**AUDIT MANUAL FOR**

**ESTONIA-RUSSIA CBC PROGRAMME 2014-2020**

Compiled by:

Audit Authority

As situated in:

Financial Control Department

Ministry of Finance of the Republic of Estonia

Approved by:

Kaur Siruli

Head of Audit Authority

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# INTRODUCTION

The purpose of the Audit Manual of the Estonia-Russia CBC Programme 2014-2020 is to help auditors to carry out high-quality project and system audits and to help the Audit Authority to ensure uniform quality of audits.

The audit methodology has been compiled to reach the **objectives laid down in the audit strategy** for the Estonia-Russia CBC Programme and it specifies implementation of audit procedures described therein.

The requirement for carrying out project audits of an annual sample, management and control system audits and audits of accounts comes from Agreement on financing and implementation of Cross-Border Cooperation Programme “Estonia-Russia” 2014-2020, under which the Audit Authority with the support of the Group of Auditors ensures that audits are carried out on the management and control systems, on an appropriate sample of projects and on the annual accounts of the Programme.

The manual has jointly been compiled by the Audit Authority situated in the Financial Control Department of the Ministry of Finance of the Republic of Estonia with comments and by recommendations from the Members of the Group of Auditors both in Estonia and Russia.

The manual consists of four chapters and annexes. Chapter I gives a general overview of the principles and methodology for carrying out audits. Chapters II and III describe system audits and project audits, respectively. Chapter IV describes the audit procedures by stages including requirements for documentation. Annexes contain the forms of working papers and checklists that are used to carry out project and system audits.

Any latest form of the Audit Manual shall enter into force if signed by the head of the AA, after considering the comments and recommendations made by the Members of the Group of Auditors

If necessary, amendments and improvements may be made to the Audit Manual. This process shall take place at least on annual basis.

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# GENERAL PRINCIPLES

## Legal basis

The conducting of project and system audits is based on the following:

* Agreement on financing and implementation of Estonia-Russia programme.
* Audit Strategy of the Estonia-Russia programme.
* Rules of procedures of the Group of Auditors for Estonia-Russia programme.
* The legislation on Participating States, wherever applicable.

## Identification of audit bodies

Audit activities will be carried out in co-operation of the AA and the Members of the Group of Auditors from Estonia and Russia, as detailed in the Rules of procedures.

Project audits in Estonia will be carried out by the Members of the Group of Auditors in Estonia. Project audits in Russia will be outsourced by the Audit Authority.

System audits will be carried out by the Members of the Group of Auditors in Estonia.

All Members of the Group of Auditors can overview any part of any audit process and provide comments and proposals, whenever they wish to do so.

## Requirements for auditors when performing audit work

The Audit Authority shall ensure that audit work performed is in line with internationally accepted audit standards. In addition to the latter, the AA shall use this manual, the respective guidelines and legislation of the European Commission and participating states on auditing when planning and conducting audits and preparing audit reports.

The person conducting an audit has the right to recommend to the audit supervisor[[1]](#footnote-1) the involvement of independent experts in the audit in order to solve questions requiring special knowledge and expertise in this field.

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities[[2]](#footnote-2).

The auditors **shall be impartial** and avoid any conflict of interest when planning or conducting audits, and communicating their results[[3]](#footnote-3).

The auditors shall follow the IIA International Standards for the Professional Practice of Internal Auditing or other internationally accepted audit standards when carrying out audit activities.

Auditors must have an impartial, unbiased attitude and they must avoid any conflict of interest.

All auditors participating in an audit shall confirm their objectivity, competence and lack of personal interest by signing the declaration of objectivity, which shall be done before the launch of audit procedures. All other persons involved in the audit, e.g. independent experts shall also sign the declaration of objectivity.

## Outsourced audit service

The Audit Authority with the support of the Group of Auditors will outsource audit work from independent audit companies for the purpose of conducting project audits in Russia or if necessary, in Estonia.

The Audit Authority shall make sure that the service provider has necessary competencies and skills for the provision of the service and that the persons carrying out project audits shall confirm their independence.

**Requirements** for the methodology and quality of a project audit as well as retention of audit working papers and evidence shall be laid down in the contract to be concluded with the audit firm, including:

* the audit firm shall adhere to the internationally accepted audit standards and the code of ethics, prevailing legal acts and good practice, apply their best knowledge and as well as carry out their work duties at a high professional level;
* the audit firm shall electronically submit the audit working papers, including checklists and lists of findings, all prepared in English in accordance with this manual.
* where using electronic signature is not possible, the auditors, audit manager and audit supervisor will sign the required audit documents on paper and deliver them to the Audit Authority via post.
* the final responsibility for all work done will rest with the auditors performing, managing and supervising the audit work, and this responsibility is confirmed by their signatures.

After completion of audit procedures, the audit company shall present the complete audit file, including the documents collected during the audit, to the Audit Authority. The audit file must be electronically submitted, if possible.

The Audit Authority shall supervise the progress of outsourced services to be responsible for their quality, including compliance with the methodology described in the Audit Manual, accuracy and relevance of the results presented in the final audit report.

The preliminary audit project shall be reviewed by the Audit Authority with the comments and suggestions added by the Russian Member of the Group of Auditors, before sending it for comments to the auditee. If needed, the working papers or preliminary project shall be amended by the audit company as a result of this quality control.

## Quality assurance and audit supervision

In accordance with audit standards, the audit supervisor must have developed and maintained a **quality assurance** **and** **improvement programme** that covers all aspects of the internal audit activity and includes both internal and external assessments[[4]](#footnote-4).

Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed[[5]](#footnote-5). The audit supervisor monitors the work performed by auditors on an ongoing basis and conducts assessments of auditors.

**Audit supervision** shall be carried out to ensure fulfilment of audit objectives and shall be performed on an ongoing basis by the audit supervisor. The supervision process shall start during the audit planning phase, and shall continue during the conducting, reporting and follow-up activities phase.

Audit supervision includes:

* identification of the resources necessary for carrying out audits;
* provision of relevant guidelines during planning the engagement and approval of the audit plan and programme;
* monitoring of the implementation of the approved audit plan and programme, unless changes are explained and allowed (for system audits);
* making sure that working papers are sufficient to support the auditors’ opinion and conclusions;
* ensuring the accuracy, objectivity, clarity, constructiveness and timeliness of the audit report;
* ensuring the fulfilment of audit objectives;
* giving an opportunity to develop the knowledge, skills and other competencies of auditors.

All audit working papers shall be reviewed both by the audit manager[[6]](#footnote-6) and audit supervisor to ensure that they have been accurately prepared and support reporting, and that all necessary procedures have been carried out.

## Requirements for documentation

### Documentation of audit procedures

The purpose of audit procedures is to analyze and evaluate the audit area; identify and document sufficient, reliable, relevant and useful information and evidence to support the findings in the final audit report and to attain the audit objectives[[7]](#footnote-7).

If needed, additional audit working papers to the main compulsory audit check-lists may be compiled to describe and document the procedures carried out and conclusions made by the auditor (Annex 2).

Working papers shall be signed at the date of completing the procedures, and they shall be sufficient, reliable, relevant and useful so that an opinion could be made on their basis and/or that shall support auditors’ opinions and conclusions.

The auditor who prepared the working paper, audit manager and audit supervisor shall sign all working papers prepared by the audit workgroup[[8]](#footnote-8), including check-lists. All documents shall be signed digitally whenever possible to avoid paper documents. Where using electronic signature is not possible, the auditors, audit manager and audit supervisor will sign the required audit documents on paper and deliver them to the Audit Authority via post.

A separate working paper for a procedure should not be prepared when there are sufficiently detailed check-lists or other equivalent working papers with a complete and accurate information covering the same topic.

### Referencing

All documents to be kept in the audit file shall have a reference number given to them on the basis of the structure of the electronic audit file and the logical sequence of documents. The reference number given to a document shall be unique and it shall be used to identify the document throughout the audit documentation.

Cross-referencing shall be used to ensure a complete audit trail and interconnection between working papers and evidence.

## Setup of the audit file

Any information received during the audit that can be used as the basis for drawing conclusions, making recommendations, evaluating risks and planning future audits shall be documented.

Documents received during the audit and the working papers prepared by auditors which form the basis for findings, risks and recommendations presented in the final audit report, shall be included in the audit file. The audit file shall be set up in a way that would ensure security of evidence and ease of traceability.

The audit file is electronic, i.e. all audit evidence shall be kept in the electronic format. The retention and archiving of the final audit file in the possession of the Audit Authority shall be based on the procedure for retention of electronic documents of the Ministry of Finance of Estonia[[9]](#footnote-9).

The proposed audit file shall consist of at least four folders and if necessary, a fifth folder:

1. **Reporting** – final audit report (A1), auditee’s comments to the preliminary audit report (A2) and preliminary audit report (A3);
2. **Management** – audit’s official correspondence (B1) and electronic correspondence (B2);
3. **Planning** – background information collected prior to the start of audit (C1), information related to planning (C2) and audit plan and declaration of objectivity (C3);
4. **Implementation** – lists of findings (D1), summaries of procedures (D2), check-lists (D3) and evidence collected during audit implementation (D4);
5. **Follow-up activities (in case of significant findings)**

After the approval of the final audit report and assurance of the quality of the audit file by the audit supervisor, the audit manager shall prepare final list of documents and closure act to be digitally signed (whenever possible) by the audit manager and the audit supervisor.

In case of outsourcing the audit, the audit firm shall present the full and complete electronic audit file (including physical documents only in cases mentioned above) to the Audit Authority after the end of the audit.

## Reporting of potential fraud cases

According to audit standards[[10]](#footnote-10), the auditors shall have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization. However, they are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

Based on the above, the auditor shall also evaluate probable risk of fraud when carrying out audit procedures. If the auditor has identified circumstances that may indicate a commitment of fraud, the auditor shall inform both the audit supervisor and the head of the Audit Authority about it.

A further procedure for dealing with fraud shall be decided in co-operation with the audit supervisor and the head of the Audit Authority with the support of the Group of Auditors. In any case, it is important to react to potential fraud quickly and appropriately, and if necessary, engage investigation authorities, the Managing Authority and all other competent and necessary parties in the process.

## Reporting of irregularities to OLAF

In cases where irregularities are detected in excess of ERDF funding of EUR 10 000 and in cases where there is a suspension of payments, these shall be reported to OLAF.

## Follow-up activities

There has been established a system to monitor the implementation of audit results[[11]](#footnote-11). The follow-up activities related to the implementation of the recommendations laid down in the final audit report shall be performed by the Audit Authority.

They are carried out in order to obtain assurance that the errors detected have been corrected and unclear cases have been resolved or that Managing Authority has not accepted the undue risk of not taking action. If needed, the Audit Authority will carry out / outsource additional audit procedures to get the assurance that the sufficient corrective actions have been taken.

If it becomes evident during the follow-up activities, that a particular recommendation laid down in the final audit report has not been followed, the audit manager shall coordinate their final opinion with the audit supervisor prior to the closure of the finding.

The Audit Authority shall collect the results of follow-up activities and provide feedback to the participating countries and the European Commission about the elimination of deficiencies outlined in audit reports.

Follow-up activities are not required for recommendations related to non-significant findings.[[12]](#footnote-12)

# 2. SYSTEM AUDITS

# 2.1 Objective

The objective of a system audit is to determine whether the management and control system is established in compliance and operates effectively to prevent errors and irregularities, and that, where errors and irregularities do occur, the systems are effective in detecting and correcting them.

It should be possible to conclude whether the system gives a satisfactory assurance of the legality and regularity of the underlying operations and of the accuracy of the expenditure declared.

System audits shall take place during the course of the Programme implementation covering at least the most important Programme authorities and functions:

* Managing Authority;
* Joint Technical Secretariat (including Branch Offices);
* Financial control function in Estonia;
* Joint Monitoring Committee (in its different functions, if necessary).

The overall audit strategy foresees the coverage of all relevant areas (main implementing authorities, main final beneficiaries) throughout the whole Programming period. The selection of authorities and particular processes to be audited shall be based on the risk assessment. By conducting the risk assessment, the Audit Authority shall also have consultations with the Members of the Group of Auditors.

# 2.2 Principles

A system audit shall mean the determination of the objective as defined before, based on the following general principles that need to be fulfilled by the management and control system:

* a description of the functions of each body involved in management and control, and the allocation of functions within each body;
* compliance with the principle of separation of functions between and within such bodies;
* procedures for ensuring the correctness and regularity of expenditure declared;
* computerized systems for accounting, for the storage and transmission of financial data and data on indicators, for monitoring and for reporting;
* systems for reporting and monitoring where the body responsible entrusts execution of tasks to another body;
* arrangements for auditing the functioning of the system;
* systems and procedures to ensure an adequate audit trail;
* the prevention, detection and correction of irregularities, including fraud, and the recovery of amounts unduly paid, together with any interest on late payments.

The scope of system audits depends on the evaluation of risks during the stage of preparing the work plan and the Audit Authority’s overall annual audit plan.

During auditing, the Audit Authority shall evaluate the compliance of the system with the key requirements and evaluation criteria. Based on the scope of the audit, an opinion shall be given to the use of all or some key requirements and evaluation criteria.

The opinion shall be declared in accordance with the following categories:[[13]](#footnote-13)

Category 1. Works well. No or only minor improvement(s) needed.

Category 2. Works, but some improvement(s) are needed.

Category 3. Works partially; substantial improvement(s) are needed.

Category 4. Essentially does not work.

In the annual audit report, the Audit Authority shall give its overall opinion on the functioning of the system of the programme as a whole, taking into account the results of audits of the current as well as previous years.

The key requirements used shall be the following.

Key requirement 1: Adequate separation of functions and adequate systems for reporting and monitoring where the responsible authority entrusts execution of tasks to another body (for the Managing Authority).

Key requirement 2: Appropriate selection of operations.

Key requirement 3: Adequate information to beneficiaries.

Key requirement 4: Adequate management verifications.

Key requirement 5: Effective system in place to ensure that all documents regarding expenditure and audits are held to ensure an adequate audit trail.

Key requirement 7: Effective implementation of proportionate anti-fraud measures.

Key requirement 8: Appropriate procedures for drawing up the management declaration and annual summary of the final audit reports and of controls carried out.

Key requirement 9: Adequate separation of functions and adequate system for reporting and monitoring where the responsible authority entrust execution of tasks to another authority (for the Certifying function of the Managing Authority).

Key requirement 10: Adequate procedures for drawing-up and submitting payment applications.

Key requirement 11: Appropriate computerized records of expenditure declared and of the corresponding public contribution are maintained.

Key requirement 12: Appropriate and complete account of amounts recoverable, recovered and withdrawn.

Key requirement 13: Appropriate procedures for drawing up and certifying the completeness, accuracy and veracity of the accounts.

Key requirement 14: Adequate separation of functions and adequate systems for ensuring that any other body that carries out audits in accordance with the programme audit strategy has the necessary functional independence and takes account of internationally accepted audit standards.

Key requirement 15: Adequate system audits.

Key requirement 16: Adequate audits of operations.

Key requirement 17: Adequate audits of accounts.

Key requirement 18: Adequate procedures for providing a reliable audit opinion and for preparing the Annual Audit Report.

Those requirements will be assessed in accordance with the assessment criteria that will be described in detail whenever a system audit based on one or more key requirements is launched.

# 3 PROJECT AUDITS

# 3.1 Definition

A project audit means the auditing of projects funded from the Estonia-Russia programme. Project audits are carried out according to the audit strategy and audit plan adopted and renewed annually by the Audit Authority, on the basis of the methodology presented in this manual. The project audits are mostly carried out based on an annual sample.

On the basis of the results of project audits, the Audit Authority shall provide assurance on the reliability of the accounts of the programme presented to the participating nations and the European Commission.

# 3.2 Objective and principles

The objective of the project audit is to analyze and evaluate the project’s compliance to the following principles:

* the operation was selected in accordance with the selection criteria for the programme, was not physically completed or fully implemented before the beneficiary submitted the application for funding under the programme, has been implemented in accordance with the approval decision and fulfilled any conditions applicable at the time of the audit concerning its functionality, use, and objectives to be attained;
* the expenditure declared to the participating nations and the European Commission corresponds to the accounting records and that the required supporting documentation demonstrates an adequate audit trail;
* for expenditure declared to the participating nations and the European Commission, outputs and results underpinning payments to the beneficiary have been delivered, participant data or other records related to outputs and results are consistent with the information submitted and that the required supporting documentation demonstrates an adequate audit trail.

Thus, the objective of the project audit includes verification of:

* choice of project activities;
* implementation of project activities and outcomes;
* correspondence of the financial statements of the beneficiary with the declared expenditure;
* expenditure approved for payment, cost documents, documents certifying payment and other evidence;
* eligibility of costs as defined with the programme manual and other programme guidance.

The subject of project audits is the project expenditure declared to the participating countries and the European Commission by the Managing Authority of the Estonia-Russia Programme during the reporting period as defined beforehand.

The result of the project audit shall give assurance that the activities carried out and costs incurred for a project are eligible and in compliance with the requirements of the participating nations, the European Union and the programme and that they are based on the activities actually carried out under the project.

Auditors are generally not able to provide a final opinion as to the fulfilment of the results of the project as a whole; however, these shall be evaluated as at the date of conducting the audit.

In order to attain the objectives of the project audit, the following activities shall be analyzed and evaluated, if not otherwise possible, on spot at the beneficiary:

* actual fulfillment of the project, including its content and compatibility with the funding decision, adherence to deadlines;
* original documents related to the implementation of the project and certifying costs;
* eligibility of costs, including legality of expenditure and compliance with the objective;
* documents verifying the payment of costs;
* compliance of the accounting with requirements, including correctness of the cost documents in the beneficiary’s accounting file;
* legality of carrying out public procurements (compliance of public procurements with the rules of participating countries);
* existence of co-financing;
* fulfilment of state aid rules in case of projects carried out in Estonia;
* fulfilment of publicity rules;
* existence and preservation of investments co-financed from the programme.

# 4. Audit of accounts

# 4.1 Definition

Audit of accounts means auditing of certified accounts provided by the Certifying Authority function of the Managing Authority to the Audit Authority. These verifications are aimed to confirm that all the required elements are correctly included in the accounts and supported by underlying accounting records.

# 4.2 Objective, subject and scope

The audit of accounts should provide reasonable assurance on the completeness, accuracy and veracity of the amounts declared in the accounts.

Based on the accounts provided by the Certifying Authority function, the Audit Authority shall verify that:

* the total amount of eligible expenditure declared reconciles with the expenditure (and the corresponding public contribution) included in the final payment application submitted to the participating nations and the European Commission for the relevant accounting year;
* 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, and the irrecoverable amounts presented in the accounts, all correspond to the amounts entered in the accounting systems and are based on reasoned decisions taken by the Managing Authority;
* expenditure has been excluded from the accounts, where applicable, due to an ongoing assessment of its legality and regularity. The Audit Authority also verifies 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;
* the amounts of advances of state aid paid to beneficiaries are supported by the information available from the Joint Technical Secretariat and Managing Authority.

# 5 AUDIT PROCEDURES

Audit procedures shall include:

1. planning the audit;
2. conducting the audit;
3. preparation of the audit report (preliminary and final);
4. communicating the audit results (preliminary and final audit report).

As there are two types of audits to be performed (system and project audit), some of the procedures may vary during execution but the core principles remain the same for both.

In case of system audits, audit planning procedures are performed mainly by the Audit Authority and in case of project audits, they are performed independently by the auditors conducting them.

The auditors develop and document a plan for each engagement, including the engagement objectives, scope, timing, and resource allocations.

In case of both project and system audits the auditee is generally notified at least 10 working days in advance before the on-the-spot visit.

All engagement procedures and their documentation have to be prepared according to the selected auditing standards. The auditors conducting the audits are liable for preparing all the documentation relevant to the engagement in their responsibility and they prepare it independently of the Audit Authority.

# 5.1 Planning an audit

### 5.1.1Registration of the audit and collection of background information

After registration of the audit in their own working system, auditors shall collect background information related to the audit, using document registers and databases available (e.g. eMS for the programme; SFOS and public procurement register in Estonia, etc.) as well as legislation regulating granting of aid. Auditors shall collect this background information in the audit file.

### 5.1.2 Audit plan and programme

An audit plan shall be prepared at the start of the audit to achieve the engagement objectives and providing an overview of the key phases of conducting the audit and the deadlines for each phase[[14]](#footnote-14). The audit plan shall continuously be monitored.

An audit plan and programme shall contain the following information[[15]](#footnote-15):

* name of audit (name of the audited institution or process);
* audit objective and audit sub-objectives, which should reflect the results of risk assessment;
* audit scope;
* audit stages, procedures, planned and (actual) dates of fulfillment;
* persons carrying out audit procedures;
* references to working papers.

Adjustments may be made to the audit plan and programme during the audit, but they need to be approved with the audit supervisor. The reason for making adjustments shall be described in the box “Comments” of the audit plan/programme.[[16]](#footnote-16)

The audit supervisor shall digitally sign the final version of the audit plan after completion of all planned audits, and at the latest at the end of each reporting year when all audits have been finalized. The signed audit plan shall present actual dates for carrying out audit procedures and if necessary, explanations by the audit supervisor whenever there are significant deviations from the original schedule.

In case the audit population exceeds 300 objects and it would be unreasonable to audit all of these, subsampling may be used. The sub-sampling will be used using the same principles, as used for sampling the projects to be audited. The process shall be documented in an audit working paper describing all steps for compiling the sub-sample and signed by the audit manager and supervisor; as well as the Audit Authority.

### 5.1.3 Preparation of an audit announcement letter

In case of system audits, the Audit Authority shall send a written audit announcement letter to the auditee. In case of project audits, the auditors conducting them shall themselves send the audit announcement letter to the auditee. The purpose of the announcement letter is to inform the beneficiary of the upcoming audit and enable them to designate a contact person. The announcement letter shall be sent at least 10 working days prior to the launch of on-the-spot audit procedures.

## 5.2 Conducting an audit

Audit procedures shall be carried out according to the audit plan and programme and they shall result in a sufficient amount of evidence to fulfill the objective of the audit and reach the conclusions. The person performing a certain procedure shall be responsible for carrying out the procedures and documenting information.

### 5.2.1 Audit procedures and documentation of information

In accordance with audit standards auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives[[17]](#footnote-17).

Audit procedures shall generally be performed on-the-spot at the auditee’s. If necessary, minutes shall be taken at the meeting with the auditee (Annex 2). If the minutes contain information about the standpoints of the auditee, it should be verified by the auditee in order to confirm the correctness of information. Thereafter, the minutes shall be signed by the person preparing them, and they shall be saved in the audit file.

In order to obtain assurance about the conclusions reached, the audit team members may obtain expert opinion or receive legal advice from third parties.

During the audit procedures, auditors shall collect necessary evidence and prepare audit check-lists (Annexes 3 and 4).

#### **5.2.2.1 Preparation of audit checklists**

Special check-lists have been prepared to help auditors to meet the objective of a project audit (Annexes 3 and 4). The list of questions in the check-list is not all-inclusive and it may be supplemented depending on a particular beneficiary and conditions of the respective project. If necessary, auditors shall prepare additional check-lists or additional working papers to obtain answers to the questions in the general check-list.

The **comparison check-list** (Annex 3) is a tool for auditors to compare the cost documents available in the project database eMS with those available at the beneficiary and it shall be filled in for all project audits. It is important to keep in mind that the audit file should contain a list of cost documents that auditors actually checked during the audit. The comparison check-list should contain references to the respective expenses in the public procurement checklist or notes regarding verification of procurements that are under the public procurement threshold.

The **general project audit checklist** (Annex 4) where questions have been grouped according to the objectives of the project audit shall also be filled in for all project audits.

A **public procurement checklist** shall be filled in to check public procurements for all audits which include them. The check-lists to be used to evaluate the correctness of the public procurements shall be prepared in accordance with the public procurement law in both respective participating nations (for Russian Federation, Annex 7).

For identification of the cost of a public procurement, note should be taken of the project budget, procurement contract, goods and services previously purchased by the beneficiary and earlier public procurements that could be related to the public procurement within the audit scope (in order to identify splitting, correct choice of procurement type, etc.).

For public procurements under the threshold for public procurement, auditors shall assess whether they are in compliance with the general principles of public procurements. This rule shall not be assessed for the purchases with the cost less than €5000.

If there are additional conditions laid down in the programme manual for purchases of services and goods, they shall also be taken into account and related comments shall be added to the general checklist or procedure working paper.

Check-lists shall be informative to the most comprehensive extent possible. The options include “yes”, “no” or “N/A” and comments should be added to the comments section. Comments should include information about how a particular conclusion was reached and a reference to the source/evidence or the procedure working paper (i.e. it is sufficient to refer to the working paper if details are provided therein). If the answer to a question is positive, the auditor shall also add a short explanation to the respective box (e.g. which documents were checked or reference to the working paper). The filled-in working papers shall be kept electronically in the audit file.

Check-lists shall be digitally signed by the auditor who filled in the check-list, the audit manager and the audit supervisor.

#### **5.2.2.2 Compilation of findings**

The shortcomings and deficiencies identified during the audit procedures shall be formulated as audit findings, using the audit working papers as the basis. The compilation of findings includes the description of findings, related risks and recommendations.

The content of the finding shall describe the current situation, its deviation from the desired situation and the reason why the current situation deviates from the desired situation. The risks related to the finding shall also be outlined and a specific and applicable recommendation to correct the deficiency and reach the desired outcome shall be added. The findings shall be as concise, short and specific as possible.

When auditors detect ineligible expenditure, a recommendation shall be made to the Managing Authority to reclaim it and deduct ineligible co-financing from the cost of the project. When ineligible expenditure is found outside the scope of the audit period, a recommendation shall be made to reclaim this amount as well.

A concise heading shall be added to the findings, briefly and accurately describing the content of the finding. It shall also include the amount of ineligible expenditure detected. When ineligible expenditure is detected outside the audit scope, these shall also be stated in the heading of the finding.

Findings shall be verifiable and reasonable. When a certain problem cannot be analyzed until a final conclusion is reached (e.g. when wrongly calculated taxes have been re-calculated using a formula), a risk shall be identified and a recommendation shall be made how to deal with the problem.

Whenever the finding has a financial impact, i.e. loss in monetary terms, it shall be outlined in the finding. Findings shall be grouped in the audit report by topics, e.g. by budget lines.

**Setup of a finding:**

* **Criteria** – standards, measures, expected situation, reference to legislation.
* **Condition** – factual evidence of the current situation.
* **Cause** – reason that has led to the difference in the expected and actual situation.
* **Conclusion** – summary of the nature of the problem identified (difference between the criteria and situation identified).

**Risk:**

* **Risk** – threat of occurrence of an event that may have a negative impact on the attainment of goals. If risk has realized (e.g. ineligible cost has been incurred), it is not necessary to outline it in the finding and it is sufficient to describe the circumstances identified.
* **Effect** – (potential) financial loss from the realization of risk.

**Recommendation:**

* Recommendations to improve the situation and/or activities.

### 5.2.2.3 List of documents and closure report

Prior to the closure of the audit file, the audit manager shall prepare a final list of documents for the documents added to the electronic audit file (Annex 6). If documents have been received on paper, they shall be scanned and added to the electronic audit file.

## 5.3 Preparation of the audit report

### 5.3.1 Preparation of the preliminary audit report

The audit manager shall prepare the preliminary audit report (Annex5), using the list of findings and/or evidence in the audit file. The audit report should include audit objectives, scope, and results[[18]](#footnote-18).

It is advisable to keep the project audit short, accurate, objective, clear, constructive, complete, timely and concise, based on facts[[19]](#footnote-19). Significant findings with a financial impact should be given the greatest weight, followed by non-significant findings.

If there are no findings related to some areas, the auditors should acknowledge satisfactory performance and respective information shall be disclosed in the audit report as a positive statement[[20]](#footnote-20).

In the audit report the auditors’ opinion should be provided[[21]](#footnote-21) - the project or system audit may be classified into the following categories:

* no findings;
* non-significant findings (there are only non-significant findings in the final report);
* significant findings (there are significant findings in the final report, i.e. auditors have detected ineligible expenditure).

Auditors shall not disclose the findings made during the audit to third parties prior to issuing the audit report.

### 5.3.2 Coordination of the preliminary audit report

The audit manager shall first coordinate the preliminary audit report with the audit work group and then with the audit supervisor. Thereafter, the audit manager shall finalize the preliminary audit report and send it to the auditee for comments. When the audit is outsourced, the auditors conducting it will send it to the Audit Authority for a review before sending it to the auditee. Whenever the audit is conducted in Russian Federation, the Russian Member of the Group of Auditors will be consulted as well at this point.

The auditee is asked to add comments to the preliminary audit report electronically (preferably directly in the respective space available in Part B of the report form) during up to ten working days from the date of sending out the preliminary audit report.

The comments made by the auditee together with the preliminary audit report shall be saved in the audit file. The auditee’s unaltered comments (including the date for implementing recommendations and the person responsible for it) shall be added to the final report after the respective findings, risks and recommendations. Auditors may add final clarifications to the preliminary audit report.

In case the auditors and the auditee disagree about the audit findings, the audit manager shall contact the Audit Authority to resolve the disagreement and if needed, the Audit Authority will engage the Managing Authority and other necessary programme bodies in it.

In case meetings have been held during the reconciliation of the audit preliminary report and findings, minutes shall be taken from the meetings to maintain the audit trail. Minutes shall be signed by the person preparing it, the audit manager and the audit supervisor.

### 5.3.3 Preparation of the final audit report

The audit manager shall prepare the final audit report on the basis of the preliminary audit report and the comments received from the auditee, adding, if necessary, supplementary information from the minutes of the meeting or any other source obtained at this point.

The final audit report shall be signed by the audit manager and the audit supervisor, thereby certifying that the information presented in the report is correct.

### 5.3.3.1 Errors and omissions in the final audit report

If the final audit report contains a major error or omission, the audit manager shall immediately correct it upon becoming aware of it and submit the corrected information to all parties who received the original final audit report[[22]](#footnote-22).

The corrected and signed audit report shall be sent to the recipients in the same manner as the earlier version (i.e. electronically or as a paper version) as of the date of the respective change. A cover letter shall be also added to the final report, with references to the respective errors or omissions. The corrected final report and cover letter shall be kept in the audit file.

## 5.4. Communication of audit results

The audit report should be communicated to the appropriate parties[[23]](#footnote-23). The final audit report shall be sent to the auditee within 5 working days from the date of signing it. In case of system audits, the final audit report shall be sent to the auditee by the Audit Authority and in case of the project audits, by auditors conducting that audit. The final file of the audit report shall be signed digitally. If necessary, the final audit report shall be sent to other persons involved in the audited topic as well as the Managing Authority, whose role is to follow up financial corrections to be made and systemic errors.

System audits shall be performed and reported to the participating countries as well as the European Commission regularly during the Programme period. All audit findings shall be included in the Annual Audit Report. The Audit Authority shall establish whether any problems encountered are of a systemic character. If so, suggestions on financial corrections or amendments to the management and control system in general shall be made accordingly and necessary preventive or corrective action shall be taken by relevant national and Programme authorities.

The Audit Authority shall make sure that the audit work mentioned above is documented in an appropriate manner and kept available for at least three years following the closure of the Programme.

# ANNEXES TO THE MANUAL

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| **Annexes:** |
| Annex 1 – Audit plan and Declaration of objectivity |
| Annex 2 – Summary of audit procedures (working paper) |
| Annex 3 – Comparison checklist |
| Annex 4 – General project audit checklist |
| Annex 5 – Audit report form |
| Public procurement checklist for Estonia (separately for years 2017-2022 and 2022+) |

1. The role of the audit supervisor is described in the annex “Audit Plan and Declaration of Objectivity” [↑](#footnote-ref-1)
2. IIA standard 1210 – Proficiency [↑](#footnote-ref-2)
3. IIA standard 1120 – Individual Objectivity [↑](#footnote-ref-3)
4. IIA standard 1300 – Quality Assurance and Improvement Program [↑](#footnote-ref-4)
5. IIA standard 2340 – Engagement Supervision [↑](#footnote-ref-5)
6. The role of the audit manager is described in the annex “Audit Plan and Declaration of Objectivity” [↑](#footnote-ref-6)
7. IIA standards 2300 – Performing the Engagement, 2310 –Identifying information and 2330 – Documenting Information [↑](#footnote-ref-7)
8. The audit workgroup is made up of the audit supervisor, audit manager and if necessary, additional auditors. Those roles are described in the annex “Audit Plan and Declaration of Objectivity” [↑](#footnote-ref-8)
9. IIA standard 2330.A2 [↑](#footnote-ref-9)
10. IIA attribute standard 1210.A2 [↑](#footnote-ref-10)
11. IIA standard 2500 – Monitoring Progress [↑](#footnote-ref-11)
12. The nature of significant and non-significant findings is described in the annex “Audit Report Form” [↑](#footnote-ref-12)
13. The nature of classification actual results under those categories is mostly left to the professional opinion of the auditors carrying out the audit. [↑](#footnote-ref-13)
14. IIA standard 2240 – Engagement Work Program [↑](#footnote-ref-14)
15. IIA standard 2200 – Engagement Planning [↑](#footnote-ref-15)
16. IIA standard 2240.A1 The audit plan / program must be approved prior to its implementation, and any adjustments approved promptly. [↑](#footnote-ref-16)
17. IIA standard 2300 – Performing the Engagement [↑](#footnote-ref-17)
18. IIA standard 2410 – Criteria for Communicating [↑](#footnote-ref-18)
19. IIA standard 2420 – Quality of Communications [↑](#footnote-ref-19)
20. IIA standard 2410.A2 [↑](#footnote-ref-20)
21. IIA standard 2410.A1 [↑](#footnote-ref-21)
22. IIA standard 2421 – Errors and Omissions [↑](#footnote-ref-22)
23. IIA standard 2440 – Disseminating Results [↑](#footnote-ref-23)