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# **Estonia-Russia CBC Programme 2014-2020**

## **Audit of management and control systems of appropriate selection of operations**

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Audit No JKS-24/2019

Final Report

11.12.2019

Prepared by the Audit Authority of Estonia-Russia Programme

Audit final report recipients:

Ms. Ege Ello, Head of the Managing Authority

Ms. Unda Ozolina, Head of the Joint Technical Secretariat

## EXECUTIVE SUMMARY

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The purpose of this audit was to assess the effectiveness of the management and control systems of Estonia-Russia CBC Programme 2014-2020 in administrating the project preliminary as well as the full project applications; and selecting the operations to be financed from the Programme.

The assessment was carried out on the basis of the Key requirement 2: Appropriate selection of operations; Key requirement 3: Adequate information to beneficiaries; and Key requirement 5: Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail.

By compiling the 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 Estonia-Russia Programme in respect of the Key requirements 2, 3 and 5 **works, but some improvements are needed** (Category 2<sup>1</sup>).

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

During the audit, the following **significant**<sup>2</sup> findings were made:

[Finding No 1.1 - The assessment of project application summary form does not take into account the cross cutting issues; whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding; and activity outside the programme area, as clear criteria \(Significant\)](#)

[Finding No 1.2 - The process of providing information in the project application summary form is not significantly different from providing information in the project full application form, which lessens the effectiveness of having a two-part application process \(Significant\)](#)

[Finding No 1.3 - The project full application form does not clearly check whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding \(Significant\)](#)

[Finding No 1.4 - The project full application form does not clearly check for the activity outside the programme area \(Significant\)](#)

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<sup>1</sup> 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.

<sup>2</sup> **Significant findings** are findings that describe an error in the auditee's management and control systems 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 management and control systems 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.



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 Estonia-Russia 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.

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

**Final Report consists of 12 pages.**

**Audit supervisor:**

*(Signed electronically)*

Kadi Peets

Head of Audit Unit II

Financial Control Department

**Audit manager:**

*(Signed electronically)*

Mart Pechter

Lead Auditor of Audit Unit II

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## PART A

### 1. Summary of the audit work

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In accordance with the Agreement on financing and implementation of Cross-Border Cooperation Programme “Estonia-Russia” 2014-2020 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 of Estonia-Russia Programme in administrating the project preliminary as well as the full project applications; and selecting the operations to be financed from 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 management and control systems in that regard.

The audit was carried out between 04/02/2019 and 11/12/2019. 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 of the Financial Control Department, Kadi Peets.

In order to present an opinion, the management and control systems of Estonia-Russia Programme with regards to appropriate selection of operations were analyzed and tested in accordance with the Key requirements 2, 3 and 5.

The audit was based on the following documents:

- Joint Operational Programme document of Estonia-Russia Programme;
- Guidelines for the First Call of Estonia-Russia Programme;
- Description of the management and control systems of the Estonia-Russia Programme;
- Methodologies and specific documents related to those documents developed and used by the Joint Technical Secretariat, such as the forms, checklists and guiding materials;
- Selected preliminary and full applications forms and the checklists and decisions pertaining to those forms.

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

- The evaluation of compliance of the appropriate selection of operations set out in the documents of Estonia-Russia Programme in comparison with the Key requirements 2, 3 and 5;
- Testing in the practice of the Estonia-Russia Programme the appropriate selection of operations in comparison with the Key requirements 2, 3 and 5 by selecting a number of preliminary and full applications forms and the checklists and decisions for observation of the practice;
- Conducting interviews with the Head of the Joint Technical Secretariat.

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

### 2. Sampling methodology

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In order to test for the practice, different preliminary and full applications forms were selected for testing as follows:

- The selection was made from applications entered into the First Call of Estonia-Russia Programme. The selection was made randomly; with a provision that additional items will be randomly selected until the auditor deems the sample sufficient for the purpose.
- The random selection was stopped after selecting first seven random items from the population. The auditor was of the opinion that these items provide sufficient coverage with regards to the population. The variety of sampled items is described as follows.

- The sample had from Thematic Objective 1, three application forms; for Thematic Objective 5, two application forms; and for Thematic Objective 6, two application forms. The First Call only included those three Thematic Objectives.
- Out of those application forms, one had a very high score, two had a high score, two had a middle score, one had a low-middle score and one had a low score applied to them in evaluation.
- Out of those application forms, one was in the end accepted with no conditions, four were accepted with conditions, one was not accepted due to no consensus in decision-making, and one was rejected outright.

In total, as mentioned before, seven unique applications were appraised both for the preliminary and full applications forms, which means that 14 forms in total were tested, as well as the checklists filled by the experts and final decisions made.

The auditor again considers this sample to be sufficient for the purposes of this audit.

### **3. Background information**

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In accordance with Agreement on financing and implementation of Cross-Border Cooperation Programme “Estonia-Russia” 2014-2020, the Audit Authority ensures that audits are carried out on the management and control systems of the Estonia-Russia Programme.

The audit was added to the working plan of the Audit Authority, because it was deemed to be the first function of the Estonia-Russia Programme that was carried out by the authorities of said Programme and thus the first that could be audited.

### **4. Follow-up and monitoring**

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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 RECOMMENDATIONS<sup>3</sup>

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#### Key requirement 1: Appropriate selection of operations

As the result of this audit, the auditor finds that the management and control system of the Estonia-Russia Programme of this function regarded via the Key Requirement 2 **works, but some improvements are needed** (Category 2)<sup>4</sup>

#### Finding No 1.1 - The assessment of project application summary form does not take into account the cross cutting issues; whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding; and activity outside the programme area, as clear criteria (Significant)

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The TESIM project has published a working paper adaption on the Methodology for assessing management and control systems<sup>5</sup>, published by the European Commission, detailing the key requirements and assessment criteria for the management and control system audits.

In accordance with the Key requirement 2.1 (c), the criteria for the appropriate selection on procedures must take into account the cross cutting issues (democracy and human rights, environmental sustainability, gender equality and HIV/AIDS). In accordance with the Key requirement 2.4 (b), the criteria for the appropriate selection on procedures must take into account whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding. In accordance with the Key requirement 2.4 (d), the criteria for the appropriate selection on procedures must take into account any activity outside the programme area.

The auditor finds that there are no criteria for the quality assessment of project application summaries that would include those principles, although there are criteria for the first two in the quality assessment of project full application forms. The auditor finds that those principles should be assessed for the project ideas as well, since not applying all criteria regarded as important by the European Commission will not give a full and balanced end result.

**RISK:** Not assessing the cross cutting issues; whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding; and activity outside the programme area will create a likelihood that the score and a recommendation given to a project application summary is incorrect.

**RECOMMENDATION:** It is recommended for the Managing Authority to add those particular principles to the list of criteria used for the quality assessment of project application summaries.

**COMMENT FROM THE MA/JTS:** TESIM working paper was approved later than the Calls for Proposals were launched, however we consider that described principles have been taken into account by the MA to a large extent (January 2017 – launching the 1st Call for proposals against of drafted Working paper on July 2019).

1. It is stipulated in JOP that scale of Programme is not large enough to have a direct impact on some cross-cutting issues, nevertheless all projects from the beginning should have taken into account mentioned principles.

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<sup>3</sup> Audit findings are listed according to the assessment criteria of the management and control systems assessment methodology

<sup>4</sup> 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.

<sup>5</sup> Working paper (revised after 3rd ENI CBC AA network meeting), July 2019

In eMS cross-cutting issues are called "Horizontal principles" and though there is no separate/direct criteria used for assessment of Project summaries, one of the guiding questions especially serves for these purposes and to be considered by assessors is "Contribution of horizontal principles to the project is described and analyzed", Memo for Assessors - criteria "3. Project design" sub-criteria "3.1 Proposed activities are relevant to planned project objectives and results". By this question, MA considers that possible link between applying horizontal principles and planned project results is evaluated to due extent for Project Summary Form (*further referred to as PSF*). Later, on the stage of Full Application Form (*further referred to as FAF*), the criteria for cross-cutting issues is provided separately.

2. Activities outside the Programme area are considered by MA as an integral part of the planned project activities and for that reason are not assessed separately. During Administrative Eligibility check the existence of activities outside the Programme area was checked under criteria "The proposed indicative budget is in correspondence with Programme requirements, described in the section 2 of Guidelines".

In accordance with Implementing Regulation all project activities financed by the programme shall end on 31 December 2022 at the latest and because of lacking time the Programme is not planning to launch any Calls for proposals consisting of two-steps approach.

**FINAL COMMENT FROM THE AUDITOR:** The auditor understands the point made by the Managing Authority and Joint Technical Secretariat, but stands by their recommendation. However, if the Programme has no more plans to launch calls for applications using the two-step approach, the risks from the finding will not be realized in future practice of this programming period. Still, the auditor recommends to apply the recommendation during the planning of the next programming period, if two-step approach is considered then.

The auditor considers this finding closed. No follow-up is necessary.

**Finding No 1.2 - The process of providing information in the project application summary form is not significantly different from providing information in the project full application form, which lessens the effectiveness of having a two-part application process (Significant)**

The Estonia-Russia programme has set up the application process in two steps. In accordance with the First Call Guidelines<sup>6</sup>, Identification and selection procedure consists of 2 steps: 1. Submission and assessment of the Project Summary Form; 2. Submission and assessment of the Full Application Form. In addition, only those projects which successfully pass the Project Summary Form step will be invited to submit the Full Application Form.

The auditor finds that the information presented by the applicant in the project application summary form phase does not significantly differ from the information presented by the applicant in the full project application form. It can be said both by the amount and the types of information provided that the project application summary form is essentially the draft of full project application form.

The auditor does not find this practice an effective use of programme's resources. The auditor notes that it can be argued that a two-part application process is effective, when the programme is presented with a very short and basic outline of project idea for the first part of assessment. This has the advantage of leaving out projects with clearly unsuitable or unmanageable ideas before allowing the applicants to present the full application information. In this way, the comparatively small amount of added workload from the first part of the process may in the end save noticeable amount of time and resources for both applicants and the programme in the second part.

The auditor would like to argue that this does not apply in the case at hand. Since the information that the applicants have to present in the project application summary form phase is fairly extensive, it can be said to create a significant amount of work both for the applicants to present and for the programme to assess. Thus, any theoretical gains from the two-part application process are negated in actual practice.

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<sup>6</sup> First approved in 2nd Joint Monitoring Committee meeting on 1-2 November 2016



**RISK:** Deciding to apply a two-part application process carries an inherent risk to the workload of both the applicants and the programme. When there is not a significant difference between the two phases, the end result may mean that in practice the same process is simply repeated twice, with almost double the workload for all parties and very little gain for it.

**RECOMMENDATION:** It is recommended for the Managing Authority to reconsider the process of application, with either considerably simplifying the first step of project application summary form or instead foregoing the first step completely and instead offering additional support for the applicants for preparing the full project application form straight away.

**COMMENT FROM THE MA:** MA considers that described risk of the workload as a proportional risk to not having enough ground for making objectively justified rejection decisions on PSF. If provided information is too short and simplified, it could cause the situation of not having reasonable justification for rejection and in case of complaints it will not guarantee the transparent and justified answer/appeal to complaint.

Both parties, applicants and assessors, used the eMS for applying process and assessment of the projects. All information submitted at the stage of project summaries was stored in the system, that's why inserting of additional information didn't double the workload of applicants. The assessors evaluated the same applications during PSF and FAF stage, so they also were familiar with system and previous information and workload didn't increase significantly.

Having too simple PSF could result in a risk of having too many applications of low quality. As a result, it would remarkably increase administrative burden for assessors. However, for the 3<sup>rd</sup> Call for Proposals the one-step procedure with some future simplification is proposed for JMC decision.

**FINAL COMMENT FROM THE AUDITOR:** The auditor understands the point made by the Managing Authority and Joint Technical Secretariat, but stands by their recommendation. However, if the Programme has no more plans to launch calls for applications using the two-step approach, the risks from the finding will not be realized in future practice of this programming period. Still, the auditor recommends to apply the recommendation during the planning of the next programming period, if two-step approach is considered then.

The auditor considers this finding closed. No follow-up is necessary.

### **Finding No 1.3 - The project full application form does not clearly check whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding (Significant)**

The TESIM project has published a working paper adaption on the Methodology for assessing management and control systems, published by the European Commission, detailing the key requirements and assessment criteria for the management and control system audits.

In accordance with the Key requirement 2.4 (b), the criteria for the appropriate selection on procedures must take into account whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding.

There are no criteria for the quality assessment of project full application forms that would include those principles, although there are criteria that touch upon the subject such as:

- Criteria 3.2.1. The activities are adequately planned, described with sufficient level of precision and are relevant to achieve set objectives, outputs and results.
- Criteria 4.1.1. Involved partners are relevant.
- Criteria 4.1.2. Applicant and partners have experience in projects, in particular, international/EU funded/national projects.
- Criteria 5.1.1. Management structures are proportionate to the project size and needs and allow partners' involvement in decision-making.

- Criteria 6.1.1. The budget is detailed enough, reasonable, efficient and realistic.
- Criteria 6.2.1. The budget of the activities is proportional to the description and scope of those activities and to outputs/results to be achieved.

The auditor finds that although those principles can deal with separate aspects of the issue at hand, it is still crucial that there should still be a separate criteria detailing the specific question whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding.

The auditor finds that at the moment, although aspects of this criteria are covered, the assessment checklists and supporting materials do not currently fully help the assessors to evaluate this.

**RISK:** Not clearly assessing whether the beneficiary has the administrative, financial and operational capacity to fulfil the conditions regarding the provision of funding will create a likelihood that the score and a recommendation given to a project full application, as well as the final decision with regards to this application is incorrect.

**RECOMMENDATION:** It is recommended for the Managing Authority to update the list of criteria used for the quality assessment of project full application with this specific principle. Although this principle should be added separately, this may also mean rewriting and combining some of the criteria mentioned in this finding that already deal with separate aspects of the issue at hand so that the aspects or this criterion are not assessed twice.

**COMMENT FROM THE MA:** All project partners have submitted Partner statements during FAF stage declaring their participation in the project, ensuring sufficient human and administrative capacity to implement activities and providing partner co-financing to the budget of the project.

In addition to that, economic performance data (template attached) to analyze the applicants' financial sustainability were asked from NGOs and SMEs. Provided data was delivered to assessors for considering them within quality assessment process and giving the final score.

In order to reduce the administrative burden within the qualitative assessment, the project partners that were selected for funding and awarded a grant within several applications, before contracting, had to confirm their operational and financial capacity in the respective statement signed by authorized representative.

For future improvements the reference to the Financial capacity table requested from the NGOs and private bodies will be incorporated in questions for assessment in the MEMO for assessors.

The JTS will get acquainted with financial capacity assessment table template used by EST-LAT programme for the assessment of private bodies and consider if some questions could be useful for the assessors to be included in the MEMO for assessors of EE-RU CBC programme. The most appropriate place would be criteria for the assessment of relevance of partnership, also could be used for the administrative eligibility check by the JTS.

**FINAL COMMENT FROM THE AUDITOR:** The auditor agrees in general with the future approach proposed by the Managing Authority and Joint Technical Secretariat for this recommendation. The auditor would also like to reiterate the importance of delving more into the administrative, financial and operational capacity of potential beneficiaries in order to prevent the mentioned risks from realizing, which could mean partners leaving the project, dissolving their organizations or going bankrupt; resulting in the objectives of the project being endangered.

Follow-up for this finding and recommendation shall be conducted when the Audit Authority is compiling the Annual Control Report for the year 2019.

#### **Finding No 1.4 - The project full application form does not clearly check for the activity outside the programme area (Significant)**

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The TESIM project has published a working paper adaption on the Methodology for assessing management and control systems, published by the European Commission, detailing the key requirements and assessment criteria for the management and control system audits.

In accordance with the Key requirement 2.4 (d), the criteria for the appropriate selection on procedures must take into account the activity outside the programme area. There are no criteria for the quality assessment of project full application forms that would include this principle.

The auditor finds that there should still be a separate criteria detailing the specific question for the activity outside the programme area.

**RISK:** Not clearly assessing any activity outside the programme area will create a likelihood that the score and a recommendation given to a project full application, as well as the final decision with regards to this application is incorrect.

**RECOMMENDATION:** It is recommended for the Managing Authority to update the list of criteria used for the quality assessment of project full application with this specific principle.

**COMMENT FROM THE MA:**

For further projects assessments the guiding questions for the assessors will include a request to assess if the activities outside the programme territory are really needed and well justified.

Already now for the assessment of activities outside the programme area, in the FAF in eMS the included sum of activities is presented also in percentage and it is easy to check if it is below 20%. For the previous calls in addition it was checked by the JTS if after the fulfilment of conditions, the limits are not exceeded (table attached).

**FINAL COMMENT FROM THE AUDITOR:** The auditor agrees in general with the future approach proposed by the Managing Authority and Joint Technical Secretariat for this recommendation.

Follow-up for this finding and recommendation shall be conducted when the Audit Authority is compiling the Annual Control Report for the year 2019.

**Key requirement 3: Adequate management verifications**

As the result of this audit, the auditor finds that the management and control system of the Estonia-Russia Programme of this function regarded via the Key Requirement 3 **works well. No or only minor improvements needed** (Category 1)<sup>7</sup>

No findings.

**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 system of the Estonia-Russia Programme of this function regarded via the Key Requirement 5 **works well. No or only minor improvements needed** (Category 1)

No findings.

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<sup>7</sup> 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 management and control systems**

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Key requirement	Category 1	Category 2	Category 3	Category 4
<b>Key requirement 2:</b> Appropriate selection of operations		X		
<b>Key requirement 3:</b> Adequate management verifications	X			
<b>Key requirement 5:</b> Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail	X			
Summary opinion of the auditee’s management and control systems		X		