

Compliance audit of the description of the management and control systems for the implementation of the European Economic Area Mechanism 2014-2021 Baltic Research Programme

Audit report No JKS-20/2018

29 January 2019



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1 Objective and scope of the compliance audit

Objective of the compliance audit was to assess whether the implementation system of the Baltic research programme complies with the requirements set up in the Regulation of the European Economic Area Financial Mechanism¹ for the period of 2014-2021 (Regulation). In accordance with the criteria set out in the Regulation Article 5.7 (2) the Programme Operator (PO) shall, within six months from the approval of the programme by the 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 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 systems of the PO 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 programs.

Based on the results of the compliance audit, the AA issues an opinion on whether the management and control systems (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.

The scope of the compliance audit included the description of the management and control systems of the Estonian Ministry of Education and Research (hereinafter MoER), the Estonian Research Council and the Archimedes Foundation for the implementation of the European Economic Area (EEA) Financial Mechanism 2014-2021 Baltic Research Programme in Estonia, dated 24th of August 2018, updated 18th of November 2018 and 4th of January 2019.

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

2 General information

The Ministry of Education and Research of Estonia was assigned to the position of the PO with the Memorandum of Understanding on the implementation of the EEA Financial Mechanism 2014-2021 (MoU) from 9th of May 2017, with the Programme Agreement between the Financial Mechanism Committee and The Ministry of Finance of Estonia signed on 18th of June 2018 and according to the decree of the Government of the Republic of the Estonia No 55 from 5th of July 2018².

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

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

¹ Adopted by the EEA Financial Mechanism Committee pursuant to Article 10.5 of Protocol 38c to the EEA Agreement on 8 September 2016 and confirmed by the Standing Committee of the EFTA States on 23 September 2016.

² The rules and procedures for application for and implementation of the grants from the EEA and Norwegian Financial Mechanisms 2014-2021.

- (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 Baltic Research Programme will contribute to the reduction of economic and social disparities in the European Economic Area and to the strengthening of bilateral relations between the Donor States and Estonia, Latvia and Lithuania through financial contributions in the field of research and higher education.

The Ministry of Education and Research of Estonia as Programme Operator is responsible for preparing and implementing the programme in close cooperation with the donor programme partners and the Estonian Research Council as the implementing agency for research activities and Archimedes Foundation for scholarship activities. The delegation of tasks is stipulated in the decree of the Government of the Republic of Estonia No 55 from 5th of July 2018³ and confirmed by FMO during the compliance audit on 6th of December 2018. The FMO emphasized that the delegation of any task to another entity shall not in any way reduce or restrict the responsibilities of the PO, and the PO must ensure that it is able to exercise control and monitoring of the relevant entity. The tasks will be delegated to Estonian Research Council and Archimedes Foundation via Programme Implementation Agreements and signed after approval of the description of the management and control systems of the PO.

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. Compliance audit was carried out from 29nd of August 2018 to 29th of January 2019. The audit was performed by Veronika Soom, lead auditor of II audit unit of the FCD, supervisor of the compliance audit was Kadi Peets, head of II audit unit of the FCD.

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, 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. The FCD follows these Standards and the Code of Ethics in conducting its audit activities (also assuring that the principle of objectivity is followed).

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

4 Methodology of the audit

The assessment was done based on the Regulation, taking into account the scope of the compliance audit and 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 systems (in order to ascertain that activities of the Programme Operator and the Implementing Agency's meet the requirements of the Regulation);
- 2) assessment of the procedures and additional documentation applicable to the implementation of the EEA Financial Mechanism;
- 3) involved persons within the MoER, NFP, Estonian Research Council and Archimedes Foundation were asked additional information in order to supplement, clarify or confirm the information described in the description of the management and the control systems.

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.

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. In case of additional information that was not provided or was not known to auditors, the conclusions reached by auditors might have been different.

6 Results of the compliance audit

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

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 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. However, the auditors have noted some risks in regard carrying out management verifications. These risks will be tested during the following management and control system audits.

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

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 Estonian Research Council and Archimedes Foundation is in compliance with the criteria for management and control activities. While carrying out the audit procedures, the auditors pointed out some risks in regard to the monitoring process of the PO, which will be evaluated during the following management and control system audits.

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 on 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 on 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 systems of the Programme Operator (MoER) and Implementing Agency's (Estonian Research Council and Archimedes Foundation) for the implementation of the EEA Financial Mechanism 2014-2021 Baltic research programme 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 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)

Kadi Peets
Audit Supervisor

29th of January 2019, Tallinn

(Signed electronically)

Veronika Soom
Audit Manager