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Interreg V-A – Estonia-Latvia
Audit of the practice and reliability of the
Programme output indicators

Audit No JKS-33/2019

Final Report

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REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

Audit final report recipients:

Ms. Ege Ello, Head of the Managing Authority

Ms. Helena Järviste, Head of the Joint Secretariat

EXECUTIVE SUMMARY

The purpose of this audit was to assess the effectiveness of the management and control systems of Cooperation Programme Interreg V-A – Estonia-Latvia (herewith as Programme) in the practice and reliability of Programme output indicators.

The assessment was carried out on the basis of the Key requirements 1, 3, 4, 5, 6 and 8 (herewith as KR1-KR8, 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).

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 is in opinion that the management and control systems of the Programme in respect of the KR1, KR3, KR4, KR5, KR6 and KR8 **works, but some improvements are needed** (Category 2¹).

The detailed results by assessment criteria of the KR1, KR3, KR4, KR5, KR6 and KR8 are presented in Part B of this report and the summary table of results in Annex 1.

During the audit, the following **significant**² findings were made:

[Finding No 1.1 - The supervision of the Managing Authority concerning the reporting of indicators by the Joint Secretariat should be enhanced \(Significant\)](#)

[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 \(Significant\)](#)

[Finding No 4.1 - The checklist used by the Joint Secretariat for management verifications of progress reports should be improved in some aspects \(Significant\)](#)

[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 \(Significant\)](#)

The auditors make the assumption that the information presented to them during the audit including both in written and verbal form describe the management and control systems of the Programme correctly and in accordance with

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.

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.

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

Final Report consists of 14 pages.

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(Signed electronically)

Kadi Peets

Head of Audit Unit II

Financial Control Department

Audit manager:

(Signed electronically)

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Lead Auditor of Audit Unit II

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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 Audit Authority for the year 2019, the Audit Authority carried out an audit on the management and control systems concerning the practice and reliability of Programme output indicators 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 management and control systems in that regard.

The audit was carried out between 4th of December 2019 and 14th of February 2020. 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 of Estonia, Mart Pechter. The audit supervisor was the Head of Audit Unit II, Kadi Peets.

In order to present an opinion, the management and control systems in regards to the practice and reliability of Programme output indicators was analyzed and tested in accordance with the KR1, KR3, KR4, KR5, KR6 and KR8.

The audit was based on the following documents:

- Programme Manual of the Programme;
- Description of the management and control systems of the Programme;
- Methodologies and specific documents related to those documents used by the Joint Secretariat, such as but not limited to checklists of progress reports and on-the-spot checks;
- Selected progress reports and any information related to those reports available in the eMS system or from the Joint Secretariat.

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

- The evaluation of compliance of the principles of the Joint Secretariat set out in the description of the management and control systems;
- Testing in the practice of the Programme in comparison with the principles of the KR1, KR3, KR4, KR5, KR6 and KR8 by selecting a number of projects and progress reports as well as observing the principles of the Joint Secretariat as they were actually used;
- Conducting interviews with the key officials of the Programme in the Joint Secretariat.

The audit work was based on the methodology developed by the Financial Control Department of the Ministry of Finance of Estonia for the programming period of 2014-2020.

2. Sampling methodology

In order to test for the practice, different projects and progress reports from those projects were selected for testing as follows:

- All projects included in the sample for project audits during 2018 and 2019 were automatically included;
- Then, the auditor included additional projects from objectives of the Programme that had not yet been included;
- This meant that every Programme objective was included with at least one project and some (such as 1.1. and 2.1.) were included with two;
- This also meant that practically all indicators of the Programme were tested at least once.

In total, nine unique projects were tested, with all progress reports of all those projects included in testing.

3. Background information

In accordance with the Article 127(1) of the CPR, the Audit Authority shall ensure that audits are carried out on the proper functioning of the management and control systems of the operational programme.

For the Programme in the 2014-2020 programming period, the previous relevant audit of the management and control systems has been a Compliance audit of the Managing Authority (No III-2/2016) from 14th of December 2016 with an **unqualified opinion** on the description of the management and control systems.

The audit was added to the working plan of the Audit Authority, because its object was deemed a critical function of the Programme that had not been audited yet.

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 Managing Authority 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 Audit Authority. If necessary, a follow-up audit may be conducted.

PART B

FINDINGS AND RECOMMENDATIONS³

Key requirement 1: Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body

As the result of this audit, the auditor finds that the management and control systems of the Programme of concerning the practice and reliability of Programme output indicators regarded via the KR1 **works, but some improvements are needed** (Category 2)⁴

Finding No 1.1 - The supervision of the Managing Authority concerning the reporting of indicators by the Joint Secretariat should be enhanced (Significant)

In accordance with the article 72 (h) of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council, the management and control systems shall provide for reporting and monitoring where the body responsible entrusts execution of tasks to another body.

As set out in the Description of management and control systems of the Estonia-Latvia programme, the Joint Secretariat monitors the fulfilment of indicators and compiles statistics on those indicators for all purposes, including the annual reporting. The Managing Authority has access to all details via the eMS electronic monitoring system. As the Managing Authority explained, they always check the compilation presented to them in order to evaluate the progress and to spot mistakes or areas of interest.

However, the auditor notes that in this practice, the Managing Authority does not check the base data from the reports but rather leaves that to the Joint Secretariat, although the Description of management and control systems does give them the right to conduct such checks whenever needed.

RISK

The auditor points out that whenever tasks such as those are delegated, the Managing Authority should also exercise supervision over their details to minimize the risk of errors either in data or in practice.

Using some amount of random checks for the indicator base data would enhance the Managing Authority's assurance about the correctness of indicator data. It would also allow the Managing Authority to point out issues and propose solutions for the practices of reporting indicator data by the project partners and processing indicator data by the Joint Secretariat.

RECOMMENDATION TO THE MANAGING AUTHORITY:

The auditor recommends the Managing Authority to carry out some amount of random checks for the indicator base data at least annually. Also, the auditor recommends the Managing Authority to pay attention to the handling of indicators while carrying out the usual systemic supervision on the delegated functions, like verifying the sufficiency of the control procedures of the Joint Secretariat.

COMMENT FROM THE MANAGING AUTHORITY:

³ Audit findings are listed according to the assessment criteria of the MCS assessment methodology

⁴ 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.

The Managing Authority will analyze its work procedures to see, where the additional tasks related to random checks of the indicators' base data would fit most logically, to ensure that they are annually carried out. Most likely it will become part of the preparation of annual implementation report. In 2020 during the annual updating of the Description of Management and Control Systems this task will be added to the tasks of the Managing Authority.

The Managing Authority also agrees with all the comments from the Joint Secretariat.

FINAL COMMENT FROM THE AUDITOR:

The auditor agrees with the proposals of the Managing Authority. This finding will be followed up by the Audit Authority when the Description of Management and Control Systems is updated.

Key requirement 3: Adequate information to beneficiaries

As the result of this audit, the auditor finds that the management and control systems of the Programme of concerning the practice and reliability of Programme output indicators regarded via the KR3 **works, but some improvements are needed** (Category 2)

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)

In accordance with the article 125 (c) of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council, the managing authority shall make available to intermediate bodies and beneficiaries information that is relevant to the execution of their tasks and the implementation of operations respectively.

As set out in the Programme manual for the Estonia-Latvia programme, there is a description for each of the output indicators. As the Joint Secretariat explained, the beneficiaries are additionally briefed on the nature of indicators during the consultation phase, during events for beneficiaries and during the presentation of progress reports.

However, the auditor notes that as the testing of practice indicates, some beneficiaries may still be confused about the nature of the following indicators.

- Participants at project events. Although it is clearly stated in the Programme manual that each participant may only be counted once, not every beneficiary has paid enough attention to that. As a result, some partners have reported some numbers which do contain duplicates, although those cases do not have a noticeable effect on the amount reported.
- Jointly organized events and joint marketing activities. Although the nature of jointly organized events and joint marketing activities is clearly stated in the Programme manual, in practice the events that fulfil the criteria but were not set out in the application form may not get counted by the beneficiaries in practice. As a result, there have actually been more events and activities than reported.
- Number of enterprises receiving non-financial support. In practice, the enterprises counted by the beneficiaries here are the ones which receive support in the form of training or network participation but not direct or indirect state aid in form of de minimis. Currently, this information is not clearly stated in the Programme manual, although it is mostly correctly reported in the practice.
- Joint products and services developed. The Programme manual does not clearly state that each product or service may only be counted after it has been completely finalized. This has led to some confusion for beneficiaries and to the reporting of partial-items, although those have mostly been corrected later.

RISK

The auditor points out that defining and communicating the nature of indicators with as little ambiguity as possible is essential to minimize the risk of errors in counting and reporting them by the beneficiaries.

In the situations where the information is clearly stated but the beneficiaries make mistakes in the practice, the additional communication should stress this point even more to prevent the mistakes. In situations where the information is not clearly stated in writing but the beneficiaries are mostly uniform in practice, the information should still be clarified because clarity in writing is a best practice for preventing future mistakes.

RECOMMENDATION TO THE JOINT SECRETARIAT:

The auditor recommends the Joint Secretariat to adopt the following improvements concerning the indicators mentioned.

- For participants at project events, the practical communication from the Joint Secretariat should even more stress the point of each participant being counted only once.
- For jointly organized events and joint marketing activities, the Programme manual should be updated stating that every event fulfilling the necessary criteria should be counted and the practical communication from the Joint Secretariat should encourage the beneficiaries to do so.
- For the number of enterprises receiving non-financial support, the Programme manual should be updated stating that the enterprises counted are the ones which receive support in the form of training or network participation but not direct or indirect state aid in form of de minimis.
- For the joint products and services developed, the Programme manual should be updated stating that each product or service may only be counted after it has been completely finalized.

COMMENT FROM THE JOINT SECRETARIAT:

1. The JS continues communicating the importance of following the programme rules regarding counting this indicator to the running projects of SO 1.1, SO 2.2 awareness and SO 4.1. Currently the guidelines for reporting in eMS are being updated. The JS has included there the detailed instructions for keeping an audit trail in a form of excel file that has a functionality for checking duplicates. However, the risk, that people's names are written incorrectly, or that people change their names during the project duration – remains. The JS is of the opinion that these guidelines are the most appropriate place for communicating in detail what must be done in reporting stage. The relevant text boxes of the partner and progress report related to the indicator will be supplemented with the word "unique".
2. The output indicator "Jointly organized events" relates to the projects of SO 1.1. As all the projects fulfilling this indicator have finished their activities, the JS does not consider the changes in the Manual and substantial change of the approach of counting this particular indicator proportionate at this stage. The JS will add the comment to the list of questions to the LP when checking the remaining progress reports.
3. The indicator "Joint marketing activities" for SO 1.2. is approached differently than "Jointly organized events". The idea behind setting the programme target for 12 jointly developed products and 12 joint marketing activities, was a requirement that every developed product needs marketing. As the programme assumed, that marketing is usually carried out through many different actions – e.g. dozens to thousands of pieces of printed material, paid articles, trade fairs, business meetings, conferences, presentations etc. – it was not considered reasonable to let the partners count such action or piece of information carrier as single marketing activity, fulfilling the indicator. Based on this logic the JS has from the beginning (2016) advised the applicants to group the marketing activities so that the group is considered as one joint marketing activity. This is the reason, why the JS has not encouraged the partners counting every (joint) action as an additional indicator, but instead has counted such activities under matching set. To make the counting of the indicator more in the progress report, the JS will make the relevant (existing in eMS already) text box in the progress report active so that the LP can explain there, which actions were counted for fulfilling the indicator. The fulfilment of the indicator is only marked when the indicator is considered to be completely reached.
4. The indicator "Number of enterprises receiving non-financial support". The JS has much explained the counting during the consultations, during the technical and loose quality check of the applications. Sometimes revising the number of indicators is set as condition in the MA financing decision. This is how the numbers of indicators

are not random in the application, and the applicants are informed about the content in all stages of the application. The JS will add the instructions about counting this indicator into the eMS guidelines. There can be more options as provided by the audit authority, for considering such enterprises. The JS will also communicate this to the partners during monitoring the implementation of the project. There will be a text field in the progress report form, for adding the explanation to the reported number.

5. The counting of the indicator “Joint products and services”. Given the stage of the programme – many SO 1.2 finishing, and the rest are on the half way of implementation, the JS considers the guidelines for the reporting in eMS to be the most relevant document to communicate these instructions. The JS considers this matter to be of technical nature related to the specifics of the electronic monitoring system. The draft updated guidelines for reporting in eMS includes the instruction of marking the indicator fulfilled only when the product is fully developed.

The JS will update and publish the eMS guidelines and text fields in the report forms by the end of March 2020.

FINAL COMMENT FROM THE AUDITOR:

The auditor agrees with the proposals of the Joint Secretariat on the points 1, 4 and 5. The auditor also partly agrees with the proposals of the Joint Secretariat on the points 2 and 3, depending on the particular details of the additions made to the verification procedure. This finding will be followed up by the Audit Authority after the procedures are updated in the April of 2020.

Key requirement 4: Adequate management verifications

As the result of this audit, the auditor finds that the management and control systems of the Programme of concerning the practice and reliability of Programme output indicators regarded via the KR4 **works, but some improvements are needed** (Category 2)

Finding No 4.1 - The checklist used by the Joint Secretariat for management verifications of progress reports should be improved in some aspects (Significant)

In accordance with the article 125 (4) (a) of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council, the managing authority shall verify that the co-financed products and services have been delivered.

As set out in the Description of management and control systems of the Estonia-Latvia programme, the Joint Secretariat monitors the fulfilment of indicators and compiles statistics on those indicators for all purposes, including the annual reporting.

However, the auditor notes that the current checklist used by the Joint Secretariat for checking the progress reports where the fulfilled indicators are reported, does not include a separate control question for checking that the indicators have been correctly reported and that the information is clearly and unambiguously presented in the eMS electronic monitoring system. The Joint Secretariat also has the possibility of checking some of the indicators during the on-the-spot checks, but that respective checklist does not have a separate control question for indicator data either.

The auditor also notes that in practice, dealing with the indicators has subsequently been mostly left up to the judgment of a specific person carrying out those checks. This means that there is variety on the amount of checks that have been conducted to verify the data presented by the beneficiary and the audit trail does not allow to easily identify the exact nature of those checks afterwards.

RISK:

The auditor points out that whenever the Joint Secretariat fulfils some task, the written procedures should support all important aspects of that task to minimize the risk that some aspects are overlooked or not checked in a uniform manner, based mostly or only on the judgment of the person conducting those checks.

Stating the task of verifying the indicators reported in the check-lists and also adding information in the check-list for the person using it to elaborate on the nature of the checks they are supposed to carry out would ensure the Joint Secretariat's assurance that all persons perform the checks concerning the indicators in the same way and that the information concerning the indicators is always presented similarly.

RECOMMENDATION TO THE JOINT SECRETARIAT:

The auditor recommends the Joint Secretariat to update the checklists used for verifications of progress reports and for on-the-spot checks in order to include the verifications of indicators along with their correct count and necessary support documentation.

COMMENT FROM THE JOINT SECRETARIAT:

The JS has responsible and competent team of staff members whose approach and practices when executing the JS procedures are much harmonized. Therefore, the JS can ensure that there is little room for too individual approach or judgement when it comes to checking the implemented activities against the application form. The JS will draft the written description of the checks and revises the checklist of the progress report by the end of March 2020.

As for the site visits, the JS will analyze which indicators could be counted during the visits in the manner that the consultant can be convinced on spot that they are complete (yes/no question in the form). The JS will update the site visit form by the end of March 2020.

FINAL COMMENT FROM THE AUDITOR:

The auditor wishes to point out that the finding makes no assumptions on the competence of the Secretariat staff.

The auditor agrees with the proposals of the Joint Secretariat on the checklists and supporting documents for the progress reports and on-the-spot visits. This finding will be followed up by the Audit Authority after the procedures are updated in the April of 2020.

Key requirement 5: Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail

As the result of this audit, the auditor finds that the management and control systems of the Programme of concerning the practice and reliability of Programme output indicators regarded via the KR5 **works, but some improvements are needed** (Category 2)

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)

In accordance with the article 72 (4) (d) of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council, the management and control systems shall provide for computerized systems for data on indicators.

As set out in the Description of management and control systems of the Estonia-Latvia programme, the collecting and reporting on indicators is done via the eMS electronic monitoring system.

However, the auditor notes that although the eMS electronic monitoring system allows the beneficiaries to present the data on indicators in the progress reports in a clear and understandable way along with the supporting evidence, not many beneficiaries actually present the data in that way.

Under "Work packages" section, where the indicators are numerically represented, most of the beneficiaries do not clearly describe fulfillment of the indicators within the progress description box, neither do they use the specific section created for uploading supporting evidence meant specifically for the fulfillment of the indicators. Although there is a Guidelines document for contracting and reporting in eMS system, it does not clearly specify those things for the progress report.

RISK:

The auditor points out that information should be collected in a way that is easily understandable also for anyone outside a particular project and easily retraceable afterwards to minimize the risk that the information becomes unmanageable once the people directly working with the project have left the organization.

Stating clearly how this information concerning indicators should be presented in guidelines; making this information understandable for all participants should be done by additional communication; and putting those principles in practice should be done by not accepting any progress reports with insufficient clarity about indicator data. This would ensure that the Joint Secretariat can, during monitoring, reach the assurance about the correctness of indicator data faster. It would also ensure that the indicator data is easily understandable afterwards.

RECOMMENDATION TO THE JOINT SECRETARIAT:

The auditor recommends the Joint Secretariat to update the requirements to the beneficiaries presented in the guidelines. This should, at minimum, include the requirement that the beneficiary should always clearly write in the progress description box the explanation for every number counted and reported under the indicators, and that the beneficiary should always add the respective supporting evidence to the specific section next to the indicators. The auditor also recommends to communicate this update to all parties and instruct the people monitoring the progress reports to not accept reports with those requirements unfulfilled.

COMMENT FROM THE JOINT SECRETARIAT:

The JS has drafted the updated guidelines for reporting in eMS. The changes to the current version include instructions on counting and evidence. The guidelines will be completed and published by the end of March. The JS will notify all partners about the updated guidelines when published. The JS also emphasizes the requirements to the partners during the monitoring of the project implementation.

FINAL COMMENT FROM THE AUDITOR:

The auditor agrees with the proposals of the Joint Secretariat on the checklists and supporting documents for the progress reports and on-the-spot visits. This finding will be followed up by the Audit Authority after the procedures are updated in the April of 2020.

Key requirement 6: Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries

As the result of this audit, the auditor finds that the management and control systems of the Programme of concerning the practice and reliability of Programme output indicators regarded via the KR6 **works well, no or only minor improvements needed** (Category 1)

Finding No 6.1 - There is a known error in the eMS electronic monitoring system where the indicator sums are not correctly displayed in a section of the progress reports (Non-significant)

In accordance with the article 72 (4) (d) of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council, the management and control systems shall provide for computerized systems for data on indicators.

As set out in the Description of management and control systems of the Estonia-Latvia programme, the collecting and reporting on indicators is done via the eMS electronic monitoring system.

However, the auditor notes that currently the eMS electronic monitoring system does not display the indicators correctly on the main page of the progress report view. To see the correct indicators pertaining to a progress report, the work package pages need to be viewed. As the Joint Secretariat explained, this is a known error that can only be fixed with a future software update from the software developer, who has been notified.

RISK:

The auditor points out that any known error that has a potential to cause confusion when counting indicators needs to be communicated to all Programme authorities to minimize the risk of misunderstandings.

RECOMMENDATION TO THE JOINT SECRETARIAT:

The auditor recommends the Joint Secretariat to ensure that until the software developer has fixed the issue, the Programme authorities are informed about it.

COMMENT FROM THE JOINT SECRETARIAT:

The JS is in communication with the developer, and as soon as it is fixed, informs the programme authorities.

FINAL COMMENT FROM THE AUDITOR:

The auditor considers this finding closed.

Key requirement 8: Appropriate procedures for drawing up the management declaration and annual summary of reports and controls carried out

As the result of this audit, the auditor finds that the management and control systems of the Programme of concerning the practice and reliability of Programme output indicators regarded via the KR8 **works, but some improvements are needed** (Category 2)

The auditor made no findings under this Key requirement, but would like to point out that the finding, risk and recommendation made under KR1 is also relevant here.

ANNEX 1 – Summary opinion of the auditee’s MCS

Key requirement	Category 1	Category 2	Category 3	Category 4
Key requirement 1: Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body		X		
Key requirement 3: Adequate information to beneficiaries		X		
Key requirement 4: Adequate management verifications		X		
Key requirement 5: Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail		X		
Key requirement 6: Reliable system for collecting, recording and storing data for monitoring, evaluation, financial management, verification and audit purposes, including links with electronic data exchange systems with beneficiaries	X			
Key requirement 8: Appropriate procedures for drawing up the management declaration and annual summary of final audit reports and of controls carried out		X		
Summary opinion of the auditee’s MCS		X		