

AUDIT OF OPERATION REPORT

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

AUDIT NUMBER: CB-20/2020	
Date of final audit report	04.08.2020
Contradictory procedure	N/A
Accounting period	01/07/2019 - 30/06/2020
Audit scope	<i>Progress report No. 6.1 in the amount of 8 612.15 EUR, audited 100 % Progress report No. 7.1 in the amount of 208 762.82 EUR, audited 100 %</i>
Auditor(s)	Kätlin Tiimus, <i>Audit Leader</i> , Auditor of II Audit Unit, Financial Control Department of Ministry of Finance of Estonia Suur-Ameerika 1, 10129 Tallinn, Estonia Kadi Peets, <i>Audit Supervisor</i> , Head of the II Audit Unit, Financial Control Department of Ministry of Finance of Estonia Suur-Ameerika 1, 10129 Tallinn, Estonia
Audited organisation & contact information	<i>Estonian Road Administration Pärnu mnt 453a, 10916 Tallinn Kristjan Duubas +372 5034639, Kristjan.Duubas@mnt.ee</i>
Place of the audit	<i>Estonian Road Administration</i>
Persons present during the audit	Kristjan Duubas
Date of on-the-spot checks	N/A ¹
Full project name	<i>Advanced traffic management on E67 transport corridor</i>
Project Number & Acronym	<i>CB241 - SMART E67</i>
Priority Axis	3. Well-connected Central Baltic region
Specific Objective	SO 3.1 Improved transport flows of people and goods
Reporting Period	02/05/2018 - 01/05/2019
Name of the Lead Partner	Ministry of Transport of the Republic of Latvia
Project duration (start and end dates)	02/11/2015 - 31/10/2019
AUDIT CONCLUSION	<p><i>Based on the audit work performed we have obtained reasonable assurance that the expenditure declared under the audited operation CB241 - SMART E67 within priority axis 3 in the reference year 2020 is, in all material aspects, legal and regular.</i></p> <p><i>However, the auditors made a finding with financial impact in regard to calculating fringe benefits in the form of "erisoodustusmaks" and a finding without financial impact in regard to project bookkeeping.</i></p> <p><i>The findings identified during the audit are presented in the following table and report.</i></p>

¹ Due to the Covid-19 public health crisis of the year 2020, no on-the-spot checks were conducted during audit.



Number of findings	Total Financial Impact	Total Financial Impact ERDF	Nature of the finding(s)
1	€ 177,22	€ 150,64	The calculation of the fringe benefits in the form of “erisoodustusmaks” is not transparent and correct. Ineligible cost of € 177,22 (Minor finding)
2	€ 0.00	€ 0.00	The beneficiary's accounting doesn't correspond to the reporting in the project system eMS (Minor finding)



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.

No on-the-spot checks were conducted during the audit due to the Covid-19 public health crisis in the year 2020. However, the E67 is a public route and the auditor can give assurance that variable information signs and other elements of intelligent transport systems are now installed and working on E67 road in Estonia. The auditor posits that based on the information obtained, no follow-up on-the-spot check is necessary, as the auditor has obtained sufficient assurance in other ways.

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 which were 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. The assurance about the achievement of the project's objectives was attained via documentation uploaded to the programme's information system (eMS), e-mail conversation with the project partner and photos, videos of the project outputs.

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: 14.07.2020

Final report: 04.08.2020



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 6.1	%	Payments included in the payment claim 7.1	%
ERDF	€ 888 461.31	85%	€ 7 320.33	85%	€ 177 448.39	85%
Public funding (total)	€ 156 787.29	15%	€ 1 291.82	15%	€ 31 314.43	15%
Private funding	€ 0.00		€ 0.00		€ 0.00	
Income	€ 0.00		€ 0.00		€ 0.00	
TOTAL PARTNER BUDGET	€ 1 045 248.60	100%	€ 8 612.15	100%	€ 208 762.82	100%

Audited expenditure (according to the Sample, report 6.1) ²			
Budget Line		Total amount audited (combining milestones)	Ineligible detected in audit scope
1.	Staff costs	€ 2 840.04	€ 0.00
2.	Office and administration	€ 426.00	€ 0.00
3.	Travel and accommodation	€ 360.00	€ 0.00
4.	External expertise and services	€ 4 986.11	€ 0.00
5.	Equipment	€ 0.00	€ 0.00
6.	Infrastructure and works	€ 0.00	€ 0.00
Total amount audited		€ 8 612.15	€ 0.00

Audited expenditure (according to the Sample, report 7.1) ³			
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	€ 2 008.82	€ 177,22
5.	Equipment	€ 206 754.00	€ 0.00
6.	Infrastructure and works	€ 0.00	€ 0.00
Total amount audited		€ 208 762.82	€ 177,22

² Costs outside the sample were not audited

³ Costs outside the sample were not audited


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:

Major	Findings which have a financial impact above EUR 250 (ERDF) or any other high-risk deficiencies.
Minor	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.

Accounting and calculating errors at project level

Audit Finding No. 1 – The calculation of the fringe benefits in the form of “erisoodustusmaks” is not transparent and correct. Ineligible cost of € 177,22 (Significant finding)

According to Central Baltic Programme 2014-2020 Programme Manual: „For Estonia, fringe benefits in the form of ‘erisoodustusmaks’ are acceptable costs for project staff in the case of events arranged for external participants“.

In the audited period the beneficiary Estonian Road Administration arranged two events for external participants and declared fringe benefits the form of ‘erisoodustusmaks’ on catering expenses. The auditor found that fringe benefits in the form of “erisoodustusmaks” hadn’t been calculated correctly.

Under Estonian rules, expenses which are also for the benefit of the employee almost always must be taxed as fringe benefits. In this case, the beneficiary should have charged the tax⁴ only for the catering costs related to the project staff members⁵. The beneficiary hasn’t taken into account the costs of the project team members when calculating the fringe benefits and has submitted for costs for reimbursement for all it’s staff, based on a percentage of it’s staff and all participants.

The First Level Control didn’t detect an error in the calculation of the fringe benefits. The First Level Control took into account the beneficiary’s explanations and calculated the fringe benefits for other beneficiaries’ employees who were involved as external experts but were not members of the project team.

⁴ The rate of income tax on fringe benefits granted to a natural person is 20/80 of the taxable amount. The social tax shall be paid at a rate of 33% on fringe benefits and also on income tax calculated on fringe benefits.

⁵ See the calculation from annex No. 1.



In summary, the beneficiary has declared the cost of the fringe benefits in a higher amount than eligible according to the programme rules.

Recommendations:

1) Recommendation to the auditee:

It is recommended to the beneficiary to make a refund in amount of the ERDF co-financing € 150,64 (85%) and to deduct the ineligible co-financing € 26,58 (15%) from the project's overall eligible expenditure.

2) Recommendation to the First Level Control

It is recommended to always ascertain that declared fringe benefits are calculated on the basis of the costs related to the beneficiary's staff members.

Auditee's response:

The auditee did not submit any additional comments

First Level Control response:

FLC takes into account the Audit recommendation and will pay more attention that project partners will be declaring fringe benefits on the basis of the costs related to the beneficiary's staff members.

Accounting and calculating errors at project level

Audit Finding No. 2 – The beneficiary's accounting doesn't correspond to the reporting in the project system eMS (*Minor finding*)

In the audited period the beneficiary Estonian Road Administration declared OÜ IB Foor invoice No. 240 in amount of € 45 570.00 as eligible expenditure. First Level Control and Certifying Authority certified invoice No. 240 in full amount € 45 570.00.

In the beneficiary's general ledger account, the eligible amount of invoice No. 240 is € 8 584.80, although invoice No. 240 has been reimbursed in full to the beneficiary.

The beneficiary explained that they declared as many costs as the Project budget allowed to be declared at the stage of the Project. In regard invoice No. 240, the eligible amount is € 8584.80 and the rest is not covered by the project's funding. The beneficiary added that they had incorrect information in the Project final phase, that it is also possible to reimburse the overpayment in the case of project work. Therefore, they declared additional project work for the project system eMS (€ 36 834.00). However, it was later found that the overcharge was not reimbursable.

The beneficiary's accounting doesn't correspond to the reporting in the project system eMS. According to the eMS, invoice 240 is fully reimbursed to the beneficiary and if certain cost lines have been reduced in a period 8.1, accounting adjustments must be made for the reduced entries, not for invoice No. 240.

Recommendations:

1) Recommendation to the auditee:

It is recommended to adjust the accounting entries to the actual situation.



Auditee response:

The auditee did not submit any additional comments



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.

Audit supervisor: Kadi Peets

Signature /Signed electronically/



Annex No. 1. Fringe benefits in the form of “erisoodustusmaks” calculation⁶

13.11-14.11.2018 project meeting				21-23.11.2018 project meeting		
	Pille Leib OÜ invoice No. 1012	OÜ Dixen invoice No. 181101	OÜ Dixen invoice No. 181103	OÜ Dixen invoice No. 181110		
Price per unit	65	7,35	7,65	9,15	8,65	9,25
Price per unit with VAT	65	8,82	9,18	10,98	10,38	11,1
Unit	12	15	10	10	10	10
Invoice amount	780	132,30	91,80	109,8	103,8	111
Participants (incl project staff)	12,00	14,00	12,00	7	8	6
Project staff members	4,00	4,00	4,00	2	2	1
Fringe benefits in the form of "erisoodustusmaks" price	260	37,8	30,6	31,37	25,95	18,5
Income tax 20/80	65	9,45	7,65	7,84	6,49	4,63
Social tax 33%	107,25	15,59	12,62	12,94	10,70	7,63
Fringe benefits	172,25	25,04	20,27	20,78	17,19	7,36
Invoice amount + Fringe benefits	952,25	157,34	112,07	369,94		
Declared amount and amount certified CA	1038,38	176,11	122,2	432,13		
Ineligible cost	86,13	18,77	10,13	62,19		
Total ineligible cost	177,22					

⁶ As different calculation methods for calculating the fringe benefit of “erisoodustusmaks” are possible, the auditors took into account the most profitable method for the beneficiary.

