

INDEPENDENT AUDITOR'S REPORT

*To: EEA Financial Mechanism Committee and
Norwegian Ministry of Foreign Affairs*

Opinion on compliance of the management and control system established in Latvia for implementation of EEA/Norwegian Financial Mechanisms 2014-2021 (MCS), effective functioning of MCS and legality and regularity of transactions

In accordance with Art.5.7.3 of the Implementing Regulations¹ and ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information"

1. In our opinion, based on the audit work performed and applying the evaluation criteria set out in Section "Assessment Criteria and Methodology" of our Compliance Assessment follow-up Audit Report No.SA/NFI-EEZ/2018/20 and described in Annex 3 of Annual Audit Report of 15 February 2019, the MCS, in all key aspects, complies with *Implementing Regulations¹* and generally accepted accounting principles and the established MCS's requirements are considered to be proportionate in relation to the effectiveness of achieving the objectives of the programmes.

In accordance with Art.5.5.1 e) (ii) of the Implementing Regulations¹ and ISA 800 "Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks"

2. Because of the significance of the matter described in the Basis for Opinion section, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion whether MCS functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the EEA Financial Mechanism Committee and Norwegian Ministry of Foreign Affairs are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.

Basis for Opinion

3. We have conducted a follow-up audit on the implementation of recommendations included into Deficiencies Elimination Plan of the Compliance Assessment Audit Report No.SA/NFI-EEZ/2018/14 and obtained sufficient and appropriate evidence in respect of 1.3 evaluation criterion "Procedures to ensure correctness and regularity of expenditure are developed" because, by the follow-up audit date, the national regulation and internal procedures 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/Norwegian Financial Mechanisms 2014-2021 (Section 8 and Annex 1 of the Annual Audit Report)*.
4. The Audit Opinion on effective functioning of MCS and legality and regularity of transactions is not provided because:
 - 4.1. only the MCS Compliance Assessment and a follow-up audit 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 of the Annual Audit Report*);

- 4.2. 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 EEA Financial Mechanism Committee and Norwegian Ministry of Foreign Affairs are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular, because expenditure was not declared in the Annual Audit Report reference period (*Section 5 of the Annual Audit Report*).

National Entities' Responsibility

5. The National Focal Point shall have the overall responsibility for ensuring that programmes contribute to the objectives of the *EEA/Norwegian Financial Mechanisms 2014-2021* as well as for ensuring that the implementation of the *EEA/Norwegian Financial Mechanisms 2014-2021* in the Beneficiary State is in line with Article 1.3 of the *Implementing Regulations*¹. The National Focal Point is also responsible and accountable for the implementation of the Memorandums of Understanding and for the full and correct implementation of the Agreement for the financing of the Technical Assistance and the Fund for Bilateral Relations at National Level.
6. The Programme Operators and Ministry of Finance as Technical Assistance (including Fund for Bilateral Relations at National Level) beneficiary is responsible for the preparation of Interim Financial Reports (IFRs) in accordance with the financial reporting provisions of Article 9.3 of the *Implementing Regulations*¹, and for such internal control as management determines is necessary to enable the preparation of the IFRs that are free from material misstatement, whether due to fraud or error.
7. The Certifying Authority is responsible for submitting to the EEA Financial Mechanism Committee and Norwegian Ministry of Foreign Affairs certified IFRs.

Audit Authority's Responsibility

8. Our responsibility is to express an opinion, on the basis of the carried out controls and audits, as to whether the MCS that has been developed for the implementation of the *EEA/Norwegian Financial Mechanisms 2014-2021* functions effectively, so as to provide a reasonable assurance that the IFRs presented to the EEA Financial Mechanism Committee and Norwegian Ministry of Foreign Affairs are correct and as a consequence reasonable assurance that the underlying transactions are legal and regular.
9. We conduct our audit in accordance with International Standards on Auditing and *Implementing Regulations*¹. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the IFRs are free from material misstatement.
10. An audit involves performing procedures to obtain audit evidence about the effective functioning of the MCS that has been developed for the implementation of the *EEA/Norwegian Financial Mechanisms 2014-2021*, as well as to obtain audit evidence about the correctness of the IFRs and legality and regularity of the underlying transactions.
11. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the functioning of the MCS that has been developed for the implementation of the *EEA/Norwegian Financial Mechanisms 2014-2021* and of the IFRs, whether due to fraud or error.

12. However, because of the matters described in paragraph 4 of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on effective functioning of MCS and legality and regularity of transactions.

15 February 2019

Head of the Audit Authority



Ms. Nata Lasmane

¹ **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 (**hereinafter – Implementing Regulations**).