

The activity of the Ministry of Finance in accrediting the Intermediate Bodies and Final Beneficiaries

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Summary

After accession to the EU, Estonia started to receive a share of its regional policy financing through structural funds and the Cohesion Fund. In the period 2004-2006, Estonia has the opportunity to receive assistance from the EU in the total value of app. EEK 10.6bn: 5.8bn from the structural funds and 4.8bn from the Cohesion Fund.

In order to identify any potential weakness in the system for the implementation of structural funds prior to the actual processing of applications and payment of assistance, the Government of the Republic considered it necessary to audit the preparation of the system for the implementation of structural funds.

Therefore, the Government of the Republic 22.03.2004 Regulation No. 81 stipulated that the management and audit systems of the Intermediate Bodies and Final Beneficiaries should be audited. The Minister of Finance will decide the accreditation of the said agencies on the basis of the audit results, i.e., whether to declare the agencies fit for processing the applications and adopting funding decisions or not.

During the programme period 2004-2006, a Member State can decide whether to accredit the relevant agencies prior to the implementation of support funds, the evaluation of management and audit systems will be mandatory in the next programme period 2007-2013 according to the Council's draft of the general regulation on the structural assistance.

As the accreditation is an important preventive control measure, the SAO considered it necessary to audit the accreditation system to make proposals for its refinement if necessary. A good and efficient management and audit system enables to avoid a situation where the weaknesses of the system would necessitate repayment of incorrectly allocated assistance funds.

The goal of the audit of the SAO was to evaluate the three main components of the accreditation process: 1) are the basic criteria of accreditation audit sufficient for evaluating the preparation of the management and audit system; 2) are the audits of management and audit systems compliant with the international auditing standards and internal audit rules; 3) are the accreditation decisions justified and based on the audits of management and audit systems?

The SAO believes that the Ministry of Finance has created conditions for implementing accreditation as a control measure, but its design needs further refinement.

- In the opinion of the SAO, the criteria used as the basis of accreditation comply in principal aspects with the requirements for the management and audit system as specified in the legislation of the EU.
- In the opinion of the SAO, the quality of the audits conducted by the Financial Control Department of the Ministry of Finance has improved over time. While the documenting of the accreditation audits before the autumn 2004 did not comply with international audit standards, the audits conducted after autumn 2004, when the Financial Control Department had developed additional auditing methodology, were generally compliant with the requirements specified in international audit standards.
- The evaluation of the process of preparation of accreditation decisions indicated that the SAO is unable to verify the justification of the accreditation after the event, because the Foreign Financing Department of the Ministry of Finance has not documented the development of the decision. In addition to documenting, there were also problems with preservation of accreditation documents and the exchange of information between the parties involved in the accreditation.
- In the opinion of the SAO, the activity of the Ministry of Finance in ordering audits from an audit company was at variance with the regulation of the Government of the Republic, which was in force at the time and which stipulated that the audit of an audit system was to be organised by the Audit Authority, not an audit company. The current regulation permits contracting an external auditor only for special audits.

Main proposals to the Minister of Finance for improving the accreditation process in the next programme period

- If the main aspects of the system for processing the applications remain unchanged and it will be decided to subject to auditing for the next programme period the same agencies, all the results of the relevant audits conducted in the previous programme period should be taken into account to evaluate and test the actual functioning and implementation of the management and audit systems in addition to the compliance with requirements.
- Divide the observations made about the management and audit system during an accreditation audit into two categories instead of three, for example, observations that have an effect on the management and audit system and observation that have no such effect. This makes the evaluation process significantly simpler and enables to prevent different interpretations of the observations.
- When making an accreditation decision, take into account the important observations made during the audit of the management and audit system, or provide an explanation why they are not taken into account. Document the work accomplished for developing an accreditation decision, incl. evaluation of the observations presented in the accreditation audit report and the verification of the compliance with the proposals presented in the final report on the accreditation audit. This would enable the Ministry of Finance to justify the accreditation decision and provide the relevant documentary evidence if necessary.
- Prepare minutes of all accreditation meetings concerning the Intermediate Bodies and Final Beneficiaries of structural funds and the Cohesion Fund, and call a new meeting if any new facts are discovered that influence the accreditation.
- If the Ministry of Finance considers it necessary in the future (e.g., due to temporary heavy workloads) to contract external auditing services, the contracting should concern only individual audit procedures, not the complete audit. Evaluation of the management and audit system should be provided by the Financial Control Department, based on the work of external auditors. This enables to avoid variance with the regulation of the Government of the Republic, which permits contracting only special audits from an external audit company.
- Develop general principles for contracting special audits and individual audit procedures from an audit company to ensure the quality of the purchased service. The contracts concluded with the audit companies should also include the requirement of confirmation that the work will be performed in accordance with the auditor's code of ethics, that the audit procedures will be implemented in accordance with international audit standards, that a report on all observations will be submitted to the Ministry of Finance, etc.

The response of the Minister of Finance to the proposals of the SAO has been provided as an annex to the audit report.

The SAO feels it should be emphasised that the audit report does not find the accreditation decisions to be unjustified. The SAO has only developed an opinion that the justification of the decisions cannot be ascertained after the event, because the documenting of the accreditation process is insufficient.

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