

Compliance audit of the Management and Control System for the implementation of the European Economic Area and Norwegian Financial Mechanisms 2014-2021 in Estonia

Audit report No II-186/2017

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RAHANDUSMINISTEERIUM

Iceland
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Norway grants



Norway grants

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1 Introduction

1.1 Purpose of the audit report

The purpose of the audit report is to present the results of the compliance assessment of the description of the management and control system (DMCS) as prepared by the National Focal Point (NFP) for implementing the Norwegian Financial Mechanism 2014-2021 and European Economic Area (EEA) Financial Mechanism 2014-2021 (financial mechanisms).

In accordance with the criteria set out in the Regulations on the implementation of the financial mechanisms (Regulation) Article 5.7 (1) the NFP shall, within six months of the date of the last signature of the Memorandum of Understanding (MoU), submit to the NMFA/FMC a DMCS, covering in particular the organisation and procedures of the programme bodies. According to the Regulation Article 5.7 (3), the detailed description shall be accompanied by a report and an opinion by the Audit Authority (AA) confirming that the implementation system of the Beneficiary State complies with this Regulation and generally accepted accounting principles. The report shall assess the proportionality of the management and control systems' requirements in relation to the effectiveness of achieving the objectives of the programmes. The report and the opinion referred to in this paragraph shall be drawn up by the AA.

Based on the results of the compliance audit, the AA issues an opinion on whether the management and control system (MCS) is in accordance with the criteria set out in Article 5.1. NFP submits the DMCS to the NMFA/FMC along with the AA opinion and report.

1.2 General information about Compliance Assessment

The Ministry of Finance of the Republic of Estonia (MoF) was assigned to the position of the NFP, the Certifying Authority (CA), the AA and the Irregularities Authority (IA) with the MoU on the implementation of the Norwegian Financial Mechanism 2014-2021 from 9 May 2017 and the MoU on the implementation of the EEA Financial Mechanism 2014-2021 from 9 May 2017. The tasks of the involved departments in relation to the EEA and Norway Grants are described in the Statute of the Ministry of Finance from 22 December 2011.

The following structural units of the MoF are involved with the implementation of the EEA and Norway Grants:

- 1) The NFP – the Foreign Assistance Department (and State Budget Department);
- 2) The CA – the European Union Payments Department (and State Shared Service Centre);
- 3) The AA – the Financial Control Department;
- 4) The IA – the Financial Control Department/AFCOS Estonia.

Pursuant to the Regulation Article 5.1 (1) the Beneficiary State shall be responsible for the management and control of programmes. The MCS established by the Beneficiary State shall ensure the respect of the principles of accountability, economy, efficiency and effectiveness.

According to the Article 5.1 (2) of the same Regulation the MCS shall provide for:

- (a) the definition of the functions of the entities concerned in management and control and the allocation of functions within each entity;
- (b) compliance with the principle of separation of functions between and within such entities;
- (c) procedures for ensuring the correctness and regularity of expenditure;
- (d) reliable accounting, monitoring and financial reporting systems in computerized form;
- (e) a system of reporting and monitoring where the responsible entity entrusts the execution of tasks to another entity;
- (f) arrangements for auditing the functioning of the systems;
- (g) systems and procedures to ensure an adequate audit trail;
- (h) reporting and monitoring procedures for irregularities and for the recovery of amounts unduly paid.

2 Methodology of the audit

2.1 Purpose of the audit

The purpose of the audit was to evaluate whether the MCS of the NFP, the CA and the IA is fully prepared to fill the tasks necessary for the implementation of the financial mechanisms (The MCS-s of the Programm Operators (PO-s) will be evaluated after the DMCS is confirmed by the Norwegian Ministry of Foreign Affairs and Financial Mechanism Committee).

2.2 Scope of the audit

The scope of the compliance assessment included the detailed DMCS that incorporates the NFP, the CA and the IA by the implementation of the financial mechanisms. It did not include the compliance assessment of the MCS of the AA as explained in the point 2.9 and the MCS-s of the PO-s as described in the point 2.1.

The audit was based on the DMCS, including other relevant material and additional information asked from the NFP, the CA and the IA where needed.

2.3 Timeframe of the audit

The audit began on 1 June 2017, when the NFP notified the AA about the completion of the first version of the DMCS. During the audit work the AA analyzed, asked questions, made proposals to elaborate some topics and activities and analyzed the corrections made. Audit work was finalized on 5 September 2017.

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

2.4 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.

2.5 Previous audits that were taken into account

As the implementation of the projects will be monitored and payments made to the projects will be done via electronic information system, AA took into account the results of the MCS audit of Structural Funds Monitoring Information System (SFOS) conducted by Ernst & Young Baltic AS (the report from 22 December 2016). The results of the MCS audit indicated that SFOS is in compliance with the EU and national regulations. It gave to the AA the additional assurance that the system of managing and maintaining the documents of the implementation of the financial mechanisms is built up appropriately and works well.

2.6 Independence of the auditors

In accordance with Article 1.6 (a) of the Regulation, the AA is a national public entity, functionally independent of the NFP, the CA and the PO-s, designated by the Beneficiary State and responsible for verifying the effective functioning of the MCS.

The principle of separation of functions between the AA, NFP and CA is ensured within the organizational framework of the MoF, where the AA is directly subordinated to the Secretary General of the MoF, while the NFP and CA are subordinated to the Deputy Secretary General of Fiscal Policy of the MoF.

In order not to compromise auditors' independence, they are not involved in the development of control procedures, do not have any accounting related tasks and are not involved with any other activity that they audit. Every auditor has to sign a declaration of independence before conducting an audit to assure there is no conflict of interest, as mandated by internationally accepted audit standards. As the AA does not carry out any managerial tasks and its position in the organizational structure is separated from the units related to the implementation of the mechanisms, the segregation of functions is assured.

2.7 Internationally accepted audit standards

The FCD (AA) follows the International Professional Practices Framework of the Institute of Internal Auditors. The FCD has passed an external quality assessment, as a result of which the FCD was evaluated to be generally in conformance with the International Standards for the Professional Practice of Internal Auditing. The FCD follows these Standards and the Code of Ethics in conducting its audit activities (also assuring that the principle of objectivity is followed).

2.8 Evaluation of the DMCD

The assessment was done based on the Regulations Articles 2-8 and 12-13. The detailed checklist was created and filled by the AA.

During the audit the AA were conducting the meetings and discussions with entities within the MoF involved with the implementation of the EEA and Norway Grants in order to clarify the information described in the DMCS.

Where possible, some other relevant documents were also evaluated. This included the Statute of the MoF, Statute of the Registry of the Structural Funds, Estonian Bilateral Fund Agreement draft and Composition, role and functioning of the Joint Committee for the Bilateral Funds 2014-2021.

Still, most of the documents that aimed to organize the work details of the NFP were still in planning or development phase (for example the Communication Strategy, Common Working Procedures of the Managing Authority). In those cases, the auditors evaluated whether the principles pertaining to those documents were clearly present in the DMCS.

2.9 Limitations

As the compliance assessors are part of the FCD (AA), the auditors cannot provide an independent opinion on the compliance of the DMCS of the AA (see also the point 2.7). The compliance audit questions about AA are answered as self-assessment of the AA.

3 Results of the compliance assessment

3.1 Assessment table

Report No	Body	Completeness and accuracy of description	Conclusion	Shortcomings	Designation criteria affected	Corrective measures
II-186/2017	NFP,CA,IA	Yes	Unqualified	n/a	n/a	n/a

3.2 Compliance with the requirements of the Article 5.1 (2) of the Regulation

3.2.1 Clear definition of the functions of the entities

In the MoU were designated the entities responsible for the covering the functions of the implementation of the financial mechanisms: the NFP, the CA, the AA and the IA. The DMCS covers all the functions of these entities.

The AA is of the opinion that drawing up the organisation is in compliance with the criteria for management and control activities.

3.2.2 Separation of functions between and within entities

Separation of functions is ensured through organizational structure within MoF described above in the point 2.6.

In addition it is necessary to emphasize the role of the IA. The IA belongs to the structure of the FCD, but is only responsible for the preparation and submitting the irregularities reports to the NMFA/FMC. Since the activities of the IA do not have impact on the decisions related to the financing of the projects or programs, eligibility and disbursement of the costs and reimbursement of the funds to the Financial Mechanism Office the AA does not see the risk having both the IA and AA functions in the FCD. That explains why the functions of the AA and the IA within the FCD do not compromise the objectivity of the Head of the FCD.

The AA is of the opinion that separation of the functions between the entities is in compliance with the criteria for management and control activities.

3.2.3 Procedures for ensuring the correctness and regularity of expenditure

The procedures for ensuring the correctness and regularity of the expenditure are the responsibility of the PO-s, the CA and the NFP who are responsible for the different stages of the control procedures¹. At the first place are the PO-s responsible for checking the eligibility of the expenditure by carrying out the administrative and on-the-spot checks of declared expenditure. After the PO has done its verifications, the PO submits the Interim Financial Report or the financial annex to the final programme report to the CA confirming that the costs declared are actually incurred, eligible, accurate and in compliance with the Regulation. The CA carries out administrative checks over the submitted report and the expenditure incurred, including controlling that the co-financing committed to the programme has been paid. The NFP is responsible for risk-based monitoring. For the purposes of harmonizing the NFP's monitoring obligation and making it an optimal process, the NFP monitoring will be carried out as part of structural funds monitoring. The CA takes into consideration irregularities, controls and checks made by the NFP, the CA and POs and results of the audits.

The AA is of the opinion that certifying the completeness, accuracy and veracity of the accounts is in compliance with the criteria for management and control activities.

3.2.4 Reliable accounting, monitoring and financial reporting systems in computerized form

All information on the projects and expenditure declared will be maintained in computerized form in the SFOS. For maintaining accounting records of expenditure declared in computerized form, the SFOS, e-Treasury and the accounting system of the State Service Center will be used. In addition, other information on the projects will be recorded in the system as well (audits, controls, irregularities etc). The accounting records of the CA will be maintained by the State Shared Service Centre who will keep records on the grant amounts received and transferred to the PO-s.

The maintenance and reliability of the information system has been reviewed during the MCS audit of SFOS (see also p 2.5) and the system was in compliance with the EU and national regulations. Also, the correctness of the data inserted into SFOS is constantly monitored and evaluated.

The AA is of the opinion that that collecting, recording and storing data in computerized form is in compliance with the criteria for management and control activities.

3.2.5 A system of reporting and monitoring where the responsible entity entrusts the execution of tasks to another entity

It is not foreseen that NFP has foreseen to entrust its responsibilities to another entity.

3.2.6 Arrangements for auditing the functioning of the systems

The functions and role of the AA are based on the provisions of the Article 5.5 of the Regulation. AA is ensuring that audits are carried out to verify the effective functioning of the MCS at the level of the Beneficiary State. AA also carries out the audits on projects, compiles the audit strategy, submits the annual audit report and closure declaration.

¹ The compliance of the MCS of the PO-s will be verified during the next phase of the compliance assessment on the level of different PO-s

As the compliance assessors are part of the AA, the auditors cannot provide an independent opinion on the compliance of the DMCS of the AA.

3.2.7 The system and procedures to ensure an adequate audit trail

The audit trail of expenditure declared will be maintained in computerized form in SFOS, e-Treasury and the accounting system of the State Service Center (see also p 3.2.4).

The information on the projects on the programme level, including announcing the calls for operations, evaluation and selection of the operations and monitoring of the implementation of the projects will be maintained on the PO level.

The AA is of the opinion that adequate audit trail exists and is in compliance with the criteria for management and control activities.

3.2.8 Reporting and monitoring procedures for the irregularities and for the recovery of amounts unduly paid

All irregularity reports will be fulfilled by the PO-s responsible for the implementation of the project via SFOS and in accordance with chapter 12 of the Regulation. The IA will check all Norway / EEA irregularity reports in SFOS and will accept the correct reports only. IA will upload all irregularities reports entered by the PO-s from SFOS to DORIS and will send the reports to the NMFA/FMC. CA ensures that amounts recovered and amounts withdrawn following the cancellation of all or part of the financial contribution for a programme or project are reimbursed to the FMO prior to the closure of the programme.

The AA is of the opinion that the responsibilities related to the reporting and monitoring procedures for the irregularities and for the recovery of amounts unduly paid are appropriately described in the DMCS and are in compliance with the criteria for management and control activities.

4 Final opinion

As a result of the Compliance Assessment the AA is in the opinion that the MCS of the NFP, the CA, and the IA for the implementation of the financial mechanisms in Estonia covers all required functions and are in all material aspects proportional, effective and in compliance with generally accepted accounting principles in relation with achieving the objectives of the programs.

(Signed electronically)

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