



ANNUAL AUDIT REPORT

ESTONIA-RUSSIA CROSS-BORDER COOPERATION (CBC)

PROGRAMME

(Reference No 0(2015)9193)

PROGRAMMING PERIOD 2014-2020

PREPARED BY THE AUDIT AUTHORITY OF THE PROGRAMME

AS SITUATED IN

Ministry of Finance of the Republic of Estonia

14.02.2019

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”¹ 2014-2020 was signed on the 26th 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.² 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. In the legislation of the Republic of Estonia, this decision was 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.

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

The Annual Audit Report is compiled for the reference period from 1st of July 2017 until 30th of June 2018.

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 2018.

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 1st 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.

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.

¹ Also may be referred to hereinafter as „Russia-Estonia“

² Article 3 (g)

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

- The Audit Authority has begun 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 examined the Description of Management and Control Systems of the programme as composed by the Managing Authority to review the changes made to the systems;
- The Audit Authority has reviewed the annual summary 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;
- If needed, additional information was asked from the Managing Authority.

The Audit Authority has not, however audited expenditure of the programme, as none has been declared by the Certifying Authority; nor the respective accounts of the programme for the same reason.

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, the most significant change was the relocation of the Managing Authority and other programme functions such as the Estonian Financial Control and Joint Secretariat from the Ministry of Finance of the Republic of Estonia and Enterprise Estonia to the State Shared Service Centre of Estonia, an administrative body under the supervision of the Ministry of Finance. The Audit Authority has both reviewed the details of the change and used the comprehensive compliance assessment done for the Estonia-Latvia 2014-2020 Programme as a basis for additional assurance, as the Managing Authority is the same organization for both of the Programmes.

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 selected other meetings of the programme's authorities.

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

The decision to move the Managing Authority and its associated functions to the State Shared Service Centre entered into force on the 1st of September 2018. The impact to the audit work was characterized by the necessity of the Audit Authority to review the changes, but not in any other fields of audit work.

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 first version of the audit strategy was originally presented to the European Commission and the Group of Auditors in October 2017. 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 European Commission and the Group of Auditors. However, no changes have been made to the audit strategy in the year 2018 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.

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 2018.

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 basis, including a detailed description of the procedure of planning and conducting the management and control systems’ audits, is the approved audit strategy of the programme. The audit strategy has set out the first choices for system audits and will be updated as the programme progresses.

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

As the management and control systems’ audit started for the year 2018 is in its early phase, the description of the findings and conclusions drawn will be presented in the next Annual Audit Report.

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

No problems of a systemic character have been identified in the year 2018.

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 were no specific deficiencies from system audits of previous accounting years to follow up on.

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

Since no systems audits have been finalized yet, the Audit Authority continues its reliance on the compliance audit procedures carried out previously, which led to unqualified opinion. The Audit Authority has constantly supervised the implementation of the programme – if needed, the Managing Authority is asked to provide additional information.

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.

No bodies, including the Audit Authority have carried out audits of operations in the programme for the year 2018, since no expenditure of the programme has been declared by the Certifying Authority for that time period.

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

In accordance with the audit strategy, the Audit Authority of the programme will use non-statistical sampling, should the parameters of the population for any given accounting year allow for it.

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

It is not foreseen at the moment that the Audit Authority of programme would use statistical sampling, unless the parameters of the population for any given accounting year would demand it.

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

No expenditure of the programme has been declared by the Certifying Authority for the accounting year.

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.

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

No results of the audits of operations are available for the year 2018.

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

No error rates are calculated for the year 2018.

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 2018.

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

No conclusion can be drawn in regard to the effectiveness of the management and control system, as no audits of operations have been carried out for the accounting year.

6. Audits of accounts

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

No bodies, including the Audit Authority have carried out audits of accounts in the programme for the year 2018, since no expenditure of the programme has been declared by the Certifying Authority for that time period.

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

No changes

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

No conclusion can be drawn in regard to completeness, accuracy and veracity of the accounts, as no audits of accounts have been carried out for the accounting year.

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 2018.

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 2018, the Group of Auditors meeting was held on 7th of February 2019 in Moscow. The next meeting will be held in the second half of the 2019 in Tallinn.

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 2018.

8.1 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

As there has not been any expenditure declared in regard to the reference period, the Audit Authority issues a disclaimer of opinion on the legality and regularity of expenditure.

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	Not finalized		On-going			On-going										Not yet issued	Ongoing audit

ANNEX 2 – Significant findings of System Audits

Finding	Finding accepted by the auditee	Recommendation carried out by the auditee	Result accepted by the auditors
Audit of appropriate selection of operations			
Ongoing audit, no findings yet issued	N/A	N/A	N/A

ANNEX 3 – Results of Audits of Operations

No audits of operations were carried out.