



ANNUAL CONTROL REPORT

EUROPEAN TERRITORIAL COOPERATION (ETC) PROGRAMME

INTERREG V-A – ESTONIA-LATVIA

(CCI No: 2014TC16RFCB050)

PROGRAMMING PERIOD 2014-2020
(Art 127(5) of (EC) No 1303/2013 of the Council)

AUDIT AUTHORITY of ESTONIA



REPUBLIC OF ESTONIA
MINISTRY OF FINANCE

14.02.2018
Tallinn, Estonia

1. Introduction

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

The tasks of the Audit Authority of the European Territorial Cooperation Funds (hereinafter as the ETC) are appointed to the Ministry of Finance of Estonia with the § 11 (1) of the 2014-2020 Structural Assistance Act from 4th of June 2014. With the decree of the Minister of Finance, the tasks of the Audit Authority are delegated to the Financial Control Department of the Ministry of Finance, which is also responsible for auditing the general structural funds.

According to the § 11 (2) of the 2014-2020 Structural Assistance Act the Audit Authority shall perform the functions of an Audit Authority provided for in Common Provisions Regulation (Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17th of December 2013 (hereinafter as the CPR), 2014-2020 Structural Assistance Act and the legislation issued on the basis thereof.

By carrying out the audit activities the Audit Authority is assisted by the Group of Auditors (hereinafter as the GoA). The Ministry of Environmental Protection and Regional Development of the Republic of Latvia accepted the offer of forming the GoA with the Ministry of Finance of Estonia in their letter No 8-11/2037 from the 11th of March, 2016.

However, the Financial Control Department of the Ministry of Finance is ultimately responsible for drawing up, monitoring and updating the Annual Control Report.

The Annual Control Report is compiled pursuant to the procedures and requirements of the European Commission, considering the model for Annual Control Report.

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

The Annual Control Report is compiled for the reference period from 1st of July 2016 until 30th of June 2017.

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

The Annual Control Report takes into account the audit work carried out during the year 2017.

1.4 Identification of the operational programme(s) covered by the report and of its/their Managing and Certifying Authorities.

The Annual Control Report covers the Estonia-Latvia programme financed from the ERF (CCI No 2014TC16RFCB050). The programme is implemented according to the principles of ETC programmes.

Estonia and Latvia have set up a joint implementation structure for the Estonia-Latvia programme in Estonia.

As stated in the letter No 9.2-13.5.11/12744 of the 18th of November 2016 of the Managing Authority to the European Commission, the Cross-Border Programmes Implementation Unit of the Ministry of Finance of Estonia is designated as the Managing Authority that also performs the functions of the Certifying Authority.

This designation was based on the 2014-2020 Structural Assistance Act § 53 and Statute of the Ministry of Finance of Estonia. It became effective as of the 14th of November 2016.

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

The Annual Control Report has been compiled on the basis of the audit work done by the Audit Authority and other relevant information available to the Audit Authority.

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

- The Audit Authority has carried out audits on the functioning of the management and control systems of the Estonia-Latvia programme in 3 parts: project evaluation and selection process; functioning of the electronic monitoring system eMS; and the procedures of the Certifying Authority (the last one not finalized at the time);
- The Audit Authority has audited the expenditure declared to the Commission as well as the respective accounts of the Estonia-Latvia Programme;
- 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 systems;
- The Audit Authority has reviewed the annual summary compiled by the Managing Authority and verified the conclusions made by them, taking into account that the opinion of the Managing Authority on the functioning of the system coincides with the opinion of the Audit Authority;
- If needed, additional information was asked from the Managing Authority.

2. Significant changes in management and control systems

The Audit Authority as the Independent Audit Body has carried out a number of systems audits that have affected the management and control systems of the programme. Please see "Section 4. Systems audits" for more information.

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 systems were discussed.

In the Audit Authority's opinion the most significant change so far has been the implementation of the sample based financial control procedures starting from 2018. The simplified procedure has also been discussed with the Audit Authority and the Audit Authority has had the possibility to point out any inherent risks where needed.

However, the Audit Authority has been involved to the process as an independent consultant and no audit procedures have been carried out. Therefore, the new procedure will also be audited during the next systems audit of the financial control which will be carried out in the first half of 2018 in co-operation with Latvian auditors (the GoA members from Latvia).

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.

The audit strategy is based on the requirements set with the article 7(1) and Annex VII of the Commission Implementing Regulation (EU) No 2015/207 and Commission guidance on audit strategy.

The audit strategy is coordinated with the GoA and updated annually or if necessary until 2024.

The audit strategy was reviewed in August 2017 for the annual co-ordination meeting with the EC, but no major changes were made. No other changes have been made since then, except the audit work plan which has been updated in respect of the following years.

4. Systems audits

All management and control systems of the Estonia-Latvia programme and all relevant bodies as well as functions will be audited during the programming period. The management and control systems' audits will be planned and carried out annually on the basis of the risk assessment in cooperation with the GoA.

The detailed procedure of planning the management and control systems' audits are described in the audit strategy.

During the audit period the Audit Authority carried out the following systems audits:

- *Audit of management and control systems of appropriate selection of operations;*

There were 11 significant findings made. By the general topic of the findings they could be divided in four groups:

- o *Recommendations to add or remove selection criteria;*

There were four findings that concentrated on either the necessary criteria that was missing, such as promotion of equality between men and women and the principles of sustainable development; or the criteria that was deemed discriminatory or non-transparent and should thus be changed or removed.

- o *Recommendations to match the selection criteria to the sections of application;*

There were two findings that assessed the difficulty of matching the criteria used for evaluating the applications with the specific information presented in the application form and recommended to clarify this.

- o *Recommendations to clarify the way the application information is assessed;*

There were four findings that pointed out the difficulty of gathering the information necessary for decision-making from the way the data is presented in the application forms in some cases. It was recommended to either change the way information is structured or to clarify the information that is being asked.

- o *Recommendation to state that the decision of the MC does not depend on the previous processes.*

In the auditors' opinion, it was important to state in no uncertain terms, that regardless of the processes, the Monitoring Committee is free to select operations in accordance with their own assessment.

As of the time the Annual Control Report was being compiled, all of those findings had been accepted by the auditee, the recommendations resolved in practice and reviewed by the auditors.

- *Audit of management and control systems of the electronic monitoring system;*

There were two significant findings made.

One of them dealt with the risk that the manager of the electronic monitoring system of the Programme had no equivalent replacement for possible emergencies. The other one pointed out that the current working process in the electronic monitoring system does not allow the users to easily view comments to deductions made by the Programme bodies, which may contribute to mistakes in cases where those deductions affect future payment claims.

As of the time of the Annual Control Report was being compiled, all of those had been accepted by the auditee, but not yet resolved in practice and reviewed by the auditors.

- *Audit of management and control systems of the Managing Authority fulfilling the functions of the Certifying Authority.*

As of the time of the Annual Control Report, this audit had not yet been finalized. However, it had already become clear that no significant findings were made in this audit.

In general, the management and control systems of the Estonia-Latvia programme work well, only minor changes are needed. The Programme bodies have responded to the recommendations of audit findings in a prompt manner and the changes made to the systems are quickly taken into practice.

For more detailed information, please see Annex 2.

5. Audits of operations

In 2017, the Managing Authority declared costs in total of €25 000 to the Commission. As this was composed entirely of lump-sum payments to five operations for the preparatory costs, no audits of operations were carried out. However, the entirety of this amount was reviewed during the audit of accounts using the same principles as would be during the audits of operations as follows:

- Use of funding as intended;
- Accuracy of bookkeeping records;
- Amount and timing of funding;
- Granting of state aid;
- Communication and publicity.

Carrying out of public procurements was also reviewed, but it was found that it was not applicable to those sums declared.

No ineligible amounts were discovered.

For more detailed information, please see Annex 3.

6. Audits of accounts

The Audit Authority has reviewed the Accounts for the reference year (accounting period 01/07/2016-30/06/2017) compiled by the Certifying Authority based on the following criteria:

- The total amount of eligible expenditure declared in accordance with Article 137(1)(a) of the CPR reconciles with the expenditure (and the corresponding public contribution) included in the final payment application submitted to the Commission for the relevant accounting year. If there are differences, the Audit Authority shall assess the adequacy of the explanations provided in the accounts (see Appendix 8 of Annex VII to CIR on reconciliation of expenditure).

It was found that the amount of expenditure declared reconciles to the final interim payment application, which also reconciles to expenditure declared in the interim payment applications for that year, of which there was only one with any expenditure. It was also found, by testing the entirety of this expenditure that those sums correspond to expenditure incurred by beneficiaries and paid in implementing operations. The audit trail for the entirety of this expenditure was also verified. No differences were found and no explanations were needed.

- The amounts withdrawn and recovered during the accounting year, the amounts to be recovered as at the end of the accounting year, the recoveries effected pursuant to Article 71 of the CPR, and the irrecoverable amounts presented in the accounts, all correspond to the amounts entered in the Certifying Authority's accounting systems and are based on reasoned decisions taken by the responsible Managing Authority or Certifying Authority.

This was found to be not applicable to the sums declared, as no amounts were withdrawn or recovered, neither irrecoverable amounts presented.

- Expenditure has been excluded from the accounts in accordance with Article 137(2) of the CPR, where applicable, due to an ongoing assessment of its legality and regularity. The Audit Authority also verifies, possibly on the basis of a sample, that all other required corrections as a result of management verifications or audits were correctly reflected in the accounts for the accounting year concerned.

This was found to be not applicable to the sums declared, as no expenditure has been excluded from the accounts due to the ongoing assessment of its legality and regularity. No corrections were either made as a result of management verifications or audits.

- The amounts of programme contributions paid to financial instruments and advances of State Aid paid to beneficiaries are supported by the information available, in particular from the Managing Authority.

This was found to be not applicable to the sums declared, as they contained no payments to financial instruments or advances of State Aid.

As a result of the audit, the Audit Authority issued an **unqualified opinion** on the Accounts for the reference year (accounting period 01/07/2016-30/06/2017) compiled by the Managing Authority fulfilling the function of the Certifying Authority.

7. Coordination between audit bodies and supervisory work of the Audit Authority

7.1 Description of the procedure for coordination between the Audit Authority and any audit body that carries out audits as foreseen in Article 127(2) of the Regulation (EU) No 1303/2013, where appropriate

The coordination between the Audit Authority and national audit body in Latvia has been taken place in the GoA. The Audit Authority is assisted by the GoA according to Article 25 of the Commission Regulation (EU) No 1299/2013 composed of representatives from each Member State.

The functions and responsibilities as well as the organization of the work of the GoA is set with the rules of procedure of the GoA. The annual meeting takes place at least once a year.

The co-operation within the GoA has been very good and successful in general.

In 2017, the main task of the GoA was to carry on with the preparations for the actual audit activity – to prepare the audit methodology for carrying out the audits of operations. For that purpose, the Audit Authority compiled the audit manual and discussed it with the Latvian National Auditors. Special attention was paid on the audit check-lists and documenting the audit procedures, so that the approach and scope of the audit procedures in auditing the Estonian and Latvian project partners would be the same and the partners equally treated. The manual was discussed and approved by the GoA on the last GoA meeting held in November 2017 in Riga.

Additionally to the approval of the audit methodology for the audits of operations, the following topics were discussed during the last GoA meeting:

- Overview of the closure procedures of the programming period 2007-2013;
- Summary and discussion of the audit findings from the systems audits carried out in 2017;
- Plans for compiling the Annual Control Report;
- Planning of the joint systems audit on the functioning of the financial control in Estonia and Latvia.

The next GoA meeting will be held in Tallinn during the year 2018.

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

The Audit Authority ensures the compliance of the audit work of the Member State auditors with the internationally accepted auditing standards and by providing the auditors with the relevant programme documents (audit strategy and audit manual). However, the Member State auditors remain ultimately responsible for work carried out 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.

Nevertheless, the quality assurance of audit reports and control check-lists composed by the Member State auditors will be provided through review of the documents by the Audit Authority. If needed, detailed explanations will be asked from the Member State auditors.

The detailed procedure of the quality assurance is described in the Audit Strategy.

8. Other information

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

9. Overall level of assurance

The Audit Authority issues an opinion on the assurance to the management and control systems as a whole, taking into account the results of both the systems audits and the audits of operations.

The assessment of the three systems audits is either **category I or II**.

By summarizing the results of the systems audits, the Audit Authority considered the following aspects:

- The number and nature of significant findings and recommendations made as the result of the audit procedures;
- The follow-up activities of the audit findings and recommendations and Managing Authorities response to the auditors' recommendations. Currently there are no open, unresolved audit findings;
- The impact of the audit findings and results to the overall functioning of the management and control systems.

As a result, the Audit Authority decided that the management and control systems warrants an overall assessment of **category I** as a whole, as two of the audits were categorized as category I and the third one, categorized as category II had all its findings accepted and recommendations put into practice during the audit period.

While no audits of operations were carried out, the additional work done on the entirety of amounts declared to the Commission led to **no ineligible amounts discovered and no findings**.

The overall level of assurance is thus declared by the Audit Authority as **category I**.

So, based on the previously declared information, the Audit Authority issues an **unqualified opinion** for the year 2017.

ANNEX 1 – Results of Systems Audits

Audited Entity	Fund	Title of the audit	Date of the final audit report	Operational Programme: INTERREG V-A – ESTONIA-LATVIA (CCI No: 2014TC16RFCB050)													Overall assessment (category 1, 2, 3, 4)	Comments
				Key requirements:														
				KR1	KR2	KR3	KR4	KR5	KR6	KR7	KR8	KR9	KR10	KR11	KR12	KR13		
MA	ERDF	Audit of appropriate selection of operations	31/03/2017		II												II	Audit Report No JKS-6/2016
MA	ERDF	Audit of the electronic monitoring system	14/02/2018						I								I	Audit Report No JKS-11/2016
MA	ERDF	Audit of the Managing Authority fulfilling the functions of the Certifying Authority	Is still being finalized									I	I	I	I	I	I	Preliminary Audit Report No JKS-12/2016

ANNEX 2 – Significant findings of Systems Audits

Finding	Finding accepted by the auditee	Recommendation carried out by the auditee	Result accepted by the auditors
Audit of appropriate selection of operations			
Finding 2.1.1. Currently, there is a criteria used that is not in accordance with the principle of non-discrimination. That criteria should be removed	Yes	Yes	Yes
Finding 2.1.2. Currently, there is no criteria used to assess the principles of the promotion of equality between men and women and the principles of sustainable development. That criteria should be added	Yes	Yes	Yes
Finding 2.1.5. Currently, there are criteria used that are not in accordance with the principle of non-discrimination. Those criteria should be removed	Yes	Yes	Yes
Finding 2.1.6. Currently, there are criteria used that are not in accordance with the principle of transparency. Those criteria should be removed	Yes	Yes	Yes
Finding 2.4.1. Any criteria used for assessment should be matched to specific sections of the application form	Yes	Yes	Yes
Finding 2.4.2. The guidance to applicants should include the information stating which section is evaluated according to which criteria	Yes	Yes	Yes
Finding 2.4.3. There should be clear information communicating to the applicants that regardless of the assessment scores, the application can be not accepted if the Monitoring Committee decides so	Yes	Yes	Yes
Finding 2.4.4. The activities and budget should be easily understandable as divided between different partners of the project	Yes	Yes	Yes
Finding 2.4.5. Assessment of coordination and cooperation activities in the project is difficult based on the information asked currently	Yes	Yes	Yes
Finding 2.4.6. Assessment of activities as compared to reporting periods in the project is difficult based on the information asked currently	Yes	Yes	Yes
Finding 2.4.7. Assessment of publicity measures during and after the project is difficult based on the information asked currently	Yes	Yes	Yes
Audit of management and control systems of the electronic monitoring system			

Finding 6.2.1. The deductions and comments made by the Programme authorities during the processing of project reports should be viewable more easily	Yes	Ongoing	Ongoing
Finding 6.3.1. The replacement arrangement for the eMS Manager does not have similar rights in the eMS system	Yes	Ongoing	Ongoing
Audit of management and control systems of the Managing Authority fulfilling the functions of the Certifying Authority			
No significant findings	N/A	N/A	N/A

ANNEX 3 – Results of Audits of Operations

No audits of operations were carried out – only the lump-sum payments for project preparation costs for 5 projects were declared to the EC. However, the entirety of this amount was reviewed during the audit of accounts using the same principles as would be during the audits of operations.

Project	Use of funding as intended	Accuracy of bookkeeping records	Amount and timing of funding	Carrying out public procurements	Granting of state aid	Communication and publicity
Project Name and No	The funding has been used in material aspects in the intended manner, in a reasonable and efficient way and in accordance with the objectives and requirements laid down in the subsidy contract and the programme manual.	The book-keeping records for the project are in all material aspects in compliance with the current legislation.	The granting of funding has in all material aspects been made available in the amount foreseen and on time, and the co-financing has been guaranteed.	The beneficiary has in all material aspects carried out public procurements in compliance with the current legislation.	When using the funding, the beneficiary has in all material aspects followed the state aid rules.	When informing and disclosing the use of funding, the beneficiary has in all material aspects followed the current legislation.
Coop Local (Est-Lat 14)	Yes	Yes	Yes	N/A	N/A	Yes
Wood and Furniture (Est-Lat 35)	Yes	Yes	Yes	N/A	N/A	Yes
Waldur.eu (Est-Lat 34)	Yes	Yes	Yes	N/A	N/A	Yes
PET-Diagnostics (Est-Lat 31)	Yes	Yes	Yes	N/A	N/A	Yes
Whey valorization (Est-Lat 44)	Yes	Yes	Yes	N/A	N/A	Yes