

Compliance audit
of the description of the management and
control systems for the implementation of
the European Economic Area and
Norwegian Financial Mechanisms
2014-2021
Programme “Local Development and
Poverty Reduction”

Programme Operator: Ministry of Social Affairs
of Estonia

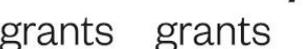
Delegated Body: State Shared Service Centre

Audit report No JKS-29/2019

5 July 2019



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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 “Local Development and Poverty Reduction”, financed from the European Economic Area and Norwegian Financial Mechanisms for 2014-2021, complies with the requirements set up in the Regulations of European Economic Area and Norwegian Financial Mechanisms¹ for the period of 2014-2021 (EEA and Norwegian 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) and 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.

According to the EEA and Norwegian 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 systems 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 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 Social Affairs (hereinafter MoSA) in co-operation with the State Shared Service Centre (hereinafter SSSC), dated 8th of April 2019, updated 16th of May 2019, 31th of May 2019 and 1st of July 2019.

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

2 General information

The MoSA was assigned to the position of the PO with the Memorandum of Understanding on the implementation of the Norwegian Financial Mechanism 2014-2021 (Norwegian MoU) from 9th of May 2017² and with the Memorandum of Understanding on the implementation of the EEA Financial Mechanism 2014-2021 from 9th of May 2017³ (EEA MoU).

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. Regulation in the implementation of the Norwegian Financial Mechanism is 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 and on 21th of June 2019.

³ In force as of 10th of May 2017; amended on 5th of November 2018 and on 21th of June 2019.

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 2018⁴.

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

According to the Article 5.1 (2) of the EEA and Norwegian 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 “Local Development and Poverty Reduction” programme focuses on an inclusive society and local development with equal treatment of men and women, healthy and educated residents (youth) and protected vulnerable groups. Social and economic cohesion in the European Economic Area can be achieved by preventing and reducing social inequality and exclusion, and by strengthening collaboration at community level as well as by focusing on regional development. In order to build a cohesive and sustainable society in Estonia, it is essential to address the challenges that put cohesion at risk – poor health, low level of education, poverty, social exclusion, stigmatisation, risks related to minority background as well as regional disparities. These challenges are cross-sectoral and can only be tackled when coordinated actions are taken in educational-, social-, health- and judicial policy fields. The programme combines and links actions in these fields while also focusing on the regional development aspect.

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 15th of April 2019 to 5th of July 2019. The audit was performed by Veronika Soom, lead auditor of the II audit unit of the FCD, supervisor was Kadi Peets, head of the II audit unit of the FCD.

In accordance with Article 1.6 (a) of the EEA and Norwegian 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. 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 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 EEA and Norwegian Regulations, 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 Regulations);
- 2) assessment of the draft procedures and additional documentation applicable to the implementation of the EEA and Norwegian Financial Mechanisms;
- 3) interviews with involved persons within the MoSA and SSSC 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.

The programme agreement for the programme "Local Development and Poverty Reduction" was not signed during the compliance audit, the auditors based in their work on the draft version of the agreement. The MoSA as Programme Operator is responsible for preparing and implementing the programme in cooperation with the donor programme partners and the SSSC as delegated body. MoSA and SSSC will sign a management contract where the rights and responsibilities of parties are described. The management contract draft was not submitted to auditors during the compliance audit. However, the auditors were provided with the amendment of the Regulation No 84 by the Minister of Public Administration "Statutes of the State Shared Services Centre"⁶, which reflects the changes of reorganizing of the CA as separate unit in the Grants Payments Department within the SSSC, acting as the CA and is subordinated to the Director General of SSSC ensuring functional separation from the Deputy Director of SSSC.

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 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.

⁵ The International Professional Practices Framework (IPPF) of the Institute of Internal Auditors.

⁶ In force as of 1st of January 2018; amended on 1st of September 2018, 1st of February 2019 and 17th of June 2019.

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 SSSC 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.

However, we would like to draw the PO's attention, as selection committee (conductors of 2nd level evaluation) has the right to modify the ranking list of the project applications (1st level evaluation carried out by impartial experts), this may cause the risk to transparency of selection process and equal treatment of applicants. As the modifications of the ranking list of the project applications may be done in justified cases based on transparent criteria and the modifications should be detailed in the minutes of the meeting of the selection committee and members of the selection committee must sign a declaration of no conflict of interest, therefore AA 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 and

Implementing Agency to follow every amendments made in the ranking list of project applications, the modifications must be justified and an adequate audit trail must be assured.

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

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 systems of the Programme Operator (MoSA) and delegated body (SSSC) for the implementation of the European Economic Area and Norwegian Financial Mechanisms 2014-2021 “Local Development and Poverty Reduction” 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)

Veronika Soom

Audit Manager

5th of July 2019, Tallinn

(Signed electronically)

Kadi Peets

Audit Supervisor