

Second level audit report

Covering the accounting year

from 01.07.2019 to 30.06.2020

According to Article 127 of Common Provision Regulation (EC) No 1303/2013
and Article 25 Regulation (EC) No 1299/2013

Name of auditee

Project partner no.

01

Tallinn University of Technology
Department of Civil Engineering and Architecture



CCI No 2014TC16M5TN001

European Regional Development Fund

This second level report is prepared by:

Mart Pechter (audit manager)
Kadi Peets (audit supervisor)

INTRODUCTION

This Audit Report from the second level auditor (SLA) is a basis for the compilation of the Annual Control Report (ACR) which the Audit Authority (AA) has to transfer to the European Commission until the 15th of February of each year.

This report consists out of three parts: The report and the attached checklist as Annex 1 and additionally a list with types of findings as Annex 2.

The procedures between AA and SLA are stipulated in the Rules of Procedures of the Group of Auditors of the Interreg Baltic Sea Region Programme 2014–2020 (CCI No 2014TC16M5TN001). The content of the SLA-Report is within the responsibility of the respective national SLA. After finalizing the respective audit, the SLA are asked to send the report with signature and stamp and with the attached Annexes 1 and 2 as a scanned pdf-file via email to the Audit Authority with a copy to the MA/JS. The signed original paper-version has to be stored at the auditors place.

1. Identification of the operation

Lead Partner/ organisation	Tallinn University of Technology	
Department	Department of Civil Engineering and Architecture	
Country	Estonia	
Project No.	#R093	
Project acronym	NOAH	
Priority	2	
Number of all partners	18	
Max. amount ERDF co-financing (A) (€)		2,432,732.45
Max. amount NOR co-financing (B) (€)		0.00
Max. amount of ENI co-financing (C) (€)		0.00
Max. amount of Russian co-financing (D) (€)		0.00
Max. amount of all partner's own contribution (E) (€)		565,627.80
Total operation budget (= A+B+C+D+E) (€)		2,998,360.25

1.1 Identification of the audited partner (PP or LP)

	Lead partner <input checked="" type="checkbox"/>	Project partner <input type="checkbox"/>
Contact person	Ivar Annus	

Organisation	Tallinn University of Technology		
Department	Department of Civil Engineering and Architecture		
Address	Ehitajate tee 5, 19086 Tallinn		
Country	Estonia	Co-financing rate	85 %
Telephone	3 725 298 810		
Email	ivar.annus@ttu.ee		
Legal status	b) Bodies governed by public law		
Max. amount of Programme co-financing (ERDF, NOR, ENI/RU) (A) (€)		331,153.83	
Max. amount of all partner's own contribution (B) (€)		58,438.92	
Total Partner (LP or PP) budget (A+B) (€)		389,592.75	

1.2 Identification of the second level auditor (SLA)

Name	Mart Pechter
Job title	Advisor
Organisation	Ministry of Finance of the Republic of Estonia
Department	Financial Control Department
Address	Suur-Ameerika 1, 10122 Tallinn
Country	Estonia
Telephone	+372 611 3152
Email	mart.pechter@fin.ee

2. Audit process and audit scope

Please describe how was the second level audit organised, its procedure, on-the-spot visit, drafting of the audit report and contradictory procedure, involvement of the first level controller etc.

How was the second level audit carried out? 100% control sample of: %

Was the second level audit (or parts of it) outsourced? If yes, to which authority/company. Who is responsible for which part?

No parts of the second level audit were outsourced.

2.1 Audit objectives

The objectives of the audit were to:

- complete and deliver to the Audit Authority the audit report and checklist;
- verify the delivery of products and services co-financed from the Programme;
- verify the soundness of expenditure declared by the project partner(s);
- verify the compliance of such expenditure and project activities with Programme rules
- assist in reducing the risk of ineligible expenditure;
- contribute to the Annual Control Reports and eventually to the closure declaration;
- support the Audit Authority in carrying out its duties.

The Audit Authority will compile a final Audit Report and an Audit Opinion by the 15th of February of the year following the respective accounting year

2.2 Audit timetable

Audit was launched on	<input type="text" value="16.07.2020"/>			
Date(s) of on-the-spot-check(s):	<input type="text" value="18.12.2020"/>	<input type="text"/>	<input type="text"/>	<input type="button" value="+"/>
Contradictory procedure	from <input type="text" value="04.01.2020"/>	to <input type="text" value="08.01.2020"/>		
Date of final version	<input type="text" value="08.01.2020"/>			

2.3 Expenditure covered by this audit report and checklist (in EURO)

Progress report(s) No(s):	<input type="text" value="1"/>
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(A) Expenditures by budget-lines covered by this audit report and checklist		Total (€)
BL 1	Staff-costs	<input type="text" value="33,351.66"/>
BL 2	Office and administration	<input type="text" value="5,002.75"/>
BL 3	Travel and accommodation	<input type="text" value="4,985.77"/>
BL 4	External expertise/services	<input type="text" value="2,334.31"/>
BL 5	Equipment costs	<input type="text" value="963.60"/>
BL 6	Infrastructure and works	<input type="text" value="0.00"/>
BL 7	Expenditure for specific project activities	<input type="text" value="0.00"/>
Total (A)		<input type="text" value="46,638.09"/>

(B) Funding source	Total (€)
Amount of Programme co-financing (ERDF, NOR, ENI/RU)	39,642.37
Amount partner's own contribution	6,995.72
Total expenditure (= Total A)	46,638.09

2.4 Total expenditure reported by the partner (Cumulating ALL REPORTS up to this audit)

(A) Expenditures by budget lines cumulated	Total (€)
BL 1 Staff costs	77,484.78
BL 2 Office and administration	11,622.72
BL 3 Travel and accommodation	8,773.69
BL 4 External expertise/services	2,571.87
BL 5 Equipment costs	2,272.80
BL 6 Infrastructure and works	0.00
BL 7 Expenditure for specific project activities	0.00
Total (A)	102,725.86

(B) Funding source	Total (€)
Amount of Programme co-financing (ERDF, NOR, ENI/RU) (B1)	87,316.97
Amount of partner's own contribution (B2)	15,408.89
Total expenditure (= B1+B2 =Total A)	102,725.86

2.5 Audit methodology used by the auditor

Audit Strategy and supporting audit documents developed by the Audit Authority of Interreg Baltic Sea Region. Additional supporting audit documents developed by the Financial Control Department.

3. Audit findings: General comments on findings (please comment financial findings)

Audit Finding No. 1 – The travel and accommodation costs of the project are purchased from a framework agreement based on a public procurement procedure that has previously been found in another audit as containing errors. Ineligible costs are 5% of each affected cost document, which is €123.94 within the audit scope and €0.00 outside the audit scope (Significant)

The manual for the Interreg Baltic Sea Programme 2014-20201 under the point F.1.4.1 states that public procurements should be done according to national rules or following European Union rules. For the Tallinn University of Technology, one previous audit report (ERDF project no 2014-2020.4.01.16-0032 audit ERF-309/2019, 19.02.2020) set out that for the international procurement procedure No. 156398 that was used by Tallinn University of Technology to contract a framework agreement for travel and accommodation costs is not in accordance with either national or European Union rules.

Namely, the tender notice included a discriminatory criterion for qualifying the offerers. The criterion was that the offerer should have travel agents with three years of IATA accreditation (2011, 2012 and 2013). This was disputed by the auditee as the auditee saw this as a necessary technical qualification. After consulting with the experts of Estonian Travel and Tourism Association, the auditors maintained their position.

The auditors found no qualitative difference between an offerer having the IATA accreditation for three years and an offerer who has the necessary qualification for travel agents for lesser amount of time.

For the errors brought up in the audit report referred, the auditors responsible recommended a 5% correction for the eligible costs affected, considering that there was a significant number of offerers and thus some level of competition was assured.

The auditors have found that Tallinn University of Technology has used costs from the framework agreement referred (Estravel 2014-2019, Wris 2014-2019, CWT 2014-2019) for the NOAH project. This means that those costs are subsequently also affected by this error.

The First Level Control detected the situation in Report 2 and corrected the amounts in that report. After that, Tallinn University of Technology had begun using a new framework agreement unaffected by that error. However, the First Level Control stated that they had not yet corrected the error in Report 1 at the time of the audit.

Risks and conclusion

Whenever the project partner organization uses a contract that is known to contain an error, there is a risk that the costs for this particular project partner may also be deemed ineligible for containing the same error.

3.1 Ineligible expenditure detected (in Euro)

Did the second level audit detect any ineligible State aid relevant expenditure? yes no

3.1.2 Not State aid relevant ineligible expenditure detected (in Euro)

Budget line	Description of ineligible item	legal basis	Total (€)
BL1	N/A		
<input type="button" value="Add lines"/> <input type="button" value="Delete lines"/>			
BL2	automatically calculated flatrate (15%) based on the Programme Manual		0.00
BL3	The travel and accommodation costs of the project are purchased from a framework agreement based on a public procurement procedure that has previously been found in another audit as containing errors.	Interreg BSR 2014-2020 Programme manual point F.1.4.1	123.94
<input type="button" value="Add lines"/> <input type="button" value="Delete lines"/>			
Amount of Programme co-financing (ERDF, NOR, ENI/RU) (A)		Co-financing rate 85 %	105.34
Amount of partner's own contribution (B)			18.60
Total of ineligible expenditure (A+B)			123.94

3.2 Management and other findings (please comment findings e.g. without financial impact)

There are no other findings.

3.3 Auditee's comments

Comments for the finding No 1

Comments by the auditee:

We confirm that we are aware of the issue and therefore agree with the conclusions of the audit.

Comments by the First Level Control:

The FLC reduced eligible costs as soon it became known that there was irregularity in the procurement. FLC asked JS about cost reduction process in previously certified reports and got written response on how to act in those cases on November 12th. Now FLC can reduce the ineligible costs in report 1 from the next partner report (will be submitted in January 2021) and do so with next similar cases.

Comments by the Managing Authority:

1) Indication of framework contract and external service provider it concerns

In the audit report the procurement procedure number is mentioned. It would be worth to mention also some basic details about the framework contract and which external service provider(s) it concerns. This makes the follow up for the FLC and MA/JS easier (in the partner reports the external service providers under BL4 External expertise and services are mentioned).

Further the connection between the framework contract and the service provider(s) indicated in the partner reports should be identifiable. In the auditor's "Project ineligible costs information table" as an attachment to the audit report there is column "Cost document presented by". In that column there are three companies listed 1. Estravel AS, 2. AS Wris and 3. CWT Eesti AS. There is no evidence or link to the framework contract with the financial correction. The information with the framework contract name or number can be included.

In report 1 the mistakes were detected by SLA and will be followed up by MA/JS, the mistakes in the report 2 were already followed up and deducted by the FLC.

2) Indication of previous audits the mistake was found in

In the description of the finding it is stated that the mistake was detected during the previous audits of the Tallinn University of Technology. This project partner organisation was not subject to any audit in the framework of the Interreg Baltic Sea Region. The MA/JS recommend to include basic information about the audit where this mistake was detected, when it happened and possibly under which Programme(s) and in which project(s).

4. Notification to OLAF (> EUR 10.000 ERDF)

No notification to OLAF is necessary.

5. Conclusion and key recommendations from the SLA (on financial and non-financial findings)

1) Recommendation to the auditee:

It is recommended to the auditee to follow the decisions of the Managing Authority if and when the procedure to recover the ineligible amounts is started.

2) Recommendation to the First Level Control:

It is recommended to the First Level Control to follow the decisions of the Managing Authority if and when the procedure to recover the ineligible amounts is started.

3) Recommendation to the Managing Authority:

It is recommended to begin a procedure to recover the ineligible amounts. Concerning the amount in audit scope, the auditor recommends reclaiming the ineligible ERDF funding of €105.34 and deducting the ineligible co-financing of €18.60 from the partner budget. There is no ineligible expenditure outside the audit scope as the First Level Control has already corrected it. Please see the annexed "Project ineligible costs information table".

6. Signature(s) and stamp(s) of the SLA

Place and date:

Tallinn, 11.01.2020

Name of the SLA(s):

Mart Pechter / Audit Manager (signed electronically)
Kadi Peets / Audit Supervisor (signed electronically)

(Electronic) Signature and stamp