



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

Project No:	Est-Lat 21
Project name:	Smart Energy Community (SEC)
Project Partners Name (LP/PP):	Tartu Regional Energy Agency (LP)
Fund:	European Regional Development Fund
Target objective:	SO 2.2 Increased awareness of energy saving, sorting waste and re-use, and the more efficient management of common water resources
Audit No:	ELP-9/2019
Audit organisation:	Ministry of Finance

Final audit report

13.12.2019



REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

SUMMARY OF AUDIT RESULTS

Audit outcome:

Based on the audit work performed, the auditors have obtained reasonable assurance that the expenditure declared is in all material aspects legal and regular and in compliance with the programme rules. However, the auditors made a significant finding in regard to calculating the output indicator value.

Audit opinion¹: Significant findings

- Finding No. 1: Correct counting of Programme output indicator “Participants at project events” is not guaranteed

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 9 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:	Smart Energy Community (SEC)
Project number:	Est-Lat 21
Priority and target objective:	Priority 2: Clean and valued living environment Specific Objective: 2.2. Increased awareness of energy saving, sorting waste and re-use, and the more efficient management of common water resources
Beneficiary (LP/PP):	Tartu Regional Energy Agency (LP)
Contact person:	Nele Ivask, Antti Roose
Date of subsidy contract:	30/06/2017
Audit scope and period:	Period 2: 01.07.2017-31.10.2017; € 9,268.54 Period 3: 01.11.2017-28.02.2018; € 29,780.75 Period 4: 01.03.2018-30.06.2018; € 25,857.66 Period 5: 01.07.2018-31.08.2018; € 9,656.85
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 2019.
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:	<p>Kätlin Tiimus, Financial Control Department, Audit Unit II, auditor</p> <p>Kadi Peets, Financial Control Department, Audit Unit II, audit supervisor</p>

Audit duration:	26/06/2019 – 13/12/2019			
Methodology:	Audit manual of the Estonia-Latvia Programme			
Audit procedures performed at the beneficiary:	<p>During the desk-based check auditor communicated with the persons involved in project implementation and made analysis/evaluation of the following:</p> <ul style="list-style-type: none"> - project's actual implementation, - documentation related to project implementation, - eligibility of costs, - 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 2: 01.07.2017-31.10.2017; € 9,268.54 Period 3: 01.11.2017-28.02.2018; € 29,780.75 Period 4: 01.03.2018-30.06.2018; € 25,857.66 Period 5: 01.07.2018-31.08.2018; € 9,656.85			
Size of the sample (EUR; %)²:	€ 74,563.80, 100%			
Ineligible expenditure identified (EUR): amount				
	EU contribution	National public contribution	Private sector contribution	Total
Ineligible amount (EUR):	0.00	0.00	0.00	0.00
Ineligible amount outside the audit scope (EUR):	0.00	0.00	0.00	0.00
Error rate (%)³:	0.00%			

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

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.

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 and MA/JS shall take into account the finding and recommendations made in Part B. The AA shall monitor the implementation of recommendations made by the auditors.

PART B

AUDIT FINDINGS

1. Use of funding as intended

The funding has 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 in the programme manual.

Significant finding No. 1.1 – Correct counting of Programme output indicator “Participants at project events” is not guaranteed

According to the Estonia–Latvia Programme manual, one output indicator for the priority 2.2 is “participants at project events, except management meetings”. For project „Smart Energy Community”, the target value for output indicator “participants at project events” was 200. According to the project’s 16.01.2019 final report, altogether 1118 participants participated in project activities, thus the target level of the output indicator has been reached.

According to the Programme manual⁵ a person qualifies as a „participant” if he or she takes part in at least one project event in person (virtual participation is not counted). A person may be counted as a participant only one time during the project. The audit revealed that the methodology for counting the output indicator “participants at project events” was not fully in line with the instructions set in the Programme manual.

The auditor performed a sample check to verify whether the indicator has been counted correctly on project level and to test if any person had attended several events and counted as a participant multiple times. As a result, the auditor found a nonconformity with the programme rules. In addition, employees of the beneficiary are indicated as participants in the registration sheets and counted as a participant multiple times. Consequently, there is no accurate overview of the actual achievement of project output indicator “participants at project events”.

The audit revealed that the beneficiary was not aware of what to consider as a participant. The number of participants in the project events was obtained by summing up the registration sheets. Beneficiary explained, that participants in training and energy classes are counted once, but repeated participation in campaign events is not deducted. The beneficiary doesn’t have an electronic record of participants (e.g. in Excel), so the auditor cannot exclude double counting and identify the exact number of participants.

During the audit, the Joint Secretariat has been asked whether the opinion on the fulfillment of the indicators has been based on the information presented in the final report and whether additional information has been requested from the beneficiary. The Joint Secretariat explained, that they verified the information on the basis of the information provided in the interim and final reports and the accompanying materials (including lists of participants). In the fourth interim report, the Joint Secretariat consultant did a random check and asked about the counting of unique participants; as a result the beneficiary made a correction. However, the control report of the consultant does not give clear information in which extent the information of the project’s indicators was checked and which observations were made in regard to counting of the participants; also whether the error detected was large-scale and should have been extended to the whole project.

Based on the audit procedures, the auditor concludes, that the programme indicator has been misunderstood on project level: who has to be considered when counting the participants; and there was insufficient control over the achievement of the output indicator. However, regardless of the incorrect counting of project participants, the

⁵ Page 18 p 1 (Participants at project events, except management meetings).

auditor has gained reasonable assurance that the project output indicator has been achieved and thus the finding is without financial impact.

Risk to the project implementation: Misunderstanding of the definition of the output indicator „participants“ (i.e. who has to be considered when calculating the participants) and insufficient control over the achievement of the output indicator carries the risk that the indicator is incorrectly collected on the programme level and therefore the conclusions made about the effective implementation of the programme are not reliable.

Recommendation on the project implementation:

Recommendation to the beneficiary: To avoid wrong output indicator calculation in the future, the beneficiary is recommended to keep an electronic record of the participants' list, to have an overview of the persons who participated in the project and to avoid double reading of the persons.

Recommendation to the MA/JS: We recommend MA/JS to communicate with all beneficiaries of ongoing projects and explain how to calculate the output indicator „participants at project events“ to avoid incorrect calculation of the indicator.

We also recommend MA/JS to review the output indicators' control system to avoid the incorrect counting of the output indicators and to improve the audit trail of the management verifications. In cases errors are detected, the MA/JS is recommended to analyse the potential effect of the error and if needed to extend the management verifications to get the assurance, that the error does not have an effect on the conclusions made on the programme level.

Comments of the beneficiary: Beneficiary Tartu Regional Energy Agency confirms that we will take into account the auditor's recommendation and will use electronic record of participant lists in order to avoid incorrect counting of participants in the future.

Comments of the MA/JS: According to the Programme Manual of the Estonia-Latvia Programme 2014-2020, the participant in the project events, in regard to the fulfilment of output indicator, has to be counted one time. The audit identified that in the events of this particular project, some participants were counted more than once. The MA and JS have taken note of the finding however, the overall responsibility for following this principle and presenting correct number of participants lies with the project partner. The JS stresses this requirement in the consultations/seminars as well as in everyday communication with the partners. In this regard, the auditors' recommendation has been followed. The JS does not carry out regular control regarding this issue as this would put unreasonable burden to the JS employees. However, the JS makes random checks to verify the correctness of information.

Furthermore, following the auditors finding and recommendation, in order to ensure the correctness of data the Programme consultants have asked the project partners of the running projects to re-check the number of participants in the project events concerning also the periods that have ended.

The MA/JS are of the opinion that this finding is an insignificant one as it has no financial impact and also does not affect reaching the target value of the output indicator of this particular SO on the programme level. All in all the approach applied by the JS as described above is considered sufficient and based on the JS' checks it is not considered necessary to take any extra measures in this regard.

Additional comments by the auditor:

The auditor accepts the beneficiary's comments to use electronic record of participant lists in order to avoid incorrect counting of participants in the future.

The auditor takes into account the JS comments and actions taken, but maintain the position, that this finding is significant. The auditor agrees that the overall responsibility for presenting correct number of participants lies on the beneficiary, but it is the MA/JS's responsibility to carry out administrative checks to verify that the information submitted by the beneficiaries is correct and may be trusted to use for making conclusions on the programme level. In auditors' opinion, this includes also the check of the reliability of the output indicators provided by the beneficiary and whether the calculation of the indicator is in accordance with the Programme Manual. The MA/JS must also maintain the audit trail of the output indicators' control.

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.

5. Granting of state aid

The project does not involve state aid.

6. Communication and publicity

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

We confirm that the draft audit report has 9 pages.

Audit manager:

Kätlin Tiimus

Auditor

Tallinn, 13/12/2019

Audit supervisor:

Kadi Peets

Head of Audit Unit