



Compliance audit of the Managing Authority of Estonia – Russia Cross- Border Cooperation Programme

Audit report No III-1/2016

13/10/2017

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1 Introduction

1.1 Objective of the audit report

In accordance with Article 25 (2) of Commission Implementing Regulation (EU) No 897/2014 (*Regulation*), the purpose of the audit report is to present the results of the compliance assessment of the management and control systems (*MCS*) as prepared by the Managing Authority (*MA*) for implementing the Estonia – Russia Cross-Border Cooperation Programme. In accordance with the criteria set out in Annex I of the Regulation, the compliance is assessed with regards to internal control environment, risk management, management and control activities, information and communication, and monitoring.

Based on the results of the audit, the Independent Audit Body (*IAB*) issues an opinion on whether the MCS is in accordance with the criteria set out in Annex I. Based on that opinion, the MA either will or will not be designated by a decree of the Minister of Finance of Republic of Estonia to fulfill its tasks under the Estonia – Russia Cross-Border Cooperation Programme 2014–2020 (decision No C(2015)9193) (*EE-RU*).

1.2 Scope of the audit

The Joint Operational Programme document for EE-RU was approved by the European Commission (*EC*) on 18/12/2015 (with amendments approved on 16/01/2017). Based on the principles agreed in that document, the Description of the Management and Control Systems (*DMCS*) was prepared by the Regional Development Department of the Ministry of Finance of the Republic of Estonia as the MA, which is also fulfilling the tasks of the Certifying Authority.

The audit was based on the DMCS, including other relevant material where needed. Interviews were conducted during the audit with the MA and the other EE-RU bodies (see p 2.6 for details).

1.3 Audit report prepared by

The audit was conducted and the audit report as well as the opinion was composed by the Financial Control Department of the Ministry of Finance of the Republic of Estonia (*MoF*), the Audit Authority of EE-RU, acting as the IAB in regards to the MA.

1.4 Independence of the IAB

In accordance with Article 25 (2) of the Regulation, the IAB must be independent from the MA.

The principle of separation of functions between the IAB and the MA is ensured within the organizational framework of the MoF, where the IAB is directly subordinated to the Secretary General of the MoF, while the MA is subordinated to the Deputy Secretary General for Regional Affairs of the MoF. The separation of functions is also observed with the Joint Technical Secretariat (*JTS*), which is situated in the organization of Enterprise Estonia.

In accordance with the internal rules of the IAB, each auditor working for the audit was required to declare their independence and objectivity in regards to the auditee, as mandated by internationally accepted audit standards.

2 Methodology of the audit

2.1 Period and timeframe of the audit

The audit began on 18/01/2016, when the MA notified the IAB about the completion of the DMCS. After beginning the audit work, the IAB decided to halt the audit process on 01/03/2016, as the MA began to rewrite large portions of the DMCS. The audit was reopened on 25/07/2016, based on the updated version of the DMCS.

The IAB presented the MA with the first complete set of preliminary significant findings on 13/12/2016. The MA presented their comments, and corrections as well as additions to the DMCS on 20/03/2017. After a period of discussions between the IAB and the MA, the findings were mostly closed and an updated version of the DMCS prepared on 07/07/2017.

The findings were closed on 21/09/2017 with the presentation of the final version of the DMCS, which was then subsequently approved by the Joint Monitoring Committee on 05/10/2017. The preparation of the audit report and the opinion then began and was finalized on 13/10/2017.

The audit team was composed of one lead auditor as audit manager, one auditor as audit team member and the head of audit unit as audit supervisor.

2.2 Previous audit work taken into account

In accordance with Article 124 (2) of the Regulation, the IAB may conclude that some parts of the MCS are essentially the same as those of the previous programming period and conclude the compliance of those parts without additional audit work.

In the case of the EE-RU, which was a completely new programme, the IAB carried out the full scope of the compliance assessment to get the assurance of the preparedness of the MCS to implement the programme.

2.3 Works of audit bodies taken into account

The IAB did not have the results of any other audit bodies to be taken into account.

2.4 Assessment of the Description of Management and Control Systems

2.4.1 Examination of the DMCS

The examination of the DMCS began with the notification from the MA on 29/12/2015 when the IAB was asked to conduct the audit to assess the compliance of the DMCS to the criteria set out in Annex I of the Regulation.

The final assessment was done based on the TESIM Guidance for Compliance Assessment in ENI CBC Programmes issued by TESIM and the checklist present in the Guidance.

2.4.2 Examination of other relevant documents

Where possible, other relevant documents were taken into account to get more detailed information about functioning of the processes of applying the grant, selection of the projects, signing the contract with the beneficiary etc.

Still, most of the documents that were planned to organize the work details of the JTS and the Programme function of financial control were still in planning or development. In those cases, the auditors evaluated whether the principles pertaining to those documents were clearly present in the DMCS.

2.4.3 Interviews with the staff

In order to supplement, clarify or confirm the information obtained from the DMCS and other relevant documents, some interviews were carried out with the EE-RU bodies. Those included the MA, the JTS, and the Control Contact Point of Estonia.

2.4.4 Evaluation of the delegated functions

It was specified during the audit that the MA does not delegate its tasks to intermediate bodies in accordance with Annex I (1) (ii) of the Regulation. Even so, the functions of the MA are carried out with the assistance of the JTS and financial control. The auditors thus also assessed the control and monitoring functions that the MA had established over the JTS and the ones pertaining to the Programme function of financial control.

2.4.5 Evaluation of the Electronic Monitoring System

The Electronic Monitoring System (*eMS*), the information system of EE-RU was not tested during the audit, as it was still being finalized at the same time the audit was being conducted. The audit establishes that the eMS will be separately tested once all its modules have been established in their finalized form and before the first payment claims from projects are processed.

The audit focused on the descriptions of the processes instead. Whenever the specific processes were still in planning stage, it was made sure that the principles that the processes should adhere to were clearly set out and stated in the descriptions.

2.5 Contradictory procedures prior to this report

The IAB issued a number of both significant and non-significant recommendations during the audit. The MA provided the IAB with comments and corrections where needed and by 21/09/2017, the IAB was able to close the contradictory procedures for all those recommendations.

2.6 Internationally accepted audit standards

The IAB follows the International Professional Practices Framework of the Institute of Internal Auditors. The IAB has been independently evaluated as being in full accordance with those standards.

2.7 Limitations

The limitation imposed to the audit is not testing the eMS. The eMS will be separately tested once all its modules have been established in their finalized form and before the first payment claims from projects are processed.

3 Results of the compliance assessment

3.1 Assessment table

Decision No	Body	Completeness and accuracy of description	Conclusion	Shortcomings	Designation criteria affected	Corrective measures
C(2015)9193	MA	Yes	Unqualified	n/a	n/a	n/a

3.2 Specific results of the audit work

3.2.1 Drawing up the accounts

The procedures foresee that the entire body of information related to the drawing up of the accounts is processed via the eMS. Although the system itself was not finalized during the time of the audit, the principles and processes describing the information related to the drawing up of the accounts were described in the DMCS in sufficient manner.

The IAB is of the opinion that drawing up of the accounts is in compliance with the criteria for management and control activities.

3.2.2 Certifying the completeness, accuracy and veracity of the accounts

The procedures foresee that the process of certifying the completeness, accuracy and veracity of the accounts, starting from the information entered by the project partners, processed by the Programme function of financial control and the JTS as well as finalized by the MA, will be carried out in the eMS. Although the system itself was not finalized during the time of the audit, the principles and processes describing the information related to the drawing up of the accounts were described in the DMCS in sufficient manner. In addition to that, specific attention was paid to the principles of project selection and their accordance with the criteria applicable to the EE-RU.

The IAB is of the opinion that certifying the completeness, accuracy and veracity of the accounts is in compliance with the criteria for management and control activities.

3.2.3 Ensuring an effective and proportionate anti-fraud measures

The procedures for effective and proportionate anti-fraud measures have been established in the description along with the categories of irregularity, suspected fraud and fraud, ways of reporting and corrective actions.

The IAB is of the opinion that ensuring effective and proportionate anti-fraud measures are in compliance with the criteria for management and control activities.

3.2.4 Appropriate risk management

The procedures for appropriate risk management have been established in the description. This includes risk assessment in conjunction with testing for the risks and managing the results, while also taking into the account the possible modifications.

The IAB is of the opinion that appropriate risk management is in compliance with the criteria for risk management as well as management and control activities.

3.2.5 Drawing up the management declaration and annual summary

The procedures for drawing up the management declaration and annual summary have been established in the description. This takes into account the results of information from audits as well as information from other controls.

The IAB is of the opinion that management declaration and annual summary is in compliance with the criteria for management and control activities.

3.2.6 Collecting, recording and storing data in computerized form

The procedures foresee that collecting, recording and storing data in computerized form is handled by the eMS. Although the system itself was not finalized during the time of the audit, the principles and processes describing the information related to the drawing up of the accounts were described in the DMCS in sufficient manner. The information is collected, recorded and stored beginning with the project applications, then with decisions, reports from project partners, assessments from the Programme function of financial control, procedures of the MA and reports of the AA.

The IAB is of the opinion that collecting, recording and storing data in computerized form is in compliance with the criteria for management and control activities.

4 Final opinion

Based on the work done, it is the opinion of the Audit Authority as the Independent Audit Body that the Managing Authority responsible for the Estonia – Russia Cross-Border Cooperation Programme 2014–2020 (decision No C(2015)9193) complies with the designation criteria of Annex I of Commission Implementing Regulation (EU) No 897/2014 with regards to internal control environment, risk management, management and control activities, information and communication, and monitoring.

(Signed electronically)

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