

COUNCIL OF THE BALTIC SEA STATES  
BOX 2010  
103 11 STOCKHOLM  
SWEDEN

DECISION DATE: 2015-09-30

## Project Support Facility at the Secretariat of the Council of the Baltic Sea States

The Swedish National Audit Office (Swedish NAO), as a part of the financial audit of the Secretariat of the Council of the Baltic Sea States (CBSS) 2014, has audited the process for the Project Support Facility (PSF).

The audit resulted in findings that we would like to draw CBSS's attention to in this audit report.

The Swedish NAO wishes to receive information at the latest by 2015-11-06 in light of our observations in this report.

### Brief background and summary

During the meeting of the Heads of Government of the CBSS Member States in Stralsund on 30–31 of May 2012 an agreement was reached to establish the programme for the Project Support Facility (PSF) within the budget of CBSS for 2013–2015. The purpose of the project is to facilitate regional cooperative projects within the Baltic Sea Area using seed capital funds and co-financing. The budget for the project amounts to EUR 1 million and is financed by the Baltic Sea States.<sup>1</sup> The Secretariat of the CBSS is authorised to use a maximum of 7 percent of the budget to administrate the PSF. The remaining budget should be provided to external projects.

The guidelines for appraisal state that the administrative processing of the project should be managed by a Selection Committee, consisting of representatives from the CBSS and the Troika<sup>2</sup>, which are to make qualitative assessments.<sup>3</sup> The guidelines also state the criteria for assessment and describe the indicative questions that render scores for ranking the projects. The decision on approved projects that will receive funds is taken by the Committee of Senior Officials (CSO).

Last year the Swedish NAO handed over an audit memorandum regarding observations concerning deficient internal control in the process for handling PSF projects.<sup>4</sup> During 2014 CBSS worked on improving procedures and the control of handling and monitoring the PSF. The Secretariat has presented new documents but also revised existing documents to improve the procedure, control and monitoring of projects. However, the audit performed in 2014 shows that

<sup>1</sup> Implementing Rules for CBSS Project Support Facility, 30 January 2013.

<sup>2</sup> The Troika consists of the President of the CSO as well as the forthcoming and outgoing Presidency.

<sup>3</sup> The CBSS Project Support Facility Selection Committee – Appraisal Guidelines, updated 2014.

<sup>4</sup> Audit memorandum "Granskning av Project Support Facility vid Council of the Baltic Sea States", dated 2013-12-19, with registration number 32-2013-0495.

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the CBSS's internal control is still not fully adequate and that the measures taken since 2013 are not sufficient for securing good internal control in all steps in the process. In that the process is handled mainly manually and includes qualitative assessments, the risks increase in the process. Concurrently, the written procedures are not fully exhaustive and clear.

## **Procedures for the administrative process of applications and assessment criteria for selecting projects**

The CBSS has produced a manual aiming to reach the organisations that apply for funds as well as appraisal guidelines for the Selection Committee.<sup>5</sup> Both documents were also used in 2013 and since then minor adjustments have been made by the CBSS. The CBSS has also created a checklist to improve the administrative process.<sup>6</sup> Unfortunately the checklist and the written procedures do not determine nor fully clarify what controls are to be executed by the CBSS of the applications within the PSF. For example, the control of eligible company signatory is not considered, nor is the control of the financial statements, audit report or similar. The checklist is solely used to note whether required documents are attached. Controls of correctness of declared information or assessment of the applicant's internal control are not performed. Nor is there an assessment of the organisation's ability to handle the received funds.

The checklist for the applicant before submitting the application, which is a part of the application form, states that a copy of the organisation's most recent annual report, together with the accompanying audit report, should be enclosed. We have audited three project applications from 2013 and 2014.<sup>7</sup> None of the three applications included any audit reports even though this box was checked for two of the projects. The 2014 project lacked an annual report, one project from 2013 lacked the annual report (though an annual review was attached) and one project from 2013 had a recent annual report but it was written in German. There was no assessment made by the CBSS in terms of the received financial report and audit report. This aspect is not included in the checklist. Yes and no answers are only used in the checklist, hence the purpose of the intake of documents is unclear.

The appraisal guidelines for the CSO regulate responsibility for the administrative process, decision and follow-up of the PSF projects.<sup>8</sup> The guidelines explain that the CBSS is responsible for the administrative process of the PSF, though it is not clearly specified what type of administrative work the CBSS should do. The guidelines also explain the qualitative assessment

<sup>5</sup> Project Support Facility – Manual, updated 2014 and CBSS Project Support Facility Selection Committee – Appraisal Guidelines, updated 2014.

<sup>6</sup> Application checklist/checklist for technical eligibility.

<sup>7</sup> CBSS Youth camp Baltic Artek, CBSSPSF/SC/052013/3, Norden Association in Sweden, CBSSPSF/SC/052013/4 and Evaluating National Heritage Board (CBSSPSF/SC 042014/4).

<sup>8</sup> CBSS Project Support Facility Selection Committee – Appraisal Guidelines, updated 2014.

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that will be made by the Selection Committee. The guidelines include five assessment criteria and associated indicative questions. The Committee is to give scores of 1–5 for each question. Since there are no examples of assessments or factors to consider for each indicative question, and some questions are very broad, we conclude that the room for ambiguity in interpretations of the indicative question is too extensive to secure equal treatment.

Appraisal by projects in the Selection Committee in 2014 was not fully carried out in accordance with the appraisal working guidelines considering the stated assessment criteria and associated scoring. The CSO has approved seven projects but scoring has not been kept for each individual criterion. Therefore there is no documentation that the Selection Committee has followed the guidelines when appraising the projects. This creates uncertainties regarding equal treatment, transparency and rule of law in the process.

The CSO uses unsigned minutes for confirming selection of the project, no formal decision is made.

#### *Recommendations*

It is recommended that the CBSS supplements and clarifies written procedures and checklists for the administrative process of the PSF funds and determines which controls should be utilised in different stages of the process. Currently the controls in use do not fully cover all substantial risks.

It is recommended that the CBSS clarifies how assessments should be carried out of the applicant's annual and audit reports. The CBSS should consider including an overall assessment of the organisation's capacity to handle the received funds through the annual report and accompanying audit report in the checklist for applications. The CBSS also has to explain whether documents other than annual reports are acceptable and what complementary assessments can be made if the organisation does not have the required documents.

It is recommended that the CBSS clarifies the assessment criteria for the qualitative assessment to be performed by the Selection Committee. This could be done by gathering examples of "cases" for each assessment criterion and indicative questions or by compiling different factors to consider when scoring each indicative question. A qualitative assessment should not leave too much room for ambiguity of interpretation in assessing each indicative question.

It is recommended that appraisal of the projects in the Selection Committee follows stated appraisal guidelines at all times and that individual scoring is kept for each project and criterion. It is important that the appraisal process follows the guidelines to secure equal treatment, transparency and compliance with the rule of law as far as possible in the PSF process.

Finally, we recommend that the CBSS formalises the confirmation of the appraisal of projects, for example by means of signed minutes.

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## Procedures for following-up disbursed funds

Our audit indicates that the CBSS has not clearly determined how the secretariat should follow up submitted reporting concerning the use and result of disbursed contributions. There is a checklist for progress reports, but there was no checklist for final reports at the time of our audit in April 2015.<sup>9</sup> The manual for PSF states that “The accounts for the project shall be audited according to the beneficiary’s internal rules”.<sup>10</sup> However, it does not conclude what the audit has to include or how comprehensive the audit should be. Furthermore, there are no written procedures for how the CBSS should document its assessments of received narrative and financial reports, or audit reports. It is important that the CBSS documents its statements on requested reporting, and clarifies what factors the statements are based on.

Before final payment to a project is made the CBSS reviews the final report in light of the submitted project proposal and budget. The administrative staff at the CBSS secretariat is responsible for going through the financial report, while the Selection Committee is responsible for reviewing the narrative reporting. Conclusions from the Selection Committee’s reviews can be found in unsigned minutes from their meetings, but there is no formal approval of the report before final payment is made. Neither is there any documentation of the review of the financial report and the review of the audit. We have noted that for the project receiving its final payment in the beginning of 2015 there was no audit report submitted for the final report. We have also noted that the CBSS lacks clear written procedures for how unused project funds are to be refunded. This is not mentioned in either the manual or the template for the grant contract. So far only one project has received its final payment, but it is important that CBSS has routines in place for when more final payments are to be made.

### *Recommendations*

It is recommended that the CBSS clarifies what follow up should be made of submitted reporting concerning the use and the result of CBSS disbursed contributions. The checklist for progress reports is not exhaustive and could also be clarified, for example by means of help texts to consider so that analysis of outcomes is adequate and equal.

It is recommended that the CBSS develops a checklist for final reports. The checklist should include questions regarding both the qualitative review that is made by the Selection Committee and the review of the financial report and the audit report. A fully completed and signed checklist should be a prerequisite for final payment. We recommend that the CBSS formalises the Selections Committee’s approval of the final report, for example by means of signed minutes.

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<sup>9</sup> Progress Report Checklist, set 2014.

<sup>10</sup> Project Support Facility – Manual, updated 2014.

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An important part of the follow up is to consider the type of audit the external auditor should perform of disbursed project funds and what type of audit statement the auditor shall give. The CBSS should refer to specific audit standards in order to be clear on this point and to obtain good internal control.

Another part of the follow up concerns reimbursement to the CBSS of unused funds after the project has ended. Routines for this should be included in the manual, written procedures and the template for grant contract.

Ulrika Meyer, Auditor in Charge, decided in this matter. Gunhild Magnusson, Audit Manager, presented the matter.

Ulrika Meyer

Gunhild Magnusson