



Interreg
Estonia-Latvia
European Regional Development Fund



EUROPEAN UNION

ANNUAL CONTROL REPORT

**EUROPEAN TERRITORIAL COOPERATION PROGRAMME
INTERREG V-A – ESTONIA-LATVIA**

(CCI No: 2014TC16RFCB050)

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

14.02.2020

Tallinn, Estonia

1. Introduction

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

The 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 4th 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 17th 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 11th 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 1st of July 2018 until 30th of June 2019.

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 2019.

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 European Territorial Cooperation 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 6th of July 2018 which entered into force on the 1st 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. The State Shared Service Centre of Estonia 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 one audit on the functioning of the management and control systems of the Estonia-Latvia programme: Audit of the practice and reliability of the Programme output indicators;
- 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 four projects: Est-Lat7 (Industrial Heritage), Est-Lat21 (Smart Energy Community), Est-Lat33 (Social & Creative) and Est-Lat55 (ESTLAT harbors). In total, nine audits of operations were carried out on different partners of those projects, five in Estonia and four in 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, there have been no significant changes to the management and control system since the relocation of the administration of the programme.

The only noteworthy change is an update to the control procedures of the Financial Control function, which has changed and updated their principles on sample-based administrative checks. The Audit Authority has reviewed the changes and sees no issues with the new and updated methodology.

As the year before, 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

The latest version of the description of management and control system with changes and updates (including the new Financial Control methodology) was presented by the Managing Authority to the Monitoring Committee on the 16th of December 2019 and approved without objections and with only minor comments.

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 September 2019 and the changes coordinated with the Group of Auditors. With the amendments to the audit strategy, the following information was added:

- procedures of the quality assurance processes in the Audit Authority, where the Audit Authority's procedures were evaluated by the audit company KPMG according to the IIA standards and verified as being in compliance with those standards;
- the structural change of the Managing Authority and Certifying Authority from the Ministry of Finance of Estonia to the State Shared Service Center, which had already been verified by the Audit Authority;
- the audit work plan for next auditing year.

The changes to the audit strategy were presented also to the European Commission during the annual coordination meeting in September 2019.

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 September 2019. 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 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. However, the Latvian auditors of the Group of Auditors may be involved in carrying out the audit procedures.

In the year 2019, one full system audit was carried out by the Audit Authority: Audit of the practice and reliability of the Programme output indicators. The Audit Authority also carried out an analytical work which was not a full system audit, but will be listed here for the sake of completeness.

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 was one system audit carried out during the year 2019:

- Audit of the practice and reliability of the Programme output indicators.

There was also one analytical work not set to the standards of a full system audit during that year:

- Analytical procedures on proper use of programme's funds in regard to potential restrictive criteria in public procurements.

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 was one system audit carried out during the year 2019.

That audit, *Audit of the practice and reliability of the Programme output indicators* issued four significant findings as follows:

- The supervision of the Managing Authority concerning the reporting of indicators by the Joint Secretariat should be enhanced (Significant);
- The communication to beneficiaries by the Joint Secretariat concerning the counting and reporting of indicators should be strengthened in some aspects (Significant);
- The checklist used by the Joint Secretariat for management verifications of progress reports should be improved in some aspects (Significant);
- The requirements set by the Joint Secretariat concerning clarity and ease of understanding of the information presented by the beneficiaries should be updated and uniformly enforced (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 Secretariat.

No ineligible expenditure was also discovered as a result of those 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).

The recommendations of this audit were not yet followed up during the year 2019, as the final audit report was published only shortly before the annual control report. For details, please see Annex 1.1.

The recommendations will be put into the practice by the Managing Authority and the Joint Secretariat. The Audit Authority will monitor this follow-up and will report on the results in the next annual control report.

There was also an analytical work carried out, *Analytical procedures on proper use of programme's funds*, which was not a full system audit.

That analytical work issued the following significant finding for the Estonia-Latvia Programme:

- Auditor found that the selection criteria (Qualification of Tenderer) set in public procurements in six Estonia-Latvia Programme projects have restrictive selection criteria (Significant).

To be specific, the Audit Authority found several instances where the beneficiaries had used the criteria asking for a previous experience in specifically INTERREG or ENPI programmes.

As a result of the analytical work, the Managing Authority carried out additional investigations and issued a number of decisions to reclaim the affected amounts. The Audit Authority carried out follow-up procedures regarding the Managing Authority decisions and accepted all those decisions. 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.

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

The recommendations from previous accounting years have all been followed up. For the year 2019, the recommendations of *Audit of the practice and reliability of the Programme output indicators* were not yet followed up during the year 2019, as the final audit report was published only shortly before the annual control report. The recommendations of *Analytical procedures on proper use of programme's funds* were all followed up and accepted during the year 2019. For details, please see Annex 1.1.

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 five and the Latvian members of the Group of Auditors carried out four audits of operations in 2019.

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 audit strategy, as this likelihood was known when the strategy for the programme was compiled.

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 when the sample was originally drawn was equal to €8 974 926.21.

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 2019, the population equaled €8 974 926.21 in financial amount and 44 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 population. 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 2019, the sample drawn included an amount of €2 792 445.93; or 31.10% of the population. The sample also included 4 of the sampling units; or 9.10% 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.

For a practical auditing, sub-sampling was used in accordance with the audit strategy. For each of the four operations selected, the lead partner and one project partner were selected for auditing. In addition to that, one additional project partner was selected for auditing in the case of project No Est-Lat 55, "ESTLAT harbors". For the partners selected, all of their costs in the original population were audited.

Specific attention was paid in order to assure that for each sub-sampling, at least 5% of the sampling units (in this case, partners) and at least 10% of the financial amount in the population (in this case, operation) would be included.

The final amount that was directly audited was thus €466 343.94; or 5.2% of the original population.

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 four 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 2019, this meant that four lead partners and five project partners were audited for a total of nine audits of operations carried out (one project had a very large amount of partners, so two project partners were selected to be audited in addition to the lead partner).

Geographically, five partners were audited in Estonia and four in Latvia.

The audit work was finalized in January 2020 and out of the nine audits of operations carried out, one contained errors. The amount and type of the errors concerned are as follows:

- Errors in project No Est-Lat 55, "ESTLAT harbors", project partner Kõiguste Marina NGO
 - 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: 5% of the contract value (€5 000.00 within the audit scope and €3 798.65 outside the audit scope).

To be specific, the Audit Authority found that the beneficiary had set a criterion for the bidder's turnover that exceeded the value of the final contract almost tenfold.

For more details, please see Annex 2.

The upper limit of this error, as extrapolated on the mean per unit method, is 0.61%.

For more details, please see Annex 3.

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 mean per unit method would be 0.61%
- Then, the corrections in total of the errors in the audit findings (€5 000.00) would be applied
- If so, the residual error rate would be 0.55%
- This means that once the corrections have been applied, the population is not misstated.

For more details, please see Annex 3 and Annex 4.

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

The audits of operations carried out during the year 2018 and reported in the respective annual control report, had all their findings taken into account and all recommended amounts recovered by the Managing Authority already before the annual control report for the year 2018 was issued. This information was already stated in that report.

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

In general, the conclusions drawn from the results of the audits of operations find that the expenditure is generally legal and regular.

The Programme bodies have responded to the recommendations of audit findings in a prompt manner and the decisions to reclaim affected expenditure are quickly made in practice.

For more detailed information, please see 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. Only the Audit Authority has carried out the audit of accounts in the year 2019.

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 three.

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.

The only amounts withdrawn or recovered, were the ones related to the audit findings (both the audits of operations and the analytical work reported as a system audit, applied after the end of the accounting year. For details of those findings, please see Annexes 1 and 2.

There were also corrections due to mistakes made by the Managing Authority in certifying the costs.

In total, the numbers were as follows:

- The original amounts: €8 974 926.21;
- The reclaims due to the findings from audits of operations or from analytical audit work: €25 351.72;
- The corrections due to the mistakes by Managing Authority: €1 152 265.17;
- Total amounts checked in the accounts: €10 127 191.38.

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 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 the analytical work 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 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 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 2019 the Group of Auditors meeting was held on the 16th of December 2019 in Riga. During the meeting, the results of the 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 2020.

In 2019, the Group of Auditors agreed on the following:

- 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 Tallinn in 2020.

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 2019, no fraud cases have been reported to OLAF.

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 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 system 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 0.61%, which does not exceed the materiality level. The residual total error rate is also 0.55%, or under the materiality level.

So, based on that and 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

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 the practice and reliability of the Programme output indicators	14/02/2020	II		II	II	II	I		II						II	Audit Report No JKS-33/2019
Estonia-Latvia Programme	ERDF	Analytical procedures on proper use of programme's funds ¹	14/06/2019	N/A													Significant findings (see Annex 1.1)	Memo No JKS-28/2019

¹ Not a full system audit

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
Audit of the practice and reliability of the Programme output indicators			
Finding No 1.1 - The supervision of the Managing Authority concerning the reporting of indicators by the Joint Secretariat should be enhanced (Significant)	Yes	Not yet, will be carried out during the year 2020	Will be evaluated
Finding No 3.1 - The communication to beneficiaries by the Joint Secretariat concerning the counting and reporting of indicators should be strengthened in some aspects (Significant)	Yes	Not yet, will be carried out during the year 2020	Will be evaluated
Finding No 4.1 - The checklist used by the Joint Secretariat for management verifications of progress reports should be improved in some aspects (Significant)	Yes	Not yet, will be carried out during the year 2020	Will be evaluated
Finding No 5.1 - The requirements set by the Joint Secretariat concerning clarity and ease of understanding of the information presented by the beneficiaries should be updated and uniformly enforced (Significant)	Yes	Not yet, will be carried out during the year 2020	Will be evaluated
Analytical procedures on proper use of programme's funds			
<p>Auditor found that the selection criteria (Qualification of Tenderer) set in public procurements in following six Estonia-Latvia Programme projects have restrictive selection criteria (Significant)</p> <ul style="list-style-type: none"> - Est-Lat 14 COOP local; - Est-Lat 15 UNESCO-tourism; - Est-Lat 20 GURINIMAS; - Est-Lat 24 Green Railway; - Est-Lat 42 Livonian Culinary Route; - Est-Lat 70 Garden Pearls. 	Yes	<p>The following decisions were taken by the Managing Authority:</p> <ul style="list-style-type: none"> - Est-Lat 14 – no reclaims necessary; - Est-Lat 15 – reclaimed; - Est-Lat 20 – reclaimed; - Est-Lat 24 – reclaimed; - Est-Lat 42 – reclaimed; - Est-Lat 70 – reclaimed. 	<p>All results were accepted as sufficient, including the decision not to reclaim funds in the case of Est-Lat 14</p>

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	%	% of operations covered	% of expenditure covered							
			8 974 926.21	466 343.94	5.20%	9.10%	31.10%						

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
Finding No 4.1, audit report No ELP-8/2019, project No Est-Lat 55 "ESTLAT harbors" project partner Kõiguste Marina NGO			
The project partner has not carried out a public procurement with a reference no 194221 in compliance with the Public Procurement Act paragraph 3. Total ineligible costs €8 798.65, within the audit scope €5,000.00 and outside the audit scope €3 798.65	Yes	Yes, amounts reclaimed	Yes

ANNEX 2.2 – Types of findings of Audits of Operations

Ref.	Category	Ref.	Sub-Category	Cases of suspected fraud	Cases of Gold-plating	Frequency (number of cases)	Amount of the irregularities (in total costs and €)
1	Public Procurement - Contract notice and tender specifications	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	0	0	1	€5 000.00

ANNEX 3 – Total Projected Error estimation

Estonia-Latvia Territorial Cooperation Programme

SAMPLING UNIT IS THE OPERATION

TOTAL PROJECTED ERROR ESTIMATION 2019

WITHIN THE OPERATION - AA SELECTS ALWAYS THE LP + A SAMPLE OF PPs

Strata information	Low Value Strata	High Value Strata	Total
N	44	0	44
n	4	0	4
Sample BV	€ 2 792 446	€ -	€ 2 792 446
Strata BV	€ 8 974 926	€ -	€ 8 974 926

Error estimation		
Tolerable error (2%)	€ 179 498,52	
	Mean per unit method	Ratio method
Projected population error (EE)	€ 55 000,00	96 226,47
Projected error rate	0,61%	1,07%

CONCLUSION Population not misstated

Applicant	Project Reference	Strata	LP audited	Sample of PPs Audited	No of sampled PPs	Amount of Expenditure certified by Operation or Payment Claim sampled	Value of Verification Checks	% Verified	Ineligible Expenditure	Error Rate	Projected Operation Error
High Value Strata											
n/a	n/a	n/a	n/a	n/a	n/a	€ -	€ -	0,00%	€ -	0,00%	€ -
Total						€ -	€ -	0,00%	€ -	0,00%	€ -
Low Value Strata (Lead Partners always selected and sample of Project Partners)											
Industrial Heritage	Est-Lat7	Low (LP)	Yes	n/a	n/a	€ 34 076,12	€ 34 076,12	100,00%	€ -	0,00%	€ -
Smart Energy Community	Est-Lat21	Low (LP)	Yes	n/a	n/a	€ 74 563,80	€ 74 563,80	100,00%	€ -	0,00%	€ -
Social & Creative	Est-Lat33	Low (LP)	Yes	n/a	n/a	€ 28 890,33	€ 28 890,33	100,00%	€ -	0,00%	€ -
ESTLAT Harbors	Est-Lat55	Low (LP)	Yes	n/a	n/a	€ 65 987,75	€ 65 987,75	100,00%	€ -	0,00%	€ -
Industrial Heritage	Est-Lat7	Low (PPs)	Yes	1	31	€ 25 258,80	€ 25 258,80	100,00%	€ -	0,00%	€ -
Smart Energy Community	Est-Lat21	Low (PPs)	Yes	1	4	€ 39 939,21	€ 39 939,21	100,00%	€ -	0,00%	€ -
Social & Creative	Est-Lat33	Low (PPs)	Yes	1	4	€ 11 587,14	€ 11 587,14	100,00%	€ -	0,00%	€ -
ESTLAT Harbors	Est-Lat55	Low (PPs)	Yes	2	40	€ 103 600,00	€ 103 600,00	100,00%	€ 5 000,00	4,83%	€ 5 000
ESTLAT Harbors	Est-Lat55	Low (PPs)	Yes	2	40	€ 82 440,79	€ 82 440,79	100,00%	€ -	0,00%	€ -
Total						€ 466 343,94	€ 466 343,94		€ 5 000		€ 5 000
									1,07%		1,07%
									Average ineligible		€ 1 250

ANNEX 4 – Residual Total Error Rate estimation

Calculation template for residual total error rate (RTER)		
A	Audit population	8 974 926
B	Expenditure audited	466 344
C	Errors found in the sample	5 000
D	Total Error Rate (TER) after extrapolation	0,61%
E ₁	Amounts under Art 137.2 (ongoing assessment)	-
E ₂	Other negative amounts deducting expenditure originally declared in the reference accounting year*	-
F=A-E ₁ -E ₂	Population without ongoing assessment and without other negative amounts deducting expenditure originally declared in the reference accounting year	8 974 926
G=D*F	Amount at risk	54 747
H	Financial corrections relating to errors detected by AA or applied by the MA/CA if such corrections intend to reduce the risks identified by AA	5 000
I=F-H	Amount certifiable in the accounts	8 969 926
J=G-H	Residual amount at risk	49 747
K=J/I	Residual Total Error Rate (RTER)	0,555%
L=(J-0.02*I)/0.98	Amount of correction to reduce residual risk to materiality level (extrapolated financial correction)	NA RTER not exceeding 2%
M=(J-L)/(I-L)	Residual Total Error Rate (RTER) after extrapolated correction	NA RTER not exceeding 2%