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**ANNUAL AUDIT REPORT**

**ESTONIA-RUSSIA CROSS-BORDER COOPERATION (CBC)  
PROGRAMME**

**(No C(2015)9193)**

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**PROGRAMMING PERIOD 2014-2020**  
**(Art 28(6)(b) of (EU) No 897/2014 of the Commission)**

**AUDIT AUTHORITY of ESTONIA**



REPUBLIC OF ESTONIA  
MINISTRY OF FINANCE

**13.02.2018**  
**Tallinn, Estonia**

# 1. Introduction

## 1.1 Identification of the responsible Audit Authority and other bodies that have been involved in preparing the report

According to the programme document<sup>1</sup> of the Estonia-Russia Cross-Border Cooperation programme (hereinafter 'the Programme'), the participating countries have decided to appoint the Financial Control Department of the Ministry of Finance of the Republic of Estonia to act as the Programme's Audit Authority that is completely independent of the Cross Border Programmes' Implementation Unit fulfilling the planned functions of the Managing Authority and Regional Development Department, European Territorial Cooperation Unit fulfilling the functions of the National Authority of Estonia.

The Financial Control Department of the Ministry of Finance is also responsible for auditing the general structural funds and Estonia-Latvia European Territorial Cooperation programme.

The Audit Authority shall perform the functions of an Audit Authority set with the article 28 of the Commission Implementing Regulation (EU) No 897/2014 of 18<sup>th</sup> of August 2014 and the legislation issued on the basis thereof.

By carrying out the audits the Audit Authority will be assisted by the Group of Auditors. However the Financial Control Department of the Ministry of Finance is ultimately responsible for drawing up, monitoring and updating the annual audit report.

## 1.2 Reference period (i.e. the accounting year).

The annual audit report is compiled for the reference period from 1<sup>st</sup> of July 2016 until 30<sup>th</sup> of June 2017.

## 1.3 Audit period (during which the audit work took place).

The annual audit report takes into account the audit work carried out during 2017.

## 1.4 Identification of the cooperation programme covered by the report and of its/their Managing Authority.

The annual audit report covers the Estonia-Russia Programme (No C(2015)9193) financed from the general budget of the European Union, Republic of Estonia and the Russian Federation. The programme will be implemented according to the principles of European Neighborhood Instrument<sup>2</sup>.

As described in the Programme document, Estonia and Russia have set up a joint implementation structure for the Programme in Estonia.

The compliance assessment was finalized by the Audit Authority with its positive opinion on the management and control systems set up by the Managing Authority on 13<sup>th</sup> of October 2017, which marks also the date of the designation of the Managing Authority. National Authority of the Estonia – Russia Cross-Border Cooperation programme 2014–2020 (decision No C(2015)9193) informed the European Commission on 22 October 2017 that the designation of the Managing Authority, set out in Article 25 of the Regulation (EU) No 897/2014 of the European Parliament and the Council establishing a European Neighborhood Instrument, has been carried out.

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<sup>1</sup> Chapter 3.6 of the Programme.

<sup>2</sup> Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014.

## 1.5 Description of the steps taken to prepare the report and to draw the audit opinion

The annual audit report has been compiled on the basis of the audit work done by the Audit Authority in 2017 Authority and other relevant information available to the Audit Authority.

To prepare the Annual Audit Report, the Audit Authority has taken the following steps:

- The Audit Authority has finalized the compliance audit of the management and control system;
- The Audit Authority has examined the Description of Management and Control Systems of the Programme as composed by the Managing Authority to review the changes made to the system;
- The Audit Authority has reviewed the annual summary compiled by the Managing Authority and verified the conclusions made by the Managing Authority and Audit Authority, taking into account that the opinion of the former on the functioning of the system coincides with the opinion of the Audit Authority.

As there have not been any projects approved yet, there has not been any expenditure declared to the Commission also in regard to the reference period, the Audit Authority issues a disclaimer of opinion on the legality and regularity of expenditure.

## 2. Significant changes in management and control systems

The management and control systems of the programme have been set up and the Audit Authority has finalized the compliance audit procedures in October 2017. The audit was carried out in accordance with the designation criteria set with the Annex of the Commission Implementing Regulation (EU) No 897/2014 of 18<sup>th</sup> August 2014 and with the "Guidance for Compliance Assessment in ENI CBC Programmes" (including the checklist) issued by TESIM.

There have not been any major changes to the management and control systems since then.

However, after the finalization of the compliance audit procedures by the Audit Authority, an additional compliance audit was carried out by the auditors of the Ernst & Young on behalf of the European Commission to give an independent opinion on the readiness of the management and control system to implement the programme. As the result of the audit, two major findings were compiled to the Managing Authority in regard to the check-lists that were not yet prepared for carrying out the administrative and on-the-spot checks of financial control.

As there are no projects approved yet by the Joint Monitoring Committee (the first grant contracts are planned to be signed in the second half of 2018), the Audit Authority is of the opinion that the missing control check-lists do not have a major impact on the programme's implementation and do not affect the overall assurance of the management and control system at the moment.

The audit of Ernst and Young is currently being finalized and no final audit report has been issued yet.

Also, the Audit Authority has monitored the implementation of the programme and the programme's bodies' activities by attending the meetings of the Monitoring Committee, where all changes or planned changes of the management and control system have been discussed.

## 3. Changes to the audit strategy

The audit strategy has been compiled and the principles of planning, implementing and reporting of the audit activities set; it was sent to the EC for approval in October 2017.

The audit strategy is based on the requirements set with the article 28 (5) of the Commission Implementing Regulation (EU) No 897/2014 of 18<sup>th</sup> August 2014. Also the Commission guidance on audit strategy was taken into account.

The audit strategy is updated annually. Since October 2017 there have not been any major changes to the strategy, except the audit work plan which has been updated in respect of the following years.

For 2018, the following tasks are planned to be carried out by the Audit Authority:

- Audit of management and control systems of appropriate selection of operations;
- Audit of management and control systems of the electronic monitoring system;
- Carrying out the public procurement to find the audit partner in Russia responsible for the audits of operations on the territory of the Russian Federation;
- Additionally, the set-up of the control check-lists for the administrative and on-the-spot checks for the financial control (the audit findings of the Ernst and Young auditors – see also chapter 2) will be followed and if needed, proportionate audit procedures will be carried out.

#### 4. Summary of audits carried out

The Audit Authority's overall opinion on the functioning of the management and control system is based on the following audit work:

Type of audit	Results of audits	Analysis of the nature and extent of errors and weaknesses identified	Corrective action taken or planned
System audits	No management and control system audits have been carried out  The compliance audit was finalised on 13 <sup>th</sup> of October 2017 with an <b>unqualified opinion</b>	Unqualified opinion	N/A
Audits of projects	No audits of project have been carried out yet as there have not been any projects approved yet and no expenditure declared to the EC	N/A	N/A
Audit of accounts	As there have not been any expenditure declared to the EC, no audit procedures	N/A	N/A

	on accounts have been carried out			
<b>Thematic objective / Priority</b>		Aggregated amount of suspected and/or established fraud	Aggregated amount of irregularities	Aggregated amount of potentially systemic irregularities
<b>TO / Priority</b>		N/A	N/A	N/A
<b>Technical assistance</b>		N/A	N/A	N/A
<b>TOTAL</b>		N/A	N/A	N/A
<b>Error Rate</b>		N/A	N/A	N/A

#### 4.1. System audits

All management and control systems of the Programme will be audited during the programming period. The management and control system audits will be planned and carried out annually on the basis of the risk assessment in cooperation with the Group of Auditors.

The detailed procedure of planning the management and control system audits will be described in the audit strategy.

No system audits have been carried out yet, although the Audit Authority has finalized the compliance assessment (see also chapter 2).

#### 4.2. Audits of operations

As there has not been any expenditure declared to the Commission in regard to the reference period, no audits of operations have been carried out yet.

#### 4.3. Audits of accounts

As there has not been any expenditure declared to the Commission in regard to the reference period, no audits of accounts have been carried out yet.

### 5. Coordination between audit bodies and supervisory work of the AA

#### 5.1 Description of the procedure for coordination between the Audit Authority and any audit body that carries out audits as foreseen in Article 28.2 of the Regulation (EU) No 897/2014, where appropriate

The co-ordination between the Audit Authority and national audit body in Russia will be taken place in the Group of Auditors, which assists the Audit Authority according to Article 28(2) of the Commission

Implementing Regulation (EU) No 897/2014 comprising representatives of each participating country in the Programme.

The functions and responsibilities as well as the organization of the work of the Group of Auditors is set with the rules of procedure of the Group of Auditors, which was approved by both parties on 28<sup>th</sup> of July 2017. With the document the basic principles of the work carried out by the Estonian and Russian members of the Group of Auditors were approved.

The annual meeting will take place at least once a year. In 2017, the Group of Auditors meeting was held on 24<sup>th</sup> of January in Tallinn. The next meeting will be held in the first half of the 2018 in Russia.

Also, there has been a close co-operation with TESIM.

## **7.2 Description of the procedure for supervision and quality review applied by the Audit Authority and Group of Auditors to such audit body(ies).**

The Audit Authority ensures the quality of the Group of Auditors work (including the work done by the national audit body in Russia) with the following activities:

- The auditors are required to follow internationally accepted auditing standards;
- The Audit Authority provides the auditors with relevant programme documents (audit strategy and audit manual) and know-how by carrying out the audit activities. Additional trainings will be carried out on the audit manual, if needed;
- There will be regular Group of Auditors meetings (at least once a year).

By carrying out the management and control systems audits and audits of operations in Russia, the Audit Authority plans to outsource the audit activity. To ensure the quality of the outsourced audit work the Audit Authority carries out the quality assessment of audit working papers and reviews the audit report before the final version of it is being sent to the auditee.

The ultimate responsibility of the audit work carried out remains by the national audit bodies according to the Member State audit regulations. The errors found or the disputes arising from the findings of the Member State auditors are their ultimate responsibility. The Audit Authority's competence does not extend to the evaluation of the violations of the Member State national legislation.

The detailed procedure of the quality assurance will be described in the audit strategy.

## **6. Other information**

There is no other information to be reported to the European Commission.

## **7. Overall level of assurance**

As there has not been any expenditure declared to the Commission in regard to the reference period or any audit work done, the Audit Authority issues a disclaimer of opinion on the legality and regularity of expenditure.