

Compliance audit of the Managing Authority of Interreg V-A – Estonia-Latvia

Audit report No III-2/2016

14/11/2016

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1 Introduction

1.1 Purpose of the audit report

In accordance with Article 124 (2) of Regulation (EU) No 1303/2013 of the European Parliament and of the Council (*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 Interreg V-A – Estonia Latvia programme. In accordance with the criteria set out in Annex XIII of the Regulation, the compliance is assessed with regards to internal control environment, risk management, management and control activities, 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 XIII. Based on that opinion, the Government of the Republic of Estonia makes a decision whether to designate the MA to fulfill its tasks under the Cross-border cooperation programme Interreg V-A – Estonia–Latvia (CCI No 2014TC16RFCB050) (*EE-LV*).

1.2 Scope of the audit

The strategic programme document for EE-LV was approved by the European Commission (*EC*) on 04/12/2015. 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-LV bodies (see p 2.6 for details).

1.3 Audit report composed 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-LV, acting as the IAB in regards to the MA.

1.4 Independence of the auditors

In accordance with Article 124 (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 Secretariat (*JS*), 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 Timeframe of the audit

The audit began on 21/04/2016, when the MA notified the IAB about the completion of the Part I of DMCS. During the audit work, the MA completed the Parts II to IV as well as the Annexes of the DMCS which were subsequently added to the audit.

The IAB presented the MA with the first complete set of preliminary findings on 07/07/2016. After the comments by the MA, additional audit work including additional interviews was carried out by the IAB. The second complete set of findings was presented to the MA on 27/09/2016. Thanks to comments and corrections by the MA, the findings were closed on 14/10/2016 and the preparation of the audit report and the opinion began. This was finalized on 11/11/2016.

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

2.2 Previous audits that were 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-LV, the IAB chose to carry 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 other auditors that were taken into account

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

2.4 Evaluation 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 21/04/2016 when the IAB was officially asked to conduct the audit to assess the compliance of the DMCS to the criteria set out in Annex XIII of the Regulation.

The assessment was done based on the Guidance for Member States on Designation Procedure (EGESIF_14-0013-final 18/12/2014) (*Guidance*) issued by the EC and the checklist present in the Guidance.

2.4.2 Examination of other relevant documents

Where possible, some other relevant documents were also evaluated. This included the criteria developed by the JS to evaluate the project applications and the rules of procedure of the Monitoring Committee.

Still, most of the documents that were planned to organize the work details of the JS and the FC 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 Carrying out interviews

In order to supplement, clarify or confirm the information obtained from the DMCS and other relevant documents, several interviews were carried out with the EE-LV bodies. Those included the MA (twice), the JS, the FC and the National Responsible Authorities.

2.4.4 Evaluation of the Electronic Monitoring System

The Electronic Monitoring System (*eMS*), the information system of EE-LV was not tested during the audit, as it was undergoing changes 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.

2.4.5 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 Article 123(6) and (7) of the Regulation. Even so, the functions of the MA are carried out with the assistance of the JS and considering the final responsibility of the Member States (*MS*) over the FC, the auditors assessed the control and monitoring functions that the MA had established over the JS and the FC.

2.5 Corrections made by the Managing Authority during the audit

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 14/10/2016, the IAB was able to close the contradictory procedures for all those recommendations.

In addition to that, the IAB prepared a separate document for the MA with three wider areas of findings that could be of interest in assessing similar programmes in the other MS-s. Those included in that order: the division of tasks and responsibilities between the MA and the MS-s; the selection of project applications; and the information system for implementing the programme. The MA has shared this information with the EC.

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

CCI No	Body	Completeness and accuracy of description	Conclusion	Shortcomings	Designation criteria affected	Corrective measures
2014TC16RFCB050	MA	Yes	Unqualified	n/a	n/a	n/a

3.2 Specific results

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 FC and the JS 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-LV. Although the compliance of those principles was also assessed as sufficient, the IAB issued an additional recommendation for the simplification of the process. This recommendation was agreed to be reviewed before the second call for project applications.

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 FC, 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.

3.2.7 Delegation of tasks to intermediate bodies

The procedures establish that the MA does not delegate its tasks to intermediate bodies in accordance with Article 123(6) and (7) of the Regulation. Even so, the functions of the MA are carried out with the assistance of the JS and considering the final responsibility of MS-s over the FC, the auditors assessed the control and monitoring functions that the MA had established over the JS and the FC.

The IAB is of the opinion that delegation of tasks to intermediate bodies is in compliance with the criteria for risk management as well as 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 Cross-border cooperation programme Interreg V- A – Estonia–Latvia (CCI No 2014TC16RFCB050) complies with the designation criteria of Annex XIII of Regulation (EU) No 1303/2013 of the European Parliament and of the Council with regards to internal control environment, risk management, management and control activities, and monitoring.

(Signed electronically)

Kadi Peets

Audit Supervisor

(Signed electronically)

Mart Pechter

Audit Manager