



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

Audit No JKS-21/2018

Final Report

31.12.2018



REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

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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 this audit report is to present the results of the additional 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 (*Programme*).

This additional assessment has been deemed necessary after the relocation of the MA and other Programme functions such as the Estonian Financial Control (*FC*) and Joint Secretariat (*JS*) from the Ministry of Finance of the Republic of Estonia (*MoF*) and Enterprise Estonia to the State Shared Service Centre of Estonia (*SSSC*).

The first report and opinion on the compliance of the MCS was given by the AA as an Independent Audit Body on the 14th of December 2016. The decision to move the MA and its associated functions to the SSSC, an administrative body under the supervision of the MoF, was made with 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 MA and the AA had notified the European Commission of the relocation prior to that. It was also stated that no changes in the practice, staff or the Head of the MA, nor its associated functions are foreseen. The only functions of the Programme not relocated were the AA and the National Responsible Authority. The former is independent of all of the Programme's functions and the latter has no critical tasks or responsibilities to the Programme, other than the final responsibility of the MS in relation to the function of the FC.

Based on the results of the audit, the AA issues an opinion on whether the MCS is in accordance with the criteria set out in Annex XIII, taking into account the limitations mentioned beforehand. If the MCS is not in accordance as a result of the relocation, the deficiencies should be corrected without delay so as not to adversely affect the designation of the MA.

1.2 Scope of the audit

The Description of the Management and Control Systems (*DMCS*) was originally prepared by the Regional Development Department of the MoF as the MA (which is also fulfilling the tasks of the Certifying Authority (*CA*)).

The most recent version of the DMCS was then prepared by the Cross-Border Co-Operation Programmes Management Unit of the Grants Development Department of the SSSC as the MA (which is also fulfilling the tasks of the CA) and approved by the Monitoring Committee of the Programme on the 21st of November 2018.

In accordance with the criteria set out in Annex XIII of the Regulation, the compliance is assessed not in full but partially, as decided by the Audit Authority (*AA*) at the onset of this engagement. By defining the audit scope, the AA has taken into account the references from the European Commission and the potential impact on the functioning of the management and control system of the programme. Instead of carrying out the assessment entirely with regards to internal control environment, risk

management, management and control activities, and monitoring, the assessment is carried out only with regards to internal control environment and partly with regards to management and control activities, concerning the computerized system of the Programme, as the Enterprise Estonia is not hosting the eMS system any more after the relocation of the JS to the SSSC.

The audit was based on the most recent version of the DMCS. Interviews were also conducted during the audit with the MA.

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 MoF, the AA of the Programme. Audit team members were the auditors of the II Audit Unit of the Financial Control Department: the lead auditor Mart Pechter (team leader) and auditor Hannes Vahemäe. The audit supervisor was the Head of the II Audit Unit, Kadi Peets.

1.4 Independence of the auditors

In accordance with Article 124 (2) of the Regulation, the AA must be independent from the MA.

The principle of separation of functions between the AA and the MA is ensured as the AA is directly subordinated to the Secretary General of the MoF, while the MA is subordinated to the Head of the SSSC.

In accordance with the internal rules of the AA, 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 the 3rd of September 2018, when the relocation of the MA had officially been completed and the AA notified the MA about the requirement of conducting an additional assignment in regards to the DMCS.

2.2 Previous audits that were taken into account

In accordance with Article 124 (2) of the Regulation, the AA 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 Programme, the AA had previously completed the following relevant system audits:

- Compliance audit of the MA (No III-2/2016) from 14.12.2016 with an unqualified opinion on the description of the MCS.
- Audit of the electronic monitoring system (eMS) (No JKS-11/2017) from 14.02.2018 giving a Category 1 to the Key Requirement 6.

- Audit of the Certifying Authority function (No JKS-12/2017) from 09.04.2018 giving a Category 1 to the Key Requirements 9-13.
- Audit of Financial Control function (No JKS-14/2018) from 03.08.2018 giving a Category 2 to the Key Requirements 1, 4, 5 and 7.

The AA decided to carry out the assessment with regards to internal control environment and partly with regards to management and control activities, concerning the computerized system of the Programme. Those fields were assessed in full, although they had been covered in part by the systems audits mentioned. For the other fields, the AA has concluded on the basis of the DMCS, without additional audit work, that the MCS is essentially the same as after the compliance audit and is thus still in compliance.

2.3 Works of other auditors that were taken into account

The AA 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 on the 3rd of September 2018, when the relocation of the MA had officially been completed.

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. By carrying out the audit procedures, also the methodology for evaluating the management and control system was taken into account in regard to evaluating the effectiveness of the management and control system.

2.4.2 Examination of other relevant documents

Where possible, some other relevant documents were also evaluated. This included specific documents pertaining to the work of the SSSC in general or to the work of the MA in relation to the SSSC.

2.4.3 Carrying out interviews

In order to supplement, clarify or confirm the information obtained from the DMCS and other relevant documents, interviews were carried out with the MA.

2.4.4 Evaluation of the Electronic Monitoring System

The Electronic Monitoring System (*eMS*), the information system of the Programme was assessed in part, considering its description in the DMCS. Otherwise, the AA relied on the systems audit carried out on 14.02.2018.

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 AA 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 AA issued one significant recommendation during the audit. Other minor issues pointed out by the AA were corrected during the audit.

2.6 Internationally accepted audit standards

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

2.7 Limitations

There were limitations imposed to the audit scope as stated in p 1.2.

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.

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 AA is of the opinion that the procedures for drawing up the accounts is not affected by the relocation and thus will not be separately re-assessed.

In addition to that, the AA has previously obtained additional assurance as to the functions of the CA from the systems audit of that function, covering the Key Requirements 9-13, which was carried out on the 9th of April 2018.

3.2.2 Certifying the completeness, accuracy and veracity of the accounts

The AA is of the opinion that certifying the completeness, accuracy and veracity of the accounts is not affected by the relocation and thus will not be separately re-assessed.

In addition to that, the AA has previously obtained additional assurance as to the functions of the CA from the systems audit of that function, covering the Key Requirements of 9-13, which was carried out on the 9th of April 2018.

3.2.3 Ensuring an effective and proportionate anti-fraud measures

The AA is of the opinion that ensuring effective and proportionate anti-fraud measures is not affected by the relocation and thus will not be separately re-assessed.

3.2.4 Appropriate risk management

The AA is of the opinion that appropriate risk management is not affected by the relocation and thus will not be separately re-assessed.

3.2.5 Drawing up the management declaration and annual summary

The AA is of the opinion that management declaration and annual summary is not affected by the relocation and thus will not be separately re-assessed.

3.2.6 Collecting, recording and storing data in computerized form

The procedures detail that collecting, recording and storing data in computerized form is handled by the eMS. 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.

In addition to that, the AA has previously obtained additional assurance as to the functions of the eMS from the systems audit of that function, covering the Key Requirement 6, which was carried out on the 14th of February 2018.

The AA 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.

In addition to that, the AA has previously obtained additional assurance as to the functions of the FC from the systems audit of that function, covering the Key Requirements 1, 4, 5 and 7, which was carried out on the 3rd of August 2018.

The AA is of the opinion that delegation of tasks to intermediate bodies is generally in compliance with the criteria for risk management as well as management and control activities. However, some improvements are needed.

As the auditors assessed the functions of financial control during the previous system audit No JKS-14/2018, they concurred that there is a lack of staff and experience in the Estonian side of the FC and the four-eye principle is not followed. For details, please see the finding No 1.2 of that audit.

The situation has been unchanged in essence during the time elapsed between the end of that system audit and the carrying out of the one at hand. The MA has begun to analyze the process to find solutions for the lack of staff and expertise by carrying out the FC function in Estonia.

RISK: The lack of staff and the lack of expertise endangers the prevention, detection and correction of irregularities.

RECOMMENDATION: The auditors reiterate the recommendations made during the previous system audit No JKS-14/2018: adding more human resources to the function and starting to use the four-eye principle or re-organize the system to make it more efficient.

COMMENT FROM THE MA: The MA agrees with the recommendation of the AA. In addition to increasing the staff, the MA in co-operation with the Estonian FC are working on improvements to reorganize – fasten and simplify – the work of Estonian FC while keeping high quality of the controls.

4 Final opinion

Based on the work done, it is the opinion of the Audit Authority that the Managing Authority responsible for the Cross-border cooperation programme Interreg V- A – Estonia–Latvia (CCI No 2014TC16RFCB050) complies in general 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 and management and control activities, where the latter is concerning the electronic monitoring system.

(Signed electronically)

Kadi Peets

Audit Supervisor

(Signed electronically)

Mart Pechter

Audit Manager