



Interreg V-A – Estonia-Latvia

**Audit of management and control systems of the
Certifying Authority function of the Managing
Authority**

And

Audit of accounts for the year 2017

Audit No JKS-12/2017

Final Report

09.04.2018



REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

Audit final report recipients:

Ms. Ege Ello, Head of the Managing Authority

Ms. Kerli Luts, Chief Specialist of the Managing Authority

EXECUTIVE SUMMARY

The first purpose of this audit was to assess the effectiveness of the management and control systems (herewith as MCS) of Cooperation Programme Interreg V-A – Estonia-Latvia (herewith as Programme) in administrating the Certifying Authority function of the Managing Authority (herewith as the CA). The second purpose of this audit was to carry out the audit of accounts (herewith as the AoA) in respect to the accounting year 2017.

The assessment of the MCS was carried out on the basis of the key requirements 9, 10, 11, 12 and 13 (herewith as KR9-KR13, respectively) as defined with the Commission Delegated Regulation (EU) No 480/2014 and specified with the EC Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States (EGESIF_14-0010 18/12/2014).

The assessment of the AoA was carried out on the basis of the Article 137 (1) of Regulation (EU) 1303/2013 and Article 29 of Delegated Act (EU) 480/2014 that give the responsibility of the annual AoA to the Audit Authority (herewith as the AA) and specified with the EC Guidance for Member States on Audit of Accounts (EGESIF_15_0016-02 final 05/02/2016).

By compiling the final audit opinion, the auditors took into account the evidence gathered and conclusions made during the audit work.

SUMMARY OF THE AUDIT RESULTS

As the result of this audit, the Audit Authority (herewith as AA) is in opinion that the MCS of the Programme in respect of the KR9-KR13 **works well, only minor improvements are needed** (Category 1¹).

The detailed results by assessment criteria of the KR9-KR13 are presented in Part B of this report and the summary table of results in Annex 1.

During the audit, one **non-significant**² finding was made.

As a result of this audit, the AA also issues an **unqualified opinion** for the accounts of the Programme for the year 2017

The auditors make the assumption that the information presented to them during the audit including both in written and verbal form describe the MCS of the Programme correctly and in accordance with its actuality. Should there exist information that was not known or not presented to the auditors at the time, the results and the opinion may have been different.

The audit has been carried out in accordance with internationally accepted internal auditing standards of the IIA – International Standards for the Professional Practice of Internal Auditing.

The final audit report will be published at the homepage of the Ministry of Finance.

¹ Category 1 – Works well. No or only minor improvements needed

Category 2 - Works, but some improvements are needed

Category 3 – Works partially; substantial improvements are needed

Category 4 – Essentially does not work.

² **Significant findings** are findings that describe an error in the auditee's MCS which has a significant effect on the possibility of fulfilling its critical tasks and requirements (this may include systemic errors). Significant findings require immediate action from the auditee's management in order to correct those errors.

Non-significant findings are findings that describe an error in the auditee's MCS which has a non-significant effect on the possibility of fulfilling its critical tasks and requirements (this may include random errors). Non-significant findings require action from the auditee's management in order to correct those errors.

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The audit team wishes to thank the employees of the Programme for their cooperation and assistance during the audit work.

Final Report consists of 11 pages.

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(Signed electronically)

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Head of Audit Unit II

Financial Control Department

Audit manager:

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PART A

1. Summary of the audit work

In accordance with the Article 127(1) of the CPR and the working plan of the AA for the year 2017, the AA carried out an audit on the MCS on the CA of the Programme as used for the programming period of 2014-2020. The purpose of the audit was to give an independent opinion on the functioning and effectiveness of the MCS in that regard.

In accordance with the Article 123(1) of the CPR and the working plan of the AA for the year 2017, the AA also carried out an audit on the AoA on accounts of the Programme for the year 2017. The purpose of the audit was to give an independent opinion on the accounts.

The audit was carried out between 13th of December 2017 and 20th of March 2018. The audit was managed and the audit procedures carried out by a Lead Auditor of Audit Unit II of the Financial Control Department of the Ministry of Finance (herewith as FCD), Mart Pechter. The audit supervisor was the Head of Audit Unit II of the FCD, Kadi Peets.

First, for the audit of the MCS of the CA.

In order to present an opinion, the MCS in regards to the CA was analyzed and tested in accordance with the KR9 – KR13 and its sub-criteria³.

The audit was based on the following documents:

- Programme Manual of the Programme (updated August 2017);
- Description of the MCS of the Programme (updated on the 15th of December, 2016);
- Selected documents, such as applications, reports and tables in the eMS system used by the CA.

In order to form an opinion, the following audit procedures were carried out:

- The evaluation of compliance of the principles of the CA set out in the description of the MCS with the principles of the KR9-13;
- The testing of compliance of these principles in the actual information and working processes contained within the eMS system for the CA;
- The evaluation of the same compliance with the details of practice actually used by the CA.

Second, for the AoA.

In order to present an opinion, the audit took into account the following information:⁴

- The results of systems audits;
- The results of audits of operations;
 - o Here, since only five projects had amounts certified, and since those amounts contained only lump-sum payments for preparatory costs, no audits of operations were carried out, but instead all those amounts were verified as if they had been during audits of operations.
- Final additional verifications on the draft audit accounts.

For the final additional verifications, audit work was carried out for the draft accounts, as the AA checked:

- The appendix 1 (columns A and B) of the accounts;

³ The criteria are described in detail in "Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems in the Member States"

⁴ The principles are described in detail in "Guidance for Member States on Audit of Accounts"

- The information available at the MA's level;
- The appendixes 2 and 4 of the accounts (those contained no information);
- The appendixes 3, 5, 6 and 7 of the accounts (those contained no information);
- The appendix 8 of the accounts (this contained no information).

The audit work for both the MCS of the CA as well as the AoA was based on the methodology developed by the FCD for the programming period of 2014-2020.

2. Sampling methodology

In order to test for the practice, different projects were selected for testing.

Although no audits of operations were carried out, for the AoA, all projects included in the accounts (a total of five) were approached as if audits of operations were carried out on them as follows:

- Use of funding as intended;
- Accuracy of bookkeeping records;
- Amount and timing of funding;
- Granting of state aid;
- Communication and publicity.

Carrying out of public procurements was also reviewed, but it was found that it was not applicable to those sums declared.

No ineligible amounts were discovered. Please see details from Annex 2.

The same projects were chosen for testing the CA function. Their inclusion in the amounts certified was tracked to the project, partner and payment level. No errors were discovered in the process.

The tables and other information compiled by the eMS for the CA were viewed without singling out specific projects.

3. Background information

In accordance with the Article 127(1) of the CPR, the AA shall ensure that audits are carried out on the proper functioning of the MCS of the operational programme.

The audit of the CA was added to the working plan of the AA for the following reasons:

- The CA as a function of the MA had been inspected during the compliance assessment, but it had not been a subject of a systems audit yet during the programming period.
- The CA has a critical role in the preparation of the accounts and as such, should be a subject of a systems audit before the first annual accounts.

For the accounts of the year 2017, the MCS audit of the CA was done in parallel to the AoA.

In accordance with Article 137 (1) of Regulation (EU) 1303/2013 and Article 29 of Delegated Act (EU) 480/2014, the AA has the obligation to carry out the annual AoA.

4. Follow-up and monitoring

The auditee must take into consideration all the findings and recommendations presented in the Part B of this report. The MA is responsible for the follow-up and monitoring of the implementation of measures taken as a result and will report of the results in a written form. The final opinion on the implementation of measures will be given by the AA. If necessary, a follow-up audit may be conducted.

PART B

FINDINGS AND RECOMMENDATIONS

Key requirement 9: Adequate separation of functions and adequate system for reporting and monitoring where the responsible authority entrust execution of tasks to another authority

As the result of this audit, the auditor finds that the MCS of the Programme of the CA regarded via the KR9 works, only minor improvements are needed (Category 1)⁵

Assessment criteria 9.2

Adequate number of sufficiently qualified human resources at the different levels and for the different functions within the CA, taking into account the number, size and complexity of the programmes concerned, including appropriate outsourcing arrangements if any.

The AA is of the opinion that the CA is generally in accordance with the principles of assessment criteria 9.2, but some improvements are needed.

Finding 9.2.1. The human resources assigned to the CA functions should be assessed and corrected in possible future scenarios (non-significant)

Based on the key requirement 9 in relation to the CA and the assessment criteria 9.2. "Adequate number of sufficiently qualified human resources at the different levels and for the different functions within the CA", as based on the Regulation (EU) No 1303/2013 of the European Parliament and the Council, the auditors assessed the human resources allocated to the CA function as fulfilled by the MA.

As of the time of the audit, the human resources are adequate for the functions of the CA in the Estonia-Latvia programme, as there is one full-time person assigned to the tasks. However, that person must also currently fulfil the functions of the CA in the Estonia-Russia programme, which means that both programmes are attended by the resources of one-half of a full-time person. As the programmes are only in the beginning stage, this remains sufficient for the time being. However, it is foreseen that during the life-cycle of both programmes, the need for the resources in the CA function will rise as the larger amount of information from the projects is processed.

RISK: The auditors project that the current arrangement for the resources at the CA function will not remain sufficient for the entirety of the life of the programme. This may cause delays in processing the payment applications, accounts and other responsibilities of the CA that may hinder the functioning of the Programme as a whole

RECOMMENDATION: It is recommended for the MA to strongly consider this issue when conducting the annual risk assessment. This should include projecting the workload related to the CA function for each coming year and assigning necessary resources for that, which may include increasing the resources up to one full-time person for Estonia-Latvia programme alone

COMMENT FROM THE MA:

⁵ Category 1 – Works well. No or only minor improvements needed
Category 2 - Works, but some improvements are needed
Category 3 – Works partially; substantial improvements are needed
Category 4 – Essentially does not work.

In March 2018 MA carried out mapping of the tasks and working time of the Chief Specialist who carries out the tasks of the Certifying Authority. The aim of the exercise was to understand better the work load of the position and make a prognosis, whether part-time (0,5) position covers the needs of the programme. Also, in March 2018 MA launched simplification of the payment procedure, according to which book-keepers of the State Shared Service Center have access to eMS system for getting information about payments that need to be done and submitting information about payments executed. As a result, we expect decrease of the workload of the Chief Specialist who carries out the tasks of the Certifying Authority. Managing Authority plans to carry out second mapping of the tasks and working time of this specific position in autumn 2018.

MA will strongly consider the issue during annual risk assessment. Also, the topic has been communicated during the preparations of relocation of the MA to State Shared Service Center.

COMMENT FROM THE AA:

The AA agrees with the comments and explanations and will review the results of the mapping of tasks of the Chief Specialist as well as the results of the risk assessment in the future.

Key requirement 10: Adequate procedures for drawing-up and submitting payment applications

As the result of this audit, the auditor finds that the MCS of the Programme of the CA regarded via the KR10 **works, no improvements are needed** (Category 1)⁶

Key requirement 11: Appropriate computerized records of expenditure declared and of the corresponding public contribution are maintained

As the result of this audit, the auditor finds that the MCS of the Programme of the CA regarded via the KR11 **works, no improvements are needed** (Category 1)

Key requirement 12: Appropriate and complete account of amounts recoverable, recovered and withdrawn

As the result of this audit, the auditor finds that the MCS of the Programme of the CA regarded via the KR12 **works, no improvements are needed** (Category 1)

Key requirement 13: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts

As the result of this audit, the auditor finds that the MCS of the Programme of the CA regarded via the KR13 **works, no improvements are needed** (Category 1)

⁶ Category 1 – Works well. No or only minor improvements needed
Category 2 – Works, but some improvements are needed
Category 3 – Works partially; substantial improvements are needed
Category 4 – Essentially does not work.

ANNEX 1 – Summary opinion of the auditee’s MCS

Key requirement	Category 1	Category 2	Category 3	Category 4
Key requirement 9: Adequate separation of functions and adequate system for reporting and monitoring where the responsible authority entrust execution of tasks to another authority	X			
Key requirement 10: Adequate procedures for drawing-up and submitting payment applications	X			
Key requirement 11: Appropriate computerized records of expenditure declared and of the corresponding public contribution are maintained	X			
Key requirement 12: Appropriate and complete account of amounts recoverable, recovered and withdrawn	X			
Key requirement 13: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts	X			
Summary opinion of the auditee’s MCS	X			

ANNEX 2 – Summary opinion of the auditee’s accounts for the year 2017

Audits and controls to be considered	Results
Systems audits	Audit of management and control systems of appropriate selection of operations (Category II); Audit of management and control systems of the electronic monitoring system (Category I); Audit of management and control systems of the Managing Authority fulfilling the functions of the Certifying Authority (Category I)
Audits of operations	Audited as a part of the Audit of accounts Coop Local (Est-Lat 14) – no ineligible amounts; Wood and Furniture (Est-Lat 35) – no ineligible amounts; Waldur.eu (Est-Lat 34) – no ineligible amounts; PET-Diagnostics (Est-Lat 31) – no ineligible amounts; Whey valorization (Est-Lat 44) – no ineligible amounts
Other audits, checks or control results	N/A
Final additional verifications	No findings
Summary opinion of the auditee’s accounts	Unqualified opinion