

Compliance audit
of the description of the management and
control systems for the implementation of
the Norwegian Financial Mechanism
2014-2021
Programme “EE-Innovation (Green ICT)”

Programme Operator: Ministry of the Economic
Affairs and Communications
Delegated Body: Enterprise Estonia

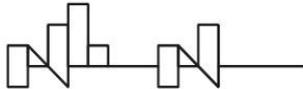
Audit report No JKS-19/2018

13 May 2019



RAHANDUSMINISTEERIUM

Iceland
Liechtenstein
Norway grants



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 “Green ICT”, financed from the Norwegian Financial Mechanism for 2014-2021, complies with the requirements set up in the Regulation of Norwegian 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 Norwegian Ministry of Foreign Affairs (NMFA), 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.

The programme agreement for the programme “Green ICT” was initially signed between the The Norwegian Ministry of Foreign Affairs and The Ministry of Finance of the Republic of Estonia on 26th of April 2018. The programme agreement was amended with an addendum from 15th of March 2019 signed by the director of Financial Mechanism Office (FMO) and the deputy director of the State Shared Service Centre (sub-ordinated to the Ministry of Finance of Estonia).

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 programme.

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/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 Estonian Ministry of Economic Affairs and Communications (hereinafter MoEAC) in co-operation with the Enterprise Estonia, dated 17th of August 2018, updated 16th of April 2019 and 10th of May.

The audit was based on the DMCS, final version of the “Procedures and conditions for the Small Grant Scheme”, draft version of the “Procedures and conditions for the Open Call”, rules of procedures of the Enterprise Estonia and additional information asked from the PO and delegated body where needed.

2 General information

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

¹ Adopted by the Norwegian Ministry of Foreign Affairs pursuant to Article 10.5 of the Agreement between the Kingdom of Norway and the European Union on a Norwegian Financial Mechanism for the period 2014-2021 on 23 September 2016.

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

tasks of the PO were detailed with the Programme Agreement and 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 Regulation, in particular Article 5.6 thereof.

According to the Article 5.1 (2) of the 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.

The “Green ICT” programme will contribute to growth by supporting the development of the knowledge economy in the European Economic Area and to the strengthening of bilateral relations between Norway and Estonia. The added value of the funding under this priority sector lies in the opportunities it offers for strategic piloting and testing of innovative approaches and for international cooperation and the exchange of knowledge and experiences.

The MoEAC as Programme Operator is responsible for preparing and implementing the programme in close cooperation with the donor programme partners and the Enterprise Estonia as delegated body. The delegation of tasks between PO and Enterprise Estonia has been specified with the addendum to the Annex II of the programme agreement, signed on 13th of March 2019, detailing the operational rules for implementing the programme; and stipulated with the decree of the Government of the Republic of Estonia No 55 from 5th of July 2018⁴. The tasks have been delegated with the Programme Implementation Agreement, signed by the Minister of Enterprise and Information Technology and chairman of the board of Enterprise Estonia on 16th of October 2018. The programme agreement emphasizes 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.

Enterprise Estonia has been implementing the Norwegian Financial Mechanism during the previous implementation period 2009-2014 implementing the programme EE07 “Green Industry Innovation” and is a 2nd level implementing body for Cohesion Policy Funds. The implementation of the Norwegian Financial Mechanism and Cohesion Policy Funds is administered in the same information systems (Navision, SFOS) and follows the same rules of procedures. During the previous years, the AA has audited the management and control systems of the Enterprise Estonia for managing the Cohesion

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

⁴ The rules and procedures for application for and implementation of the grants from the EEA and Norwegian Financial Mechanisms 2014-2021.

Policy Funds within several areas and has evaluated the systems with the category II (works, but some improvements are needed).

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 17th of August 2018 to 10th of May 2019. The audit was performed by Kadi Peets, head of the II audit unit of the FCD, supervisor of the compliance audit was Liina Võrklaev, lead auditor of the 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).

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 Norwegian Financial Mechanism;
- 3) interviews with involved persons within the MoEAC, Enterprise Estonia and NFP to obtain 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 standards⁵ 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.

⁵ 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 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 in essence ensured and in compliance with the criteria for management and control activities.

However, we would like to draw the PO's attention that as the management costs for implementing the programme in Enterprise Estonia are made and verified in the same unit, by different teams, there is higher risk of errors and ineligible expenditure. During the compliance audit procedures, the auditors got the assurance that the expenditure will be verified on sample basis also by the PO, as well as by CA, and therefore we do not evaluate the risk that high which would hinder issuing an positive opinion on the readiness of the management and control system for implementing the programme. To minimize the potential risks, we recommend the PO to verify the eligibility of the expenditure made by the Enterprise Estonia in full scope.

The actual functioning of the management and control system will be tested during the following management and control system audits.

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 Enterprise Estonia 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 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 (MoEAC) and delegated body (Enterprise Estonia) for the implementation of the Norwegian Financial Mechanism 2014-2021 “Green ICT” 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)

Liina Võrklaev

Audit Supervisor

13th of May 2019, Tallinn

(Signed electronically)

Kadi Peets

Audit Manager