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Correction

We hereby send you additional information regarding the planned flat-rate correction.

Establishing Justifications and Commencement Date for Applying Flat-Rate 5%

We typically implement additional checks in cases of suspected systematic errors. However, as the 2014-2020 period ends, this approach wouldn't have been practical. It would have proved excessively time-consuming, necessitating extra resources from both the 2nd level IB and the MA. Thus, we have concurred with Audit Authority's proposal to apply a 5% correction rate. This decision is justified and proportionate, aligning with the scale of ineligible costs identified during audits conducted between 2021 and 2023, averaging 6.8% per project. The correction rate applies only to reconstruction procurements, as the errors detected so far are all related to reconstruction procurements, and no errors have been detected in the owner supervision and technical consultant procurements.

Previous audits conducted under measure 6.1.1 have demonstrated the functionality of management and control systems. Audit JKS-9/2017 (final report dated 01.03.2018) received a category II, indicating the absence of such issues. Consequently, it isn't necessary to implement the correction rate retrospectively for the entire 2014-2020 period. Instead, it should commence from the amendment to the measure's regulation (measure 6.1.1), requiring beneficiaries to conduct reconstruction procurements through the state procurement register. This obligation began with projects whose financing decision was based on the regulation adopted from 04.04.2019. Similar requirements were also stipulated in measure 15.3.3, where we apply the correction rate to all reconstruction procurements.

Flat-Rate Sum Calculation

In measure 6.1.1, 112 projects are covered by the flat rate, with eligible costs totaling 98 750 083.89 euros, of which the grant is 39 680 079.44 euros. Therefore, in this measure, 5% or 4 937 504.19 euros are considered ineligible, of which the grant is 1 984 003.97 euros.

In measure 15.3.3, 83 projects are covered by the flat rate, with eligible costs totaling 55 263 330.44 euros, of which the grant is 22 756 100.61 euros. Therefore, in this measure, 5% or 2 763 166.52 euros are considered ineligible, of which the grant is 1 137 805.03 euros.

Thus, 7 700 670.71 euros are considered ineligible in these measures, of which the grant is 3 121 809 euros.

Certification of the expenditures

In the certification process (accounting year 2022-2023), we removed reconstruction costs in full for the projects related to the accounting year (costs incurred from the period 01.04.2022-31.03.2023). Based on

the analysis of the Auditing Authority, there are 242 projects affected. 121 out of them were related to the accounting year (measure 15.1 55 projects and measure 6.1 66 projects).

MA plans to submit the payment request in April 2024 and by that time it is necessary to map out the scope that has been identified as having a problem and apply the flat rate method to it.

Planned Future Measures

As follow-up actions MA has planned the following steps:

1. Managing authority (MA) has planned additional controls in the 2024 action plan and has created corresponding tasks in Jira. Furthermore, MA systematically conducts various types of controls and analyses. These activities are aimed at ensuring compliance, identifying potential risks, and enhancing the effectiveness of operations. MA will implement regular checks to verify the accuracy and completeness of data, transactions, and processes. By systematically reviewing these aspects, we can promptly address any risks and irregularities. Furthermore, MA utilizes risk analysis as part of our control procedures. By analyzing potential risks within various datasets or processes, we can efficiently assess the overall quality and compliance levels. This approach provides insights into broader trends and patterns, enabling us to prioritize areas for further scrutiny or improvement.
2. As a prompt solution to enhancing the system, the implementing body will take over the procurement process. Previously, the procurements were conducted by the applicant. This workflow alteration results in an administrative burden increase, but it ensures the correctness of the procurement process. By shifting the responsibility to the implementing body, there will be a need for additional administrative efforts to manage the procurement activities effectively. Additionally, by centralizing the procurement process under the implementing body, it enables more comprehensive oversight and control, thereby minimizing the risk of errors or irregularities. Therefore, while there may be initial challenges associated with the increased administrative burden, the long-term benefits of ensuring the accuracy and effectiveness of the procurement process justify this transition.
3. As a future development, we are analyzing possibilities for the establishment of simplified cost options or result-based methods to mitigate the risk of price manipulation. The simplification represents a strategic approach to mitigate the risk of price manipulation within the procurement process. Transitioning to simplified cost options requires careful planning and analysis to ensure their effective implementation. While simplification offers advantages in terms of transparency, it also may create new risk of potential irregularities and oversight mechanisms to safeguard against irregular expenditures that need to be addressed.

Yours sincerely,

(signed digitally)

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