AUDIT OF OPERATION REPORT

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

AUDIT NUMBER:	
Date of audit report	*20/01/2021*
Contradictory procedure	11/01/2021 – 19/01/2021
Accounting period	*01/07/2019 – 30/06/2020*
Audit scope	*Progress report No 3.1 in the amount of € 43 824.01* *100%*
Auditor(s)	*Andreas Kalm (audit team member), Auditor of II Audit Unit Financial Control Department of Ministry of Finance of Estonia Suur-Ameerika 1, 10129 Tallinn, Estonia;* *Hannes Vahemäe (audit manager), Auditor of I Audit Unit Financial Control Department of Ministry of Finance of Estonia Suur-Ameerika 1, 10129 Tallinn, Estonia* *Kadi Peets (audit superviso)r, 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	*Estonian Chamber of Commerce and Industry* *Toom-Kooli 17, 10130 Tallinn* *Ms. Kaie Tropp* *Phone: +372 604 0093* *Email: Kaie.Tropp@koda.ee*
Place of the audit	Estonian Chamber of Commerce and Industry
Persons present during the audit	Ms. Kaie Tropp
Date of on-the-spot checks	Due to Covid-19 pandemic, the audit team didn't do any checks on-the-spot.
Full project name	*Creation of export support co-operation network to China in Latvia-Estonia Finland cross-border region*
Project Number & Acronym	*CB679 – LEF Network to China*
Priority Axis	**1. Competitive economy**
Specific Objective	**SO 1.3 More exports by the Central Baltic companies to new markets**
Reporting Period	**01/04/2019 - 30/09/2019**
Name of the Lead Partner	Latvian Chamber of Commerce and Industry
Project duration (start and end dates)	**01/04/2018 - 31/03/2021**
AUDIT CONCLUSION	*Based on the audit work performed we have obtained reasonable assurance that the expenditure declared under the audited operation CB679 LEF Network to China within priority axis 1 in the reference year 2019/2020 is, in all material aspects, legal and regular.* *The summarized list of findings identified during the audit is presented in the following table and report.*

Number of findings	Total Financial Impact	Total Financial Impact ERDF	Nature of the finding(s)
1	N/A	N/A	The project has generated income during the reporting period 3. No financial impact currently. (Major 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 of the year 2020. Despite that, the auditors have obtained sufficient assurance in other ways, no follow-up on-the-spot checks are not necessary.

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 documents 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: 11/01/2021

Final report: 20/01/2021

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	%
ERDF	€ 184 026.32	79.5%	€ 34 840.08	79.5%
Public funding (total)	€ 0.00	0%	€ 0.00	0%
Private funding	€ 47 453.34	20.5%	€ 8 983.92	20.5%
Income	€ 0.00	0%	€ 0.00	0%
TOTAL PARTNER BUDGET	**€ 231 479.66**	**100%**	**€ 43 824.01**	**100%**

Audited expenditure (according to the Sample)			
Budget Line		**Total amount audited** *(combining milestones)*	**Ineligible detected in audit scope**
1.	Staff costs	€ 7 598.35	€ 0.00
2.	Office and administration	€ 1 139.72	€ 0.00
3.	Travel and accommodation	€ 1 900.65	€ 0.00
4.	External expertise and services	€ 33 185.29	€ 0.00
5.	Equipment	€ 0.00	€ 0.00
6.	Infrastructure and works	€ 0.00	€ 0.00
	Total amount audited	**€ 43 824.01**	**€ 0.00**

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	€ 0.00	€ 0.00
5.	Equipment	€ 0.00	€ 0.00
6.	Infrastructure and works	€ 0.00	€ 0.00
	Total amount audited	**€ 0.00**	**€ 0.00**

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

Revenue generating projects

Audit Finding No. 1 – The project has generated income during the reporting period 3. No financial impact currently (*Major finding*)

According to the Programme Manual: “All net revenue generated during project implementation shall be reported in the Project Report. Where to report it and how it reduces the ERDF funding depends on whether the net revenue was foreseen in the application phase or not.”

In the application, the project partner has not foreseen any revenue. In the audited period, the beneficiary has organized two trainings (on 8th of May 2019 and 12th June 2019) for companies. According to the trainings’ advertisements from the beneficiary’s website, everyone, who wanted participate, had a chance to do that. Companies, who were not listed in the focus group of the project (directly involved in achieving the project goals) had to pay participation fee, which for one training was € 25 (+ VAT) and for the other one € 40 (+VAT) per participant. Companies that were already involved in the project didn’t have to pay the fee.

According to the signed participants list, on the 8th of May 2019 training, there were at least 10 participants who were not involved in the project and who had to pay participation fee. For that training, the fee was € 40 + VAT, so the earning from there was € 400. On the 12th June 2019 training, there were 25 participants who had to pay participation fee. For that training, the fee was € 25 + VAT, so the earning from there was € 625. In total, the revenue for two trainings was € 1025.

In line with the CPR article 61 § 3:“The Commission shall be empowered to adopt delegated acts, in accordance with Article 149, laying down the method referred to in point (b) of the first subparagraph. Where that method is applied, the net revenue generated during implementation of the operation, resulting from sources of revenue not taken into account in determining the potential net revenue of the operation, shall be deducted from the eligible expenditure of the operation, no later than in the final payment claim submitted by the beneficiary”

In auditors' opinion, the project may deduct the collected net revenue not planned in the project application until it's last report and therefore there's currently no financial impact. In addition, the beneficiary should declare the income in the book-keeping system that's related to the project.

According to the information in the eMS system, the First Level Control hasn't detected (or at least, there's no audit trail that this question has arisen during the control) that during the period 3 the auditee has generated income in the project.

Recommendations:

The auditee is recommended to gather the information about the income and deduct it no later than in the final payment claim. Also the auditee is recommended to declare the income in the book-keeping system that's related to the project.

The MA is recommended to follow up the beneficiary's activities to detect the potential income in this project.

The FLC is recommended to pay more attention in the future to the potential revenue-generating events to ensure that the project has not earned any income, which has not been reported with the project's reports. For that purpose, it is recommended to check also the announcements of projects' events (for example invitations to take part of trainings, seminars), forming one part of the audit trail of the project's implementation.

Auditee's response:

The Estonian Chamber of Commerce and Industry is an NGO that operates on membership fees and services provided for the chamber members and other companies. Our services include trainings. Normally our trainings have a fee, especially full day trainings that include coffee breaks and lunch. Therefore, a small fee was initially established for the LEF Network to China project trainings. Based on our experience a small participation fee disciplines participant to attend the training. Within the project, it is important that a minimum of 20 people participate in each training. We asked small participation fee for reducing the no-show rate.

Trainings were free of charge for focus group companies (5 companies who are supported by the Estonian Chamber of Commerce and Industry and 2 companies who are supported by Estonian Woodhouse Association), co-operation partners from sectoral agencies and business support organizations and also for some company representatives who were invited by previously mentioned co-operation partners. Our aim was to have right target group in the conference eroom – participants who are truly interested in the topic and are participating all day.

In reality, only a few invoices were issued. Related to the 8th May 2019 training, we issued invoices for 3 participants in the total amount of € 120. Related to the 12th June 2019 training we issued invoices for 23 participants in the total amount of € 575). We asked for the participation fee in the first three trainings. Related to the 27th November 2019 training, we issued invoices for 2 participants in the total amount of € 40. As the situation changed (due to the spread of COVID-19), we started organizing online trainings, which were free of charge for all participants.

We added training advertisements screenshots to the report hence the First Level Control (FLC) and the Managing Authority (MA) had information regarding collecting a small amount of participation free from company representatives who were not focus group members. We did not receive feedback from FLC regarding the issue before the audit.

FLC's response:

The FLC will pay more attention in the future to the potential revenue-generating events to ensure that the project has not earned any income, which has not been reported with the project's reports. FLC makes sure that the earned income will be deducted from the final report and that the corresponding note/reminder is added in the eMS in the future.

Final conclusion:

According to the auditors finding and the response of the two stakeholders, the project has earned revenue. There is currently no financial impact in the context of this audit, but before the end of the project, the FLC must ensure that the earned revenue is deducted from the final report.

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 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: Andreas Kalm

Signed digitally

Auditor: Hannes Vahemäe

Signed digitally

Audit supervisor: Kadi Peets

Signed digitally