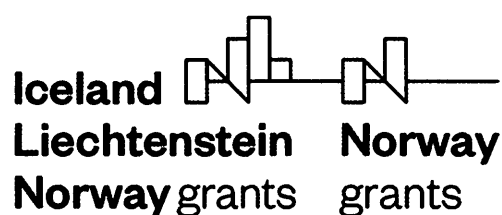


ANNUAL AUDIT REPORT



**EUROPEAN ECONOMIC AREA FINANCIAL MECHANISM,
NORWEGIAN FINANCIAL MECHANISM 2014-2021**

2017 / 2018

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ABBREVIATIONS

AA	Audit Authority
AAR	Annual Audit Report
Agency	Direct public administration authority implementing part of the functions of the Programme Operator under the procedure prescribed by legal framework
CA	Certifying Authority
CoM	Cabinet of Ministers
Donor States	European Economic Area Financial Mechanism Committee and Norwegian Ministry of Foreign Affairs
EEA	European Economic Area
EU	European Union
EUR	Euro
FB	Final Balance
<i>Financial Mechanisms / FM</i>	European Economic Area Financial Mechanism 2014-2021 and Norwegian Financial Mechanism 2014-2021
FMD	Finance and Maintenance Department of the Ministry of Finance
FMO	Financial Mechanism Office
IFR	Interim financial report
ISA	International Standards on Auditing
LIDA	Latvian Investment and Development Agency
MCS	Management and Control System
MoC	Ministry of Culture
MoE	Ministry of Economics
MoEPRD	Ministry of Environmental Protection and Regional Development
MoES	Ministry of Education and Science
MoF	Ministry of Finance
MoI	Ministry of Interior
MoJ	Ministry of Justice
NGO	Non-governmental organization
NFP	National Focal Point
OSV	On-the-spot verification
PMB	Procurement Monitoring Bureau
PO	Programme Operator
PP	Project Promoter
<i>Regulations on the implementation of the EEA/ Norwegian Financial Mechanisms 2014-2021</i>	Regulation on the implementation of the European Economic Area (EEA) Financial Mechanism 2014-2021 adopted by the EEA Financial Mechanism Committee pursuant to Article 10.5 of Protocol 38c to the EEA Agreement on 8 September 2016 and confirmed by the Standing Committee of the EFTA States on 23 September 2016, and Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021 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
SEDA	State Education Development Agency
SIF	Society Integration Foundation
SRDA	State Regional Development Agency

Summary

1. AAR is prepared by the Audit Authority according to Paragraph 1.(e)(i) of Article 5.5 of the *Regulations on the implementation of the EEA/Norwegian Financial Mechanisms 2014-2021*.
2. The functions of the Audit Authority under the *EEA/Norwegian Financial Mechanisms* are fulfilled by the Ministry of Finance European Union Funds Audit Department (*Section 1.1*).
3. This AAR covers the period from 15 December 2017 to 30 June 2018 (AAR reference period) (*Section 1.2*).
4. This AAR includes the findings of the audits carried out from 15.12.2017¹ till 31.12.2018 (audit period) and a follow-up audit carried until 12.02.2018.
5. Joint Audit Strategy (covering all the programmes) will be prepared within nine months of the approval of all programmes (*Section 1.3 and Section 3*).
6. No programmes were approved during the AAR reference period and no expenditure was included into the Interim Financial Reports and submitted to the FMO.
7. No system audits were carried out during the AAR audit period because no programmes were approved. Within the AAR audit period the Audit Authority performed *EEA/Norwegian Financial Mechanisms 2014-2021* management and control system compliance assessment and a Follow-up audit (*Section 4*).
8. No project audits were performed because no expenditure was included into the Interim Financial Reports and submitted to the FMO.
9. Regarding AAR reference period AA will present a disclaimer of an opinion because the AA has not been able to audit the functioning of the management and control system and perform audits of projects as programmes are not approved yet and expenditure is not included into IFRs and declared to the FMO. (*Section 9*)
10. As the result of the follow-up of the implementation of recommendations from the *EEA/Norwegian Financial Mechanisms 2014–2021* management and control system compliance assessment, the Audit Authority found that 8 recommendations out of 19 are implemented, 5 recommendations are partly implemented and 6 recommendations are not implemented. The Audit Authority evaluated the impact which not implemented recommendations had on the proper functioning of the management and control system during the AAR reference period and concluded that there was no major impact as programmes are not yet approved and expenditure incurred (except for TA) and institutions are continuing to implement recommendations (*Section 7*).

¹ On 14 December 2017 the Memorandums of understanding on the Implementation of the European Economic Area (EEA) and Norwegian Financial Mechanism in 2014 – 2021 were signed.

1. Introduction

1.1. Indication of the Audit Authority responsible for the preparation of AAR

1. In accordance with the Law on the Management of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period of 2014-2021 and CoM Regulations No 686 “Procedures for Ensuring the Functions of the Audit Authority in the Management of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period of 2014-2021” the MoF fulfils the functions of the Audit Authority.
2. In compliance with the Regulations of the MoF² the European Union Funds Audit Department performs functions of the Audit Authority for the *Financial Mechanisms 2014-2021*.
3. Functionally and administratively the Head of the Audit Authority is subordinated to the Minister of Finance and has the power to report directly to the EEA Financial Mechanism Committee and Norwegian Ministry of Foreign Affairs and the CoM via Minister of Finance and this power to report directly to the CoM is set by the Law on the Management of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period of 2014-2021.
4. There is a single Audit Authority in Latvia. No functions of the Audit Authority are delegated.

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

5. In compliance with the CoM Regulations No 686 “Procedures for Ensuring the Functions of the Audit Authority in the Management of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period of 2014-2021”, the accounting year is from 1 July of previous year till the 30 June of current year (during which the audit work is performed).
6. This AAR covers the reference period from 15 December 2017 till 30 June 2018. Period covered by this AAR starts from 15 December 2017 because the Memorandums of understanding on the Implementation of the European Economic Area (EEA) and Norwegian Financial Mechanism in 2014 – 2021 were signed on 14 December 2017.
7. No expenditures were submitted to the FMO during the reference period.

1.3. Reference to the version of the audit strategy applicable;

8. In accordance with the Paragraph 1(d) of Article 5.5 of the Regulations on the implementation of the Financial Mechanisms 2014-2021 the Audit Authority has to prepare within nine months of the approval of the last programme an audit strategy. The audit strategy is not prepared yet because programmes are not approved by the FMO.

² Regulations of the MoF No 12-16/6 dated 18 September 2017 (previously No 12-16/1 dated 13 February 2015, Regulations of the MoF No 12-16/7 updated on 2 August 2013), Regulations of the MoF No 12-16/5 updated on 22 July 2014, Regulations of the MoF No 12-16/9 dated 17 November 2015 (previously Regulations of the MoF No 12-16/11 updated on 1 October 2014)

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

9. In accordance with the Paragraph 1(e)(i) of Article 5.5 of the Regulations on the implementation of the Financial Mechanisms 2014-2021 the AAR set out the findings of the audits carried out during the previous 12 month-period ending on 31 December of the year concerned in accordance with the audit strategy of the programme and reporting any shortcomings found in the systems for the Regulation on the implementation of the EEA FM and NFM 2014-2021 management and control. The first report to be submitted by 15 February 2019 covers the period up to 31 December 2018.
10. This AAR includes the findings of the audits carried out from 15.12.2017³ till 31.12.2018 and a follow-up audit carried until 12.02.2018.

1.5. Identification of the programme(s) covered by the report and of its/their PO(s);

11. The AAR covers all 6 programmes, Technical assistance to the Beneficiary State and Fund for Bilateral Relations. Summary of the Financial Mechanisms, their relevant programmes and national entities designated for the implementation of these Financial Mechanisms is presented in the *Table 1*.

Table 1: Financial Mechanisms, programmes and designated national entities⁴

Programme	Programme's operator	EEA FM/NMF	Total EEA + NFM allocation	Total National allocation	Total allocation (EEA + NFM + National)	% of Total allocation
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Research and Education	Ministry of Education and Science in cooperation with SEDA	EEA FM / NFM	14,500,000	2,558,824	17,058,824	17%
Local Development, Poverty Reduction and Cultural Cooperation	Ministry of the Environmental Protection and Regional Development in cooperation with MoC	EEA FM	10,000,000	1,764,706	11,764,706	12%
Climate Change Mitigation, Adaptation and Environment	Ministry of the Environmental Protection and Regional Development in cooperation with SRDA	NFM	14,000,000	2,470,588	16,470,588	17%
International Police Cooperation and Combating Crime	Ministry of the Interior	EEA FM	15,000,000	2,647,059	17,647,059	18%

³ On 14 December 2017 the the Memorandums of understanding on the Implementation of the European Economic Area (EEA) and Norwegian Financial Mechanism in 2014 – 2021 were signed.

⁴ Source of information: <https://www.eeagrants.lv/?id=121>

Business Development, Innovation and Small and Medium Entrepreneurs	Investment and Development Agency of Latvia (in cooperation with the MoE for setting up the CoM Regulations)	NFM	12,500,000	2,205,882	14,705,882	15%
Correctional Services	Ministry of Justice	NFM	13,000,000	2,294,118	15,294,118	15%
Other allocations						
Technical assistance to the Beneficiary State	Ministry of Finance	EEA FM / NFM	1,531,500	0	1,531,500	2%
Reserve	Ministry of Finance	EEA FM / NFM	2,449,000	0	2,449,000	2%
Fund for Bilateral Relations	Ministry of Finance	EEA FM / NFM	2,442,000	0	2,442,000	2%
Total allocation		EEA FM / NFM	85,422,500	13,941,177	99,363,677	100%

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

12. The Audit Authority prepares AAR in accordance with the Paragraph 1(e) of Article 5.5 of the *Regulations on the implementation of the Financial Mechanisms 2014-2021* and the CoM Regulations No 689 “Procedures for Ensuring the Functions of the Audit Authority in the Management of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period of 2014-2021”. The Head of the Audit Authority approves the AAR as authorized by the Ministry of Finance Order No 288 “About a circulation of documentation” dated 1 July 2011⁵.

13. The following information was used for preparing the AAR:

- 1) the results of MCS compliance assessment audit;
- 2) information from the follow-up procedures;
- 3) analysis of changes in the Management and Control systems within the *AAR reference period*.

14. Within the *AAR audit period* in accordance with the Paragraph 3 of Article 5.7 of the *Regulations on the implementation of the Financial Mechanisms 2014-2021*:

- 14.1. the Compliance Assessment audit of the management and control system in the National Focal Point, Irregularities Authority and Certifying Authority has been performed. The audit has been performed to obtain sufficient confidence that the MCS complies with the requirements set forth in Article 5.1 and Paragraph 3 of Article 5.7 of the *Regulations on the implementation of the Financial Mechanisms 2014-2021* (see *Evaluation criteria in Annex 3*).

⁵ Replaced with the Ministry of Finance Order No 57 (8 February 2013), Order No 413 (2 October 2013), Order No 399 (1 August 2014), Order No 192 (30 April 2015) and Order No 215 (22 May 2015)

- 14.2. the Compliance assessment of the Audit Authority has been carried out, therefore a self-assessment report was prepared in accordance with the Quality Control and Monitoring System introduced in the Audit Authority in compliance with International Standard on Quality Control 1.
- 14.3. the follow-up audit has been performed to obtain sufficient confidence that deficiencies found within the scope of the mentioned above compliance assessment audit of the management and control system in the National Focal Point, Irregularities Authority and Certifying Authority are eliminated according to agreed upon Plan for Elimination of Deficiencies.

2. Significant changes in management and control systems

15. In accordance with the CoM Regulations No 689 “Procedures for Ensuring the Functions of the Audit Authority in the Management of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period of 2014-2021” the NFP should update the description of the national management and control systems and submit to the Audit Authority until 31 August. As the AA’s findings of performed compliance assessment audit were based on the financial mechanism MCS description approved on 30 May 2018 by the National Focal Point, and submitted to the FIB for review on 14 June 2018, the MCS was not updated in August 2018.
16. However, there were some structural changes made in the NFP, which have no major impact on the functioning of the MCS. A task of preparation and updating of the MCS description further on will be performed by the EU Funds Investments Managing Department (title of department is changed from EU Funds Monitoring Department to EU Funds Investments Managing Department, new Regulations of EU Funds Investments Managing Department were approved on 25 June 2018). The function of complaint handling and decision-making is also delegated to this Department and included into the Regulations of this Department to eliminate a deficiency, which was stated in Paragraph 6.2.2. of the Compliance Assessment Audit Report.

3. Changes to the audit strategy

17. The audit strategy is not prepared yet because no programmes are approved by the FMO (*see also Section 1.3*).

4. System audits

18. No system audits on the functioning of the management and control system were carried out during the AAR reference period as:
 - 18.1. No programmes were approved during the *AAR audit period* – no possibility to carry out audits of programmes to verify the effective functioning of its management and control system (Paragraph 1(b) of Article 5.5 of the Regulations on the implementation of the EEA/Norwegian Financial Mechanisms 2014-2021).
 - 18.2. In relation to the level of the Beneficiary State (Paragraph 1(a) of Article 5.5 of the Regulations on the implementation of the EEA/Norwegian Financial Mechanisms

2014-2021) – management and control system compliance assessment have been carried out, as well as follow-up of recommendation implementation.

19. As the result of the follow-up of the implementation of recommendations from the management and control system compliance assessment the Audit Authority found that as at 18.01.2019:

19.1. 8 recommendations out of 19 are implemented.

19.2. 5 recommendations are partly implemented. Several recommendations are divided into parts with different responsible authorities. *Please, see summary Table 2 below.*

19.3. 6 recommendations out of 19 are not implemented. The deadline for implementation of these recommendations has not come yet.

Table 2 – Summary on implementation of recommendations of AA’s compliance assessment audit No.SA/NFI-EEZ/2018/14

Recommendation No.	Priority and deadline for implementation of recommendation	Authority responsible for implementation of recommendation	Current status of recommendation and implementation date
1	High, 01.06.2018	NFP	Implemented 18.06.2018.
2	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
3	Medium, 31.12.2018.	CA	Implemented 15.01.2019.
4	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
5	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
6	Medium, 30.03.2019.	NFP	Implemented 18.06.2018.
7	Medium, 30.03.2019.	NFP	Implemented 05.07.2018.
8	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due. Recommendation partially implemented
	Medium, Within 2 months after entry into force of the management regulations of the Cabinet	NFP (MoF FMD)	Partly implemented (implementation is in progress).
	Medium, 31.12.2018.	CA	Implemented 14.01.2019.

9	Medium, 30.03.2019.	NFP	Implemented 13.11.2018.
10	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
11	Medium, 31.12.2018	CA	Implemented 15.01.2019.
12	Medium, Within 2 months after entry into force of the management regulations of the Cabinet	NFP (MoF FMD)	Partly implemented (implementation in progress).
	Medium, 31.12.2018.	CA	Implemented 15.01.2019.
13	Medium, Within 2 months after entry into force of the management regulations of the Cabinet	NFP (MoF FMD)	Partly implemented (implementation in progress).
	Medium, 31.12.2018.	CA	Implemented 14.01.2019.
14	High, 01.10.2018.	NFP	Implemented 13.11.2018.
15	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
16	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
	Medium, 31.12.2018.	PMB	Implemented 21.12.2018.
	Medium, 31.12.2018.	CA	Implemented 14.01.2019.
17	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
	Medium, 31.12.2018.	PMB	Implemented 21.12.2018.

	Medium, 31.12.2018.	CA	Implemented 14.01.2019.
18	Medium, 30.03.2019.	NFP	Term for implementation of the recommendation not yet due.
19	Medium, 31.12.2018.	PMB	Implemented 21.12.2018.
	Medium, 31.12.2018.	CA	Implemented 14.01.2019.

The detailed information on the implementation of the before mentioned recommendations is provided in the *Annex 1* to the AAR.

20. The Audit Authority evaluated the impact which not implemented recommendations had on the proper functioning of the management and control system during the AAR reference period and concluded that there was no major impact as:

20.1. Implementation of programmes and projects has not been started yet.

20.2. No expenditures have been certified in the AAR reference period.

The detailed information on the implementation of the before mentioned recommendations is provided in the *Annex 1* to the AAR.

5. Audits of projects

21. In compliance with Paragraph 1(c) of Article 5.5 of the Regulations on the implementation of the EEA/Norwegian Financial Mechanisms 2014-2021 the AA ensures that audits are carried out on projects on the basis of an appropriate sample to verify expenditure declared. No expenditure was declared during the AAR reference period (accounting year).

6. Coordination between audit bodies and supervisory work of the AA

22. All audits were performed solely by the AA, no functions of the Audit Authority are delegated.

7. Other information

7.1. Fraud identification

23. No fraud or suspicions of fraud were detected in the context of the audits performed by the AA within the scope of AAR reference period.

7.2. Self-assessment of the Audit Authority

24. Taking into account the provisions of Article 5.7 of the *Regulations on the implementation of the EEA/ Norwegian Financial Mechanisms 2014-2021*, requiring to submit a detailed description of the MCS to the FMO, including an outline of the structure and procedures of the Audit Authority, the AA has performed a self-assessment within the framework of the management and control system conformity assessment audit of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism.

Information on the implementation of recommendations included in the Self-assessment report No. SA/NFI-EEZ/2018/14-RI is summarized below.

25. The Single audit Strategy will be prepared in compliance with article 5.5.1(d) of the Regulations on the implementation of the EEA/ Norwegian Financial Mechanisms 2014-2021) within 9 months of approval of the last programme as a design and specific features of programmes and projects should be taken into account preparing an audit strategy.
26. 2 recommendations are implemented and 2 – partly implemented. The detailed information on the implementation of the before mentioned recommendations is provided in the *Annex 2* to the AAR. The updating of procedure for performance of system audits is in progress, as a result there the single system audit procedure will be approved for auditing EEA FI/NFI 2014-2021 and ESI funds 2014-2020.

8. Overall level of assurance

27. The overall conclusion of the Compliance Assessment audit No. SA/NFI-EEZ/2018/14 was that the MCS complies with the requirements set forth in Article 5.1 and Paragraph 3 of Article 5.7 of the Donor States' Regulations. Except that procedures have not been developed that affected our opinion (other deficiencies have not affected our opinion):

Table 3

Criterion No. ⁶	Criterion description	Deficiency description	Reference to the recommendation in the Deficiency Elimination Plan (see Annex 1)
1.3.	Procedures to ensure correctness and regularity of expenditure have been developed	- internal procedures have not been developed in the NFP and the CA	8

28. As it can be seen in *Table 2* and *Annex 1* of this AAR, the Deficiency/Recommendation No.8 is eliminated partially: On the date of preparation of this AAR, the NFP has developed:

28.1. The Horizontal Cabinet Regulation (approved on 13.11.2018).

28.2. Procedure for implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 period project "Technical Assistance Fund 2018-2025".

29. The CA has developed:

29.1. Procedures, by which certification of expenditure within the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for the period from 2014 to 2021 is ensured.

30. The NFP has not developed:

30.1. Procedure for implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 period project "Bilateral

⁶See Section ASSESSMENT CRITERIA AND METHODOLOGY of the Compliance Assessment Report No. SA/NFI-EEZ/2018/14

Cooperation Fund". According to information provided by the responsible entity on 12 February 2019, it is planned to develop and approve the procedure till 1 March 2019.

- 30.2. The NFP guidelines "Guidelines for conducting verifications at the place of implementation of the project co-funded from the European Economic Area, Norwegian Financial Mechanism and for documents supporting eligible costs of the projects and their inspections during the period from 2014 to 2021" specified in the MCS description. It is planned, that the guidelines will be developed according to approved deficiencies implementation plan – till 30 March 2019.
31. In our opinion a development of "Procedure for implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 period project "Bilateral Cooperation Fund"" is important for implementation of activities within the scope of Bilateral fund, however lack of this procedure does not have major impact on the MCS because no bilateral activities have been performed until now, and there is no impact on the rest of MCS. And as the implementation of programmes has not started yet and no projects are approved, lack of the NFP guidelines also has no major impact on the MCS at the moment. However, it is important to develop the NFP guidance note for on-the-spot checks before the Programme operators have developed MCS of Programmes. This would guarantee unified terms and approach to the on-the-spot checks within the scope of the Beneficiary State.

9. The audit opinion

32. The Audit Opinion of the Audit Authority is prepared in accordance with the Paragraph 1.(e)(ii) of Article 5.5 and Paragraph 3 of Article 5.7 of the *Regulations on the implementation of the EEA/Norwegian Financial Mechanisms 2014-2021*, ISA 800 "Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks" and ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information".
33. The Audit Opinion on effective functioning of MCS and legality and regularity of transactions is not provided because:
- 33.1. only the MCS Compliance assessment and a follow-up audits were performed. It was not possible to perform an audit on the effective functioning of the MCS because it is not fully functioning yet and Beneficiary state level MCS and MCSs of programmes are not approved yet (*Section 4*),
- 33.2. it was not possible to perform audits on projects on the basis of an appropriate sample so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the Donor states are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular, because expenditure was not declared in the AAR reference period (*Section 5*).
34. In terms of compliance assessment, our opinion changes from qualified to unmodified because, by the follow-up audit date, the national regulation and internal procedures listed in article 11 of our Compliance Assessment report No.SA/NFI-EEZ/2018/14 are mostly developed and approved. Two internal procedures which do not have major impact on the functioning of the MCS are in the process of development and coordination with other entities involved in the management of EEA FI/NFI.

Thus regarding the AAR reference period the Audit Authority concludes to have a Disclaimer of Opinion as it is set out in *Table 4*.

Table 4

MCS audit results	Materiality level		Systemic error where financial correction cannot be prevented	
	Below the materiality level < 2%	Above the materiality level > 2%	Material, but not pervasive	Material and pervasive
1	Unqualified opinion	Qualified opinion	-	-
2	Unqualified opinion	Qualified opinion	Qualified opinion	-
3	Qualified opinion	Qualified opinion / Adverse opinion	Qualified opinion / Adverse opinion	Adverse opinion
4	Adverse opinion	Adverse opinion	Adverse opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Disclaimer No expenditure was included into IFRs and declared to FMO within the AAR reference period	Disclaimer	Disclaimer because no system audits were performed	Disclaimer

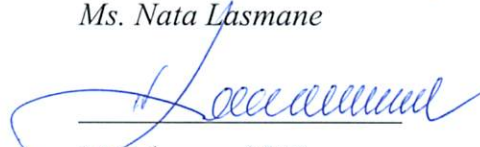
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15 February 2019

Approved by:
Head of the Audit Authority
Ms. Nata Lasmane



15 February 2019

Annex 1 - Deficiencies elimination plan of Compliance Assessment Audit No.SA/NFI-EEZ/2018/14

No.	Reference to the finding No.	Recommendation	Recommendation priority and deadline for implementation	Responsible authority	Responsible entity	Deficiencies elimination measures	State of implementation of recommendations
1	2	3	4	5	6	7	
MCS meeting the MCS requirements specified in Article 5.1 of the Donor States' Regulations							
Functions of the entities concerned in management and control of financial mechanisms are defined and allocated within each entity							
1.	1.2.2.	NFP to provide for development of the communication strategy that ensures implementation of communication requirements specified in the Donor States' Management Documents in the NFP and other institutions involved in implementing the financial mechanisms.	High, 01.06.2018	NFP	CD	By the 18 June 2018 e-mail, the Communication Strategy prepared by the CD of the MoF has been submitted to the AA ⁷ , which has already been transmitted to the Donor States on 14 June 2018. In general, the Communication Strategy meets the minimum requirements prescribed by Annex 3 of the Donor State Regulations "Information and Communication Requirements for EEA/NFM 2014-2021" with respect to information to be included in the Communication Strategy, as well as the content of the website. Two websites are updated in Latvian and, from time to time, in English - https://www.eeagrants.lv/ and https://www.norwaygrants.lv/ .	Implemented (18 June 2018).
2.	2.1.	NFP to develop internal procedures to perform the functions of the Irregularities Authority.	Medium, 30.03.2019	NFP	EUFMD	Based on the submitted information, the NFP, by 30 March 2019, plans to develop the internal procedure <i>Procedure under which the National Focal Point Detects and Assesses Possible Irregularities and</i>	Term for implementation of the recommendation not yet due.

⁷ Communication Strategy for the European Economic Area and Norway Grants 2014-2021 in Latvia, 2018

						<i>Information on Irregularities Detected in the Project Implementation in the Management of the EEA / Norwegian Financial Mechanisms 2014 - 2021.</i>	
3.	3.1, 3.2.	CA to develop internal procedures by defining the procedures for implementing the CA functions specified in the Donor States' Regulations.	Medium, 31.12.2018	CA	CA	<p><i>Procedure for Ensuring the Certification of Expenditure Incurred within the Scope of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021 No. PR.ELD. No. 2 and Provision of the Flow of Funds of the Norwegian Financial Mechanism and European Economic Area Financial Mechanism 2009 - 2014 and 2014 - 2021 No. PR.ND.No.1 both of 11 January 2019, developed by the CA, were electronically submitted on 14 January 2019.</i></p> <p><i>The transaction description of the CA, dated 15 January 2019 Performance of Disbursements and Reimbursements of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021 DA.VK.No. 31 was electronically submitted on 15 January 2019.</i></p> <p><i>The CA functions provided for by the Donor State Regulations are ensured in the above-mentioned procedures.</i></p>	Implemented (15 January 2019).
Compliance with the principle of separation of functions between entities involved in the management of financial mechanisms and in each entity achieved							
4.	6.1.3.1.- 6.1.3.6.	NFP to determine the institution/entity responsible for	Medium, 30.03.2019	NFP	EUFMCD	CoM Regulation of 13 November 2018 No. 683	

		making decisions regarding irregularities found as a result of the inspections specified in the report findings No. 6.1.3.1 to 6.1.3.5 (findings No. 6.1.3.1-6.1.3.6)			EUFMD	<i>Regulation on the Management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021</i> , has been developed, determining the person in charge of adoption of the decision in case of irregularities in the programmes and the TA Fund. In accordance with information provided by the NFP in electronic form on 21 December 2018 it is planned to determine the person in charge of adoption of the decision in case of irregularity within the scope of the Fund for Bilateral Relations in the internal procedure of the MoF <i>Procedure for Implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Project "Fund for Bilateral Relations"</i> .	Term for implementation of the recommendation not yet due.
5.	6.1.3.3.	To make the verifications referred to in finding 6.1.3.3 effective as well as to avoid wasting resources, we recommend the NFP to provide an example of technical specifications to the PO/Agencies as well as implementers of strategic-level initiatives for use in arranging procurement (and which the institution's internal audit unit will also be able to use as terms of reference for the audit) by proactively ensuring that the inspections of documents	Medium, 30.03.2019	NFP	EUFMCD (in cooperation with EUFMD)	In accordance with information provided by the NFP in electronic form on 21 December 2018 the process of development and coordination of the agreement on the first approved strategic level initiative is taking place and the text of the agreement incorporates the clause that the promoter of the initiative for the purposes of selecting certified auditor must use the recommendations developed by the MoF for ensuring the performance of the verification of the certified auditor.	Term for implementation of the recommendation not yet due.

		supporting expenditure from the Bilateral Cooperation Fund are carried out in accordance with the requirements defined by the Donor States, such as those pertaining to the inspection objective, minimum amount and documents inspected.				Following the development of the recommendations for selection of the certified auditor, it is planned to transmit them to all POs/Agencies as a template for use in selection of certified auditors, and the NFP will also ensure the posting thereof on the EEA/NFM websites (www.eeagrants.lv ; www.norwaygrants.lv). Draft of the recommendations of the National Focal Point for Ensuring the Performance of Selection of the Certified Auditor has been developed and sent for coordination to the PMB, the Treasury and the AA.	
6.	6.2.1.	It is necessary to ensure including the functions of MF CD determined in the MCS description (providing for the FP publication and communication activities and monitoring of compliance with the information and communication requirements defined for the financial mechanisms program managers) in the internal procedures of the Department, for example in the by-laws.	Medium, 30.03.2019	NFP	CD	On 18 June 2018, an updated By-laws of the CD have been submitted – the functions (tasks) of the MoF CD with respect to the EEA/NFM specified in the MCS description were incorporated in Clause 5.10 and Clause 5.17.	Implemented (18 June 2018).
7.	6.2.2.	We recommend to update by-laws of the MF EUFMD to include all the functions for the implementation of the financial mechanism envisaged for 2014-2021.	Medium, 30.03.2019	NFP	EUFMD	By the 5 July 2018 e-mail, the NFP submitted an updated By-laws of the MoF EUFMD, supplemented by the functions to be implemented for the EEA/NFM, <i>inter alia</i> , ensuring the complaints mechanism.	Implemented (05 July 2018).

Procedures to ensure correctness and regularity of expenditure have been developed							
8.	11.	NFP to provide for the development of <u>the Horizontal Cabinet Regulation⁸</u> , <u>the respective NFP guidelines⁹</u> and the	Medium, 31.12.2018 (CA), 30.03.2019 (NFP) Within 2 months after entry into force of the management regulations of the Cabinet (FMD)	NFP	EUFMCD	The CoM Regulation of 13 November 2018 No. 683 <i>Regulation on the Management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021</i> , has been developed and approved, providing that the PO/Agency shall include at least the following information in the project contract: eligible costs, conditions for the eligibility of costs, requirements for the expenditure eligibility check, as well as the time period, during which the expenditures may be considered eligible. The principles of eligibility of costs of the Fund for Bilateral Relations are incorporated in the referred to CoM Regulation in	Term for implementation of the recommendation not yet due. Recommendation partially implemented (please see Section "Taken/planned measures for the prevention of deficiencies").

⁸Cabinet Regulation "European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for the period from 2014 to 2021 management regulations"

⁹ "Guidelines for conducting verifications at the place of implementation of the project co-funded from the European Economic Area, Norwegian Financial Mechanism and for documents supporting eligible costs of the projects and their inspections during the period from 2014 to 2021"

		<p><u>internal procedures of the MF</u>¹⁰ specified in the MCS description as well as the CA¹¹ to develop the internal procedures to ensure regularity and correctness of the financial mechanism expenditure listed in the MCS description.</p>				<p>accordance with that, which is stated in the Donor State Regulations.</p> <p>Based on information provided by the NFP, the <i>Guidelines for Performance of On-site Verifications of the Project Co-financed by the European Economic Area, Norwegian Financial Mechanisms and the Supporting Documents of the Eligible Costs of the Programmes and Projects and the Verifications Thereof in 2014 - 2021</i> will be developed within the set term - by 30 March 2019. Draft Guidelines have been developed and sent to the authorities involved in the management of the EEA FI/NFI and experts for comments on 5 February 2019.</p>	
					FMD	<p>The CoM Regulation of 13 November 2018 No. 683 <i>Regulation on the Management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021</i>, has</p>	<p>Partly implemented (It was planned to implement the recommendation within the term prescribed by</p>

¹⁰ "Procedure for implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 period project "Technical Assistance Fund 2018-2025" and Procedure for implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 period project "Bilateral Cooperation Fund"

¹¹"Procedures, by which certification of expenditure within the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for the period from 2014 to 2021 is ensured"

						<p>come into force on 16 November 2018¹².</p> <p>On 05 February 2019 the MoF FMD electronically submitted information that:</p> <ul style="list-style-type: none"> - <i>Procedure for Implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Project "Technical Assistance Fund 2018 - 2025" is prepared and sent for signature;</i> - <i>Procedure for Implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Project "Fund for Bilateral relations", sent for coordination with other entities involved till 11 February 2019.</i> 	the MCS Description ¹³⁾
				CA	CA	<p>The 11 January 2019 <i>Procedure for Ensuring the Certification of Expenditure Incurred within the Scope of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021</i> No. PR.ELD.No. 2 was</p>	Implemented (14 January 2019)

¹² In accordance with information specified on the website of legislation of the Republic of Latvia: (<https://likumi.lv/ta/id/303045-eiropas-ekonomikas-zonas-finansu-instrumenta-un-norvegijas-finansu-instrumenta-2014-2021-gada-perioda-vadibas-noteikumi>)

¹³ Clause 2.1.3 of the MCS Description submitted to the Donor States specifies that the referred to procedures will be developed within the period of 2 (two) months from coming into effect of the contracts and the CoM management regulation with respect to the TA and the Fund for Bilateral Relations (Contract on the Fund for Bilateral Relations has been signed on 12 December 2018 and the Technical Assistance Contract has been signed on 25 September 2018).

						electronically submitted on 14 January 2019. The referred to document specifies the CA controls for the certification of the expenditure included in the programme interim/final financial reports in accordance with that, which is stated in the Financial Guidelines of the Donor State (version of September 2018).	
A reliable system has been developed for the accounting, monitoring of funding and financial reporting in computerised form							
9.	13.	NFP to develop internal procedures for the responsible authorities submitting the reports to the NFP, CA and AA.	Medium, 30.03.2019	NFP	EUFMCD	The CoM Regulation of 13 November 2018 No. 683 <i>Regulation on the Management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021</i> has been developed and approved, prescribing the procedure under which the responsible authorities submit reports to the NFP, the CA and the AA. Taking into account the provisions of the CoM Regulation, the CA has prepared the procedure ¹⁴ for submission of the interim and final financial reports to the authority.	Implemented (13 November 2018).

¹⁴ Procedure for Preparation of the Information Sources to be Appended to the Interim and Final Financial Report of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 (at the moment of preparation of the report of audit No.SA/NFI-EEZ/2018/20 the procedure is under the draft stage)

Reporting and monitoring procedures have been developed for irregularities and recovering unduly paid amounts						
10.	26.	NFP to provide for the Horizontal Cabinet Regulation and guidelines as well as to develop the internal procedures of the NFP defining the procedures for management and administration of irregularities in institutions involved in the implementation of the financial mechanisms (including detection, assessment, decision-making, accounting, reporting, recovery, reallocation of released funding) depending on its competency.	Medium, 30.03.2019	NFP	EUFMCD	<p>The CoM Regulation of 13 November 2018 No. 683 <i>Regulation on the Management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021</i> has been developed, describing the procedures for assessment, decision-making, reporting, recovery and accounting of irregularities to be observed by the institutions involved in the EEA/NFM MCS, nevertheless the AA did not obtain the confidence regarding the following aspects not included in the referred to CoM Regulation and to be assessed after the development of the NFP guidelines and internal procedures:</p> <ul style="list-style-type: none"> - person in charge of adoption of the decision on detection of irregularity with the Fund for Bilateral Relations; - procedure, under which the NFP submits to the Donor States the reports on the detected irregularities; - the reallocation and monitoring of the funding released as a result of irregularities. <p>Based on information provided by the NFP in electronic form on 21 December 2018, the NFP, by 30 March 2019, plans to develop</p>
						Term for implementation of the recommendation not yet due.

						<p><i>Guidelines for Performance of On-site Verifications of the Project Co-financed by the European Economic Area, Norwegian Financial Mechanisms and the Supporting Documents of the Eligible Costs of the Programmes and Projects and the Verifications Thereof in 2014 - 2021; the Draft Guidelines has been developed and sent to the authorities for comments on 5 February 2019.</i></p>	
					EUFMD	<p>Based on information provided by the NFP in electronic form on 21 December 2018, by 30 March 2019 it plans to develop:</p> <ul style="list-style-type: none"> - <i>Procedure under which the National Focal Point Detects and Assesses Possible Irregularities and Information on Irregularities Detected in the Project Implementation in the Management of the EEA / Norwegian Financial Mechanisms 2014 - 2021 in accordance with the term prescribed by the MCS Description.</i> - <i>Guidelines for Reporting and Informing about Irregularities, Registration of Irregularities and Application of Financial Corrections in the Projects Co-financed by the European Economic Area, Norwegian Financial Mechanisms in accordance with the term</i> 	<p>Term for implementation of the recommendation not yet due.</p>

						prescribed by the MCS Description.	
11.	26.	CA to develop internal procedures defining the procedures for the implementation of the defined functions in relation to the administration of irregularities within its competency.	Medium, 31.12.2018	CA	CA	<p><i>Procedure for Ensuring the Certification of Expenditure Incurred within the Scope of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021</i> No. PR.ELD. No. 2 and <i>Provision of the Flow of Funds of the Norwegian Financial Mechanism and European Economic Area Financial Mechanism 2009 - 2014 and 2014 - 2021</i> No. PR.ND.No. 12 both of 11 January 2019 developed by the CA, were electronically submitted on 14 January 2019.</p> <p><i>Performance of Disbursements and Reimbursements of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021</i> DA.VK.No. 31, approved on 15 January 2019, was electronically submitted on 15 January 2019.</p> <p>The above-mentioned procedures prescribe, how the CA functions are implemented with respect to the administration of irregularities in accordance with the competence of the CA prescribed by the Donor States.</p>	Implemented (15 January 2019).
Financial mechanisms management and control system meets the generally accepted accounting principles							
The developed computerised accounting system meets the 15 December 2009 Cabinet Regulation No. 1486 "Procedures by which budget institutions shall organise the accounting thereof"							

12.	27.3, 28.	MF FMD and CA to provide for development of internal procedures by determining the procedure in which accounting of transactions specified in findings 27.3 and 28 of the Report will be organised during the financial mechanisms 2014-2021 period.	Medium, 31.12.2018 (CA), Within 2 months after entry into force of the management regulations of the Cabinet (NFP)	NFP	FMD	<p>CoM Regulation of 13 November 2018 No. 683 <i>Regulation on the Management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021</i>, has come into force on 16 November 2018⁷.</p> <p>On 12 February 2019 the MoF FMD electronically submitted information that:</p> <ul style="list-style-type: none"> - <i>Procedure for Implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Project "Technical Assistance Fund 2018 – 2025 is prepared and sent for signature;</i> - <i>Procedure for Implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Project "Fund for Bilateral relations is currently under development - it was sent for internal coordination till 11 February 2019.</i> 	Partly implemented
				CA	CA	<p><i>Procedure for Ensuring the Certification of Expenditure Incurred within the Scope of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021 No. PR.ELD. No. 2 and Provision of the Flow of Funds of the Norwegian Financial Mechanism and</i></p>	Implemented (15 January 2019).

						<p><i>European Economic Area Financial Mechanism 2009 - 2014 and 2014 - 2021</i> No. PR.ND.No. 12 both of 11 January 2019 developed by the CA, were electronically submitted on 14 January 2019.</p> <p><i>Performance of Disbursements and Reimbursements of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021</i> DA.VK.No. 31, approved on 15 January 2019, was electronically submitted on 15 January 2019.</p> <p>The above-mentioned procedures prescribe the procedures for accounting the FM funds in the NFP's management system SAP ERP.</p>	
The approved accounting organisation documents define the correspondence of accounts for accounting expenditure declared to the Donor States							
13.	30., 31.	MF FMD and CA to provide for development of internal procedures by determining the procedure in which separation of the financial mechanisms transactions specified in findings 30 and 31 of the Report in accounting will be ensured during the financial mechanisms 2014-2021 period.	Medium, 31.12.2018 (CA), Within 2 months after entry into force of the management regulations of the Cabinet (NFP)	NFP	FMD	<p>CoM Regulation of 13 November 2018 No. 683 <i>Regulation on the Management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021</i>, has come into force on 16 November 2018⁷.</p> <p>On 12 February 2019 the MoF FMD electronically submitted information that:</p> <ul style="list-style-type: none"> - <i>Procedure for Implementation of the European Economic Area Financial Mechanism and the</i> 	Partly implemented

						<p><i>Norwegian Financial Mechanism 2014-2021 Project "Technical Assistance Fund 2018 - 2025" is prepared and sent for signature;</i></p> <p>- <i>Procedure for Implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Project "Fund for Bilateral relations", is currently under development, it is planned to sent it for internal coordination till 11 February 2019.</i></p>	
				CA	CA	<p><i>Provision of the Flow of Funds of the Norwegian Financial Mechanism and European Economic Area Financial Mechanism 2009 - 2014 and 2014 - 2021 No. PR.ND.No. 12 of 11 January 2019 developed by the CA, was electronically submitted on 14 January 2019.</i></p> <p>In accordance with the referred to procedure, a separate flow is ensured in the SAP ERP accounting system for each EEA/NFM programme.</p>	Implemented 14 (January 2019).
MCS is proportionate to the efficiency of attaining the objectives of financial mechanisms							
Supervision of Program/project implementation provides for administrative checks and on-the-spot verifications, based on the conducted project risk assessment							
14.	35.8.	NFP to ensure that the procedure of monitoring and control of the financial mechanisms is reflected in the Horizontal Cabinet Regulations.	High, 01.10.2018	NFP	EUFMCD	CoM Regulation of 13 November 2018 No. 683 <i>Regulation on the Management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021</i> , has	Implemented (13 November 2018).

						been developed, describing the FM monitoring and control mechanism.	
15.	33.4.	We recommended setting forth in the certification form specified in the finding 33.4 that the auditor's work has been carried out in accordance with the provisions of the technical specifications of the procurement / example of technical specifications described in recommendation 5 and provided by the NFP, or to provide for other equivalent controls.	Medium, 30.03.2019	NFP	The responsible person will be assigned during the program development	Based on information provided by the NFP in electronic form on 21 December 2018, the form of acknowledgement is being developed and intended to be attached as annex to the contracts with the promoters of the initiatives of the Fund for Bilateral Relations.	Term for implementation of the recommendation not yet due.
Administrative checks / on-the-spot verifications are carried out selectively, based on appropriate risk assessment							
16.	37., 38., 39., 40.	NFP to provide guidelines and MF FMD, PMB, CA to develop internal procedures describing the method of sampling and volume of inspections specified in findings 37, 38 and 39 of the Report, including for the Bilateral Cooperation Fund expenditure.	Medium, 30.03.2019 (NFP) 31.12.2018 (CA and PMB)	NFP	EUFMCD	Based on information provided by the NFP in electronic form on 21 December 2018, the <i>Guidelines for Performance of On-site Verifications of the Project Co-financed by the European Economic Area, Norwegian Financial Mechanisms and the Supporting Documents of the Eligible Costs of the Programmes and Projects and the Verifications Thereof in 2014 - 2021</i> will be developed by 30 March 2019. Draft Guidelines have been developed and sent to the authorities for comments by 5 February 2019.	Term for implementation of the recommendation not yet due.
					FMD	On 12 February 2019 the MoF FMD electronically submitted information that a <i>Draft Procedure for Implementation of the European Economic Area Financial Mechanism</i>	Term for implementation of the recommendation not yet due.

						<p><i>and the Norwegian Financial Mechanism 2014-2021 Project "Fund for Bilateral Relations 2018 - 2025" has been sent for internal coordination till 11 February 2019.</i></p>	
				PMB	PMB	<p>On 21 December 2018, the following documents have been received from the PMB in electronic form:</p> <ul style="list-style-type: none"> - <i>Methodology for Performance of the Ex-ante Verifications of Procurements for Programme Operators and Agencies in 2014 - 2021 No. 1</i> of 21 December 2018, prescribing the method of selection of ex-ante verifications of the procurements, risk assessment of the procurements and minimum scope of ex-ante verifications of the procurements, to be observed by POs/Agencies; - <i>Procedure under which the Procurement Monitoring Bureau Implements the Ex-ante Verifications of the Procurements of the Projects of the European Economic Area and Norwegian Financial Mechanism and Checks the Ex-ante Verifications of the Procurements Carried out by the Programme Operators and the Agencies in 2014 - 2021 No. 1-11/22</i> of 21 December 2018, prescribing 	<p>Implemented (21 December 2018).</p>

						the scope of the verifications to be carried out within the scope of the competence of the PMB, risk-based sampling method, procedure for issuance of the opinions.	
				CA	CA	<i>Procedure for Ensuring the Certification of Expenditure Incurred within the Scope of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021</i> No. PR.ELD.No. 2 of 11 January 2019 was electronically submitted on 14 January 2019, prescribing the risk-based sampling method and scope of the planned verifications under the competence of the CA.	Implemented (14 January 2019).
Supervision of Program/project implementation provides for ex-ante checks, follow-up checks, based on appropriate risk assessment							
17.	42, 43., 44., 45.	MF FMD, the PMB, the CA to develop internal procedures regarding the inspections specified in findings 42, 43, 44 of the Report within their respective competency.	Medium, 30.03.2019 (NFP) 31.12.2018 (CA and PMB)	NFP	FMD	On 12 February 2019 the MoF FMD electronically submitted information that <i>Draft Procedure for Implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Project "Fund for Bilateral Relations 2018 - 2025"</i> has been sent for internal coordination till 11 February 2019.	Term for implementation of the recommendation not yet due.
				PMB	PMB	On 21 December 2018, the following documents have been received from the PMB in electronic form: - <i>Methodology for Performance of the Ex-ante Verifications of Procurements for Programme</i>	Implemented (21 December 2018).

						<p><i>Operators and Agencies in 2014 - 2021 No. 1 of 21 December 2018, prescribing common principles of documentation/performance of ex-ante verifications of the course of the procurements carried out by POs/Agencies;</i></p> <p><i>- Procedure under which the Procurement Monitoring Bureau Implements the Ex-ante Verifications of the Procurements of the Projects of the European Economic Area and Norwegian Financial Mechanism and Checks the Ex-ante Verifications of the Procurements Carried out by the Programme operators and the Agencies in 2014 - 2021 No. 1-11/22 of 21 December 2018, prescribing the procedure under which the PMB selects and resolves upon the ex-ante verification of the procurement documentation/course, issues its opinions, ascertains the practical application of the referred to methodology developed by the PMB.</i></p>	
				CA	CA	<p><i>Procedure for Ensuring the Certification of Expenditure Incurred within the Scope of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014-2021 No.PR.ELD.No.2 of 11 January 2019, developed by the CA was electronically submitted on 14 January 2019, containing the</i></p>	<p>Implemented (14 January 2019.)</p>

						methodology under which the authority carries out the verifications of the programme interim/final financial reports, including the verifications of the supporting documentation of the programme administrative/TA/NFP Fund for Bilateral Relations expenditures, as well as the transfers made for the projects and the payments made for the initiatives of the Fund for Bilateral Relations.	
Special tools: IT tools, forms, checklists are used for monitoring/inspection							
18.	48.	MF FMD to develop internal procedures by determining the way how inspections of documents supporting expenditure of the Bilateral Cooperation Fund in other departments of the MF will be documented.	Medium, 30.03.2019 (NFP)	NFP	FMD	On 12 February 2019 the MoF FMD electronically submitted information that <i>Draft Procedure for Implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Project "Fund for Bilateral Relations 2018 - 2025"</i> has been sent for coordination till 11 January 2019.	Term for implementation of the recommendation not yet due.
19.	49, 50	The PMB and the CA to develop internal procedures by determining the manner how inspections carried out within the competency of the institution will be documented.	31.12.2018 (CA and PMB)	PMB	PMB	On 21 December 2018, the following documents have been received from the PMB in electronic form: - <i>Methodology for Performance of the Ex-ante Verifications of Procurements for Programme Operators and Agencies in 2014 - 2021</i> No. 1 of 21 December 2018;	Implemented (21 December 2018)

					<p>- <i>Procedure under which the Procurement Monitoring Bureau Implements the Ex-ante Verifications of the Procurements of the Projects of the European Economic Area and Norwegian Financial Mechanism and Checks the Ex-ante Verifications of the Procurements Carried out by the Programme Operators and the Agencies in 2014 - 2021</i> No. 1-11/22 of 21 December 2018.</p> <p>The above-mentioned procedures prescribe how the PO/Agency and the PMB, for the purposes of ex-ante verifications of the procurements, apply the checklists contained in <i>Methodology for Performance of Ex-ante Verifications of the Procurements for the Cooperation Authority in the European Union Structural Funds and Cohesion Fund Programming Period 2014 - 2020</i>, while, for the purposes of documenting the checks regarding the ex-ante verifications of the procurements carried out by the POs/Agencies, the PMB applies the materials contained in the annexes to the Methodology of the Structural Funds. Information about the above-mentioned verifications is</p>	
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						accumulated in the registers of verifications.	
				CA	CA	<p><i>Procedure for Ensuring the Certification of Expenditure Incurred within the Scope of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014 - 2021</i> No.PR.ELD.No.2 of 11 January 2019 was electronically submitted on 14 January 2019, under which the checklists have been developed for the verifications to be performed within the scope of the competence of the authority, the controls are being registered in the <i>Excel</i> registers.</p>	<p>Implemented (14 January 2019)</p>

Annex 2 - Plan of Prevention of Deficiencies of the Self Assessment of the Compliance of the Management and Control System for the period 2014-2021 of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism in the Audit Authority

No. -	Reference to the finding No. of the Self-assessment report	Recommendation	Term for implementation of recommendation	Responsible institution	State of implementation of recommendations
1	2	3	4	5	
1.	1.6	<p>For AA to develop internal procedures for the preparation and submission of the documents referred to in Article 1.5 (statement No.1.6) of this Self Assessment Report to Donor States.</p> <p>Procedures described in Article 1.5 of the self-assessment report for preparation of:</p> <ol style="list-style-type: none"> 1. audit strategy (submitted to Donor States upon request); 2. annual audit report on audits carried out during the previous 12 months (end of period December 31); 3. an opinion on the effectiveness of the MCS functioning; 4. closure declaration. 	31.12.2018.	AA	<p>Partly implemented</p> <p>1) Audit strategy: The Single Audit Strategy (in compliance with article 5.5.1(d) of the <i>Regulations on the implementation of the EEA/ Norwegian Financial Mechanisms 2014-2021</i>) will be prepared by the AA within 9 months of approval of the last programme and will cover a period from 2019 to 2025. The audit strategy shall set out the audit methodology, the sampling method for audits on projects and the indicative planning of audits to ensure that audits are spread evenly throughout the programming period.</p> <p>2, 3, 4) Methodology: the AA has prepared and approved an internal procedure for the preparation and submission of an annual audit report and opinion on the effectiveness of the functioning of the MCS. The procedure includes also a section for preparation of a closure declaration.</p>
2.	6.	For AA to complete the coordination process of the Cabinet Regulations on the procedure for ensuring the functions of AA during the period of 2014-2021 and submit the Cabinet Regulations for approval to the Cabinet (Finding No. 6).	31.12.2018.	AA	<p align="center">Implemented (Cabinet Regulations approved on 13.11.2018.)</p>

3.	5.	For AA to update internal procedures for carrying out project audits and system audits for the Financial Mechanism 2014-2021 period.	31.12.2018.	AA	<p>Partly implemented.</p> <p>The internal procedure for carrying out project audits is updated for EEA FI/NFI purposes.</p> <p>The internal procedure for carrying out system audits is being updated and as a result there will be single methodology for EEA FI/NFI 2014-2021 and ESI funds 2014-2020.</p>
4.	4.	For AA to foresee in the audit strategy, that at least one audit is carried out under each program in accordance with the Article 5.5.1.b of the Donor State Regulations.	31.12.2018.	AA	<p>Implemented</p> <p>The provision to carry out at least one audit under each program in accordance with the Article 5.5.1.b of the Donor State Regulations is included into the updated MCS description.</p>

Annex 3 - Evaluation Criteria of *Compliance Assessment Audit No.SA/NFI-EEZ/2018/1*

1. Criteria according to MCS requirements specified in Article 5.1 of the Donor States' Regulations:

- 1.1. Functions of the entities concerned in management and control of financial mechanisms are defined and allocated within each entity;
- 1.2. Compliance with the principle of separation of functions between entities involved in the management of financial mechanisms and in each entity is achieved;
- 1.3. Procedures to ensure correctness and regularity of expenditure have been developed;
- 1.4. A reliable accounting, monitoring and financial reporting system in computerised form has been developed;
- 1.5. A system of reporting and monitoring has been elaborated where the responsible entity entrusts the execution of tasks to another entity;
- 1.7. Systems and procedures to ensure adequate audit trail have been developed;
- 1.8. Reporting and monitoring procedures for irregularities and for the recovery of amounts unduly paid have been developed.

2. Criteria to evaluate the compliance with generally accepted accounting principles:

- 2.1. 15 December 2009 Cabinet Regulation No. 1486 "Procedures by which budget institutions shall organise the accounting thereof";
- 2.2. The approved accounting organisation documents define the correspondence of accounts for accounting expenditure declared to the Donor States.

3. Criteria to assess the proportionality of the MCS's requirements in relation to the effectiveness of achieving the objectives of programmes:

- 3.1. Supervision of Program/project implementation provides for administrative checks and on-the-spot verifications, based on the conducted project risk assessment;
- 3.2. Administrative checks/on-the-spot verifications are carried out selectively, based on appropriate risk assessment;
- 3.3. Supervision of Program/project implementation provides for ex-ante checks, follow-up checks, based on appropriate risk assessment;
- 3.4. Special tools: IT tools, forms, checklists are used for monitoring/verification.