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**ANNUAL AUDIT REPORT**

**ESTONIA-RUSSIA CROSS-BORDER COOPERATION (CBC)**

**PROGRAMME**

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**PROGRAMMING PERIOD 2014-2020**

**PREPARED BY THE AUDIT AUTHORITY OF THE PROGRAMME**

**AS SITUATED IN**

**Ministry of Finance of the Republic of Estonia**

**14.02.2020**  
**Tallinn, Estonia**

## 1. Introduction

### 1.1 Identification of the responsible Audit Authority and other bodies that have been involved in preparing the report.

The Agreement on financing and implementation of Cross-Border Cooperation Programme “Estonia-Russia”<sup>1</sup> 2014-2020 was signed on the 26<sup>th</sup> of December 2016 between the European Commission, Government of the Russian Federation and the Republic of Estonia. This agreement states that Audit Authority will be appointed by the Participating Countries.<sup>2</sup> The Participating Countries have decided to appoint the Financial Control Department of the Ministry of Finance of the Republic of Estonia to act as the programme's Audit Authority. The Agreement was ratified by all parties and entered into force on the 1<sup>st</sup> of January 2019. In the legislation of the Republic of Estonia, this decision was also included in the 2014-2020 Structural Assistance Act, reference No RT I, 25.11.2015, 2.

The Audit Authority is completely independent of Cross-Border Co-Operation Programmes Management Unit of the Grants Development Department of the State Shared Service Centre of Estonia fulfilling the functions of the Managing Authority and Regional Development Department of the European Territorial Cooperation Unit of the Ministry of Finance of Estonia fulfilling the functions of the National Authority of Estonia.

The Audit Authority shall perform its functions assisted by the Group of Auditors as agreed in the Point 3.1, (h) of the General conditions of the Agreement on financing and implementation of Cross-Border Cooperation Programme, the Point 3.6 of the Programme Document of the Cross-Border Cooperation Programme and the Point 2 of the Rules of Procedures of the Group of Auditors.

However, the Audit Authority bears the ultimate responsibility for drawing up, monitoring and updating the Annual Audit Report.

### 1.2 Reference period (i.e. the accounting year).

The Annual Audit Report is compiled for the reference period from 1st of July 2018 until 30th of June 2019.

### 1.3 Audit period (during which the audit work took place).

The Annual Audit Report takes into account the audit work carried out during the year 2019.

### 1.4 Identification of the operational programme covered by the report and of its Managing and Certifying Authorities.

The Annual Audit Report covers the Cross-Border Cooperation Programme “Estonia-Russia” 2014-2020.

The programme will be implemented according to the principles of the Agreement on financing and implementation, for which the Participating Countries have set up a joint implementation structure for the programme in the Republic of Estonia and in the Russian Federation.

As by the agreement of the Participating Countries and since the 1<sup>st</sup> of September 2018, the Cross-Border Co-Operation Programmes Management Unit of the Grants Development Department of the State Shared Service Centre of Estonia is designated as the Managing Authority that also performs the functions of the Certifying Authority.

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<sup>1</sup> Also may be referred to hereinafter equally as “Russia-Estonia”

<sup>2</sup> Article 3 (g)

## 1.5 Description of the steps taken to prepare the report and to draw the audit opinion.

The Annual Audit Report has been compiled on the basis of the audit work done by the Audit Authority and other relevant information available to the Audit Authority.

To prepare the Annual Audit Report, the Audit Authority has taken the following steps:

- The Audit Authority has finished its first audit of accounts of the Estonia-Russia CBC programme;
- The Audit Authority has finished its first audit of operations concerning the legality and regularity of the expenditure for which reimbursement has been requested;
- The Audit Authority has finished its first audit on the functioning of the management and control systems of the programme for the appropriate selection of operations;
- The Audit Authority has reviewed the annual summary and management declaration compiled by the Managing Authority and verified the conclusions made by them, taking into account that the opinion of the Managing Authority on the functioning of the system coincides with the opinion of the Audit Authority;
- Additional information was asked from the Managing Authority.

## 2. Significant changes in management and control systems

### 2.1 Details of any significant changes in the management and control systems related with managing and certifying authorities' responsibilities

In the Audit Authority's opinion, there have been no significant changes to the management and control system since the relocation of the administration of the programme that was evaluated and reported as having no significant impact to the functioning of the management and control system in the last annual control report.

The functions of the Certifying Authority are currently temporarily carried out by the Certifying Authority for the Cohesion Policy Funds. This is a time-limited measure that the Audit Authority sees no issues with and that is scheduled to end during this year.

In addition to that, the Audit Authority has found no issues relating to the Certifying Authority functions when carrying out the audit work in 2019.

### 2.2 Information relating to the monitoring of the designated bodies

The Audit Authority has monitored the implementation of the programme and the programme's bodies' activities by attending the meetings of the Monitoring Committee, where all changes or planned changes of the management and control systems were discussed, as well as other meetings of the programme's authorities.

The Audit Authority is included in the correspondence of the Monitoring Committee, which allows to monitor potential risks raised by the different parties of the programme. If needed, additional information has been asked from the Managing Authority.

The Audit Authority has not observed any significant deficiencies or risks which could jeopardize the management of the programme.

## **2.3 The dates from which these changes apply, the dates of notification of the changes to the audit authority, as well as the impact of these changes to the audit work are to be indicated**

There have been no significant changes to the management and control system since the relocation of the administration of the programme. The Audit Authority expects more changes to be applied during the following year when the Programme begins processing first reports of operations.

## **3. Changes to the audit strategy**

### **3.1 Details of any changes to the audit strategy, and explanation of the reasons**

The audit strategy has been compiled and the principles of planning, implementing and reporting of the audit activities set.

The latest version of the audit strategy was presented to the Group of Auditors in January 2020, but is not yet approved by them. The latest approved version of the audit strategy was confirmed with comments and proposals in the last Group of Auditors meeting on the 7<sup>th</sup> of February 2019.

As a policy, the changes and additions to the Audit Strategy are made with the meeting of the Group of Auditors and subsequently sent to the same recipients, along with other annual reporting documents.

The audit strategy is coordinated with the Group of Auditors and updated annually or if necessary until 2024.

Any changes made to the audit strategy will be approved on the annual meeting of the Group of Auditors, taking into account the comments and suggestions by the Members of the Group of Auditors.

### **3.2 Differentiation between the changes made or proposed at a late stage, which do not affect the work done during the reference period and the changes made during the reference period, that affect the audit work and results**

The audit strategy has been updated to reflect the comments and suggestions received from the Group of Auditors, although it is not yet approved by them. However, no changes have been made to the audit strategy in the year 2019 that affect the practice of audit work and its results.

## **4. System audits**

### **4.1 Details of the bodies (including the Audit Authority) that have carried out audits on the proper functioning of the management and control system of the programme**

The Agreement on financing and implementation of Cross-Border Cooperation Programme "Estonia-Russia" 2014-2020 was ratified on the 12th of November, 2018.

The Audit Authority is situated in the Ministry of Finance of Estonia. The final responsibility for planning and carrying out the management and control system audits on the proper functioning of the programme lies with the Audit Authority.

In the year 2019, one system audit was carried out by the Audit Authority: Audit of management and control systems of appropriate selection of operations.

No bodies other than the Audit Authority have carried out audits on the proper functioning of the management and control system of the programme in the year 2019.

#### 4.2 Description of the basis for the audits carried out, including a reference to the audit strategy applicable, more particularly to the risk assessment methodology and the results that led to establishing the audit plan for system audits

The detailed procedure of planning the management and control systems' audits are described in the audit strategy.

The risk assessment of the Audit Authority, updated yearly for the working plan, chooses the functions to be audited. In addition to that, changes to the system are evaluated as they appear and decisions can be made to add something to the working plan, if needed.

There was one system audit carried out during the year 2019:

- Audit of management and control systems of appropriate selection of operations.

#### 4.3 Description of the main findings and conclusions drawn from system audits, including the audits targeted to specific thematic areas

There was one system audit carried out during the year 2019.

That audit, *Audit of management and control systems of appropriate selection of operations* issued four significant findings as follows:

- The assessment of project application summary form does not take into account the cross cutting issues; whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding; and activity outside the programme area, as clear criteria (Significant);
- The process of providing information in the project application summary form is not significantly different from providing information in the project full application form, which lessens the effectiveness of having a two-part application process (Significant);
- The project full application form does not clearly check whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding (Significant);
- The project full application form does not clearly check for the activity outside the programme area (Significant).

The Audit Authority would additionally like to point out that those findings do not have a critical effect to the management and system as a whole and the risks are mainly mitigated by good practice within the Joint Technical Secretariat.

No ineligible expenditure was also discovered as a result of those audit procedures and testing of the functioning of the management and control system.

In conclusion, the system audit issued an opinion of [Category II](#) (works, but some improvements are needed).

The recommendations of this audit were all followed up during the year 2019. Some of the recommendations have been already put into the practice by the Managing Authority and the Joint Technical Secretariat and for some of them, decisions have been made but putting the decisions into practice is still an ongoing process. The final assessment for those findings will be entered in the next annual control report. For details, please see Annex 1.1.

#### 4.4 Indication of whether any problems identified were considered to be of a systemic character, and of the measures taken, including a quantification of the irregular expenditure and any related financial corrections

None of the problems identified were considered to be of a systemic character. There were also no financial impacts related to the findings issued under the system audit.

#### 4.5 Information on the follow-up of audit recommendations from system audits from previous accounting years

There were no findings from system audits of previous accounting years to follow up on.

#### 4.6 Description of specific deficiencies related to the management of financial instruments or other type of expenditure covered by particular rules detected during system audits and of the follow-up given by the managing authority to remedy these shortcomings

There are no financial instruments implemented in the programme.

In regard to other particular rules, there are no specific deficiencies detected by the Audit Authority.

#### 4.7 Level of assurance obtained following the system audits (low/average/high) and justification

In general, the management and control systems of the Estonia-Russia programme can be characterized as *Category II* (works well, but some improvements are needed). The Programme bodies have responded to the recommendations of audit findings in a prompt manner and the changes made to the systems are quickly taken into practice.

For more detailed information, please see the Annex 1.

## 5. Audits of operations

### 5.1 Indication of the bodies (including the audit authority) that carried out the audits of operations

The Agreement on financing and implementation of Cross-Border Cooperation Programme "Estonia-Russia" 2014-2020 was ratified on the 12th of November, 2018. The Audit Authority is situated in the Ministry of Finance of Estonia.

Only the Audit Authority has carried out one audit of operations in the programme for the year 2019 for technical assistance costs.

### 5.2 Description of the sampling methodology applied and information whether the methodology is in accordance with the audit strategy

For the Estonia-Russia programme, the Audit Authority has foreseen in the audit strategy to use a non-statistical sampling, due to the small size of the programme.

For the year 2019, only costs in the Programme were the technical assistance costs. The Audit Authority decided to treat the entirety of those costs as one operation, which is also in accordance with the audit strategy. Therefore, no sampling for operations was necessary, as all of the technical assistance costs were included.

However, the Audit Authority used statistical sampling for sub-sampling within the population of cost documents, as the amount of them would otherwise been prohibitively large.

### 5.3 Indication of the parameters used for statistical sampling and explanation of the underlying calculations and professional judgement applied

Although the Audit Authority did not use statistical sampling for sampling for operations, the statistical sampling (Monetary Unit Sampling) was used to sub-sample within the population of cost documents.

For the statistical sample thus formed, the relevant parameters were as follows:

- Number of items in the population: 1339;
- Number of items selected for testing: 30;
- Confidence level: 70%;
- Materiality level: 2%;
- Sample value €174 656.06 (29.50% of population).

### 5.4 Reconciliation between the total expenditure declared in euro in respect of the accounting year and the population from which the random sample was drawn

The reconciliation between the expenditure and the population when the sample was drawn was equal to €591 959.83.

### 5.5 Where there are negative sampling units, confirmation that they have been treated as a separate population

No negative sampling units have been observed.

### 5.6 In case of the use of non-statistical sampling, indicate the reasons for using the method, the percentage of operations/expenditure covered through audits, the steps taken to ensure randomness of the sample (and thus its representativity) and to ensure a sufficient size of the sample enabling the Audit Authority to draw up a valid audit opinion. A projected error rate is calculated also in case of non-statistical sampling

As outlined in the audit strategy, the Audit Authority of the programme will use non-statistical sampling, since it can be projected that the parameters of the population for any given accounting year will allow for it. The non-statistical method will be simple random sampling, with the added requirement that it must ensure sufficient size of the sample, which is deemed to be at least 10% of the financial amount of the population and at least 5% of the sampling items in the population. From the results of this sample to be audited, a projected error rate will be calculated.

For the year 2019, only costs in the Programme were the technical assistance costs. The Audit Authority decided to treat the entirety of those costs as one operation, which is also in accordance with the audit strategy. Therefore, no sampling for operations was necessary, as all of the technical assistance costs were included.

## 5.7 Analysis of the principal results of the audits of operations, describing the number of sample items audited, the respective amount and types of errors by operation, the nature of errors found, the stratum error rate and corresponding main deficiencies or irregularities, the upper limit of the error rate (where applicable), root causes, corrective measures proposed (including those intending to avoid these errors in subsequent payment applications) and the impact on the audit opinion

The sample for the year 2019 included one item to be audited – the technical assistance costs. Based on the audit conducted, no errors were discovered.

The costs of Managing Authority, Joint Technical Secretariat and its Branch Offices in Pskov, Russia and in St. Petersburg, Russia were audited. In the audit sample there were following costs: staff costs, travel and accommodation costs, external expertise and services costs, office and administration costs and costs for equipment. The Audit Authority got assurance that relevant documents are available and costs are necessary for the implementation of the programme activities. All audited costs were eligible.

The Audit Authority costs were also financed (until 01.09.2018) from technical assistance budget and they were in the population, but although they had a chance to be selected, they were not in the final audit sample. As the sample did not include Audit Authority costs, the Audit Authority objectivity and independence in auditing the legality and regularity of costs was assured.

The error rate is in all aspects 0.00%.

## 5.8 Explanations concerning the financial corrections relating to the accounting year and implemented by the certifying authority/managing authority before submitting the accounts as a result of the audits of operations, including flat rate or extrapolated corrections

There are no financial corrections for the accounting year at hand.

## 5.9 Comparison of the total error rate and the residual total error rate with the set materiality level, in order to ascertain if the population is materially misstated and the impact on the audit opinion

The total and residual total error rates are both 0.00%.

## 5.10 Information on the results of the audit of the complementary sample

The option of drawing a complementary sample has not been used by the Audit Authority.

## 5.11 Details of whether any problems identified were considered to be systemic in nature, and the measures taken, including a quantification of the irregular expenditure and any related financial corrections

No problems of a systemic character have been identified in the year 2019.

## 5.12 Information on the follow-up of audits of operations carried out in previous years, in particular on deficiencies of systemic nature

There were no findings from audits of operations in the previous accounting years to follow up on.

### 5.13 Conclusions drawn from the overall results of the audits of operations with regard to the effectiveness of the management and control system

As the error rate is 0.00% in all aspects, it is reasonable to say that the population is not misstated.

## 6. Audits of accounts

### 6.1 Indication of the authorities/bodies that have carried out audits of accounts

The Agreement on financing and implementation of Cross-Border Cooperation Programme "Estonia-Russia" 2014-2020 was ratified on the 12th of November, 2018. The Audit Authority is situated in the Ministry of Finance of Estonia.

Only the Audit Authority has carried out the audit of accounts in the programme for the year 2019.

### 6.2 Description of audit approach used to verify the elements of the accounts

The elements of the accounts were verified.

The information presented by the Managing Authority in the Financial part of the annual report was used as a starting point of information. It was found that the amount of expenditure declared reconciles to all of the previous interim payment applications since the beginning of the Programme.

It was also found, by testing this expenditure via the audit of operations that those sums correspond to expenditure incurred by the beneficiary and paid in implementing operations. The audit trail for the entirety of this expenditure was also verified. No differences were found and no explanations were needed.

There were no amounts withdrawn or recovered. There were no irrecoverable amounts presented and no expenditure has been excluded from the accounts due to the ongoing assessment of its legality and regularity. There were no payments to financial instruments or advances of State Aid.

### 6.3 Indication of the conclusions drawn from the results of the audits in regard to the completeness, accuracy and veracity of the accounts

It was possible to declare that the accounts as prepared by the Certifying Authority function reconciles to the final payment application for the relevant accounting year. It corresponds to the payments made to beneficiary, there were no the exclusions and deductions, advances to financial instruments or to the state aid to consider.

In conclusion, the Audit Authority saw it consistent with the result of the audit of accounts to issue an unqualified opinion on the accounts for the year 2019.

### 6.4 Indication of whether any problems identified were considered to be systemic in nature, and the measures taken

No problems of a systemic nature have been identified in the year 2019.

## **7. Coordination between audit bodies and supervisory work of the Audit Authority**

### **7.1 Description of the procedure for coordination between the Audit Authority and any audit body that carries out audits**

The coordination between the Audit Authority and the Members of the Group of Auditors are set with the rules of procedure of the Group of Auditors.

The annual meeting will take place at least once a year. For the year 2019, the Group of Auditors meeting was planned to be held on 11<sup>th</sup> of February 2020 in Tallinn. Unfortunately, this meeting was cancelled by the request of the Group of Auditors. New meeting will be held at the first opportunity.

Also, the Audit Authority has cultivated a close co-operation with TESIM.

### **7.2 Description of the procedure for supervision and quality review applied by the Audit Authority to such audit body**

The Audit Authority ensures the quality of the Group of Auditors work (including the work done by the national audit body in Russia) with the following activities:

- The auditors are required to follow internationally accepted auditing standards;
- The Audit Authority provides the auditors with relevant programme documents (audit strategy and audit manual) and know-how in carrying out the audit activities. Additional trainings will be carried out based on the audit manual, if needed;
- There will be regular Group of Auditors meetings (at least once a year).

To ensure the quality of any outsourced audit work, the Audit Authority carries out a quality assessment of audit working papers and reviews the audit report before the final version of it is being sent to the auditee.

The ultimate responsibility of the audit work carried out remains with the auditors carrying out the audit work. The errors found or the disputes arising from the findings of any auditors working for the programme are their ultimate responsibility. The Audit Authority's competence does not extend to the evaluation of the violations of the Member State national legislation.

## **8. Other information**

### **8.1 Where applicable, information on reported fraud and suspicions of fraud detected in the context of the audits performed by the audit authority together with the measures taken**

There has been no reported fraud or suspicions of fraud detected for the year 2019.

### **8.2 Where applicable, subsequent events occurred after the submission of the accounts to the audit authority and before the transmission of the annual control report and considered when establishing the level of assurance and opinion by the audit authority**

No subsequent events occurred after the submission of the accounts are there to be considered for the accounting year.

## 9. Overall level of assurance

9.1 Indication of the overall level of assurance on the proper functioning of the management and control system, and explanation of how such level was obtained from the combination of the results of the system audits and audits of operations. Where relevant, the audit authority shall take also account of the results of other national or Union audit work carried out in relation to the accounting year

The Audit Authority issues an opinion on the assurance to the management and control systems as a whole, taking into account the results of both the systems audits and the audits of operations.

The assessment of the one system audit is category II.

Based on that, the Audit Authority has decided that the management and control systems warrants an overall assessment of **category II** as a whole.

The audits of operations revealed a total error rate of 0.00%, which does not exceed the materiality level. The residual total error rate is also 0.00%, or under the materiality level.

So, based on the previously declared information, the Audit Authority issues an **unqualified opinion** for the year 2019.

9.2 Assessment of any mitigating actions implemented, such as financial corrections and assessment of the need for any additional corrective measures necessary, both from a system and financial perspective

No mitigating actions or any additional corrective measures have been deemed necessary.

## ANNEX 1 – Results of System Audits

Audited Entity	Fund	Title of the audit	Date of the final audit report	Cross-Border Cooperation Programme "Estonia-Russia" 2014-2020													Overall assessment (category 1, 2, 3, 4)	Comments	
				Key requirements:															
				KR1	KR2	KR3	KR4	KR5	KR6	KR7	KR8	KR9	KR10	KR11	KR12	KR13			
MA	Estonia-Russia	Audit of appropriate selection of operations	11/12/2019		II	I		I										II	Audit Report No JKS-24/2019

## ANNEX 2 – Significant findings of System Audits

Finding	Finding accepted by the auditee	Recommendation carried out by the auditee	Result accepted by the auditors
<b>Audit of appropriate selection of operations</b>			
Finding No 1.1 - The assessment of project application summary form does not take into account the cross cutting issues; whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding; and activity outside the programme area, as clear criteria (Significant)	Yes	Yes. The Programme has opted to not use the summary form for following calls	Yes
Finding No 1.2 - The process of providing information in the project application summary form is not significantly different from providing information in the project full application form, which lessens the effectiveness of having a two-part application process (Significant)	Yes	Yes The Programme has opted to not use the two-part application process for following calls	Yes
Finding No 1.3 - The project full application form does not clearly check whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding (Significant)	Yes	Yes Relevant control questions will be included in the memo for assessors in the following call	Yes The memo will be checked when finalized
Finding No 1.4 - The project full application form does not clearly check for the activity outside the programme area (Significant)	Yes	Yes Relevant control questions will be included in the memo for assessors in the following call	Yes The memo will be checked when finalized

## ANNEX 3 – Results of Audits of Operations

Fund	Programme title	A	B		C		D	E	F	G	H	I
European Regional Development Fund Russian Federation Republic of Estonia	Cross-Border Cooperation Programme "Estonia-Russia" 2014-2020	Amount in Euros corresponding to the population from which the sample was drawn	Expenditure in reference to the accounting year audited for the random sample		Coverage of non-statistical random sample		Amount of irregular expenditure in random sample	Total error rate % (TER)	Corrections implemented as a result of the total error rate	Residual total error rate % (RTER)	Other expenditure audited	Amount of irregular expenditure in other expenditure audited
			Amount	%	% of operations covered	% of expenditure covered						
			591 959.83	174 656.06	29.50%	100%						