

# AUDIT OF OPERATION REPORT

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

<b>AUDIT NUMBER:</b>	
Date of final audit report	24.10.2019
Contradictory procedure	30.08.2019-24.10.2019
Accounting period	01.07.2018 - 30.06.2019
Audit scope	Progress report No. 5.1 and 64 297,15 EUR 100% audited
Auditor(s)	<i>Kätlin Teedla (auditor), Auditor of II Audit Unit Financial Control Department of Ministry of Finance of Estonia, Suur-Ameerika 1, 10129 Tallinn, Estonia</i>  <i>Mart Pechter (audit manager), Lead Auditor of II Audit Unit Financial Control Department of Ministry of Finance of Estonia Suur-Ameerika 1, 10129 Tallinn, Estonia</i>  <i>Kadi Peets (audit supervisor), Head of the II Audit Unit Financial Control Department of Ministry of Finance of Estonia Suur-Ameerika 1, 10129 Tallinn, Estonia</i>
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Place of the audit	<i>Narva Department for City Development and Economy</i>
Persons present during the audit	<i>Natalja Smelova (Chief Financial Officer), Anne Veevo (Head of Project Services)</i>
Date of on-the-spot checks	18.06.2019
Full project name	<i>Small port every 30 miles apart - Development of services for lively water tourism in the Eastern Gulf of Finland</i>
Project Number & Acronym	<i>CB94 30MILES</i>
Priority Axis	<b>3. Well-connected Central Baltic region</b>
Specific Objective	<b>SO 3.2 Improved services of existing small ports to improve local and regional mobility and contribute to tourism development</b>
Reporting Period	01/09/2017 - 28/02/2018
Name of the Lead Partner	Kotka Maritime Research Center
Project duration (start and end dates)	01/09/2015 - 30/11/2018
<b>AUDIT CONCLUSION</b>	<i>Based on the audit work performed we have obtained reasonable assurance that the expenditure declared under the audited operation „30MILES“ No. CB94 within priority axis 3 in the reference year 2019 is, in most material aspects, legal and regular and the objectives of the project achieved. However, the auditors made a finding with financial impact in regard to carrying out public procurements. The summarized list of findings identified during the audit is presented in the following table and report.</i>



Number of findings	Total Financial Impact	Total Financial Impact ERDF	Nature of the finding(s)
1	€ 7,800.00, in audit scope € 4,372.50, outside audit scope € 3,427.50	€ 6,630.00, in audit scope € 3,716.63, outside audit scope € 2,913.37	Public Procurement No. 181303 qualification conditions do not comply with the principles of equal treatment, proportionality and fair competition. (Major finding, with financial impact)
2	€ 0.00	€ 0.00	The auditee has not carried out public procurement procedure for Travel and Accommodation services. (Minor finding, without financial impact)
3	€ 0.00	€ 0.00	The MA has not properly recorded the <i>de minimis</i> aid in the Subsidy Contract and in the state aid register. (Minor finding, without financial impact)
4	€ 0.00	€ 0.00	The storage of project documentation until 04.02.2026 is not assured. (Minor finding, without financial impact)
5	€ 0.00	€ 0.00	Publicity requirements have not been followed. (Minor finding, without financial impact)



## PART 1 - AUDIT SCOPE

According to Article 127 of Regulation (EU) No 1303/2013 the audit authority is responsible to carry out audits of 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.

### PART 1.1 - LIMITATION OF SCOPE

The conclusions of the audit are based on the analysis of the procedure in place, information and documents gathered and interviews conducted in the audited bodies as well as the tests performed in the course of the audit following the checklist for the audit areas.

*There were no limitations of the scope.*

### PART 1.2 - AUDIT METHODOLOGY

The audit is carried out in compliance with international accepted auditing standards 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 comprises of three stages:

#### a) Preparation and planning of the audit

In this stage legal regulations and other documentation, including from the management verification ex Regulation (EU) No 1299/2013, Article 23(4), needed for familiarising with the selected operations were collected and analysed. Also, interviews or checklists sent if needed for the planning of the audit, familiarising with the functioning of the system, project files structure, the objectives and the status of implementation of the operations, the risk encountered during the implementation as well as those inherent to the type of operations.

#### b) Fieldwork

At this stage a whole range of interviews with responsible staff were conducted, documents were gathered and testing was performed. In order to attain the audit objectives during the audit we tested all applicable audit areas. We performed the audit using the checklists for the several audit areas which enabled us to verify the requirements laid down in European and national legislation.

With the aim to attain the audit objectives, the fieldwork was carried out including on the spot visits on **18/06/2019**.



## c) Reporting

This stage encompassed activities related to the preparation of the Draft Report and the contradictory procedure where auditee has been granted 10 working days to reflect on the audit report, the inclusion of their replies and comments and the submission of the Final Report.

Provide the actual schedule of the contradictory procedure as following

Preliminary report: 30.08.2019, 24.09.2018

Final report: 24.10.2019

## PART 2 - FINANCIAL DATA OF OPERATION

Financial data of audited partner must be listed

PART 2.1 - BUDGET (€)				
Audited Partners approved budget	Granted in total for the partner	%	Payments included in the payment claim 5.1	%
ERDF	€ 142,821.24	85%	€ 54,652.58	85%
Public funding (total)	€ 25,203.75	15%	€ 9,644.57	15%
Private funding	€ 0.00	0%	€ 0.00	0%
Income	€ 0.00	0%	€ 0.00	0%
<b>TOTAL PARTNER BUDGET</b>	<b>€ 168,024.99</b>	<b>100%</b>	<b>€ 64,297.15</b>	<b>100%</b>

Audited expenditure (according to the Sample, report 5.1)			
Budget Line		Total amount audited (combining milestones)	Ineligible detected in audit scope
1.	Staff costs	€ 8,410.33	€ 0.00
2.	Office and administration	€ 1,261.54	€ 0.00
3.	Travel and accommodation	€ 1,325.14	€ 0.00
4.	External expertise and services	€ 23,343.34	€ 4,372.50
5.	Equipment	€ 0.00	€ 0.00
6.	Infrastructure and works	€ 29,956.80	€ 0,00
<b>Total amount audited</b>		<b>€ 64,297.15</b>	<b>€ 4,372.50</b>

Audited expenditure (outside the Sample)			
Budget Line		Total amount audited (combining milestones)	Ineligible
1.	Staff costs	€ 0.00	€ 0.00
2.	Office and administration	€ 0.00	€ 0.00
3.	Travel and accommodation	€ 0.00	€ 0.00
4.	External expertise and services	€ 13,710.00	€ 3,427.50
5.	Equipment	€ 0.00	€ 0.00
6.	Infrastructure and works	€ 0.00	€ 0.00
<b>Total amount audited</b>		<b>€ 13,710.00</b>	<b>€ 3,427.50</b>



## PART 3 - FINDINGS AND RECOMMENDATIONS

### PART 3.1 GENERAL

During the audit we identify and document audit findings. We categorise these findings by reference to the level of importance. The categories which we use to classify our findings are as follows:

<b>Major</b>	Findings which have a financial impact above EUR 250 (ERDF) or any other high-risk deficiencies.
<b>Minor</b>	Findings for which action should be taken to ensure full compliance but have a limited financial impact (below EUR 250 (ERDF)), no financial consequences or no high-risk character.

All audit findings are reported in the final audit report, even if the Member States participating in the Programme may decide that neither the lead beneficiary nor the Programme's MA is obliged to recover an amount unduly paid which does not exceed EUR 250, per operation and accounting year, not including interest, in contribution from the Funds and the EMFF, as all the irregular amounts detected are to be taken into account for the calculation of the annual Total Error Rate of the Programme.

### 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. 1 - Public Procurement No. 181303 qualification conditions do not comply with the principles of equal treatment, proportionality and fair competition. Ineligible cost € 7800, in audit scope € 4,372.50, outside audit scope € 3,427.50. (Major finding, with financial impact)**

The beneficiary is required to follow the principles set out in Public Procurement Act<sup>1</sup> § 3 (3) stating that all persons<sup>2</sup> must be treated equally and without discrimination by the contracting authority and that the contracting authority must make certain that all restrictions and criteria established for the persons are proportional, relevant and justified in relation to the purpose of the public procurement.

According to Public Procurement Act § 39 (1), the award criteria must be sufficient for proving the tenderer's or candidate's ability to duly perform the public contract; and relevant and proportional to the nature, quantity and purpose of the supplies, services or public works that constitute the object of the public contract.

The beneficiary and project partners Ida-Viru Enterprise Centre, Non-Profit Organisation of Eisma Harbour, Viimsi Municipality, Estonian Maritime Museum and Narva-Jõesuu Municipality organized public procurement No. 181303 to implement „30Miles“ project marketing plan. Estonian Maritime Museum was authorized by project partners to carry out the public procurement No. 181303.

<sup>1</sup> RT I, 23.03.2015, 24

<sup>2</sup> whose place of residence or seat is in Estonia, in another Member State of the European Union, in another contracting party to the EEA Agreement or in a state that has joined the Government Procurement Agreement (GPA) of the WTO



The procurement was carried out to implement the marketing plan already created to introduce the project and the harbours in Estonia and on the neighbouring markets (Finland, Sweden). Among others, the following qualification conditions were set in contract notice:

- 1) During the last three (2013-2015) years the tenderer must have properly implemented at least five marketing projects in five different markets.
- 2) During the last three (2013-2015) years the tenderer must have had experience in marketing harbours.
- 3) Tenderer must provide a project manager, who has professional experience of at least 15 years in marketing management.
- 4) Required linguistic skills for project manager: Estonian and English (level C1), Finnish, Swedish and Russian (level B1).

The auditors came to a position that those qualification conditions (1-4) are not proportionate to the subject matter of the contract and could also be considered as discriminatory, thereby creating an unjustified barrier for potential tenderers. According to that, there is a conflict with the Public Procurement Act § 3 (3) rules relating to equal treatment and proportionality and therefore this might have affected the effectiveness of competition.

The auditee has also notified the contracting authority<sup>3</sup> that the qualification conditions are restrictive, but contracting authority Estonian Maritime Museum didn't take the comments into account, although it was stated in the mandate<sup>4</sup>, that Estonian Maritime museum should follow Public Procurement Act § 13 (1) and accept all the comments and recommendations made by the auditee.

The Estonian Maritime Museum has explained that:

- The procurement No. 181303 involved six different partners, meaning implementation of six marketing projects with different nuances in different markets. To ensure smooth collaboration between six project partners and to achieve the goals, it was appropriate to set the qualification conditions (1-4) for the tenderer and the project manager.
- Previous marketing experience in different markets gives assurance that the procurement goals will be achieved.
- The success of the procurement depends on the project manager's ability to effectively meet various challenges and long experience (15 years) ensures that.
- The five language speaking requirement was appropriate and proportionate, because project manager had to communicate with partners in five different languages. The language requirement cannot be replaced by the involvement of an interpreter, since communication through an interpreter significantly complicates work processes and the involvement of a qualified interpreter requires significant additional resources.

Auditors disagree with Estonian Maritime Museum explanations. Unnecessary restrictions on bidders may eliminate companies otherwise qualified for the implementation of the contract. Auditors' opinion is based on following conclusions:

- The procurement No. 181303 involved six partners, but there was only one marketing project for all partners and the works done for all partners were similar<sup>5</sup> (updating website information, preparing and printing marketing materials etc.)
- The contract between contracting authority and tenderer lasted for 1 year and 4 months, meaning that marketing on an international market can be time consuming and the number of providers who have completed other five marketing projects in five markets during three years, is narrow or is clearly focusing on bigger marketing agencies.

<sup>3</sup> D4-8-22

<sup>4</sup> D4-8-14

<sup>5</sup> See D4-8-8 P 3.5 (Actions to implement the marketing plan) and D4-8-16



- Harbour marketing doesn't differ from marketing any other similar object (e.g. an airport).
- The requirement of 15 years of work experience in marketing management is restrictive, as the project manager's ability to perform his duties would have been proven also by a lighter condition.
- Linguistic skills requirement can be a barrier, since there is an opportunity to involve other team member or interpreter to help translate materials into appropriate language and use English in official communication.
- The contracting authority stipulated that the project manager must speak Estonian, English, Finnish, Swedish and Russian, but asked proof of proficiency only for Estonian and English. Thus the contracting authority set a condition that was not checked.
- There were four interested persons, but only one of them actually submitted tender.
- One interested person asked if it's required that one project manager meets all required conditions or may be involved multiple project managers with different technical, professional and linguistic skills. The contracting authority answered that just one project manager must meet the requirements.

The purpose of the qualification procedure is to identify those economic operators who are capable of performing and completing the contract to be awarded. Those conditions in this case, as the auditors argue, aren't proportionate to the object of the procurement. Setting such restricted qualification criteria will not help achieve the project goal as effectively as possible and do not comply with the principles of Public Procurement Act § 3.

Auditors note that Estonian Maritime Museum had previously procured the set-up of the marketing plan (public procurement No. 176666), which results were the basis for procurement No. 181303. The same restrictive criteria (1-4) were used also in the public procurement No. 176666 and the same tenderer was contracted to provide the services. The public procurement No. 176666 is not in audit scope, but the costs have been co-financed from the budget of „30Miles“ project in regard to three project partners (Estonian Maritime Museum, Viimsi Municipality and Narva-Jõesuu Municipality).

In addition, the auditors found another error in complying with Public Procurement Act § 3. Some of the works<sup>6</sup> listed in the procurement No. 181303 document had to be completed by 28.02.2017, however, the contract was signed on 23.03.2017. Therefore, some works had to be completed before the contract was signed. In the auditors' opinion, the contracting authority's estimations are possibly mistaken in terms of the time-limits for the execution of the contract and this could distort competition because potential bidders did possibly not make a tender due to an unreasonably short deadline.

Procurement No. 181303 qualification conditions are not proportionate to the subject matter of the contract and the minimum level of competition was not ensured. Therefore looking all the procurement errors in the gathering, the auditors came to conclusion that contracting authority wanted the same company (Turundusproff OÜ) who developed the marketing plan, to also implement the marketing plan. To accomplish this, restrictive qualification conditions were set, so only one tenderer was able to submit a tender. According to EC Guidelines<sup>7</sup> Section 2 point 11 financial correction 25% is applied when exclusion, selection and/or award criteria or conditions for performance of contracts led to a situation where only one economic operator could submit a tender and this outcome cannot be justified by the technical specificity of the contract in question.

#### **Conclusion:**

Procurement No. 181303 documents include qualification criteria, which are not proportionate to the subject matter of the contract, restrict competition and there is a risk that effective use of the existing competition is not ensured. Following from that, there is also a risk that these costs may be considered ineligible which may lead to a partial recovery of this expenditure.

<sup>6</sup> Procurement document (D4-8-8) p 3.5.1, 3.5.4, 3.5.5 and 3.5.9

<sup>7</sup> Guideline for determining financial corrections to be made to expenditure financed by the Union under shared management, for non-compliance with the rules on public procurement.



**Recommendations:**

**1) Recommendation to the auditee:**

It is recommended to the beneficiary to make a refund in amount of the ERDF co-financing € 6,630.00 (85%) and to deduct the ineligible co-financing € 1,170.00 (15%) from the project's overall eligible expenditure. Non-eligible costs in audit scope € 4,372.50, including ERDF co-financing € 3,716.63 (85%) and PP's co-financing € 655.88 (15%).

**2) Recommendation to the First Level Control**

It is recommended to always ascertain that procurement rules laid down in Public Procurement Act are followed and that the effective use of the existing competition is ensured. It is also recommended to review procurement control measures.

**3) Recommendation to the Managing Authority**

The MA is recommended to formalise the financial correction of 25% for all costs reported by all partners from the Project budget in relation to the public procurement No. 181303.

It is also recommended to carry out additional checks on public procurement No. 176666 to make sure whether the similar restrictive conditions noticed by the auditors may have an effect on the eligibility of those costs.

**Auditee response:**

Narva Department for City Development and Economy (hereinafter the „department“) having familiarised with the findings of the audit of operation report (hereinafter the „audit report“) finds that the auditors conclusions are erroneous in the part of the department due to which no correction measures should be applied.

2. The entire procurement was conducted by Estonian Maritime Museum under the power of attorney issued on 16.12.2016. According to the power of attorney the Estonian Maritime Museum was obliged to conduct the procurement procedure taking into consideration all remarks, requirements and recommendations of the department pursuant to § 13 (1) of Public Procurement Act.

3. On 15.12.2016 the department sent an email message, where stated its remarks regarding qualification requirements that should be taken into account by the museum. In reply to the mentioned message 15.12.2016 the museum authorized representative Mrs. Kristina Milbach confirmed that all amendments were made as requested. Therefore the department was assured that its remarks regarding the qualification requirements were duly fulfilled and reasonable qualification requirements were applied.

4. Pursuant to section 620(1) and (2) of LoA upon the performance of a mandate, the mandatary shall act in a loyal manner with respect to the mandator and exercise the necessary level of diligence commensurate with the nature of the mandate. A mandatary shall perform the mandate to the maximum benefit of the mandator in the light of and according to the mandatary's knowledge and abilities and shall prevent any damage to the property of the mandator. In addition, a mandatary who is acting for the purposes of the mandatary's economic or professional activities shall apply the generally recognised skills of the mandatary's profession. Pursuant to section 621(1) of Law of Obligations Act (LoA) a mandatary shall adhere to the instructions provided by the mandator upon performance of the mandate. Since the museum has to perform its obligations pursuant to the abovementioned provisions of law the department did not know and could not foresee that its instructions were ignored.

5. On 04.09.2019 the department requested Estonian Maritime Museum to explain why the latter had not taken into account the remarks as of 15.12.2016 regarding qualification requirements. According to the museum reply dtd 06.09.2019 the museum did not agree with the conclusion that qualification requirements were restrictive: “The auditors opinion that the procurement had been conducted in favor of Turundusproff OÜ was incorrect. The museum held that qualification requirements had not violated provisions for public procurement.”

6. The department finds that the auditors' recommendation to apply correction rate of 25% is excessively severe measure and it does not correspond to the fault of the department and merits of the case. The department performed its obligations and requirements established by the law with due diligence. The



department believes that in case the correction measure should be applied regardless of the fault, in the part of the department it cannot exceed 5%.

**First Level Control response:**

FLC takes into account the Audit recommendation and will pay more attention that the requirements laid down in Public Procurement ACT are followed by project partner and will assess more precisely the principles of equal treatment, proportionality and fair competition.

The procurement control measures were reviewed and since beginning from 2019 project procurements will be verified by RTK Procurement Specialists.

**Managing Authority response:**

The MA agrees with the SLA finding regarding the restrictive nature of the public procurement audited. Thus, the MA also agrees with the recommended correction and will implement it.

The MA has already taken steps to improve the understanding of public procurement rules and principles among the partners. For example, an official MA letter was sent to all lead partners and project partners, clearly spelling out the rules to be followed as well as consequences if they are not followed. Public procurements have also been, and will be, a topic at recent or upcoming Project Implementation Seminars and there will be dedicated video tutorials about public procurements. Finally, the MA refers to the recent AA additional sample on public procurements, which did not reveal any major issues.

Regarding the Estonian FLC system, the MA notes that since January 2019 the FLC has been complemented with national public procurements experts. Public procurements are as of now checked by these experts. This gives the MA additional assurance that the FLC system in Estonia is working and able to identify public procurement related issues.

**Final conclusion by the auditors:**

Taking into account the information given by the auditee in its response, the auditors are still in opinion that the Procurement No. 181303 documents include qualification criteria, which are not proportionate to the subject matter of the contract, restrict competition and there is a risk that effective use of the existing competition is not ensured.

When project partners organize public procurement jointly, they shall be jointly responsible for fulfilling their obligations. So they are liable for any possible irregularities and procedural errors.

Auditors are aware, that the auditee notified the contracting authority that the qualification conditions are restrictive, but contracting authority Estonian Maritime Museum didn't take the comments into account. Despite this, auditors can't apply correction measures depending on the fault made by a specific partner. The auditors evaluate the procurement as a whole and the financial correction applies to the entire scope of the procurement.

The auditee and Estonian Maritime Museum must resolve differences among themselves and auditors have no right or authority to intervene. The auditee should investigate the consequences of non-compliance with the mandate and the options for claiming compensation from Estonian Maritime Museum. In order to avoid similar situations, the auditee should, for example, provide in its mandate, which consequences will follow when the authorized person doesn't comply with the terms and conditions stated in the mandate.

Managing Authority also agrees with auditors' opinion and will implement the recommended correction.



Remarks for best practice. Audit findings which action should be taken to ensure full compliance, but have no financial consequences.

#### E. Procurement procedures

**Audit Finding No. 2 - The auditee has not carried out public procurement procedure for Travel and Accommodation services (Minor finding, without financial impact).**

As the beneficiary is a local government institution, it is a contracting authority for the purposes of the Public Procurement Act § 10.

During the audit procedures, the auditors learned that the auditee has a contract with Estravel AS (signed in 2012) to receive Travel and Accommodation services. During on-the-spot check, the beneficiary told that when they need to travel somewhere, then they buy service from Estravel AS and in parallel they search offers from booking.com and other sites to get the best price. In Report 5.1, there was only one invoice issued by Estravel AS and its cost was € 76.00. However, throughout the project period there are travel services purchased from Estravel AS in amount of € 6,235.18.

The beneficiary should review the terms and conditions of the travel service purchase, as the contract was signed 7 years ago and may not ensure effective use of competition today. Although the cost (and the planned project's budget for Travel and Accommodation) doesn't exceed the amount of national threshold, the auditee is a contracting entity according to the national legislation and has to follow the Public Procurement Act § 3. Thus the risk of ineligible expenditure has not realized.

However, the auditors would like to emphasize that the beneficiary is a contracting authority and has to follow the rules of public procurement to ensure equal treatment and fair competition; and analyze the costs already during the planning of its overall budget to avoid potential risks in regard to violation of the Public Procurement Act.

The auditors consider the findings in the context of project implementation as minor, with no financial impact and no effect on the eligibility of travel and accommodation costs in the audit scope.

#### Conclusion:

The beneficiary hasn't carried out public procurement procedure for travel and accommodation services. There is a risk that auditees total costs of travel and accommodation exceeds the national threshold for service contracts. Consequently, there is a risk that effective use of the existing competition is not ensured by continuing the use of the original contract.

#### Recommendation to the auditee:

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.

#### Auditee response:

The total costs of travel and accommodation do not exceed the national threshold for service contracts. Thank you, we will take into account the Audit recommendations.

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

#### D.State Aid

**Audit Finding No. 3 - The MA has not properly recorded the *de minimis* aid in the Subsidy Contract and in the state aid register. (Minor finding, without financial impact).**

According to the project Subsidy Contract § 2 p 8 "the subsidy has been granted under *de minimis* rule and therefore the relevant restrictions and obligations must be followed". Programme Manual states that "the Lead Partner is responsible for identifying the amounts of *de minimis* received by target group



companies.” According to Subsidy Contract *de minimis* aid is given to Narva City Government in the amount of € 28,186.00. The MA has registered the *de minimis* aid in the national state aid register<sup>8</sup>.

Each organisation receiving *de minimis* aid should follow the ceiling of € 200.000 and make sure that it is not exceeded. Auditee presented a declarations that PP has not received any contribution falling under the *de minimis* Regulation during the previous three years.<sup>9</sup> It is stated in the Subsidy Contract and declared in the state aid register that *de minimis* aid is given to the Narva City Government which is incorrect, but *de minimis* declaration is made by the auditee.

With participation in the project the auditee implemented activities that contribute to the further development of the Narva port and water tourism in the Gulf of Finland.

The results of the “30Miles” project will be used by SA Narva Sadam. SA Narva Sadam can use Narva port for free and SA Narva Sadam is possibly generating revenue due to using it. In auditor’s opinion, SA Narva Sadam is a final beneficiary in the sense of state aid and financial support that has been given can distort competition, therefore the state aid should be declared in the Subsidy Contract and in the national state aid register as given to SA Narva Sadam in the amount of € 28,186.00.

**Conclusion:**

The aid granted to the project partner has not been treated as state aid under De-minimis rule for the final recipient (SA Narva Sadam) and not registered as such in the national state aid register.

**Recommendation to the Managing Authority:**

It is recommended to identify the actual beneficiary of the *de minimis* aid and properly record it in the Subsidy Contract and in the state aid register.

**Managing Authority response:**

The Managing Authority has confirmed the status with the employee that is responsible for transferring data to the register. It is indeed true, that the information is currently missing. The MA has already agreed with the employee (Contact Point Estonia) of the immediate addition of information. Furthermore, the MA will send to the employee the full list of granted *de minimis* and the employee will check that each grant has been properly added.

The Contact Point Estonia has had high turnover of staff, which unfortunately seems to have led to this situation. In order to avoid such cases in the future, the MA will, as said, check all so far granted aid and will also put emphasis on the *de minimis* procedure in case of future staff changes.

**Final conclusion by the auditor:** Auditors accept the Managing Authority response to take actions in relation to the granting of *de minimis* aid. There’s no additional comments from the auditors.

**A. Audit trail and supporting documents**

**Audit Finding No. 4. The storage of project documentation until 04.02.2026 is not assured (Minor finding, without financial impact).**

According to Central Baltic Programme Manual section 3.11 (Availability of documents) “For projects with state aid (including De-minimis) the documents must be kept for 10 years from the date such aid was granted. Note, that national rules can require you to keep documents for a longer time.”

According to the Subsidy Contract, De-minimis aid is given to Narva City Government in amount of € 28,186.00. The Subsidy Contract was signed on 04.02.2016. So the obligation to keep documents started in 04.02.2016 and the documents must be kept for 10 years i.e. until 04.02.2026.

<sup>8</sup> See D4-33

<sup>9</sup> See D4-31



The auditee has put a stamp on documents, which states that documents must be kept until 31.12.2023. This means that the availability of the documents until 04.02.2026 may not be assured.

**Conclusion:**

There is a risk that project documents are not stored until required date and the audit trail is interrupted.

**Recommendations:**

**1) Recommendation to the auditee:**

It is recommended to the beneficiary to ensure that all documents related to the project are maintained in orderly manner until 04.02.2026.

**2) Recommendation to the Managing Authority:**

It is recommended to set a condition in the Subsidy Contract that for projects with state aid (including De-minimis) the documents must be kept for 10 years from the date such aid was granted.

**Auditee response:**

We have put the stamps, which states that project documents must be kept until 31.12.2023 in accordance with the requirements of Central Baltic Programme Manual Version 2.2 (13.12.2016) section 3.10. (Duties after the project ends) "The partners must keep available all documents related to the project costs for 4 years after the closure of the project by the MA."

We will take into account the Audit recommendations and the project documents will be kept until 04.02.2026.

**Managing Authority response:**

The MA agrees with the substance of the recommendation. This is also clearly stated in the Programme Document and thus must be followed by all partners. However, the MA believes that there are sufficient measures in place for the storage of documentation. Namely, the de minimis requirements are stipulated in the Subsidy Contract § 8 Durability and ownership of results.

More specifically, each closed project will receive a closure letter from the MA. The requirements are stated there for each project specifically. The MA believes this individual approach serves the purpose of the SLA finding better than updating the Subsidy Contract template for this period.

Naturally, improved wordings of the Subsidy Contract template are welcomed and will be taken into account.

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

**F. Publicity and Visibility**

**Audit Finding No. 5. Publicity requirements have not been followed (Minor finding, without financial impact).**

According to project manual section 3.8 (Project communication) "the cost of any material or information activity, such as a seminar organized by the project, that does not include the required references to EU and the program, are not considered eligible and thus the project partner will not receive co-financing for these."

The auditee organized training courses for personnel working in Narva port. Certificate was provided to each participant upon completion of the course. The certificate doesn't include the required references to EU and the program. However, the auditors find that participants needed to be aware of the EU funding, as there were references to program funding on the slides, on the registration sheet and in the training room.

As participants' awareness of EU funding was thus guaranteed, the auditors consider the findings in the context of project implementation as minor, with no financial impact.



**Conclusion:**

Based on the description of the finding, there is a risk that publicity rules have not been correctly followed.

**Recommendation to the auditee:**

It is recommended to the beneficiary to follow the publicity rules and put information about the project and the received EU funding on all training materials (including on certificates).

**Auditee response:**

We used the information about the project and the received EU funding on all materials, where it was possible and appropriate.

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



## PART 4 - 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 the functioning of the Management and Control Systems 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 Group of Auditors (GoA) members.
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 members.

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

**Auditor: Kätlin Teedla**

*Signature*

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**Audit manager: Mart Pechter**

*Signature*

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**Audit supervisor: Kadi Peets**

*Signature*

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