partner has not taken comparative offers for financial management service. Ineligible costs €144.00 within the audit scope and €190 outside the audit scope \(significant\)](#)

The project audit has been carried out in compliance with the [International Standards for the Professional Practice of Internal Auditing](#).

We wish to thank the auditee for the assistance and cooperation provided during the audit.

We confirm that the final audit report consists of **8 pages**.

¹ **Significant findings** are those that have or may have a financial impact (i.e. ineligible expenditure). **Non-significant findings** are those that have no financial impact but whose correction will help the beneficiary to lower risks while implementing the project.

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PART A

1. Audit object and audited expenses

1.1 GENERAL INFORMATION ABOUT THE AUDIT	
Project name:	How the Shammies Learned
Project number:	Est-Lat 43
Priority and target objective:	SO 1.2: More jointly developed products and services in the programme area
Beneficiary (LP):	Digital Learning Systems OÜ
Contact person:	L. Päit
Date of subsidy contract:	25/05/2017
Audit scope and period:	€61 723,42; 01/02/2017 – 30/09/2017
1.2 INFORMATION ABOUT THE AUDIT	
Basis:	<ul style="list-style-type: none"> - Article 127(1) of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2103 - Audit Authority's work plan for 2018.
Objective:	<p>To provide an audit opinion that:</p> <ul style="list-style-type: none"> - the operation was selected in accordance with the selection criteria for the operational programme; - the expenditure declared to the Commission corresponds to the accounting records and that the required supporting documentation demonstrates an adequate audit trail; - for expenditure declared to the Commission, outputs and results underpinning payments to the beneficiary have been delivered.
Person(s) carrying out the audit:	Mart Pechter, Financial Control Department, Audit Unit II, lead auditor
Audit duration:	21/05/2018 – 08/01/2019
Methodology:	Audit manual of the Estonia-Latvia Programme
Audit procedures performed at the beneficiary:	<p>During the on-the-spot check, interviews were conducted with the persons involved in project implementation and analysis/evaluation was made of the following:</p> <ul style="list-style-type: none"> - project's actual implementation, - documentation related to project implementation, - eligibility of costs,

	<ul style="list-style-type: none"> - arrangement of book-keeping related to the project, - existence of co-financing, - use of the logos. 			
Sampling methodology (if applicable, then information shall be provided by the AA):	- Not applicable			
1.3 AUDITED EXPENSES				
Total amount of certified expenses subject to auditors' opinion on the basis of cost documents:	Period 0: 01/02/2017 – 01/02/2017; €5000.00 Period 1: 01/02/2017 – 31/05/2017; €31 089.49 Period 2: 01/06/2017 – 30/09/2017; €25 633.93			
Size of the sample (EUR; %)²:	€61 723.42, 100%			
Ineligible expenditure identified (EUR): amount				
	EU contribution	National public contribution	Private sector contribution	Total
Ineligible amount (EUR):	286.31	0.00	57.69	344.00
Ineligible amount outside the audit scope (EUR):	158.14	0.00	31.86	190.00
Error rate (%)³:	0.56%			

2. Limitations

The audit procedures were carried out in compliance with internationally accepted auditing standards⁴ and the audit report was prepared using the principles of independence and objectivity.

Auditors conclude that all data presented during the audit and other oral and written information made available during the audit presents a true and fair view of the activities performed during the project implementation and are sufficient to provide an opinion about the project. In case of additional information that was not provided or was not known to auditors, the conclusions reached by auditors might have been different.

3. Audit follow-up activities

The beneficiary shall take into account the findings and recommendations made in Part B and the decisions made by the MA. The AA shall monitor the implementation of recommendations made by the auditors.

² If a sample was not used for auditing, the size of the sample is the total population in euros and the share of audited expenses to total population is 100%.

³ Share of ineligible expenses to audited expenses (%). If a sample was used for auditing, the share of ineligible expenses to the sample size shall be used.

⁴ The International Professional Practices Framework (IPPF) of the Institute of Internal Auditors.

PART B

AUDIT FINDINGS

1. Use of funding as intended

The funding has generally been used in material aspects in the intended manner, in a reasonable and efficient way and in accordance with the objectives and requirements laid down in the subsidy contract and the programme manual. Still, there was an instance where a cost document was accidentally claimed twice by the partner.

Audit Finding No 1.1 - The partner has received funds twice for one cost document. Ineligible costs €200.00 (significant)

According to the Programme manual⁵ point 5.2, any expenditure already supported by European, international or national grants is ineligible expenditure.

During the audit, it became apparent that a single cost document had been presented by the partner and paid out by the Programme twice.

The cost document No 2017029 by Kirsiaed OÜ from 30.04.2017 had originally been presented by the beneficiary in Report 1 along with other cost documents from the same service provider.

The cost documents of that service provider were then removed by the Financial Control function of the Programme, as the external expertise in question had not been approved by the original application. By mistake, the one cost document No 2017029 was not removed by the Financial Control function along with the other cost documents from that service provider and its costs were subsequently paid out.

The partner applied for a change from the Programme that would recognize the external expertise in question as eligible. Upon receiving the approval, the partner re-presented the cost documents from that service provider that were removed from Report 1 again in Report 2, along with the one cost document which costs had already been paid out by the Programme. By mistake, the Financial Control function did not notice that the cost document No 2017029 was already paid out with Report 1 and its costs were subsequently paid out for the second time.

Conclusions and risks

Based on the description of the finding, the auditor finds that the costs in question have been paid out to the partner twice, which means that one of those cases is ineligible in its entirety. However, the auditor considers this case a simple mistake with no effect on any other expenditure. The ineligible costs are €200.00 in total.

Recommendation

The auditor recommends the partner to pay more attention to the more complicated cases where mix-ups such as the one at hand could occur.

The auditor also recommends the Managing Authority to start the procedure for reclaiming the ineligible amounts.

Comment by the auditee

We thank auditor for finding this double payment. We will keep more attention to the reports in order to avoid these type of errors.

Comment by the Managing Authority

⁵ Cooperation Programme Interreg V-A — Estonia–Latvia

The finding could be described better as it is not clear, how the costs were paid out with the first report, if they were found ineligible. Also it is not clear from the finding that the same costs were paid out with the second report. Other than that, we agree with the finding and will begin the process to reclaim the ineligible amounts.

Additional comment by the auditor

The finding has been updated to clarify the issues pointed out by the Managing Authority.

2. Accuracy of book-keeping records

The book-keeping records for the project are in all material aspects in compliance with the current legislation.

3. Amount and timing of funding

The granting of funding has in all material aspects been made available in the amount foreseen and on time, and the co-financing has been guaranteed.

4. Carrying out of public procurements

There were no public procurements in the audited population of costs. By taking competitive price offers, or by explaining the reasons for direct purchases, the beneficiary has generally in all material aspects followed the programme rules. Still, there was an instance where the competitive price offers were not taken.

Audit Finding No 4.1 - The partner has not taken comparative offers for financial management service. Ineligible costs €144.00 within the audit scope and €190 outside the audit scope (*significant*)

According to the Programme manual point 5.5, the requirement for taking competitive price offers applies to purchases from €5000.00.

During the audit, it became apparent that no offers had been taken for contracting a service provider Kirsiaed OÜ for the external expertise of financial management.

The service provider in question was contracted by the partner until June 2018, when another service provider took over the same responsibility of external expertise of financial management. Eligible costs of the service provider as reported by the partner until that time were €1640.00 within the audit scope and €1900.00 outside the audit scope.

However, it must be considered that with the contracting of a new service provider for the partner, the total amount for the external expertise of financial management will exceed €5000.00 for the duration of the project.

As the external expertise of financial management is a continuous part of the project for most of its lifetime, its costs must then also be regarded in total for the project's lifetime, regardless of the provider.

Conclusions and risks

Based on the description of the finding, the auditor finds that the partner has not followed the principle of taking competitive offers, which means that all eligible sums from the first service provider, Kirsiaed OÜ as reported by the partner are partly ineligible, both within the audit scope and outside of it. However, the auditor considers the costs by the later service provider not affected by this error, as the partner did take a comparative offer for contracting that service provider. The auditor recommends a 10% reduction of all eligible sums affected. The ineligible costs are thus €144.00 within the audit scope and €190.00 outside the audit scope. This does not count the ineligible costs from the audit finding No 1.1, which also affects those amounts.

Recommendation

The auditor recommends the partner to plan out the amounts paid for continuous tasks that are contracted as external expertise. If it becomes obvious that the sums contracted for might exceed €5000.00 for the lifetime of the project and there is a competitive market for the service, offers must always be taken before contracting.

The auditor also recommends the Managing Authority to start the procedure for reclaiming the ineligible amounts.

Comment by the auditee

Kirsiaed OÜ has been long time loyal partner of the company and has previous experience in financial management of technology and product development company, previous extensive experience in EU and governmental grants. It is not a matter of getting the best price, but experience and work quality.

However, auditee accepts the comments of the auditor. Auditee will follow the recommendations in the future.

Comment by the Managing Authority

The Lead Partner may have assumed at first that the costs will be less than €5000.00 and thus decided not to take comparative offers. However, if they agree with the finding, then they have understood the point and taken responsibility. Also, we agree with the finding and will begin the process to reclaim the ineligible amounts.

5. Granting of state aid

The funding has been granted and used in accordance with the state aid rules.

6. Communication and publicity

When informing and disclosing the use of funding, the beneficiary has in all material aspects followed the current legislation.

7. Other comments (if applicable)

N/A

We confirm that the final audit report has 8 pages.

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Audit supervisor:

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Head of Unit

Tallinn, 25/01/2019