

Compliance audit
of the description of the management and
control systems for the implementation of
the European Economic Area Financial
Mechanisms 2014-2021
Programme “Climate Change Mitigation and
Adaptation”

Programme Operator: Ministry of Environment
of the Republic of Estonia

Delegated Body: Foundation Environmental
Investments Centre

Audit report No JKS-38/2020

13 July 2020



RAHANDUSMINISTEERIUM

Iceland 
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Norway grants 

1 Objective and scope of the compliance audit

Objective of the compliance audit was to assess whether the set-up of the implementation system of the programme “Climate Change Mitigation and Adaptation”, financed from the European Economic Area Financial Mechanisms for 2014-2021, complies with the requirements set up in the Regulations of European Economic Area Financial Mechanisms¹ for the period of 2014-2021 (EEA Regulations). In accordance with the criteria set out in the Regulations Article 5.7 (2) the Programme Operator (PO) shall, within six months from the approval of the programme by the EEA Financial Mechanism Committee (FMC) submit to the National Focal Point (NFP) for approval a detailed description of the management and control systems (DMCS) covering in particular:

- (a) the system for verification, audit and monitoring;
- (b) the system for preventing, mitigating, detecting, reporting and remedying irregularities; and
- (c) the system established to maintain an audit trail of all supported activities.

According to the EEA Regulations 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 PO complies with this Regulations 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 programme.

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 FMC/FMO along with the AA opinion and report.

The scope of the compliance audit included the description of the management and control systems for managing the programme compiled by the Ministry of Environment of the Republic of Estonia (hereinafter MoE) in co-operation with the Foundation Environmental Investments Centre (hereinafter EIC) dated 12th of April 2020 and updated 07th of July 2020 and 10th of July 2020.

The audit was based on the DMCS and additional information asked from the PO and delegated body where needed.

2 General information

The MoE was assigned to the position of the PO with the Memorandum of Understanding on the implementation of the EEA Financial Mechanism 2014-2021 from 9th of May 2017² (EEA MoU).

The tasks of the PO were stipulated with the decree of the Government of the Republic of the Estonia No 55 from 5th of July 2018³.

The roles and responsibilities of the Programme Operator are stipulated in the EEA Regulations, in particular Article 5.6 thereof.

¹ Regulation in the implementation of the European Economic Area Financial Mechanism for 2014-2021 is adopted by the EEA Financial Mechanism Committee pursuant to Article 10.5 of Protocol 38c to EEA Agreement on 8 September 2016 and confirmed by the Standing Committee of the EFTA States on 23 September 2016.

² In force as of 10th of May 2017; amended on 5th of November 2018 and on 21th of June 2019.

³ The rules and procedures for application for and implementation of the grants from the EEA and Norwegian Financial Mechanisms 2014-2021.

The MoE as Programme Operator is responsible for preparing and implementing the programme in cooperation with the donor programme partners and the EIC as delegated body. MoE and EIC have signed a management contract where the rights and responsibilities of parties are described.

According to the Article 5.1 (2) of the EEA Regulations 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.

The main objective of the Programme is to mitigate climate changes as well as reduce the vulnerability to climate changes.

The programme contributes to three outcomes:

1. Ecosystem resilience increased (invasive alien species impact and pathways analysed, measures to reduce invasive species implemented, mitigation measures in marine ecosystems piloted)
2. Increased ability at local level to reduce emissions and adapt to a changing climate (local level climate change mitigation and adaptation plans developed; Mitigation and adaptation measures implemented; Increased public awareness on climate change).
3. Framework for Circular Economy strengthened (Enhanced capacity on Circular Economy, Measures for Circular Economy implemented)

The Programme shall also contribute to strengthening bilateral relations between Estonia and the Donor States.

3 Audit composed by

The audit was conducted and the audit report as well as the opinion composed by the Financial Control Department (FCD) of the Ministry of Finance of Estonia, the AA. The compliance audit was carried out from 20th of April 2019 to 10th of July 2020. The audit was performed by Liina Võrklaev, lead auditor of the II audit unit of the FCD, and supervised by Kadi Peets, head of the II audit unit of the FCD.

In accordance with Article 1.6 (a) of the EEA Regulations, the AA is a national public entity, functionally independent of the NFP, the Certifying Authority (CA) and the PO, designated by the Beneficiary State and responsible for verifying the effective functioning of the MCS. The FCD (AA) follows the International Professional Practices Framework of the Institute of Internal Auditors, including the Code of Ethics assuring that the principle of objectivity is followed.

4 Methodology of the audit

The assessment was done based on the EEA Regulations, taking into account the scope of the compliance audit. To achieve the objective of the compliance audit, the AA created and filled in detailed checklist and carried out the following activities:

- 1) assessment of the description of the management and the control system (in order to ascertain that activities of the Programme Operator and the Implementing Agency's meet the requirements of the Regulations);
- 2) verifying that the responsibility for carrying out the tasks has been clearly stipulated and the delegated tasks have been clearly described (the administrative agreement between the MoE and EIC has been signed);
- 3) assessment of the draft procedures and additional documentation applicable to the implementation of the EEA Financial Mechanisms;
- 4) interviews with involved persons within the MoE and EIC to obtain additional information in order to supplement, clarify or confirm the information described in the DMCS.

5 Limitations

The audit procedures were carried out in compliance with internationally accepted auditing standards⁴ and the audit report was prepared using the principles of independence and objectivity.

The programme agreement for the programme "Climate Change Mitigation and Adaptation" was signed by the Financial Mechanism Committee and State Shared Service Centre (National Focal Point) on 18 November 2019. Since then the programme has been amended, but by the time of the compliance audit report the amendments have not been approved yet. However, the auditors have taken into account the draft amendments and based their procedures and conclusions on the signed programme agreement and on the draft version of the amended agreement.

Where possible, the more detailed work procedures and control check-lists were evaluated. Still, most of the work procedures were still in planning or development phase, including the project agreement template. In those cases, the auditors evaluated whether the principles pertaining to those documents were clearly present in the DMCS.

Auditors conclude that all data presented during the audit and other oral and written information made available during the audit presents a true and fair view and are sufficient to provide an opinion about the DMCS. The AA's opinion is based on the provided information described in the DMCS and draft version of the amended programme agreement. In case of additional information that was not provided or was not known to auditors, the conclusions reached by auditors might have been different.

⁴ The International Professional Practices Framework (IPPF) of the Institute of Internal Auditors.

6 Results of the compliance audit

6.1 Compliance with the requirements of the Article 5.1 (2) of the EEA and Norwegian Regulations

6.1.1 Clear definition of the functions of the entities

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

6.1.2 Separation of functions between and within entities

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

6.1.3 Procedures for ensuring the correctness and regularity of expenditure

The AA is in the opinion that procedures for ensuring the correctness and regularity of expenditure are in all material aspects present and in compliance with the criteria for management and control activities.

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

The AA is in the opinion that accounting, monitoring and financial reporting systems in computerized form is present and in compliance with the criteria for management and control activities.

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

The AA is in the opinion that a system of reporting and monitoring, where the responsible entity entrusts the execution of tasks to EIC is in compliance with the criteria for management and control activities.

6.1.6 Arrangements for auditing the functioning of the systems

Arrangements for auditing the functioning of the systems is the responsibility of the AA based on the provisions of the Article 5.5 of the Regulation.

6.1.7 The system and procedures to ensure an adequate audit trail

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

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

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

7 Final opinion

As a result of the compliance audit the AA is in the opinion that the description of management and control system of the Programme Operator (MoE) and delegated body (EIC) for the implementation of the European Economic Area Financial Mechanisms 2014-2021 “Climate Change Mitigation and Adaptation” programme in Estonia covers all required functions and is in all material aspects proportional, effective and in compliance with generally accepted accounting principles in relation with achieving the objectives of the programme.

The real functioning of the systems will be tested during the MCS audits, which will be planned in the AA work plan.

(Signed electronically)

Liina Võrklaev

Audit Manager

13th of July 2019, Tallinn

(Signed electronically)

Kadi Peets

Audit Supervisor