

Second level audit report

Covering the accounting year

from to

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.



CCI No 2014TC16M5TN001

European Regional Development Fund

This second level report is prepared by:

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 | University of Tartu | |
| Department | Tartu Observatory / Johan Skytte Institute | |
| Country | Estonia | |
| Project No. | #R040 | |
| Project acronym | TEST-4-SME | |
| Priority | 1 | |
| Number of all partners | 13 | |
| Max. amount ERDF co-financing (A) (€) | | 1,439,620.00 |
| 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) (€) | | 317,580.00 |
| Total operation budget (= A+B+C+D+E) (€) | | 1,757,200.00 |

1.1 Identification of the audited partner (PP or LP)

| | | |
|----------------|--|--|
| | Lead partner <input checked="" type="checkbox"/> | Project partner <input type="checkbox"/> |
| Contact person | Tiia Lillemaa | |

| | | | |
|---|----------------------------------|-------------------|------|
| Organisation | University of Tartu | | |
| Department | Tartu Observatory | | |
| Address | Ülikooli 18, 50090 Tartu | | |
| Country | Estonia | Co-financing rate | 85 % |
| Telephone | 3 725 176 596 | | |
| Email | tiia.lillemaa@ut.ee | | |
| Legal status | b) Bodies governed by public law | | |
| Max. amount of Programme co-financing (ERDF, NOR, ENI/RU) (A) (€) | | 378,250.00 | |
| Max. amount of all partner's own contribution (B) (€) | | 66,750.00 | |
| Total Partner (LP or PP) budget (A+B) (€) | | 445,000.00 | |

1.2 Identification of the second level auditor (SLA)

| | |
|--------------|---|
| Name | Mart Pechter (audit manager) / Andreas Kalm (auditor) |
| Job title | Advisor / Auditor |
| Organisation | Ministry of Finance of the Republic of Estonia |
| Department | Financial Control Department |
| Address | Suur-Ameerika 1, Tallinn |
| Country | Estonia |
| Telephone | +372 611 3133 |
| Email | mart.pechter@fin.ee / andreas.kalm@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 this 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="29.09.2020"/> | | | |
| Date(s) of on-the-spot-check(s): | <input type="text" value="22.10.2020"/> | <input type="text" value="on-site meeting"/> | <input type="text"/> | <input style="border: none; background-color: #ccc; padding: 2px 5px;" type="button" value="+"/> |
| Contradictory procedure | from <input type="text" value="13.11.2020"/> | to <input type="text" value="01.12.2020"/> | | |
| Date of final version | <input type="text" value="01.12.2020"/> | | | |

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

| | |
|---------------------------|------------------------------------|
| Progress report(s) No(s): | <input type="text" value="2+3+4"/> |
|---------------------------|------------------------------------|

| (A) Expenditures by budget-lines covered by this audit report and checklist | Total (€) |
|---|-------------------|
| BL 1 Staff-costs | 137,722.29 |
| BL 2 Office and administration | 20,658.35 |
| BL 3 Travel and accommodation | 11,753.15 |
| BL 4 External expertise/services | 3,062.10 |
| BL 5 Equipment costs | 5,659.34 |
| BL 6 Infrastructure and works | 0.00 |
| BL 7 Expenditure for specific project activities | 0.00 |
| Total (A) | 178,855.23 |

| (B) Funding source | Total (€) |
|--|-------------------|
| Amount of Programme co-financing (ERDF, NOR, ENI/RU) | 152,026.93 |
| Amount partner's own contribution | 26,828.30 |
| Total expenditure (= Total A) | 178,855.23 |

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 | 188,445.54 |
| BL 2 Office and administration | 28,266.84 |
| BL 3 Travel and accommodation | 15,294.03 |
| BL 4 External expertise/services | 3,401.14 |
| BL 5 Equipment costs | 20,599.30 |
| BL 6 Infrastructure and works | 0.00 |
| BL 7 Expenditure for specific project activities | 0.00 |
| Total (A) | 256,006.85 |

| (B) Funding source | Total (€) |
|---|-------------------|
| Amount of Programme co-financing (ERDF, NOR, ENI/RU) (B1) | 217,605.80 |
| Amount of partner's own contribution (B2) | 38,401.05 |
| Total expenditure (= B1+B2 =Total A) | 256,006.85 |

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 partner has received funds twice for one cost document. Ineligible costs are 100% of that document, which is €384.00 (Significant)

According to the Programme manual point F.1.9.3, any expenditure already financed 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 SIN-EE-1809006 totaling 384.00 euro by ByteLife Solutions OÜ from 04.09.2018 had originally been presented by the beneficiary in Report 2 and also subsequently in Report 3. The invoice was paid on 04.10.2018. The beneficiary explained that it took longer than expected to receive that service and thus the payment was made only in the third reporting period. Because the cost document was processed between two periods, the beneficiary explained that they also accidentally entered it in the reports for the two periods.

The auditors conclude that the cost document has been incorrectly presented and paid out twice. However, the auditors consider this case a simple mistake with no effect on any other expenditure.

Risks and conclusion

Based on the description of the finding, the auditors find 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. The ineligible costs are €384.00 in total.

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 | 481.88 |
| BL5 | The partner has received funds twice for one cost document | Interreg BSR 2014-2020 Programme manual point F.1.9.3 | 384.00 |
| <input type="button" value="Add lines"/> <input type="button" value="Delete lines"/> | | | |
| Amount of Programme co-financing (ERDF, NOR, ENI/RU) (A) <i>Co-financing rate 85 %</i> | | | 735.99 |
| Amount of partner's own contribution (B) | | | 129.89 |
| Total of ineligible expenditure (A+B) | | | 865.88 |

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

Audit Finding No. 2 – 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 10% of each affected cost document, which is €481.88 within the audit scope and €287.94 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 University of Tartu, one previous audit report set out that for the international procurement procedure No. 173292 that was used by the University of Tartu to contract a framework agreement for travel and accommodation costs is not in accordance with either national or European Union rules.

First, the tender notice included discriminatory criteria for qualifying the offerers. The criteria was that the offerer should have at the time of making the offer an office in Tartu as well as a number of contracted employees with specific qualifications. Second, the tender documents included discriminatory criteria for determining the most economically efficient offer, namely the number of contracted employees with specific qualifications at the time of making the offer.

The previous audit report brought out that those criteria should be used only at the time of entering into a contract, for not to discriminate against offerers with no office in Tartu or the employees with necessary numbers and qualification but with a willingness and capability of fulfilling those criteria should they win the contract.

For the errors brought out in the audit report referred, the auditor responsible originally recommended a 25% correction for the eligible costs affected and as a result, the decision to reclaim was compiled by the intermediate body.

The auditors have found that the University of Tartu has continued using the framework agreement referred and presented the costs affected as fully eligible. In the auditors' opinion, it means that some of the travel and accommodation costs of the TEST-4-SME project as used by the University of Tartu are subsequently also affected by this error, since they are made based on the same framework agreement.

The First Level Control detected the situation in Report 4 and corrected the amounts in that report and thereafter. However, the First Level Control and the Managing Authority have clarified to the auditors that due to miscommunication between the two bodies, the correction of the amounts in reports 1-3 was not yet done at the time of the audit, although it had been identified and agreed on as ineligible.

The auditors also concur that the Commission Decision published after the original audit recommendation was made and the original decision to reclaim the amounts was issued allows treating this issue in a way that a 10% reduction in eligible cost would be more proper than a 25% reduction. This means that the particular case at hand should also be treated in that way.

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. The ineligible costs are 10% of each affected cost document, which is €481.88 within the audit scope and €287.94 outside the audit scope

3.3 Auditee's comments

Comments for the finding No 1

Comments by the auditee:

The cost document No SIN-EE-1809006 for Webex software license in the amount of 384 € was processed between period 2 and 3 in the beneficiary accountancy. It was accidentally entered into the reports of both periods by Project Manager. The University of Tartu agrees with the audit conclusion.

Comments by the First Level Control:

The service was originally planned for two periods, therefore it raised no question for the FLC that the cost was also in the 3rd report. However, the system does not provide a useful tool to check double financing and it was unfortunately unnoticed by the FLC that the same cost was submitted twice.

Comments by the Managing Authority:

The MA-JS will follow up on findings detected during the second level audit.

Comments for the finding No 2

Comments by the auditee:

The public procurement of the travel service no 173292 is no longer valid and the service is no longer ordered on the basis of it. As a result of all disputes about this public procurement, the University of Tartu accepted 10% of the costs purchased by this framework agreement as ineligible.

Comments by the First Level Control:

The FLC reduced eligible costs as soon it became known that there was irregularity in procurement and corrected the correction rate (from 25% to 10%) with later reports. FLC asked JS about cost reduction process in previous reports and got written response on how to act in those cases on November 12th. Now FLC can reduce the ineligible costs in reports 1-3 from the next partner report and do so with next similar cases.

Comments by the Managing Authority:

The project partner as well as the FLC can deduct any ineligible expenditure from the report which is under validation including cost items from the previous reports. The MA/JS decision is not necessary for these deductions in particular when the FLC has the information (e.g. based on its conclusions, from the SLA or other sources). This is done in the partner report via the correction items.

Further in the FLC certificate there is a section with a list of ineligible expenditure deducted during the FLC verification – these amounts inform about ineligible expenditure already deducted by the FLC.

The MA/JS did not receive any detailed information about this finding and the need for correction also in previous reports PR1-PR3. MA-JS will clarify the issue with the FLC and follow up on findings detected by the second level audit. All final balance and corrections can be done from the final PR6 due on 01.01.2021.

4. Notification to OLAF (> EUR 10.000 ERDF)

Not applicable.

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

Recommendations for finding No 1

1) Recommendation to the auditee:

It is recommended for the partner to pay more attention in the future to the costs that are processed during the transition period of the two periods to avoid submitting the same expense document twice.

2) Recommendation to the First Level Control:

It is recommended to pay more attention in the future to the costs that may happen to be submitted twice by the partner, in particular if the cost document is dated from another reporting period.

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 auditors recommend reclaiming the ineligible ERDF funding of €326.40 and deducting the ineligible co-financing of €57.60 from the partner budget.

Recommendations for finding No 2

1) Recommendation to the auditee:

It is recommended for the partner to cease using the contract of this framework agreement for fully eligible travel and accommodation costs of this project, if there are still those costs to be made from this project. The partner is recommended to carry either out a new public procurement procedure or to present all travel and accommodation costs with a 10% reduction in eligibility.

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

2) 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 €409.61 and deducting the ineligible co-financing of €72.29 from the partner budget. Concerning the amount outside the audit scope, the auditor recommends reclaiming the ineligible ERDF funding of €244.76 and deducting the ineligible co-financing of €43.21 from the partner budget. Please see the annexed "Project ineligible costs information table".

It is also recommended to look into other projects of the Programme where the University of Tartu is one of the partners to determine whether those projects could be affected by the same error.

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

Place and date:

Tallinn 01.12.2020

Name of the SLA(s):

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

(Electronic) Signature and stamp