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ANNUAL CONTROL REPORT

EUROPEAN TERRITORIAL COOPERATION (ETC)  
PROGRAMME INTERREG V-A – ESTONIA-LATVIA  
(CCI No: 2014TC16RFCB050)

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PROGRAMMING PERIOD 2014-2020  
(Art 127(5) of (EC) No 1303/2013 of the Council)

AUDIT AUTHORITY of ESTONIA



REPUBLIC OF ESTONIA  
**MINISTRY OF FINANCE**

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 tasks of the Audit Authority of the European Territorial Cooperation Funds are appointed to the Ministry of Finance of Estonia with the § 11 (1) of the 2014-2020 Structural Assistance Act from 4<sup>th</sup> of June 2014. With the decree of the Ministry of Finance, the tasks of the Audit Authority are delegated to the Financial Control Department of the Ministry of Finance, which is also responsible for auditing the general structural funds.

According to the § 11 (2) of the 2014-2020 Structural Assistance Act the Audit Authority shall perform the functions provided for in Common Provisions Regulation (Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17<sup>th</sup> of December 2013, 2014-2020 Structural Assistance Act and the legislation issued on the basis thereof.

By carrying out the audit activities the Audit Authority is assisted by the Group of Auditors. The Ministry of Environmental Protection and Regional Development of the Republic of Latvia accepted the offer of forming the Group of Auditors with the Ministry of Finance in their letter No 8-11/2037 from the 11<sup>th</sup> of March, 2016.

However, the Financial Control Department of the Ministry of Finance is ultimately responsible for drawing up, monitoring and updating the Annual Control Report.

The Annual Control Report is compiled pursuant to the procedures and requirements of the European Commission, considering the model for Annual Control Report.

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

The Annual Control Report is compiled for the reference period from 1<sup>st</sup> of July 2017 until 30<sup>th</sup> of June 2018.

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

The Annual Control Report takes into account the audit work carried out during [the year 2018](#).

### **1.4 Identification of the operational programme(s) covered by the report and of its/their Managing and Certifying Authorities.**

The Annual Control Report covers the Estonia-Latvia programme financed from the ERF (CCI No 2014TC16RFCB050). The programme is implemented according to the principles of ETC programmes.

Estonia and Latvia have set up a joint implementation structure for the Estonia-Latvia programme in Estonia.

As by a change to the 2014-2020 Structural Assistance Act on the 6<sup>th</sup> of July 2018 which entered into force on the 1<sup>st</sup> of September 2018, the Cross-Border Co-Operation Programmes Management Unit of the Grants Development Department carrying out the tasks of the Managing Authority and Certifying Authority was transferred to the State Shared Service Centre of Estonia (hereinafter as the SSSC). The SSSC is an administrative body under the supervision of the Ministry of Finance.

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

The Annual Control 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 Control Report, the Audit Authority has taken the following steps:

- The Audit Authority has carried out audits on the functioning of the management and control systems of the Estonia-Latvia programme for the following: a systems audit of the of Financial Control function (conducted together with the Group of Auditors) and a compliance audit of the Managing Authority relocation;
- The Audit Authority along with the Members of the Group of Auditors in Latvia has audited the expenditure declared to the Commission by carrying out audits of operations on three projects: Est-Lat48 (ESTLAT Business), Est-Lat43 (How the Shammies learned) and Est-Lat24 (Green Railway). In total, five audits of operations were carried out on different partners of those projects both in Estonia and Latvia;
- The Audit Authority has audited the respective accounts of the Estonia-Latvia Programme;
- 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 following documents by the Managing Authority: a) Annual Summary; and b) Management Declaration. The Audit Authority has verified that information, taking into account that the opinion of the Managing Authority coincides with the opinion of the Audit Authority;
- Additional information was asked for 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, the most significant change to the management and control system 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 impact of the relocation to the administration of the programme was analyzed by the Audit Authority within additional compliance audit procedures in limited scope as requested by the European Commission and National Authorities of the programme. For details, please see Chapter 4: System audits.

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.

### **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.

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**

The decision to move the MA and its associated functions to the SSSC, an administrative body under the supervision of the Ministry of Finance, was made with a change to the 2014-2020 Structural Assistance Act on the 6<sup>th</sup> of July 2018 which entered into force on the 1<sup>st</sup> of September 2018. The MA and the AA had known of, and notified the European Commission of the relocation prior to that. The AA launched a compliance audit in limited scope on the 3<sup>rd</sup> of September 2018 in order to assess the management and control systems and concluded it on the 31<sup>st</sup> of December 2018.

## **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 audit strategy is based on the requirements set with the article 7(1) and Annex VII of the Commission Implementing Regulation (EU) No 2015/207 and Commission guidance on audit strategy.

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

For the reference period, the audit strategy was updated in August 2018, before the annual co-ordination meeting between the Audit Authority and the European Commission in order to bring it in line with the topics discussed on that meeting.

### **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**

No changes have been made to the audit strategy since August 2018. There is no differentiation needed, as the changes made do not affect the audit work done during the reference period.

## **4. Systems 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 Audit Authority is situated in the Ministry of Finance of Estonia. The responsibility for planning and carrying out the management and control system audits on the proper functioning of the programme lies with the Audit Authority. However, the Latvian auditors of the Group of Auditors may be involved in carrying out the audit procedures.

In the year 2018, one system audit was carried out in co-operation with the Latvian auditors. In that assignment, the audit team leader was the Audit Authority.

All management and control systems of the Estonia-Latvia programme and all relevant bodies as well as functions will be audited during the programming period. The management and control systems' audits will be planned and carried out annually on the basis of the risk assessment in cooperation with the Group of Auditors.

#### 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 description is based on the methodology provided by the European Commission "*Common methodology for the assessment of management and control systems in the Member States*". 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 were two system audits carried out during the year 2018:

- Audit of Financial Control function was chosen on the basis of the risk assessment;
- Compliance audit of the Managing Authority relocation was chosen outside the usual procedure, due to the changes made to the system and the necessity to respond to them.

#### 4.3 In relation to the table in section 10.1 below, description of the main findings and conclusions drawn from system audits, including the audits targeted to specific thematic areas

There were two system audits carried out during the year 2018.

The first, *Audit of Financial Control function* issued four significant findings as follows:

- There is a lack of staff and experience in the Estonian side of the FC and the four-eye principle is not followed;
- The FC should be included by the MA in its risk assessment and management exercise as soon as possible;
- The checklist on which management verifications are based on should be updated and the practice of its use should be harmonized;
- Evidence should be kept in the eMS system of all administrative verifications, on-the-spot verifications and on the follow-up of findings detected.

No ineligible expenditure was discovered as a result of the audit procedures and testing of the functioning of the financial control.

In conclusion, the system audit issued an opinion of **Category II** (works, but some improvements are needed), but chose to point out, that for the Latvian side of the Financial Control function, a Category I should be issued (works well, only minor improvements needed).

The findings of this audit were followed up during the year 2018. For details, please see Annex 1.1.

The recommendations were put into the practice by the Managing Authority, although the Audit Authority feels that monitoring the issues concerning the necessary staff and expertise in the future should also be required, as it is a continuous process. At the moment, the Managing Authority has begun addressing the issues in that regard and future monitoring would help to keep the process on track.

The second, *Compliance audit of the Managing Authority* relocation was an audit added to the working plan outside the usual process. The relocation was known beforehand to the Audit Authority, the Managing Authority and the European Commission and it was a joint understanding by those parties that an additional audit engagement would be necessary.

The Audit Authority had originally carried out a full compliance assessment on the description of management and control systems of the programme. The new engagement was planned with a limited scope in order to focus specifically on the internal control environment and partly on the management and control activities, the latter concerning the computerized system of the programme.

The reason for the limited scope was based on the information that there had not been considerable changes in the practice of the management and control systems of the programme. Instead, the systems were transferred from one organization to another as a self-contained unit, with their staff and general practice unchanged by the move.

As a result of this assessment, the Audit Authority issued an unqualified opinion with no findings, but reiterated the necessity of paying attention to the first of the findings of the Audit of Financial Control function.

#### **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.

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

The recommendations from previous accounting years have been followed up:

- Audit of appropriate selection of operations –the implementation of the audit recommendations had been already followed up by the time of the last Annual Control Report, all audit findings have been closed;
- Audit of the electronic monitoring system – the implementation of the audit recommendations was followed up during the year 2018, all audit findings have been closed;
- there were no findings to follow up for the Audit of the functions of the Certifying Authority.

#### **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-Latvia 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 Audit Authority is situated in the Ministry of Finance of Estonia. As agreed between the Audit Authority and the Latvian members of the Group of Auditors, situated in the Ministry of Environmental Protection and Regional Development of the Republic of Latvia, the audits of operations are carried out by the latter for the

project partners situated in Latvia. In total, the Audit Authority carried out three and the Latvian members of the Group of Auditors carried out two audits of operations in 2018.

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

For the Estonia-Latvia programme, the Audit Authority has decided to use non-statistical sampling, due to the small size of the programme. This is in accordance with the strategy, as this likelihood was known when the strategy for the programme was compiled.

Also, the Audit Authority would like to point out that the reporting period was the first one where actual costs were declared to the European Commission. Although some amounts were declared during the previous reporting period as well, they consisted exclusively of lump-sum payments for preparatory costs.

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

The Estonia-Latvia programme uses non-statistical sampling. For details of this sampling method, please see the point 5.6.

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

The reconciliation between the expenditure and the population was obvious, as both were equal to € 1 137 870.44.

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

There were no negative sampling units to consider.

## 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

The reason of why the Estonia-Latvia programme foresaw the usage of a non-statistical sampling as the main sampling method while setting up the audit strategy is the small size of the programme. For the year 2018, the population equaled €1 137 870.44 in financial amount and 30 in the number of sampling units (the sampling units used are projects).

The audit strategy recommends including at least 5% of the sampling units and at least 10% of the financial amount in the sample. If not enough of those parameters are covered in drawing a simple random sample, more items are included in the same way until the thresholds are reached. The materiality level used is 2%.

For the year 2018, the sample drawn included an amount of €173 552.96; or 15.25% of the population. The sample also included 3 of the sampling units; or 10% of the population. The minimum requirements were covered ensuring the sufficient size and representativity to draw an audit opinion and to calculate a projected error rate.

## 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 2018 included three items to be audited. As the sampling items are entire projects, their auditing as per the audit strategy involves auditing the lead partner and at least one random project partner within the project. For 2018, this meant that three lead partners and two project partners were audited for a total of five audits of operations carried out (one project had no payments to project partners within the audit scope so only the lead partner was audited in that case).

Geographically, three partners were audited in Estonia and two in Latvia.

The audit work was finalized in January 2019 and out of the five audits of operations carried out, two contained errors. The amount and type of the errors concerned are as follows:

- Errors in project No Est-Lat 43, "How the Shammies Learned", lead partner Digital Learning Systems LLC
  - o Error category 7 Accounting and calculation errors at project level
    - Reference No 7.1 Accounting and calculation errors at project level
      - Recommended correction: €200.00
  - o Error category 1 Public Procurement - Contract notice and tender specifications
    - Reference No 1.1 Lack of publication of contract notice or unjustified direct award
      - Recommended correction within the audit scope: €144.00
- Errors in project No Est-Lat 24, "Green Railway", lead partner Vidzeme Tourism Association
  - o Error category 13 Sound Financial Management
    - Reference No 13.1 Non-compliance with the principle of sound financial management
      - Recommended correction within the audit scope: €2305.75<sup>1</sup>
  - o Error category 1 Public Procurement - Contract notice and tender specifications
    - Reference No 1.11 Use of - criteria for exclusion, selection, award or - conditions for performance of contracts or - technical specifications that are not discriminatory in the sense of the previous type of irregularity but still restrict access for economic operators
      - Recommended correction 10% of the contract value. While carrying out the control procedures, the Financial Control function detected another error in the same procurement and applied a correction of 10%. As the errors are not treated cumulatively, no additional corrections were made as a result of the audit procedures.

For more details, please see Annex 2.1.

The upper limit of this error, as extrapolated on the ratio method, is 2.20%.

The Audit Authority would argue that this extrapolation does not give a fair view of the programme. It has to be kept in mind that the amounts in question are relatively small and that the extrapolation increased the error limit above the materiality level because the second of them comprised a large percentage of a small operation.

The Audit Authority recommended the Managing Authority to reclaim all amounts affected. The Audit Authority also pointed out the amounts outside the audit scope to be corrected, which would be carried out in reduction of eligible costs for the future amounts that are not yet paid out to the operations.

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<sup>1</sup> This includes the reduction of eligible flat-rate costs of office and administration

Still, with the necessary corrections, the Audit Authority still claims that it would be appropriate to consider this to not have a significant impact on the opinion on the functioning of the management and control system of the programme as a whole.

For more details, please see the point 5.9.

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

No financial corrections other than the ones already mentioned relating to the audit findings have been issued or carried out.

#### **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**

In accordance with the guidance for assessing the residual error rate, the comparison would be as follows.

- First, the total error rate as per the ratio method would be 2.20%
- Then, the corrections in total of the errors in the audit findings (€2649.75) would be applied
- If so, the residual error rate would be 1.97%
- This means that once the corrections have been applied, the population is not misstated.

Still, the Audit Authority argues, as previously, that the original extrapolations in this case are the result of a relatively small error over-extrapolated within a small operation that is also within a small programme.

And that being so, the Audit Authority is of an opinion that with the necessary corrections it would be appropriate to consider this to not have a significant impact on the opinion on the functioning of the management and control system of the programme as a whole.

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

The Audit Authority decided not to draw a complementary sample, believing that the audit opinion can be based on the regular sample and its results.

#### **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 identified were considered to be systemic in nature and no measures with regards to systemic errors were therefore carried out.

Specifically, in auditors' opinion the errors detected have all different nature and arise from different kind of circumstances.

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

No audits of operations were carried out in the previous years. No findings were issued and no follow-up was therefore required.

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

The Audit Authority argues, as previously, that although the extrapolations of the errors identified with the audits of operations would at first point to the materiality level being exceeded, this does have to be considered in a case-by-case basis.

In this case, they are the result of a relatively small error over-extrapolated within a small operation that is also within a small programme.

That being so, along with the necessary corrections applied it would be appropriate to consider this to not have a significant impact on the opinion on the state of the programme as a whole

For more detailed information, please see the Annex 2.

## 6. Audits of accounts

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

The Audit Authority is situated in the Ministry of Finance of Estonia. No bodies other than the Audit Authority have carried out the audit of accounts in the year 2018.

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

The elements of the accounts were verified with an approach as described in the guidance issued by the Commission. They were as follows:

- The principles described in under the point: "Final additional verifications on the draft certified accounts"
- The testing of the Certifying Authority function procedures including:
  - o Appendix 1 of the accounts
  - o Information at the Managing Authority level
  - o Appendices 2 and 4 of the accounts
  - o Appendices 3, 5, 6 and 7 of the accounts
  - o Appendix 8 of the accounts

It was found that the amount of expenditure declared reconciles to the final interim payment application, which also reconciles to expenditure declared in the interim payment applications for that year, of which there were four.

It was also found, by testing this expenditure via the audits of operations that those sums correspond to expenditure incurred by beneficiaries 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.

No amounts were withdrawn or recovered, other than the ones related to the audit findings, applied after the end of the accounting year. Neither were there 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 submitted to the Commission for the relevant accounting year. It corresponds to the payments made to beneficiaries, there were no advances to financial instruments or to the state aid

to consider, the exclusions and deductions were solely due to the audit findings from the audits of operations and were correctly registered, accurate and consistent.

The amounts outside the audit scope are set in the future and will be dealt with by deducting them from reports presented by the projects.

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 2018.

#### **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 were identified and no measures were therefore necessary to be taken.

### **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 national audit body in Latvia has been taken place in the Group of Auditors, which is composed of representatives from each Member State.

The functions and responsibilities as well as the organization of the work of the Group of Auditors is set with its Rules of Procedure.

The annual meeting of the Group takes place at least once a year – for 2018 the Group of Auditors meeting was held on the 29<sup>th</sup> of November 2018 in Tallinn. During the meeting, the results of the first audits of operations and the audit methodology were discussed; also potential risks on the implementation of the programme were discussed to be taken into account for the audit work plan 2019.

In 2018, the Group of Auditors agreed on the following:

- Carrying out one joint system audit on the Financial Control function of the programme
- Carrying out the audits of operations of the programme on both Member States

Those tasks were completed successfully, the audits carried out and the final reports issued by the time of the submission of the Annual Control Report.

The next Group of Auditors meeting will be held in Riga in 2019.

#### **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 compliance of the audit work of the Member State auditors with the internationally accepted auditing standards and by providing the auditors with the relevant programme documents (audit strategy and audit manual). Both the Estonian and Latvian national auditors follow the International Professional Practices Framework (IPPF).

However, the Member State auditors remain ultimately responsible for work carried out according to the Member State audit regulations. The errors found or the disputes arising from the findings of the Member State auditors are their ultimate responsibility. The Audit Authority's competence does not extend to the evaluation of the violations of the Member State national legislation.

Nevertheless, the quality assurance of audit reports and control check-lists composed by the Member State auditors will be provided through review of the documents by the Audit Authority and ongoing communication on detected irregularities. If needed, detailed explanations will be asked from the Member State auditors.

The detailed procedure of the quality assurance is described in the Audit Strategy.

## 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

The Audit Authority constantly evaluates the risks in regard to detection and management of potential fraud risks. If needed additional analyses will be carried out on potential risk cases.

In 2018, no fraud cases have been reported to OLAF.

### 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 to the Commission and considered when establishing the level of assurance and opinion by the audit authority

There is no other information to be reported to the European Commission.

## 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 two systems audits is category II for the first and I (or unqualified) for the second.

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 2.20%, which exceeds the materiality level. Then again, if the corrections in total of the errors in the audit findings (€2649.75) are applied, the residual total error rate would fall to 1.97%, or under the materiality level.

The Audit Authority argues, as previously, that the original extrapolations in this case are the result of a relatively small error over-extrapolated within a small operation that is also within a small programme.

That being so, and with the necessary corrections applied, it would be appropriate to consider this to not have a significant impact on the opinion on the functioning of the management and control system of the programme as a whole.

So, based on the previously declared information, the Audit Authority issues a **qualified opinion with limited impact** for the year 2018.

### 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

The Audit Authority has assessed the situation and has approved of mitigating actions by the Managing Authority, both in reclaiming and deducting the ineligible amounts and putting the improvements to the system into practice.

Therefore, the Audit Authority sees no need for any additional corrective measures necessary, both from a system and financial perspective.

## ANNEX 1 – Results of Systems Audits

Audited Entity	Fund	Title of the audit	Date of the final audit report	Operational Programme: INTERREG V-A – ESTONIA-LATVIA (CCI No: 2014TC16RFCB050)													Overall assessment (category 1, 2, 3, 4)	Comments	
				Key requirements:															
				KR1	KR2	KR3	KR4	KR5	KR6	KR7	KR8	KR9	KR10	KR11	KR12	KR13			
MA	ERDF	Audit of Financial Control function of the Programme	03/08/2018	II			II	II			II							II	Audit Report No JKS-14/2018
MA	ERDF	Compliance audit of the Managing Authority relocation	31/12/2018	N/A													Un-qualified	Audit Report No JKS-11/2016	

## ANNEX 1.1 – Significant findings of Systems Audits

Finding	Finding accepted by the auditee	Recommendation carried out by the auditee	Result accepted by the auditors
<b>Audit of Financial Control function of the Programme</b>			
Finding No 1.2 - There is a lack of staff and experience in the Estonian side of the FC and the four-eye principle is not followed	Yes	Yes	Yes
Finding No 1.6 - The FC should be included by the MA in its risk assessment and management exercise as soon as possible	Yes	Yes	Yes
Finding No 4.3 - The checklist on which management verifications are based on should be updated and the practice of its use should be harmonized	Yes	Yes	Yes
Finding No 4.4 - Evidence should be kept in the eMS system of all administrative verifications, on-the-spot verifications and on the follow-up of findings detected	Yes	Yes	Yes
<b>Compliance audit of the Managing Authority relocation</b>			
No significant findings	N/A	N/A	N/A

## ANNEX 2 – Results of Audits of Operations

Fund	Programme CCI number	Programme title	A	B		C		D	E	F	G	H	I
ERDF	2014TC16RFCB050	INTERREG V-A - ESTONIA-LATVIA	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	%	Amount of operations covered	% of operations covered						
						1 137 870.44	173 552.96	15.25	3	10.00	2649.75	2.20	2649.75

## ANNEX 2.1 – Significant findings of Audits of Operations

Finding	Finding accepted by the auditee	Recommendation carried out by the MA	Result accepted by the auditors
<b>Audit of project No Est-Lat 43 "How the Shammies Learned" lead partner Digital Learning Systems LLC</b>			
Finding No 1.1: The partner has received funds twice for one cost document. Ineligible costs €200.00	Yes	Yes	Yes
Finding No 4.1: The partner has not taken comparative offers for financial management service. Ineligible costs €144.00 within the audit scope	Yes	Yes	Yes
<b>Audit of project No Est-Lat 24 "Green Railway" lead partner Vidzeme Tourism Association</b>			
Finding No 1: The documentation of the ownership and usage rights of the tourism route trail have not been fully arranged. No ineligible costs, since the Managing Authority is left to investigate the issue in more depth and issue additional opinion on eligibility by the end of the project implementation period, if necessary	Yes	Yes	Yes
Finding No 2: The workloads and hourly rates of project management staff have not been contracted as it was foreseen in the Application and are not in accordance with sound financial management. Ineligible costs €2305.75 within the audit scope	Yes	Yes	Yes
Finding No 3: Two contracts for project coordination services are signed with the same service provider, including the same tasks for project management, possible overlapping of services. No ineligible costs, as the potential overlap of the tasks was outside of the audit scope. The Managing Authority was recommended to investigate the issue in more depth and issue additional opinion on the eligibility of the costs outside of the audit scope	Yes	Yes	Yes
Finding No 5: Restrictive criteria were included in selection criteria of the procurement regulations. No ineligible costs, since the ineligible amounts as decided on by the Audit Authority were already reclaimed by the Financial Control function for a separate error in the same procurement	Yes	Yes	Yes