

Authority: <b>Ministry of Finance</b> Department: <b>European Union Funds Investments Management Department</b>		Document name: <b>European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014–2021 Management and Control System Description</b>		
Prepared by: <b>European Union Funds Investments Management Department</b>	Approved by: <b>Head of National Focal Point</b> <b>A.Eberhards</b>	Version 4	Date: 30.05.2018 Update: 07.12.2018 Update: 31.05.2019 Update 13.09.2019	Pages: <b>1 of 79</b>



Ministry of Finance of the Republic of Latvia

**EUROPEAN ECONOMIC AREA FINANCIAL MECHANISM  
AND NORWEGIAN FINANCIAL MECHANISM  
2014–2021  
MANAGEMENT AND CONTROL SYSTEM DESCRIPTION**

***/translation/***

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### **List of abbreviations**

- AA - European Union Funds and Foreign Financial Assistance Audit Authority
- BD - Budget Department of MoF
- CD - Communication Department of MoF
- CA - Certification Authority
- Donor States - Norway, Iceland, Liechtenstein
- DMCS – description of Management and control system
- EEA - European Economic Area
- EEA FM - European Economic Area Financial Mechanism 2014-2021
- EEA FM Regulation - Regulation on the implementation of the European Economic Area Financial Mechanism 2014-2021 approved by the European Economic Area Financial Mechanism Committee on 22.09.2016.
- EEA/NFM - European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021
- EEA/NFM Regulations - Regulation on the implementation of the European Economic Area Financial Mechanism 2014-2021 and Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021
- EU - European Union
- External auditor - an independent auditor, qualified to carry out statutory audits of accounting documents FAD – EU Funds Audit Department of MoF
- FSD - EU Funds Strategy Department of MoF
- FMD - Finance and Maintenance Department of MoF
- FMO - Financial Mechanism Office
- GRACE - Financial Mechanisms electronic documentation, reporting and information system “Grants Administration and Collaboration Environment” developed by the FMO, under development
- IAD - Internal Audit Department of MoF
- IFRs – Interim Financial Reports
- IMD - EU Funds Investments Management Department of MoF
- Internal auditor – a competent and independent public officer
- JCBF – Joint Committee for Bilateral Fund

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LD - Legal Department of MoF

LIDA - Latvian Investment and Development Agency

LV - Republic of Latvia

MCS - Management and control system

MoE - Ministry of Economics

MoEPRD - Ministry of Environmental Protection and Regional Development

MoES - Ministry of Education and Science

MoC - Ministry of Culture

MoF - Ministry of Finance

MoI - Ministry of the Interior

MoJ - Ministry of Justice

NFM - Norwegian Financial Mechanism 2014–2021

NFM Regulation - Regulation on the implementation of the Norwegian Financial Mechanism 2014-2021 approved by the Ministry of Foreign Affairs of the Kingdom of Norway on 22.09.2016.

NFP - Managing Authority (National Focal Point)

NOR - Kingdom of Norway

OC - open call

PMB - Procurement Monitoring Bureau

PO - Programme Operator

SACD - State Aid Control Department of MoF

SEDA - State Education Development Agency

SMD - EU Funds System Management Department of MoF

TA - Technical Assistance to the Beneficiary State

Programmes:

EEA/NFM Programme “Research and Education”

EEA FM Programme “Local Development, Poverty Reduction and Cultural Cooperation”

EEA FM Programme “International Police Cooperation and Combating Crime”

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NFM Programme “Business Development, Innovation and Small and Medium Enterprises”

NFM Programme “Climate Change Mitigation, Adaptation and the Environment”

NFM Programme “Correctional Services”



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## 1 General section

The EEA/NFM DMCS has been developed up in accordance with the requirements of paragraph 2 of Article 5.1 of the EEA FM Regulation and the NFM Regulation (hereinafter - the EEA/NFM Regulations).

In order to reduce the administrative burden in the institutions involved in the EEA/NFM management and based on the approach of the previous EEA/NFM period<sup>1</sup>, EEA/NFM beneficiary countries, which have both financial mechanisms available, shall plan the meetings to cover both financial mechanisms.

This decision applies to:

- Organising annual meetings;
- JCBF;
- Development of the Communication Strategy;
- Development of the Annual Audit Strategy;
- Development of the DMCS;
- Irregularities Authority and regular reports of irregularities;
- Determining deadlines.

### 1.1 Basic information

- Beneficiary country:  
Republic of Latvia
- EEA/NFM implementation basis (management documents):
  - Memorandum of Understanding on the implementation of the Norwegian Financial Mechanism 2014-2021 between the Republic of Latvia and the Kingdom of Norway of December 14, 2017 and Regulation No 713 of the Cabinet of Ministers of December 5, 2017 "On the Memorandum of Understanding on the Implementation of the Norwegian Financial Mechanism 2014-2021 between the Republic of Latvia and the Kingdom of Norway";
  - Memorandum of Understanding on the Implementation of the EEA Financial Mechanism 2014-2021 between the Republic of Latvia and Iceland, the Principality of Liechtenstein and the Kingdom of Norway of December 14, 2017 and Regulation No 712 of the Cabinet of Ministers of December 5, 2017 "On the Memorandum of

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<sup>1</sup> FMO letter of 7 October 2011 specified in Paragraph 1 of the EEA/NFM 2009-2014 implementation period management and control system description (approved on 26.09.2017)

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Understanding on the Implementation of the EEA Financial Mechanism 2014-2021 between the Republic of Latvia and Iceland, the Principality of Liechtenstein and the Kingdom of Norway" (further – both Memoranda of Understanding);

- Regulations on the implementation of the NFM in 2014-2021 approved by the Norwegian Ministry of Foreign Affairs;
- Regulations on the implementation of the EEA FM in 2014-2021 approved by the EEA FM Committee;
- Guidelines for implementation of the EEA/NFM developed by the FMO and approved by the EEA FM Committee and/or Norwegian Ministry of Foreign Affairs;
- European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 Management Law (hereinafter – the Law), adopted on May 23, 2018;
- European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 management regulations No 683<sup>2</sup> (hereinafter - the Government Regulations on grants management), adopted on November 13, 2018;
- Government Regulations No 686<sup>3</sup> “Procedures for Ensuring the Functions of the Audit Authority in the management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for the period 2014-2021”, adopted on November 13, 2018.
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## **1.2 System structure (general information and scheme showing the organisational relationship between the entities involved in the management and control system)**

According to the Memoranda of Understanding and the Law, the EEA/NFM implementation management, monitoring and control functions are performed by (please see structural scheme of institutions involved in the EEA/NFM management enclosed to DMCS as an Annex 1):

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<sup>2</sup> Published on website of Laws and Regulations of Latvia: <https://likumi.lv/ta/id/303045-eiropas-ekonomikas-zonas-finansu-instrumenta-un-norvegijas-finansu-instrumenta-2014-2021-gada-perioda-vadibas-noteikumi> (in Latvian)

<sup>3</sup> Published on website of Laws and Regulations of Latvia: <https://likumi.lv/ta/id/303048-revizijas-iestades-funkciju-nodrosinasanas-kartiba-eiropas-ekonomikas-zonas-finansu-instrumenta-un-norvegijas-finansu-instrumentaad%C4%ABbas%20noteikumi%20> (in Latvian)

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**The authorities to which are entrusted the execution of part of functions of the Programme Operator (agencies<sup>4</sup>):**

**- State Education Development Agency**

**Other institutions involved in the implementation of the programmes:**

**- Ministry of Economics<sup>5</sup>**

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Head of Innovation Division

<sup>4</sup>Pursuant to Part One of Section 9 and Paragraph 12 of Section 15 of the Law, the agency and the responsibilities, functions between the PO and the agency will be determined by the Programme's Cabinet of Ministers (Government) Regulations

<sup>5</sup> Pursuant to Annex B (point 3.A) of the MoU on the Implementation of the Norwegian Financial Mechanism 2014-2021 and Part Five of Section 8 of the Law, the concept note of the Programme "Business Development, Innovation and Small and Medium Enterprises" and regulations necessary for its implementation are developed by the Ministry of Economics in collaboration with the Latvian Investment and Development Agency

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### 1.3 National legal framework

In order to ensure efficient, transparent and responsible EEA/NFM management compliant with the principles of proper financial management, and EEA/NFM implementation, the Law was adopted by the Parliament on 23 May 2018.

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<sup>6</sup> Pursuant to Annex B (point 3.B) of the MoU on the Implementation of the EEA Financial Mechanism 2014-2021 and Point 4 of the Section 2 of the Government Regulations on grants management, the Ministry of Culture performs functions of national programme partner within the programme “Local Development, Poverty Reduction and Cultural Cooperation”

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The Law determines the rights and obligations of institutions involved in the EEA/NFM management and project promoters and project partners rights and obligations, as well as the selection procedure for project applications, the procedure of adoption, challenging and appealing of decisions of institutions involved in the EEA/NFM management, and the conditions for granting the co-financing for the programme.

To ensure efficient EEA/NFM management, the following Cabinet of Ministers (Government) Regulations were adopted by the Government on November 13, 2018:

- Government Regulations on grants management;
- Procedures for Ensuring the Functions of the Audit Authority in the management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for the period 2014-2021.

The Government Regulations on grants management defines and describes procedures for the following processes:

- Programme Agreement harmonisation and conclusion;
- selection for project applications and evaluation of pre-defined projects, the content of OC rules for selection of project applications, the content of guidelines for evaluation of pre-defined projects, content of the project contract and process of contract conclusion and amendments, content and harmonization of the partnership agreement between project promoter and project partner;
- publication of information on programmes, projects and pre-defined projects and procedure to ensure compliance with visibility requirements;
- implementation of TA and Fund for Bilateral relations;
- planning of financing within State Budget to pre-finance the implementation of programmes, projects and pre-defined projects as well as procedure for payments and reporting;
- procedure for temporary suspension of payments within programmes, projects and pre-defined projects;
- procedure for the monitoring and control of the EEA/NFM;
- procedure for reporting, withdrawn and recovery of expenditures unduly paid (irregularities) as well as procedure for applying financial corrections;
- procedure and scope for ex-ante procurement checks in OC projects and pre-defined projects ensured by PO, Agency or PMB;
- procedure for verification of VAT in order to get assurance whether VAT included in the cost of programmes, projects and pre-defined projects is recoverable or non-recoverable from the state budget. If VAT is non-recoverable from state budget, decision about inclusion of VAT in eligible expenditures is taken.

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Information regarding AA’s Government Regulations “Procedures for Ensuring the Functions of the Audit Authority in the management of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism for the period 2014-2021” please find in Section 2.3.1.

In order to ensure commencement of implementation of the programmes, POs<sup>7</sup> shall develop concept notes, and the Cabinet of Ministers (Government) Regulations for Programme Implementation determining the objective of the programme, available funding, results to be attained, the PO and its duties, agency and its duties (if applicable), requirements for the project applicant or a predefined project applicant, requirements for the project partners if such are involved, the project application selection criteria, eligible actions, eligibility of expenditures, conditions for unilateral termination of the project contract, procedures for implementation of bilateral activities, as well as conditions for state aid control (if applicable).

## **2 Functions of the institutions involved in management, control and performance of support functions, and their definition**

### **2.1 Focal Point**

According to the Memoranda of Understanding, the NFP is the MoF, which is authorised to represent the beneficiary state<sup>8</sup>.

#### **2.1.1 Description of functions and tasks to be directly performed by the National Focal Point**

The functions of the NFP are:

1. to ensure preparation of Memoranda of Understanding and their amendments;
2. to ensure attaining the EEA/NFM objectives and EEA/NFM management;
3. to monitor implementation of the EEA/NFM;
4. to monitor implementation of the TA;
5. to monitor implementation of the Fund for bilateral relations<sup>9</sup> (the further described procedure of implementation of the Fund for bilateral relations is clarified in the Government Regulations on grants management (adopted on

<sup>7</sup> In case of programme “Business Development, Innovation and Small and Medium Entrepreneurs”, Investment and Development Agency of Latvia acting as PO in cooperation with the Ministry of Economics develops draft concept note and Government Regulations for Programme Implementation.

<sup>8</sup> Article 5 of the Memoranda of Understanding and Paragraph 1 of Annex A of the Memoranda of Understanding.

<sup>9</sup> Strategic-level initiative proposals are reviewed by NFP in accordance with the Government Regulations on grants management.



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November 13, 2018) and described in details within internal procedure No 1<sup>10</sup> of the MoF );

6. to establish the JCBF<sup>11</sup> and conduct meetings of the JCBF;
7. to develop national laws and regulations concerning the EEA/NFM management and implementation;
8. to ensure establishment of the EEA/NFM MCS;
9. to submit draft concept notes to Donor States and to coordinate the draft programme agreements with the PO;
10. to harmonize the OC guidelines for selection of project applications developed by the PO;
11. to review<sup>12</sup> and approve DMCS at programme level ensuring also that the reported deficiencies during EEA/NFM 2009-2014 FMO commissioned systems audits are properly addressed within procedures if relevant;
12. to view and comment the programmes' annual and final reports;
13. to perform the duties of the Irregularities Authority;
14. to establish and ensure the complaint mechanism;
15. to prepare and submit the annual and final Strategic Reports to the Donor States;
16. to ensure programmes' final evaluation measures;
17. to ensure the EEA/NFM publicity in Latvia;
18. to participate in the meetings of programme Cooperation Committees;
19. to ensure communication with/support to the POs regarding horizontal clarifications, guidelines and specific programme level issues as well as regarding trainings provided by the donorstates.

### 2.1.2 *National Focal Point structure and compliance with the principle of separation of functions*

The NFP functions in the MoF are separated from other functions of the MoF. NFP functions are performed by FSD, IMD and SMD.

Other departments of the MoF, such as FMD, BD, LD, SACD, IAD, CD, etc. are involved to ensure performance of individual tasks.

(1) FSD ensured the conclusion of Memoranda of Understanding as well as carries out an ex-post evaluation of the Programmes (prepares technical specification and coordinates

<sup>10</sup> MoF's Procedure No 1 "Procedure in which the National Focal Point ensures implementation, monitoring and assessment of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014-2021" (approved on May 25, 2018; updated on December 27, 2018).

<sup>11</sup> The Committee started its work after approval of the Government Regulations on grants management.

<sup>12</sup> Findings reported in EEA/NFM 2009-2014 FMO commissioned systems audits will be evaluated by NFP during review of the all programmes' MCS, if they are relevant, will be taken into account and properly addressed and procedures improved in new programmes..

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it with the institutions involved within management of EEA/NFM; coordinates draft of evaluation report with the institutions involved within management of EEA/NFM, submits evaluation report to FMO and coordinates follow-up of recommendations of evaluation report).

(2) IMD ensures:

- process for amendments of Memoranda of Understanding (analyses justification and necessity for amendments submitted by the PO or other institution involved within management of EEA/NFM; if NFP supports amendments – NFP submits proposal for amendments to the Donor States),

- carries out the EEA/NFM monitoring functions (coordination and progress of concept note - provides methodological support to POs for concept note development, participates in meetings organised by POs and FMO, provides opinion on draft concept notes (according to check-list verifies if the concept note is in line with Regulations, harmonisation with related departments of MoF), submits concept note to FMO; ensures conclusion and amendments of programme agreements; reviews and provides opinion on drafts of Programmes' Government Regulations (according to check-list verifies if they are in line with Regulations, Guidelines, approved concept note, national Laws and Regulations); reviews and provides opinion on OC rules for selection of project applications;

- ensuring monitoring of programmes and the programmes' results achieved (reviews and harmonises forecast of likely payment applications submitted by the POs and ensures if the forecast of likely payment applications compiled by CA complies with forecasts submitted previously by the POs; reviews and harmonises annual programme reports and progress part of final programme reports (verifies if all relevant information included, quality of information); prepares strategic report (including progress information on each programme, including description of changes within MCS, risks management, audits performed, main findings, conclusions and, if necessary, includes other information received from the institutions involved within management of EEA/NFM; provides day to day consultations for POs);

- prepares the DMCS at national level, reviews and coordinates the MCS and system audits, ensures the risk management process, develops procedures, methodologies and guidelines on the EEA/NFM management and implementation at national level<sup>13</sup>;

- cooperation within ex-ante checks of procurements (reviews and harmonises methodology of PMB for ex-ante checks; reviews reports on ex-ante checks performed by POs and PMB);

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<sup>13</sup> IMD overtook from SMD the above-mentioned function starting from July 2, 2018 (according to order of the MoF No. 201 of June 12, 2018).

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-organises annual meetings;

-reviews submitted complaints “Submission of complaints” (maintaining the register for submitted complaints) - please see detailed information in Section 7.3;

-duties of the Irregularities Authority (including development and establishment of a reporting system’s for irregularities and maintaining the irregularity register);

- as well as performs the functions of the JCBF secretariat;

- IMD represents the NFP in relations with the Donor States by involving, if necessary, other departments of the NFP in line with their competency.

(3) SMD develops national laws and regulations on the EEA/NFM management and implementation.

(4) CD is responsible for monitoring of information and communication requirements compliance set forth for the POs.

In order to provide effective implementation and monitoring of the EEA/NFM in accordance with the Memoranda of Understanding and Articles 4.2, 4.6, 8.8 and 8.11 of the Regulations, the NFP is responsible for the implementation of the TA and the Fund for bilateral relations.

(5) FMD carries out administrative functions and performs the MoF’s activities within the TA and the Fund for bilateral relations (please see detailed information on the role of FMD within Annex 20 “Verifications performed by the NFP”, Annex 21 “Payment flow and reporting routine within TA”, Annex 22 “Payment flow and reporting routine within Fund for Bilateral relations”).

(6) IMD, in collaboration with FMD, develops the TA budget as well as submits it for coordination to the Donor States.

(7) IMD ensures coordination of the TA Agreement (hereinafter - TA Agreement) and the Agreement on the Fund for bilateral relations with the FMO in accordance with Annexes 4 and 7 of the Regulations.

After receipt of the TA Agreement and the Agreement on the Fund for bilateral relations signed by the Donor States, both Agreements shall be signed by the Head of NFP. Please see operational scheme of payment flow and reporting routine within TA in Annex 21 and scheme of verifications performed by the NFP in Annex 20.

In order to ensure performance of the objective set forth by the Donor States in Article 1.2 of the Regulations - strengthening bilateral relations between the Donor States and the beneficiary country, IMD, in accordance with Article 4.2 of the Regulations, establishes the JCBF and develops the Work Plan for the Fund for bilateral relations (hereinafter – Work Plan). The JCBF operates in accordance with the document *Composition, role and functioning*

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*of the Joint Committee for the Bilateral funds 2014-2021 in Latvia* annexed to the Agreement on the Fund for bilateral relations signed on 12 December 2018.

IMD acts as the secretariat of the JCBF and ensures that the JCBF meetings are held at least once a year. The JCBF includes representatives from both the Donor States and the beneficiary country (including the Ministry of Foreign Affairs). The functions of the JCBF are:

- (a) to identify strategic areas of bilateral cooperation;
- (b) to allocate bilateral funds to strategic and programme initiatives;
- (c) to review the overall progress towards reaching the objective of strengthened bilateral relations;
- (d) to adopt the Work Plan (including amendments);
- (e) to review Strategic Report's section about the Fund for bilateral relations developed by the NFP.

Ministry of Foreign Affairs defines the strategic areas of LV for strategic initiatives of the Fund for bilateral relations and submits them for coordination to the JCBF.

Eligible promoters of the Fund for bilateral relations are: 1) POs, agency, national programme partners; and 2) Latvian and Donor State institutions and entities.

Fund for bilateral relations has two parts:

1) programme initiatives - bilateral funds are already allocated to the programmes through the Memoranda of Understanding. POs can request additional funds from the JCBF through expression of interest (annex 4 of the Bilateral guideline). Decision on the management and use of bilateral funds at programme level will be made by the PO in cooperation with the Donor Programme Partner(s), where applicable, in the Cooperation Committee. NFP as observer in Cooperation Committee has a possibility to monitor and facilitate the use of the funds (OC or pre-defined initiatives) for bilateral relations at programme level. Provisions concerning implementation of programme initiatives (inter alia eligible promoters, expenditures, applicable state aid rules (if any)) will be included in the Programme's Regulations to be approved by the Latvian Government

2) strategic initiatives - JCBF decided to allocate funds through pre-defined initiatives and not organize OC unless JCBF decides otherwise. The JCBF decides on the strategic initiatives based on the proposals on strategic initiatives<sup>14</sup> submitted by the JCBF members. Provisions concerning implementation of strategic initiatives (inter alia eligible promoters, expenditures and that only strategic initiatives without state aid can be supported under the BF) is included in the Government Regulations on grants management.

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<sup>14</sup> Template available on the NFP's EEA/NFM webpage <https://www.norwaygrants.lv/?id=135> in Section "Fund for bilateral relations".

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Following the principles of good governance national review of initiatives apart from those already allocated in the Memoranda of Understanding will be ensured by an Advisory working group of the Fund for bilateral relations (hereinafter the Advisory Working Group) established by NFP according to the Government Regulations on grants management to nationally discuss and to provide opinion about initiatives submitted to the secretariat of JCBF before the review of initiatives in JCBF as well as to provide national proposals for initiative.

. In the composition of the Advisory Working Group is included representatives from the NFP, all line ministries (including the PO), State Chancellery, social and cooperation partners (largest umbrella NGOs of employees, employers, trade and municipalities, large cities), as well as the Council for implementation of the Cooperation Memorandum between NGOs and Government. The NFP has developed the Rules of the Advisory Working Group, as well ensures the work of the Advisory Working Group by organising the meeting in person or by written procedure.

(8) Submission and approval process of bilateral initiatives both strategic and programme initiatives applied for financing from Fund for Bilateral Relations:

- (a) PO, JCBF members and representatives of the Advisory Working Group may submit initiative's proposal to the NFP (IMD) at any time when it is fully developed and partnership is established;
- (b) IMD provides administrative check of initiative's proposal according to the checklist<sup>15</sup>. If necessary, PO or the promoter of strategic initiative improves initiative's proposal;
- (c) IMD submits initiative's proposal to the Advisory Working Group for review and opinion. In case of the donors initiative, initiative's proposal will be sent to JCBF for consideration as well;
- (d) after the Advisory Working Group, IMD ensures submission of initiatives for decision in the Government for approval of national initiatives or provision of opinion on donor states initiatives. IMD can report about initiatives to the Government case-by-case corresponding to planned start of initiative;
- (e) IMD ensures submission of initiative's proposal for decision in the JCBF depending on planned start date of initiative. In case of urgency, IMD may submit the proposal for decision to the JCBF before the formal Government approval has been obtained.

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<sup>15</sup> Available on the NFP's EEA/NFM webpage <https://www.eeagrants.lv/?id=134> in Section "Fund for bilateral relations" (in Latvian).

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- (f) JCBF takes decision about initiative. If it is prior decision of the Latvian Government, then JCBF takes decision with condition that it is approved later by the Government;
- (g) IMD informs PO or promoter of the strategic initiative about decision of JCBF;
- (h) after approval by the JCBF, to implement the strategic initiatives included in the Work Plan or its amendments, the FMD, based on the information provided by the IMD, concludes the Implementation agreement<sup>16</sup> with the promoter of the strategic initiative providing granting provisions, payments, reporting (including reports prepared by an external<sup>17</sup> or internal auditor<sup>18</sup>) and responsibilities of the contracting parties. A detailed budget for the implementation of the initiative shall be annexed to the Implementation agreement. Responsibilities of the PO regarding implementation of programme level initiatives and reporting to NFP are defined in the Government Regulations on grants management.

Please see the schemes of Submission and approval of the initiatives in Annex 23 for Donor states initiatives and in Annex 24 for National initiatives.

(9) Beneficiary of funding from the Fund for bilateral relations specified in Annex B of the Memorandum of Understanding of the EEA Financial Mechanism (400 000 *euros*) is the association "Baltic Centre for Media Excellence" (hereinafter - BCME). BCME shall prepare a proposal for implementation of the predefined initiative regarding strengthening strategic media communication and shall submit it for approval to the JCBF. After approval of the initiative by the JCBF, the FMD, based on the information provided by the IMD, arranges entering into the Implementation agreement with BCME by setting forth therein the procedure for granting funding, payments, submitting the reports (including reports prepared by an external auditor) as well as the rights and duties of each party. A detailed budget for the implementation of the initiative shall be annexed to the Implementation agreement.

(10) Verification of eligibility of expenditure incurred under the Fund for bilateral relations shall be ensured by different entities depending on promoter of the initiative. Please see operational scheme on verifications performed by the NFP for the TA and the Fund for

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<sup>16</sup> Template will be available on the NFP's EEA/NFM webpage <https://www.eeagrants.lv/?id=134> in Section "Fund for bilateral relations" (in Latvian).

<sup>17</sup> If the promoter of initiative is Latvian institution, then a verification of the supporting documents shall be carried out by sworn auditor or sworn auditor company

<sup>18</sup> Public officer recognized by the relevant national authorities as having a budget and financial control capacity over the entity incurring the costs and who has not been involved in the preparation of the financial statement. If the promoter of initiative is Latvian institution, then verification of the supporting documents shall be carried out by an internal audit unit of the institution concerned (applicable only for state institutions).

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bilateral relations in Annex 20 and scheme on payment flow and reporting routine within the Fund for bilateral relations in Annex 22.

	Promoter of initiative	Proof of expenditure	Verifier of eligibility of expenditure/
Programme initiatives	Promoter of programme initiative, if other entity than PO or agency	Option A: invoices or accounting or documents of equivalent probative value  Option B: Report/certificate of external auditor selected by the promoter of programme initiative, or internal auditor (according to Paragraph 8.12.4 of the Regulations)	PO or agency based on: (according to Point 6.6.2. of the Bilateral Guideline)  - progress report - enclosed proof of expenditure
	PO or agency (According to Government Regulations on grants management the PO reports once a year to NFP/FMD)	Report/certificate of external auditor selected by the PO or the agency, or internal auditor (according to Paragraph 8.12.4 of the Regulations)	FMD based on: - progress report - enclosed report/certificate of external or internal auditor (please see description on pages 25-26)  IMD – verifies information on progress included in progress report
Strategic initiatives	Promoter of strategic initiatives, including BCME	Report/certificate of external auditor selected by the promoter of strategic initiative, or internal auditor (according to Paragraph 8.12.4 of the Regulations)	FMD based on: - progress report - enclosed report/certificate of external or internal auditor  IMD – verifies information on progress included in progress report
	MoF	Report of IAD prepared in accordance with International Standards for Internal Professional Practice (set in the internal Procedure for the implementation of the EEA/NFM 2014-2021 project "Fund for bilateral relations" (approved on 27.05.2019.)	FMD based on: - report of external or internal auditor  IMD – verifies information on progress
	NFP	FMD report on expenses to CA (set in the internal Procedure for the implementation of the EEA/NFM 2014-	CA

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		2021 project "Fund for bilateral relations" (approved on 27.05.2019.)	(according to Point 6.6.2. of the Bilateral Guideline)
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At least once a year an external or internal auditor shall prepare for PO/agency, as the promoter of programme initiative, and for promoter of strategic initiative, the report certifying that the claimed costs are incurred in accordance with the Regulations, the national law and relevant national accounting practices.

An external auditor carries out verification of expenditure and provides the report in accordance with the requirements of laws and regulations and standards governing professional activity of sworn auditors. Verification of expenditure by an external auditor will be carried out in accordance with the International Standard on Related Services (ISRS) 4400 “Engagements to perform agreed-upon procedures regarding financial information” issued by the International Federation of Accountants and specified by the Latvian Association of Certified Auditors. While an internal auditor carries out verification of expenditure and provides the reports in accordance with the requirements of the International Standards for Internal Audit Professional Practice as well as institution’s internal audit division will describe tasks, responsibility, delegations of particular function and methodology regarding verification of expenditures within internal procedure<sup>19</sup>. In order to facilitate auditor’s selection process for POs/agency and promoters of strategic initiatives as well as to ensure that auditors performs tasks in accordance with donor states guidelines, the IMD (NFP) in collaboration with AA and other competent institutions<sup>20</sup> elaborated recommendations for ensuring the proper selection process of a sworn auditor and for determining the scope of the work, purpose, procedures and results to be done by the sworn auditor or internal auditor (approved on June 19, 2019).

POs/agency (if promoter of programme initiative) and promoter of strategic initiatives will submit to NFP/FMD the reports of external or internal auditors together with reports on implementation of initiative<sup>21</sup> (not necessary to submit if there were no expenses during the reporting period). Verification of reports on implementation of initiatives of the POs/agency and promoters of strategic initiatives by NFP:

- 1) FMD verifies financial part of reports on implementation of initiative:
  - (a) based on reports of external or internal auditor submitted by promoters of strategic initiatives or POs/agency (if promoter of programme initiative):

<sup>19</sup> In case if initiative promoter is MoF, IAD (please see page 23) will provide to FMD an internal auditor report. For this purpose, IAD will add description of procedures to exiting internal procedure No 9.5-7/15-2/2904 “Internal rules in order to perform internal audit and consultations” (approved on 22.10.2018).

<sup>20</sup> The PMB, Department of Accounting and Audit Policy of the MoF, IAD of the MoF, Latvian Association of Certified Auditors, the CA.

<sup>21</sup> Template elaborated by the NFP and published on the NFP’s EEA/NFM websites in the Section [“Fund for Bilateral relations”](#) ([www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv)).



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- in case of report of external auditor, FMD will not check supporting documents, but will do due-diligence of external auditor’s report to get assurance the scope of the work, purpose, procedures and results done by auditor audit was conducted in line with Guidelines International Standard on Related Services (ISRS) 4400 “Engagements to perform agreed-upon procedures regarding financial information”. If necessary, FMD will request to explain and clarify the reports submitted;
  - in case of report of internal auditor, FMD do the same due-diligence of internal auditor’s report. Internal auditors will be strongly advised to use ISRS 4400 (and indicative template, please read further) in describing purpose, procedures and results of the engagement in their reports.
- (b) FMD will not carry out additional verification of expenditures of promoters of programme done by PO/agency based on the fact that only verified eligible expenditures are included in the report on implementation of initiative. Option A: PO/agency has verified compliance of their expenditure with the Regulations, the national law and relevant national accounting practices by checking supporting documents. Option B: PO/agency has chosen to replace the check of supporting documents with external or internal auditor’s report and in this case PO/agency will be asked to provide an acknowledgment together a report on implementation of initiative to FMD that PO/agency has done due-diligence of auditor’s report (similarly like FMD in cases mentioned under “a”).
- 2) IMD verifies content of the reports on implementation of initiatives based of initiatives approved in the programme Cooperation Committees or the JCBF.

Indicative template of external auditor report in line with ISRS 4400 describing purpose, procedures and results of the engagement in sufficient detail to enable the reader to understand the nature and the extent of the work performed was prepared by the IMD (approved on June 19, 2019) in close collaboration with Department of Accounting and Audit Policy and Internal Audit Department of MoF, PMB, AA, Latvian Association of Certified Auditors, and CA.

FMD compiles Interim Financial Reports and Final Balance of the Fund for bilateral relations based on reports and submitted by PO/agency and promoters of strategic initiatives as well as reports prepared by an external or internal auditor (if applicable) and submits them to the CA.

IMD ensure strategic reporting on the overall progress towards achieving the bilateral objectives in the Strategic Report annually. The bilateral section of the draft Strategic Report will be consulted with the JCBF prior submission of the Strategic Report to the FMO.

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(12) CD performs the functions of the NFP in the area of provision of publicity and communication measures and distribution of information in accordance with the publicity and visual identity requirements.

(13) Internal Audit Division of the IAD, in accordance with the rules and the audit plan, performs the internal audit work tasks in the institutions involved in the EEA/NFM management and provision of support (FP, CA, PMB), coordinates the implementation of recommendations and provides for monitoring of implementation of recommendations, receives audit reports of the internal audit departments of POs involved in EEA/NFM monitoring and evaluates the quality of the reports, supplements the IAD database with recommendations specified in the reports and periodically informs the NFP and CA about the progress of implementation of recommendations. In case of risks or doubts regarding developed control system within PO's institution, the IAD on behalf of NFP will perform system audits to make sure that the developed control system is functioning effectively (for example, if PO properly ensures data recording in Irregularity Register). Please find organisational structure of functional segregation of the MoF enclosed in Annex 2, organisational structure of FSD, IMD and SMD enclosed in Annexes 3, 4 and 5, operational scheme of the Fund for bilateral relations enclosed in Annex 6, Process scheme of progress report of the Fund for bilateral relations enclosed in Annex 7, operational scheme of submission and approval of donor states initiatives enclosed in Annex 23 and operational scheme of submission and approval of the National initiatives enclosed in Annex 24.

### 2.1.3 *Written procedures prepared for use by the employees of the National Focal Point and other institutions involved in the EEA/NFM management*

Internal procedures prepared by the NFP are summarised in the procedures manual. The procedures manual is updated at least twice a year.

Procedures are developed and approved in the form of the NFP's procedures, methodologies, strategies and guidelines:

- 25.05.2018 Procedure No. 1 "Procedure in which the National Focal Point ensures implementation, monitoring and assessment of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014-2021" (updated on 27.12.2018);
- 22.03.2018 Procedure No. 3.26 "Procedures according to which the Managing Authority shall plan state budget resources for EU funds, the Latvian-Swiss Cooperation Programme, the European Economic Area Financial Mechanism and Norwegian Financial Mechanism co-financed projects, handle requests and monitor the use of resources" (updated on 12.12.2018);

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- 04.12.2017 Procedure No. 3.5 "Procedure according to which the National Focal Point shall prepare the informative report of the Ministry of Finance regarding implementation of the EU Structural Funds and the Cohesion Fund, the European Economic Area and the Norwegian Financial Mechanisms, Latvian-Swiss Cooperation Programme" (updated on 31.10.2018);
- 11.01.2018 Procedure No. 3.6 "Procedure for carrying out risk management during the EU Funds 2014-2020 programming period and in management of other foreign financial assistance mechanisms";
- 23.02.2017 Methodology for managing the risks of the EU funds and other foreign financial assistance mechanisms in the National Focal Point;
- 05.04.2019 Guidelines for on-the-spot verifications of the projects; for supporting documents of the programmes and projects and for verifications of them and other specific eligibility principles of the EEA/NFM;
- 27.05.2019 Guidelines for reporting and informing about irregularities, recording of irregularities and for applying financial corrections in the projects financed from the EEA/NFM;
- 12.06.2019 Procedure, on how the NFP identifies and evaluates potential irregularities and information on irregularities detected in the implementation of the EEA/NFM period 2014-2021
- 30.05.2019 Rules of the EEA/NFM Communication Management Group.
- 14.08.2019 Communication Strategy for the European Economic Area and Norway Grants 2014–2021 in Latvia

In order to ensure that expenditure of EEA/NFM is separated from other expenditure, the MoF maintains its accounting records in accordance with the 17 December 2017 MoF internal regulation No. 12-29/42 "Regulations of the accounting records of the Ministry of Finance and its subordinate institutions".

- FMD developed and approved the following internal procedures: 15.02.2019. Procedure No12-5/4 "Procedure how the Ministry of Finance ensures implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 project "Technical Assistance Fund for 2018-2025";
- 22.02.2019. Procedure No12-5/5 "Procedure how the Ministry of Finance ensures implementation of the European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014–2021 project "Technical Assistance Fund 2018-2025" in cooperation with the Certifying Authority and the Procurement Monitoring Bureau";

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- 27.05.2019. Procedure No 12-5/11 “Procedure for the implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 project "Fund for bilateral relations”.

Internal rules developed by the IAD:

- 04.04.2014. No.12-29/17 "Basic principles of implementation of the internal audit function and cooperation with departments, subordinate institutions of the Ministry of Finance and capital companies".

**2.2 In case if initiative promoter is MoF, IAD will be a verifier of eligibility of expenditure of initiative (please see page 23) and will provide FMD with an internal auditor report. For that purpose, IAD will add description of rules for verification of eligibility of expenditure in exiting internal procedure No 9.5-7/15-2/2904 “Internal rules in order to perform internal audit and consultations” (approved on 22.10.2018).Certification Authority**

According to the Memoranda of Understanding, the CA functions are performed by the Treasury.

### **2.2.1 Description of functions and tasks to be directly performed by the Certification Authority**

The functions of the CA (to ensure execution of Article 5.4.1.of Regulation) are:

1. to certify the expenditure incurred under the Programme (including the bilateral cooperation initiatives implemented by the NFP);
2. to submit IFRs and the final programme report of the Programme to the Donor States;
3. to submit the EEA/NFM payment forecasts to the Donor States;
4. to account the funding received;
5. to provide for records of expenditure certified for Donor States in electronic format;
6. to report to the PO and NFP/FMD (in case of TA/Bilateral Fund) regarding irregularities or suspected irregularities found by the CA in the EEA/NFM implementation;
7. to maintain records of irregularities found by the CA in electronic format.

### **2.2.2 Organisational structure of the Certification Authority and compliance with the principle of separation of functions**

The Treasury is subordinated to the Ministry of Finance. Functions of the CA in the Treasury are performed by the European Affairs Department and the Operations Department

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Accounting and Supervisory Unit (please see organizational scheme of the CA in Annex 8 and in Annex 9).

2.2.2.1. European Affairs Department performs the following functions:

- a) coordinates performance of the EEA/NFM CA functions;
- b) submits to the FMO via Grace system certified IFRs and final programme reports (Regulation Article 5.4 (a). POs submit IFR to CA twice per year on/before 31 July and 31 January. CA’s performed verifications for the purpose of certification please see in Scheme “Verifications performed by the CA” Annex 25.
- c) submits to the FMO a forecast of likely payment applications (Regulation Article 5.4.1. (b)).

According to the Government Regulations on grants management by 10 February, 10 April, 10 September and 10 November of each year POs will submit to the CA in a format provided in the Annex 8 of Regulations a Forecast of Likely Payment Applications in the relevant financial year and in the following financial years. Before that, the forecasts shall be harmonised with NFP. The CA will summarize data received and within the time limits specified in Article 9.5. of Regulations (by 20 February, 20 April, 20 September and 20 November each year) will submit the forecasts to FMO via Grace system;

- d) declares interest earned (Regulation Article 5.4.1. (c)).

Since all programmes in Latvia are pre-financed from the State budget and funds received from the NMFA/FMC are transferred to the State budget revenue and therefore do not earn any interest on the bank account therefore the “zero” interest earned will be reported;

- e) takes account for certification purposes of the results of all audits carried out by or under the responsibility of the Audit Authority (Regulation Article 5.4.1. (d)). According to legal acts<sup>22</sup> as soon as the audit report is signed, the AA will submit it to the CA. The CA will evaluate the results of such reports and will register findings with financial impact in the CA’s internal register. In addition we will have the separate point in our check-list for verification of financial reports according to which the responsible person will have to verify whether there are open findings in internal register and evaluate their impact on expenditure to be certified. In case such an impact will be identified the CA will ask additional information from the PO/NFP and in case it will be necessary return financial report for corrective actions;
- f) maintains accounting records in electronic form of expenditure declared to the NMFA/FMC (Regulation Article 5.4.1. (e)).

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<sup>22</sup> Government Regulations “Procedure for performing functions of the AA in the management of European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014-2021”

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In addition to accounting performed as described in point 2.2.2.2 (a) below, the CA carries out the recording of declared expenditure in the Excel table collecting information on the expenditure declared and requested amounts (by Programme, by each financial report, by source of funding);

g) ensures that amounts recovered and amounts withdrawn following cancellation of all or part of the financial contribution for a programme or project are reimbursed to the NMFA/FMC prior to the closure of the programme (Regulation Article 5.4.1 (g)).

The PO/FMD together with the programme financial report submits the report on irregularities identified within the reporting period or recovered from project promoters /withdrawn from financial report. The CA evaluates this information and makes sure that these irregularities does not influence the expenditure declared in current financial report. In case of the final financial report, the CA will also verify whether the PO/FMD has deducted all irregular expenditure, which are not recovered yet from the project promoter (please see Procedures for reporting on new irregularities and their follow-up in Annex 26).

Considering above mentioned as well as that state budget pre-finances programme expenditure, the reimbursement of funds to the FMO is possible only in case there are irregular expenditure that due to its amount cannot be deducted from the final financial report or irregular expenditure are identified after the closure of the programme. In this case according to DMCS section 6.2 such reimbursement will be planned in the state budget and refund to the Donor States will be made by the Treasury based on the payment order of the PO/FMD.

h) participates in drafting laws and regulations regarding the EEA/NFM financial management issues.

2.2.2.2. Accounting and Supervisory Unit of the Operations Department performs the following functions:

a) ensure the accounting of received and spent EEA/NFM funds in accounting system SAP ERP (Treasury Management System) separately for each programme/project (Regulation Article 5.4.1 (e));

b) transfer the funds received from the Donor States into the LV state budget revenue accounts. Taking into account that according to national laws and regulations the costs of PO are pre-funded from the state budget, the funds received from the Donor States are not transferred to the PO). In addition Section 3. of MCS describes certification of expenditure and flow of payments. (Regulation Article 5.4.1 (f));

c) all project funding is prefunded from State budget, therefore EEA/NFM funds received from FMO are transferred to State budget revenue account which is not

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interest-bearing account. Since EEA/NFM funds are received as reimbursement (not advance payment), there is no need to set up interest bearing account (Regulation Article 5.4.2);

- d) accounts the funds recoverable/recovered by the PO, which can not be withheld from the reports or which have been recovered after the programme was closed;
- e) records refunds to the Donor States if the Donor States request reimbursement of ineligible expenditure and PO/FP provides for the refund.

See organisations structure of the Treasury as the CA in Annex 8. See organisations structures of the European Affairs Department and Operations Department in Annex 9.

Internal Audit Department, in accordance with its rules, performs internal audits of the system based on the risk assessment and provides monitoring of implementation of recommendations.

### 2.2.3 *Written procedures prepared for use by the employees of the Certification Authority and other institutions involved in the EEA/NFM management*

In order to implement the EEA/NFM, the CA has elaborated and approved:

- transaction description "Making payments and refunds from the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014- 2021" (approved on 15.01.2019);
- Description of procedure of the European Affairs Department “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” (approved on 11.01.2019);
- Description of procedure of the Operations Department "Provision for the flow of funds in the Norwegian Financial Mechanism and European Economic Area Financial Mechanism 2014-2021” (approved on 11.01.2019).

## 2.3 **Audit Authority**

According to the Memoranda of Understanding, the EEA/NFM AA functions are performed by the FAD.

### 2.3.1 *Description of functions to be directly performed by the Audit Authority*

The functions of the AA:

1. To prepare a report and opinion regarding the DMCS developed by the NFP and submit it to the NFP (Art. 5.7.3);

According to the Paragraph 3 of Article 5.7 of the Regulations, the AA prepares an audit report and opinion regarding the DMCS developed by the NFP and submits it to the NFP.

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In accordance with the Government Regulations “Procedure for performing functions of the AA in the management of European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014-2021”, the AA provides assessment of the DMCS developed by the institutions involved in the EEA/NFM management. The AA issues the opinion about compliance of the MCS with the EEA/NFM Regulations, generally accepted accounting principles and MCS’s compliance with the proportionality principle. Opinion shall be issued within 3 months from the moment the approved version of DMCS is received by the AA. The AA issued an audit report and opinion on 4 June 2018.

2. To prepare a report and opinion regarding the DMCS developed by the POs NFP (Art. 5.7.3);

In accordance with the Government Regulations “Procedure for performing functions of the AA in the management of European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014-2021”, the AA provides assessment of the DMCS developed by the institutions involved in the EEA/NFM management. The AA issues the opinion about compliance of the MCS with the EEA/NFM Regulations , generally accepted accounting principles and MCS’s compliance with the proportionality principle. Opinion shall be issued within 3 months from the moment the approved by the PO version of DMCS is received by the AA.

3. To perform audits in order to verify the effective functioning of the management and control system at the level of the Beneficiary State (Art. 5.5.1.a)

According to the Paragraph 1 (a) of Article 5.5 of the Regulations, AA ensures that audits are carried out to verify the effective functioning of the MCS at the level of the Beneficiary State. During the MCS audits the key requirements and criteria of the MCS are assessed. Key requirements and criteria are developed specially for the EEA/NFM. Key requirements and criteria are assessed in accordance with 4 assessment categories:

- Category 1 – works well;
- Category 2 – works, but some improvements are needed;
- Category 3 – works partially;
- Category 4 – does not work.

The final Audit report is prepared in Latvian language and signed by the Head of the AA or Deputy Head of the AA. Further details including the audit methodology will be included in the Audit Strategy.

4. To perform at least one audit of each programme to verify the effective functioning of its MCS (Art. 5.5.1.b) According to the Paragraph 1 (b) of Article 5.5 of the Regulations, AA ensures that at least one audit is carried out of each programme to verify the effective functioning of its MCS. The before mentioned requirement is fulfilled by performing:



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- Programme MCS audits (including horizontal audits, that can be carried out in certain horizontal areas).
- Follow-up audits.

The final Audit report is prepared in Latvian and signed by the Head of the AA or Deputy Head of the AA.

During the MCS audits the key requirements and criteria of the MCS are assessed. Key requirements and criteria are developed specially for the EEA/NFM.

Further details including the audit methodology will be included in the audit strategy.

5. To perform audits on projects on the basis of an appropriate sample to verify expenditure declared (Art. 5.5.1.c);

The AA carries out project audits:

- 1) in the PO,
- 2) in the agency,
- 3) in the programme partner's institution,
- 4) in the project promoter's and project partner's institution.

The volume of the project audits include:

- 1) pre-defined projects;
- 2) other projects;
- 3) TA, including Bilateral Fund at national level;

The reporting period is from the 1st of July of the previous year until the 30th of June of the current year. Project audits are carried out in respect of the projects, the actual incurred expenditure whereof is included in the financial reports submitted to the Donor States during the reporting period. The financial reports are prepared by the POs/MoF and may include management costs of programmes, expenditures of bilateral fund, technical assistance, expenditures of the project promoters as well as expenditures of project partners or disbursements to programme partners and project promoters. The subject of the Project audits will be actual incurred expenditures included in IFRs. Information about the audits carried out for the respective period is included in the annual audit report, to be submitted to the Donor States by the 15th of February of the next year.

Project audits are carried out on the basis of appropriate sample which is selected in compliance with the EC "*Guidance on sampling methods for audit authorities*" of 20.01.2017 including any updates the EC will be published. Sampling method, sampling unit and the parameters for calculating the sample size are determined by the AA based on professional judgment and taking into account the regulatory requirements. AA can use:

1. Non-statistical sampling (taking into account requirements set out in the Article 5.5.4. of the Regulations).

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2. Statistical sampling. In case the statistical sampling is applied, sampling unit can be:

- a. a project;
- b. a payment;
- c. an operation (for example, invoice);
- d. other unit (with due justification).

Selected sampling method and sampling unit will be re-assessed by the AA regularly (before each sampling exercise or when updating an audit strategy) taking into account changes in the MCS and providing justification for the choice made by the AA.

In order to ensure representativeness of the sample selected for audits, additional sampling can be performed. The final Audit report is prepared in Latvian and signed by the Head of the AA or Deputy Head of the AA. Further details including the audit methodology will be included in the audit strategy.

6. To prepare an audit strategy within nine months of the approval of the last programme (Art. 5.5.1.d);

The AA within 9 months of approval of the last programme prepares a Single audit Strategy which covers 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. The Single Audit Strategy will include all the elements and information listed in the Financial Guidance document Section 3.8 “Audit Strategy”.

The audit strategy shall be updated annually as appropriate. The Strategy is approved by the Head of the AA, and the AA shall submit the audit strategy to the FMC/NMFA in English upon request within one month.

7. To develop a national level regulation pertaining the performance of functions of the AA; The AA has developed the Government Regulations “Procedure for performing functions of the AA in the management of European Economic Area Financial Mechanism and Norwegian Financial Mechanism 2014-2021”.

8. To submit an annual audit report, including an opinion (Art. 5.5.1.e);

According to the Paragraph 1 (e) of Article 5.5 of the Regulations, the AA from 2019 till 2025 prepares and by 15th February submits to the FMO an annual audit report setting 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 and reporting any shortcomings found in the systems. The Annual Audit Report will include all the elements and information listed in the Financial Guidance document section 3.9 “Annual Audit Reports and audit opinion”.

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The annual audit report and Opinion are prepared in English, signed by the Head of the AA and submitted to the FMO electronically.

According to the Regulations, the annual audit report is prepared, taking into account the results of the following audits:

- management and control system audits, including horizontal system audits, carried out during the 12 months period ending with 31<sup>st</sup> of December of the previous year;
- project audits, carried out in respect of expenditure incurred, included into IFRs and certified by the CA during the reporting period (can include also expenditures of project partners).

9. To submit a closure declaration assessing the validity of the application for payment of the final balance (Art. 5.5.1.f);

In accordance with subparagraph (f) of paragraph 1 of Article 5.5 of the Regulations, the AA is responsible for preparation of the Closure Declaration and submission thereof to the FMO. The purpose of the Closure Declaration is to assess the validity of final payment claim and the legality and regularity of the transactions covered by the final programme report (financial annex). The Closure Declaration is attached to the Final Audit Report. The Final Audit Report is prepared in the same form as the annual audit report. As recommended in the Financial Guidance document section 4.2 “Closure Declaration”, the AA will use as a reference the EC Guidance on preparation for the final control report and closure declaration including any updates the EC will be published. The Final Audit Report is signed by the persons, who have prepared it, and approved by the Head of the AA. The Closure Declaration is signed by the Head of the AA. The Closure Declaration and Final Audit Report is submitted to the Financial Mechanism Office by 31 December 2025. Within 10 business days after submission to the Financial Mechanism Office, the Closure declaration and the Final Audit Report are published on the NFP’s EEA/NFM websites [www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv) in Section “Audit documents”.

10. To monitor implementation of audit recommendations provided within the EEA/NFM audits. The AA monitors the implementation of the expressed recommendations according to Government Regulations “Procedures for ensuring the functions of the AA in the Management of the EEA Financial Mechanism and the Norwegian Financial Mechanism for the Period 2014-2021”.

Information about the recommendations expressed in the AA’s audits is entered into the audit data base, including the terms for implementation of recommendations, as well as information about implementation of recommendations. The AA on a regular basis follows the implementation of the recommendations expressed in audit reports.

According to requirements of the Government Regulations “Procedures for Ensuring the Functions of the AA in the Management of the EEA Financial Mechanism and the Norwegian

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Financial Mechanism for the Period 2014-2021”, the responsibility of the auditee is to inform the AA about the implementation of recommendation within 10 business days of its implementation.

In case the auditee has not provided information about the implementation of AA’s audit recommendations, the responsible auditor can ask to provide such information from the auditee.

After the information about the implementation of recommendations is received by the AA, the AA accesses it and can decide:

- to consider the recommendation is implemented;
- to ask for more information/justification about implementation of recommendation;
- to plan a follow-up audit in order to check if the recommendations are implemented.

### ***2.3.2 Description of tasks to be directly performed by the Audit Authority***

The following tasks are performed to provide for the performance of the AA functions:

1. development of laws and regulations to provide for the AA functions;
2. provision of opinions regarding the laws and regulations developed by the institutions involved in the EEA/NFM management within the competency of the AA;
3. preparing of information for the DMCS within the competency of the AA; Once a year until 31st of August the AA provides to the NFP an information about changes in the MCS within the competency of the AA.
4. assessment of the MCS developed by the institutions involved in the EEA/NFM management;
5. development of the MCS auditing methodology according to the International Auditing Standards and the International Standard on Assurance Engagements issued by the International Federation of Accountants;
6. development of the project auditing methodology according to the International Auditing Standards issued by the International Federation of Accountants;
7. preparation of unified auditing strategy and its submission to the Donor States (upon request); In compliance with the Cabinet Regulation, the AA prepares a Single audit strategy for the period of 2019-2025. The Single audit strategy will be prepared within nine months of the approval of the last programme. The Single Audit Strategy will be published on the NFP’s EEA/NFM websites: eeagrants.lv and norwaygrants.lv in Section “Audit documents”.
8. performance of the MCS audits and project audits according to the Single auditing strategy; Audits by the AA are performed according to the Single Audit Strategy and an Annual Audit Plan. The Head of the AA on an annual basis by

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the 31st of January approves the annual audit plan, which includes project audits and system audits planned for the current calendar year; The AA, within the period of 10 business days after the approval of the annual audit plan, publishes it on the NFP's EEA/NFM websites: [www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv) in Section "Audit documents".

9. monitoring of implementation of recommendations of the MCS audits and project audits;
10. preparation of the annual audit report on the audits carried out during the previous 12-months ending on 31 December and provision of opinion on the effectiveness of the MCS, and submission of such to the Donor States; By 15 February each year from 2019 to 2025, The AA shall:
  - submit to the FMC/NMFA an annual audit report setting 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 management and control. The first report to be submitted by 15 February 2019 shall cover the period up to 31 December 2018.
  - issue an opinion to the FMC/NMFA, on the basis of the controls and audits that have been carried out under its responsibility, as to whether the management and control system functions effectively, so as to provide a reasonable assurance that statements of actual expenditure incurred presented to the FMC/NMFA are correct and as a consequence reasonable.
11. preparation of the closure declaration and submission of such to the Donor States; The information concerning the audits carried out after 1 January 2025 shall be included in the final audit report supporting the closure declaration. The closure declaration together with a final audit report shall be submitted to the FMC/NMFA by the AA at the latest by 31 December 2025. The closure declaration shall support the final audit report and will assess the validity of the application for payment of the final balance claimed in the Final programme report.
12. reporting to the NFP irregularities found or suspected irregularities in the EEA/NFM implementation. According to the Government Regulations on grants management, the AA informs the contracting party (PO, agency or a National Programme partner) about every suspected irregularity. The AA informs the contracting party by the way of including necessary information about suspected irregularity into the Audit Report. The copy of the audit report is sent also to the NFP (acting as an Irregularities Authority) and the Certifying Authority.

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### ***2.3.3. Organisational structure of the Audit Authority and compliance with the principle of separation of functions***

Head of the AA is directly subordinate to the Minister of Finance, which is embedded in the rules of the Ministry of Finance by setting forth that: "Director of the EU Funds Audit Department, as the Head of the EU funds and foreign financial assistance audit authority (hereinafter the Audit Authority) is subordinate to the Minister. Officials and employees of the EU Funds Audit Department are functionally subordinate to the Director of the Department." Director of the FAD manages the AA and signs documents within the competency of the FAD (signing documents can be delegated to the Deputy Director of the FAD).

In the planning of its activities, carrying out audits and preparation of reports the FAD is independent of the other departments of the Ministry as well as the EEA/NFM implementation and payment processes, NFP, CA, PO and national programme partner institutions and agencies.

See structural scheme of the FAD in Annex 10.

### ***2.3.4. Written procedures prepared for use by the employees of the Audit Authority and other institutions involved in the EEA/NFM management***

In order to implement the EEA/NFM, the AA developed the following internal procedures:

- Procedure in which the audit authority carries out the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism compliance assessment audits (approved on 27.12.2018);
- Procedure in which the European Economic Area and the Norwegian Financial Mechanism single audit strategy is prepared and updated during the period from 2019 to 2025 (approved on 27.12.2018);
- Procedure in which the annual audit report and opinion as well as the Final Audit Report and the closure declaration of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 are prepared (approved on 21.01.2019);
- Procedure in which the audit authority carries out the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 system audits (approved on 31.05.2019);
- Procedure in which the audit authority carries out the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014-2021 project audits (approved on 05.02.2019).

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## 2.4 Programme Operator

The PO is a line ministry or the LIDA, which has been specified in the Memorandum of Understanding as a PO. The principal duties and responsibility of the PO are specified in the Regulations. Pursuant to Section 9 of the Law, the PO may delegate some functions to the Agency, which is involved in the implementation of the programme. Upon carrying out the delegated duties, the agency shall be functionally subordinate to that Cabinet Member, which the responsible program operator is subordinate to. A Cabinet of Ministers (Government) Member implements the functional subordination through the Head of the PO. The allocation of functions between the PO, the national programme partner and the Agency will be defined in the Programmes' Government Regulations and in the Programmes' DMCS. The functional separation between the departments of the PO will be described in the description of programmes' MCS (including that the PO's division responsible for the verification of incurred expenditure and approval of payments will be separated from other divisions responsible for the implementation of the programme).

### 2.4.1 *Description of functions and tasks to be performed by the Programme Operator*

PO is responsible for preparation and implementation of the programme as well as for monitoring of projects approved within its framework in accordance with the principles of economy, efficiency and effectiveness. The functions of the PO in accordance with the obligations set forth in the Regulations are:

1. to develop a draft concept note by involving field experts, to submit it to the CoM, after approval by the Cabinet of Ministers (Government) to submit the concept note and its translation into English to the NFP;
2. to develop and submit to the MoF for preliminary examination the programme or the predefined project in accordance with in the Law On Control of Aid for Commercial Activity, if applicable;
3. to develop laws and regulation to ensure implementation of the programme (including procedures for on-the-spot verifications);
4. to develop a communication plan;
5. to establish a cooperation committee and to ensure management of works for the programmes that are being implemented in partnership with the Donor State institutions;
6. to develop and update the programme MCS;
7. to develop and approve the OC rules for selection of project applications (coordinate with the NFP prior to approval), to develop the project application selection criteria, to establish the project application Selection Committee, to organise OC, based on the opinion provided by Selection Committee, to decide on approval, approval with conditions/s or rejection of project application;

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8. to develop and approve the predefined project evaluation guidelines, to establish the predefined project Evaluation Committee, to carry out evaluation of the predefined project in accordance with the evaluation guidelines, to prepare the opinion regarding the predefined project's positive evaluation or positive evaluation with condition/s;
9. to conclude the agreement regarding implementation of the project or the predefined project with project promoters;
10. to ensure implementation of the programme and attaining the results and objectives of the specific Programme;
11. ensure the implementation and monitoring of activities under the Fund for bilateral relations (including making decisions together with the programme Donor State partners in the Cooperation Committee on the use of funding in the programme areas for bilateral cooperation activities and carrying out supporting documents verifications of bilateral initiatives implementers);
12. to ensure the quality of programme implementation through regular project monitoring and control (including monitoring of achieving the objectives and outcomes of the projects, carrying out random on-the-spot verifications, if necessary);
13. carry out project verifications covering the administrative, financial, technical and physical aspects of the projects concerned by adhering to the principle of proportionality;
14. to carry out verifications (mentioned in Paragraph 13) on a sample basis both according to the risk assessment and by using random selection, which takes into account both the risk level defined for the specific project and the results of audits performed;
15. to retain justification/evidence for the selection method applied;
16. to ensure the performance of the programme publicity requirements by providing information about the Programme, its objectives, implementation as well as about cooperation with Donor States' organisations;
17. to monitor performance of the project publicity requirements;
18. to carry out ex-ante checks of the public procurement documentation of projects and predefined projects and/or the procurement procedure on sample basis;
19. to review and approve the project report and the supporting documents submitted by the project promoters;
20. to report to the NFP on irregularities found in the Programme implementation or suspected irregularities and recovery of ineligible expenditure found in the projects, including subject to the provisions of Chapter 7 of the MCS;
21. to ensure recording of identified irregularities and inappropriate expenditures made in the programme and the projects, including subject to Chapter 7 of the MCS;
22. to prepare Programme IFRs, annual and final reports;



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23. to ensure timely payments to projects and computerised accounting of transactions carried out (if applicable);
24. to ensure that the project applicants maintain a separate accounting system or assign a proper accounting account code to all transactions related to the project;
25. to provide all information necessary for the approval of the programme IFRs and the final report by the CA and for the preparation of the EEA/NFM payment forecasts and their submission to the Donor States;
26. to ensure the records of audits carried out within the programme as well as to ensure compliance with the requirements specified in Chapter 6 of the MCS;
27. to gather the information necessary for the programme closing evaluation measures;
28. regularly monitor the risks identified in the programme and project implementation (including identification, assessment or reassessment, choosing the risk management strategy, monitoring and performance of the risk prevention or minimising measures).

Each PO will develop a DMCS by specifying therein the organisational structure of the PO, allocation of functions between departments and their tasks as well as compliance with the principle of separation of functions, including where the functions are delegated to the agency subordinate to the PO. The MCS shall also include information on the national programme partner and the tasks that will be performed by such (if applicable).

In cases where the PO will delegate the reporting and monitoring system tasks to the agency or the relevant tasks will be performed by the national program partner, the distribution of competencies between these institutions will be specified in the Programme's Cabinet of Ministers (Government) Regulations.

The programme DMCS will specify the reporting and monitoring systems where this task will be carried out by the national programme partner or the PO will delegate performance of the tasks to another institution (agency).

The programme DMCS shall specify by what deadlines and what laws and procedures will be developed to implement the EEA/NFM (including to provide for the reporting and monitoring system in the PO institution and, if applicable, in the institution of the agency or the national programme partner).

PO is responsible for the development and updating of the DMCS for the programme concerned. In accordance with Paragraph 2 of Article 5.7 of the Regulations, within 6 months after receipt of the Donor States' approval of the programme, the PO must submit the programme DMCS to the NFP.

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## 2.4.2 *Programme operator institutions*

### 2.4.2.1 *Ministry of Education and Science*

MES is the leading government authority in education, science and sports sectors as well as the areas of youth and official language policy.

MES, as the PO of the EEA and NFM programme Research and Education, is planning to delegate its operational implementation as well as monitoring of projects approved within its framework to the State Education Development Agency (hereinafter SEDA). The allocation of functions between the institutions will be specified in the Cabinet Regulation and competencies of the PO's departments will be defined in the Programme's DMCS that will be developed and submitted to the NFP within 6 months after the approval of the programme in accordance with Paragraph 2 of Article 5.7 of the Regulations.

The PO functions of MoES will be performed by the Higher Education, Science and Innovation Department, which will implement the following PO functions:

1. establishing and managing the cooperation committee and the programme committee, performing the functions of secretariat of the cooperation committee and the programme committee and providing for covering expenses related to activities of the cooperation committee and the programme committee from the administrative costs of the programme;
2. developing a draft concept note, submitting it to the CoM, after approval by the Cabinet of Ministers (Government) submitting the concept note and its translation into English to the NFP;
3. providing for the development of the programme project selection criteria and their coordination with Donor State partners;
4. ensure the implementation and monitoring of the programme's level bilateral relations;
5. developing laws and regulations to ensure implementation of the programme;
6. ensuring monitoring and control of implementation of the programme, including developing and updating the programme's MCS;
7. ensuring that the funding available for the implementation of the programme is not exceeded and monitoring acquisition of the above funding;
8. preparing and submitting reports in accordance with the laws and regulations regarding the EEA FM and NFM management;
9. submitting the to the certification authority a forecasts of likely payment applications;
10. preparing information for requesting the state budget resources in accordance with the laws and regulations on the fundamental principles for the development and submission of requests for the state budget resources;
11. monitoring of achievement and updating of programme's indicators;

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12. ensures the preparation of amendment to the programme's agreement and its submission to the NFP.

Cooperation Committee has been established by the 14.02.2018 MoES Order No 1-2e/2018/68. The Chairman of the Cooperation Committee is the Deputy State Secretary of MES. Cooperation Committee is composed of representatives from the PO and Higher Education Department of the Centre for International Cooperation in Higher Education of Norway.

The Internal Audit Division of MoES carries out internal audits in accordance with the annual internal audit plan that has been prepared based on the system (including financial mechanisms) risk assessment. Independence of the Internal Audit Division of MoES is provided in accordance with the provisions of the Internal Audit Law, the 14.06.2011 MoES rules No 11 and the 27.08.2009 MoES rules No. 21 of the Internal Audit Division, which set forth that the Internal Audit Division is a separate unit that is directly subordinate to the State Secretary. 17.05.2011 MoES internal regulations No. 19 "Internal auditing procedure" govern internal audit planning, conduct, monitoring of recommendations, cooperation with the MoF.

Plea find structural scheme of MoES enclosed in Annex 12.

Pursuant to the 29.01.2018. MoES order No.1-2e/2018/43 "Regarding implementation of the European Economic Area Financial Mechanism and the Norwegian Financial Mechanism 2014 - 2021 programme Research and Education", SEDA is participating in the development of the draft concept of the EEA/NFM programme Research and Education.

A detailed allocation of PO functions delegated to SEDA between the SEDA departments will be determined after the concept note is approved by the Cabinet of Ministers (Government) and the programme's agreement is signed.

It is planned that SEDA will implement the following PO functions:

1. developing the draft agreement and coordinating it with MES;
2. ensuring open selection of project applications and their evaluation, and developing guidelines for project applicants and project evaluators;
3. conclude the project contract, evaluating amendments to the project contract and coordinating it with MoES if the amendments are related to changes in project outcome indicators, and approving or rejecting amendments to the project contract;
4. providing information to MoES and institutions involved in financial mechanism management in accordance with the laws and regulations on the fundamental principles for the development and submission of requests for the state budget resources;
5. supervising and controlling implementation of the projects, including carrying out random on-the-spot checks in places of project implementation and ensuring monitoring of information and publicity measures at the project level;

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6. verifying and submitting to the PMB a procurement plan of the project promoter and carrying out ex-ante checks for project procurement (documentation and/or process) in accordance with respective laws and regulations;
7. accumulating data on projects and preparing information and analysis for MoES regarding acquisition of funding available for the implementation of the projects, performance of the project result indicators and achievement of the project objectives;
8. verifies project reports submitted by the project promoter, monitors project progress, approves the amounts of eligible expenditure and makes payments to the project promoters;
9. submitting information and supporting documentation to MoES as necessary for the preparation of the interim financial, annual and final reports;
10. accounting ineligible project expenditure made, making decisions regarding the ineligible expenditure and ensuring the process of their recovery;
11. ensuring the implementation control regarding the closing conditions of the project contract that need to be met after the completion of the project;
12. developing and coordinating with MoES the programme's communication plan and ensures its implementation.

SEDA will develop the appropriate internal regulation to exercise the functions entrusted to it, which will be coordinated with MoES.

The Internal Audit and Risk Management Control Division of SEDA carries out internal audits in accordance with the annual internal audit plan that has been prepared based on the system (including financial mechanisms) risk assessment. Independence of the Internal Audit and Risk Management Control Division of SEDA is provided in accordance with the provisions of the Internal Audit Law and the 7.12.2016. SEDA rules No. 1-41.1/7 rules of the State Education Development Agency and the 29.12.2015. rules No. 01-41.1/13 rules of the Internal Audit Division, which set forth that the Internal Audit Division is a separate unit that is directly subordinate to the SEDA Director. 25.10.2013. SEDA internal regulations No. 1-41.1/16 "Internal auditing work organisation and recommendation implementation monitoring procedure" govern internal audit planning, conduct, monitoring of recommendations, cooperation with MoES and MoF. Risk management control is ensured in accordance with 06.02.2015. internal regulation "Procedure in which the State Education Development Agency ensures risk management".

Bilateral relations between Latvia and Donor States will be promoted on both project and programme management level. On programme management level, bilateral relations will be promoted through involving the donor programme partners in the development of programme application and implementation of the programme within the Cooperation Committee. Activities supported within the Fund for bilateral relations on the programme and project level will be identified in the concept note.

MoES, as a PO, will develop the following regulations, rules, orders:

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- Order of MoES regarding the establishment of the programme Cooperation Committee;
- Rules of the MoES programme Cooperation Committee;
- Orders of MoES regarding the establishment of the Programme Committee;
- Rules of the MoES Programme Committee;
- MES internal regulation regarding the programme monitoring functions carried out by MoES as a PO and that are not delegated to SEDA.

SEDA will develop the internal regulations, rules and orders that will be coordinated with MES:

- Procedure for selection of OC's project applications of the programme and decision-making;
- Procedure for entering into the project contract with the project promoter and making amendments to it;
- Procedure for monitoring and control of implementation of programme's projects (including the procedure for project monitoring visits);
- Procedure for evaluating, deciding and reporting on irregularities found in the programme and recovering the ineligible expenditure made;
- Programme's project risk assessment procedure;
- Procedure, according which the State Education Development Agency stores programme's project documentation and runs a project file.

#### *2.4.2.2 Ministry of Environmental Protection and Regional Development in cooperation with the Ministry of Culture*

MoEPRD is the leading state administration institution in the areas of environmental protection, regional development planning and coordination, local government development and monitoring, territorial development planning and land management, introduction of the one-stop agency principle in the availability of the state and municipal services as well as e-government, information society and information technology public administration.

MoEPRD provides for the performance of PO functions in the implementation of the EEA FM programme "Local Development, Poverty Reduction and Cultural Cooperation and the NFM programme Climate Change Mitigation, Adaptation and the Environment". The EEA FM programme "Local Development, Poverty Reduction and Cultural Cooperation" will be implemented in partnership with the Ministry of Culture (MoC). The allocation of functions between MoEPRD and MoC will be specified in the Programmes' Cabinet of Ministers Regulations and competencies of departments will be defined in the Programmes' DMCS that

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will be developed and submitted to the NFP within 6 months after the approval of the programme in accordance with Paragraph 2 of Article 5.7 of the Regulation.

The PO functions of MoEPRD will be performed by the Development Instruments Department (hereinafter - DID), which will implement the following PO functions:

1. establishing and chairing the Cooperation Committee;
2. ensuring the development of the project selection criteria and their coordination with Donor State partners;
3. developing the draft project contract;
4. ensuring open selection of project applications and their evaluation, including establishing the project application evaluation commission, and developing guidelines for project applicants and project evaluators;
5. concluding the project contract, evaluating amendments to the project contract and approving or rejecting amendments to the project contract;
6. ensuring monitoring and control of implementation of the programme, including developing the programme MCS;
7. preparing and submitting reports in accordance with the laws and regulations regarding the EEA FM and NFM management;
8. submitting the programme's forecast of likely payment applications to the CA;
9. preparing information for requesting the state budget resources in accordance with the laws and regulations on the fundamental principles for the development and submission of requests for the state budget resources;
10. monitoring achievement and updating of programme's indicators;
11. ensuring the preparation of amendment to the programme agreements and their submission to the NFP.

MoEPRD Investment Supervision Department will implement the following PO functions:

1. ensuring the financial supervision and control of the programmes;
2. preparing and submitting interim financial and final reports;
3. ensuring that the funding available for the implementation of the programme is not exceeded and monitoring acquisition of the above funding;
4. supervising and controlling implementation of the projects, including carrying out random verifications in places of project implementation and providing for monitoring of information and publicity measures at the project level;
5. providing information to DID and institutions involved in FM management in accordance with the laws and regulations on the fundamental principles for the development and submission of requests for the state budget resources;
6. verifying and submitting to the PMB a procurement plan of the project promoter and carrying out project ex-ante checks of procurement progress and/or documentation on

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sample basis in accordance with the laws and regulations on the management of financial mechanisms;

7. accumulating data on projects and preparing information and analysis for DID regarding acquisition of funding available for the implementation of the projects, performance of the project result indicators and achievement of the project objectives;
8. examining project reports submitted by the project promoter, monitoring project progress, approving the amounts of eligible expenditure and making payments to the project promoter;
9. submitting information and supporting documentation to DID as necessary for the preparation of the financial interim, annual and final reports;
10. accounting ineligible open selection project expenditure made, making decisions regarding the ineligible expenditure and providing for the process of their recovery;
11. providing for the implementation control regarding the closing conditions of the project contract that need to be met after the completion of the project;
12. developing appropriate internal regulation to exercise the functions entrusted to it, which will be coordinated with DID.

Other departments of MoEPRD will also be involved in performance of individual tasks according to their competency and they will participate in the implementation of the Programme within the framework of general functions: Budget and Finance Department, Legal Department, Provision Department, Audit Department and the Public Relations Division.

#### Internal audit

Audit Department of MoEPRD is a department that carries out internal audits in accordance with the annual internal audit plan that has been prepared based on the system risk assessment. Audit Department of MoEPRD systematically examines functioning of MCS of programmes and projects fully or partly funded by the EU or other foreign financial assistance, its efficiency, legality, efficiency of using the funding received and functioning of the internal control system by providing an independent assessment, by developing recommendations for necessary improvements as well as by providing for monitoring of implementation of both internal and external audit recommendations. Independence of the Audit Department of MoEPRD is ensured in accordance with the provisions of the Internal Audit Law and the 08.07.2016 MoEPRD internal regulation No 11 "Procedure for monitoring the auditing organisation and implementation of recommendations".

#### Bilateral cooperation

Cooperation Committee of the EEA FM programme Local Development, Poverty Reduction and Cultural Cooperation has been established by the 18.01.2018 MoEPRD order No 1-2/10. The Chairman of the Committee is the Director of MoEPRD DID. Representatives of the PO, the Ministry of Culture, the Norwegian Local and Regional Authority Association and during the programme development also the Norwegian Arts Council are active in the

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Cooperation Committee. Rules of the Cooperation Committee were approved on 18.01.2018. Cooperation Committee of the NFM programme Climate Change Mitigation, Adaptation and the Environment has been established by the 18.01.2018. MoEPRD order No. 1-2/9. The Chairman of the Cooperation Committee is the Director of MoEPRD DID. Representatives of the PO and the Norwegian Environment Agency are active in the Cooperation Committee. Rules of the Cooperation Committee were approved on 19.01.2018.

Bilateral relations between Latvia and Donor States will be promoted on both project and programme level. On the programme level, bilateral relations will be promoted through involving the programmes' Donor State partners in the development of the programme concept, implementation of the programme and implementation of joint activities, which would strengthen bilateral relations of Latvia and Donor States in the programme area.

On the project level, in collaboration with the Donor State partner, it is planned to encourage partnerships with Donor State institutions by implementing partnership building activities for potential project applicants within the framework of the OCs. The objective of support is to provide the potential project applicants with the opportunity to find potential Donor State partners and meet prior to submission of project applications to discuss in person the possible cooperation, the roles in project implementation and terms and conditions of the project Partnership Agreement.

Support within the Fund for bilateral relations is envisaged also for bilateral cooperation-building measures in the approved projects by supporting activities aimed at attaining the project objective, such as participation of the project applicant in seminars, conferences and other experience exchange activities.

Decisions regarding approval of bilateral cooperation activities will be made by the Cooperation Committee.

### Risk management

PO will set forth in the internal procedures how risk management will be carried out within the NFM programme and the EEA FM programme administration and management: risk identification, analysis, evaluation, prevention, monitoring and reporting. The responsible risk managers will be identified to provide for the risk management process.

A risk management working group will be established by MoEPRD order for risk identification, assessment and prioritisation, which will include responsible employees for risk management. Responsible employees will be directly responsible for the progress of the risk management process and will ensure timely risk identification, assessment, prioritisation and provision of information to the Heads of departments involved and the PO. It planned to implement both planned risk identification and assessment, and when necessary. Risk management will be implemented on both the programme and project level.



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To manage the risks, the PO plans to develop internal risk management procedures in 2019.

MoEPRD will perform individual PO functions in collaboration with the national programme partner, MoC. MoC will carry out planning and monitoring of the programme area Cultural Entrepreneurship, Cultural Heritage and Cultural Cooperation in accordance with the provisions of the Cabinet of Ministers (Government) Regulation for the programme “Local Development, Poverty Reduction and Cultural Cooperation”. MoEPRD and MoC will ensure that up to 3,000,000 euros of the programme funding are intended for the programme area “Cultural Entrepreneurship, Cultural Heritage and Cultural Cooperation” with a view to improve access to the arts and culture and to increase involvement in art and culture. The Norwegian Arts Council will actively engage in the development of activities related to the programme area “Cultural Entrepreneurship, Cultural Heritage and Cultural Cooperation”.

MoC will develop the appropriate internal regulation to exercise the functions entrusted to it, which will be coordinated with MoEPRD and included in the programme DMCS.

#### 2.4.2.3 *Ministry of the Interior*

MoI is a government institution in charge of policy-making in the issues of public security, migration, fire safety and rescue as well as border guarding.

MoI, as the PO of the EEA programme International Police Cooperation and Combating Crime, will provide for the PO functions in the programme implementation. Functions of the MoI, as the PO, will be specified in the Programme’s Cabinet of Ministers (Government) Regulation and competencies of departments will be defined in the Programme’s DMCS that will be developed and submitted to the NFP within 6 months after the approval of the Programme in accordance with Paragraph 2 of Article 5.7 of the Regulations.

Functions of the Head of PO in the Ministry of the Interior are performed by Deputy State Secretary of the Ministry of the Interior for foreign cooperation issues. Several departments of the Ministry of the Interior are involved in performance of the PO functions.

European Affairs and International Cooperation Department International Project Coordination division:

1. is responsible for preparation of the programme and its amendments;
2. participates in the preparation of project contracts and their amendments;
3. ensures the functions of the Cooperation Committee secretariat and prepares all documentation to provide for the work of the Cooperation Committee;
4. plans and manages the programme administration costs;
5. is responsible for publicity measures;
6. provides advice and support to all project promoters;
7. cooperates with NFP, CA and AA;
8. prepares the planned payment forecast;

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9. delegates observers to the project monitoring committees;
10. is responsible for the development of the programme DMCS;
11. prepares reports to the FMO and CA;
12. implements other functions of the PO that have not been delegated to another departments of the MI.

Other departments of MoI will also be involved in performance of individual tasks according to their competency and they will participate in the implementation of the Programme within the framework of general functions: Finance Management Department, Legal Department, Sectoral Policy Department, Personnel Management and Administrative Department and the Internal Audit Division.

The Council of Europe will participate in the programme implementation as an International Partner Organisation.

The Internal Audit Division of the Ministry of the Interior carries out internal audits in accordance with the annual internal audit plan that has been prepared based on the system risk assessment. Independence of the Internal Audit Division of the Ministry of the Interior is provided in accordance with the provisions of the Internal Audit Law and the 9 June 2010 MoI Rules No 1-10/26 "Rules of the Internal Audit Division", which set forth that the Internal Audit Division is a separate unit that is directly subordinate to the State Secretary.

On programme management level, bilateral relations will be promoted through involving the Council of Europe, as the International Partner Organisation, in the development of the programme concept and implementation of the programme within the Cooperation Committee.

Possible cooperation partners for project promoters will be searched with the support from the International Partner Organisation.

On the project level, bilateral relations will be strengthened by considering the possibility of implementing the predefined project in the area of combating economic crime with the Organization for Economic Cooperation and Development (OECD) as a project partner, as well as to implement the predefined project in the area of strengthening a child-sensitive justice system with the Rights of the Child Protection Agency of the Government of Iceland as a project partner.

Adjusted Rules of the Cooperation Committee was approved at the meeting of the Cooperation Committee on 13 June, 2019. Rules of the Cooperation Committee have been developed in accordance with Article 4.4 of the Regulations.

In order to ensure implementation of the programme and performance of functions of the PO, by the end of 2019 the PO will prepare the Programme's Cabinet of Ministers (Government) Regulations:

- Procedure of implementation of the European Economic Area 2014-2021 period programme "International Police Cooperation and Combating Crime".

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During 2019, MoI will also develop Internal procedures for implementing the Programme, for on-the-spot verifications and for verification of project procurement documentation and procurement process.

See structural scheme of the MoI in Annex 16.

#### 2.4.2.4 *Latvian Investment and Development Agency in cooperation with the Ministry of Economics*

LIDA is the direct administration institution subordinate to the Minister of Economics (ME)\_that provides information on starting business, government support programmes, opportunities for attracting funding, provides support to entrepreneurs in export issues and partner search.

LIDA will provide for the performance of PO functions in implementation of the NFM programme “Business Development, Innovation and Small and Medium Enterprises”. LIDA will operate autonomously and independently of the ME, but the programme concept and laws and regulations necessary for its implementation will be developed by the MoE in collaboration with LIDA. The separation of functions between the institutions will be specified in the Programme’s Cabinet of Ministers (Government) Regulations and competencies of their departments will be defined in the Programme’s DMCS that will be developed and submitted to the NFP within 6 months after the approval of the Programme in accordance with Paragraph 2 of Article 5.7 of the Regulation.

Functions of the PO in LIDA will be performed by the European Funds Post-Monitoring and the Norwegian Financial Mechanism Department, which will implement the following PO functions:

1. developing a programme concept note;
2. ensuring implementation of the programme in accordance with the Programme Agreement;
3. ensuring that projects meet the general objectives of the NFM, agreement of the programme “Business Development, Innovation and Small and Medium Enterprises”, laws of the EU, the laws and regulations of the Republic of Latvia;
4. developing a communication plan;
5. ensuring the performance of the programme publicity requirements by providing information about the Programme, its objectives, implementation as well as about cooperation with Donor States' organisations;
6. establishing a programme Cooperation Committee with a Donor State programme partner and providing for management of work of the Committee;
7. developing laws and regulations to ensure implementation of the programme;
8. ensuring development and implementation of the programme management and control system;

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9. accepting and evaluating projects submitted in the programme as well as entering into the project contracts with the project promoters;
10. carrying out ex-ante checks of the public procurement documentation and or/procurement procedure in projects and predefined projects on sample basis;
11. carrying out random verifications in places of project implementation;
12. evaluating the project payment requests;
13. ensuring timely payments to the project promoters;
14. implementing activities of bilateral cooperation;
15. accumulating data about the progress of implementation of the projects;
16. preparing annual programme implementation reports and programme IFRs;
17. ensuring the projects' post monitoring;
18. reporting to the NFP on irregularities found in the Programme implementation or suspected irregularities and recovery of ineligible expenditure found in the projects;
19. to record irregularities identified during the implementation of projects and ensuring recovery of ineligible expenditure;
20. gathering the information necessary to provide for the programme closing evaluation measures.

In addition to the above, support to the LIDA European Funds Post-Monitoring and the Norwegian Financial Mechanism Department in the implementation of the programme will be provided by LIDA Legal Department European Funds Provision Division that will implement the following functions:

1. participating in the development of laws and regulations for the programme;
2. providing legal support during the implementation of the programme;
3. participating in the preparation of draft agreements related to the implementation of the programme projects;
4. ensuring provision of legal support during the project implementation and post-monitoring period.

LIDA has developed the following internal regulations:

- 01.02.2018 Rules of the LIDA European Funds Post-Monitoring and the Norwegian Financial Mechanism Department;
- 01.02.2018 LIDA internal regulation No.ORG-INA-IKN-2018/507 “Rules of the Cooperation Committee for the Implementation of the Norwegian Financial Mechanism 2014-2021 Programme “Business Development, Innovation and Small and Medium Enterprises””.

After the signing of the programme agreement and entry into force of the external laws and regulations, LIDA plans to develop the following internal regulations:

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- Procedure of selection of the project applications submitted for the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises” and completion of the checklist;
- procedure in which LIDA carries out verifications at the place of implementation of the project in the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises”;
- procedure in which LIDA reports on irregularities identified in implementation of the project of the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises” and makes the decision regarding recovery of the ineligible expenditure;
- procedure in which the interim, final and progress reports submitted by the co-funding beneficiary of the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises” are examined and approved;
- procedure in which LIDA ensures monitoring and control of implementation of the project in the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises”;
- procedure in which LIDA agrees with the co-funding beneficiary on the terms and conditions for implementation of the project in the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises”, enters into the agreement, makes amendment to or terminates such;
- procedure in which applications, payment requests and documents supporting expenditure of the participants of the Fund for bilateral relations activities of the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises” are examined and the aid is refunded to the co-funding beneficiaries;
- procedure in which LIDA evaluates the procurement plan of the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises” project applicant and carries out pre- verifications of the procurement;
- procedure in which LIDA ensures performance of information and communication activities within the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises”;

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- procedure in which LIDA carries out risk assessment of the projects of the Norwegian Financial Mechanism 2014-2021 co-funded programme “Business Development, Innovation and Small and Medium Enterprises”.

### **Risk management**

LIDA will develop a description of the process for management of the NFM programme “Business Development, Innovation and Small and Medium Enterprises”, which will describe step by step the operations with projects of the above programme. Internal LIDA regulations for evaluation of programme projects and entering into the co-funding agreements, carrying out verifications on project implementation sites, examining payment requests as well as identification and monitoring of irregularities will be developed as well. When evaluating the projects submitted, industry experts will be involved who will assess relevance of the project to the programme objectives and their sustainability. During project implementation, LIDA will carry out verifications at project implementation sites. Also, keeping track of project progress, LIDA will examine the project progress reports and payment requests. Checklists will be developed for the verifications of project implementation on site, examination of progress reports and payment requests by ensuring adherence to the 'four-eye' principle, and they will include questions relating to the verification of identified risks and their mitigation measures as well as identification of possible additional risks. Information on the results of verifications will be summarised electronically.

Internal Audit Section of the Ministry of Economics (hereinafter IAS) performs internal audits, including in LIDA, according to the IAS annual plan approved by the State Secretary, which has been prepared based on the system (including financial mechanisms) risk assessment, and unscheduled audits in accordance with the order of the Minister or the State Secretary. Operation of the MoE IAS is governed by the Internal Audit Law, 9 July 2013 Cabinet of Ministers (Government) Regulation No 385 "Procedure of performance and assessment of internal auditing", 23 March 2010 Cabinet of Ministers (Government) Regulation No 271 "Rules of the Ministry of Economics", 12 April 2017 MoE Regulations No 76-1-8-2017 "Regulations of the Ministry of Economics", 22 November 2017 MoE Regulations No 76-1-13-2017 "Rules of the Internal Audit Section", 10 February 2016 MoE order No 31 "On the internal audit system in institutions subordinate to the Minister of Economics" and 24 March 2015 MoE internal regulation No. 1-7-7 "Procedure of organising the internal audit work and supervision of implementation of the internal audit recommendations".

### **Bilateral relations**

Given that the main objectives of the NFM are to reduce social and economic disparities in the EEA and to strengthen bilateral relations between NOR and the beneficiary countries in priority sectors, promoting bilateral relations is a very important factor in the implementation of the programme “Business Development, Innovation and Small and Medium

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Enterprises”. The programme will provide the possibility for the project promoters to implement projects in partnership with Norwegian companies and institutions, which could participate in the implementation of projects or provide outsource services. Other bilateral relations activities will be planned and implemented as well, such as information seminars, forums, etc.

The Business Competitiveness Department Innovation Division of MoE will engage in performance of the following PO functions:

1. developing the concept note;
2. drafting the Programme’s Cabinet of Ministers (Government) Regulation governing the programme “Business Development, Innovation and Small and Medium Enterprises” and its progressing to approval by the Government as well as making amendments to the Cabinet of Ministers Regulation.

#### 2.4.2.5 Ministry of Justice

Ministry of Justice (MoJ) develops and implements policy for the justice sector in the country. The functions of MoJ include developing, organising and coordinating implementation of the state policy in the following areas: legal system, court administration, personal data protection, freedom of information and supervision of electronic documents, public registers, maintenance of real estate state cadastre, insolvency of commercial companies, forensics, industrial property, religious affairs, land policy, insolvency of companies (merchants), areas of criminal and administrative punishment systems and punishment enforcement. MoJ provides also for the representation of LV in the European Court of Justice and carries out other functions in accordance with external laws and regulations.

MoJ provides for the performance of the PO functions in the implementation of the NFM programme Correctional Services. Functions of the Head of PO in the MoJ are performed by the Director of the Project Department - Head of the programme Correctional Services

The PO functions of MoJ will be performed by the Project Department, which will implement the following PO functions:

1. developing laws and regulations to ensure implementation of the programme;
2. establishing the Cooperation Committee, organising its work and functions of the Secretariat;
3. preparing the programme concept note, discussing it in the Cooperation Committee;

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4. submitting the concept note to the Cabinet of Ministers (Government) and to the NFP in English;
5. developing and updating the Programme's MCS;
6. developing the rules for evaluation of the predefined project and establishing a predefined project application evaluation committee;
7. developing the predefined project evaluation criteria;
8. preparing the opinion on a positive evaluation of the predefined project or opinion on a positive evaluation with condition/s ;
9. drafting and entering into the predefined project contract;
10. carrying out selective pre- verifications of the procurement documentation of the predefined project and the progress of the procurement procedure;
11. preparing a bilateral cooperation agreement between the PO and the Donor State programme partner on the programme level;
12. preparing the programme-level bilateral cooperation action plan and submitting it for consideration and approval to the Cooperation Committee;
13. organising cooperation activities of the PO and the Donor programme partner, providing for the proper use of financial resources use and its monitoring;
14. providing for recording irregularities and inappropriate expenditure found in the programme and the predefined project;
15. ensuring the records of audits carried out within the programme;
16. reporting to the NFP regarding irregularities found or suspected irregularities during programme implementation;
17. ensuring monitoring and control of implementation of the project;
18. examining and approving the project report and the documents supporting the expenditure submitted by the project promoters;
19. preparing the Programme IFRs, annual and final reports;
20. preparing the NFM resource request forecasts for the financial year concerned and the subsequent financial years;
21. providing for carrying out verifications on the predefined project implementation site;
22. developing the programme communication plan and ensuring the Programme publicity activities;
23. carrying out risk assessment in the programme and projects, monitoring the risks on a regular basis;
24. providing, upon request, the substantive and financial information to the CA, AA and NFP.

To strengthen the bilateral cooperation relations within the programme, the PO, in collaboration with Donor State programme partner, have prepared a Plan of Bilateral



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Cooperation Activities. It has been approved by the Cooperation Committee. The Plan of Bilateral Cooperation Activities includes the following activities:

1. conferences, seminars in beneficiary country and the Donor State on issues topical in the correctional services system;
2. visits to the beneficiary country and the Donor State to discuss progress and development directions of the programme;
3. training and experience exchange visits of Latvian and Norwegian correctional service specialists to Latvia and the Donor State.

In order to ensure implementation of the programme and performance of functions of the PO, the Cabinet of Ministers (Government) on 04.04.2019 adopted Regulations “Procedure of implementation of the Norwegian Financial Mechanism 2014-2021 programme “Correctional Services””.

In order to ensure implementation of the programme and performance of functions of the PO, the PO will prepare the following internal regulations:

1. Norwegian Financial Mechanism 2014-2021 programme “Correctional Services” risk management procedure. It will identify the PO risks, determine their effects, the risk mitigation measures, risk monitoring procedure and regularity. The procedures will be developed by the 3rd quarter of 2019.
2. Procedure of performance of the Norwegian Financial Mechanism 2014-2021 programme “Correctional Services” verifications on the project implementation site. It will reflect the scope, rationale, regularity of verifications and preparation of the report on the findings. The procedures will be developed by the 3rd quarter of 2019.

The allocation of functions of the MoJ will be specified in the Programme’s Cabinet of Ministers Regulations and competencies of departments will be defined in the Programme’s DMCS developed by the MoJ that will be developed and submitted to the NFP within 6 months after the approval of the Programme in accordance with Paragraph 2 of Article 5.7 of the Regulation.

## **2.5 Procurement Monitoring Bureau**

PMB a direct public administration body subordinate to the MoF, the competency of which is defined in the Public Procurement Law, the Public Service Providers Procurement Law, the Law On Public-Private Partnership, the PMB rules and other laws and regulations.

Pursuant to the Law, the PMB is a nationally selected institution that will ensure ex-ante checks on the sample basis for the public procurement documentation and procurement procedure (prior conclusion of procurement contract) (hereinafter - ex-ante procurement checks) of the EEA/NFM projects and predefined projects.

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### 2.5.1 *Description of functions and tasks to be performed by the Procurement Monitoring Bureau*

The functions of the PMB are:

1. to carry out ex-ante procurement checks in accordance with the procedure and scope set forth by the Government Regulations on grants management;
2. to advise and provide the views/opinion to institutions involved in the EEA/NFM management regarding procurement in the EEA/NFM programmes and projects;
3. to develop methodology for ex-ante procurement checks and to coordinate such with the NFP, all POs, the agency and national programme partner, as well as to make sure that the above methodology is properly applied by carrying out checks on the sample basis of pre- verifications completed.

### 2.5.2 *Organisational structure of the Procurement Monitoring Bureau and compliance with the principle of separation of functions*

Selective ex-ante procurement checks in the EEA/NFM projects and predefined projects will be ensured by the PMB Control Department;

See organisations structure of the PMB in Annex 11.

### 2.5.3 *Written procedures prepared for use by the employees of the Procurement Monitoring Bureau and other institutions involved in the EEA/NFM management*

To implement ex-ante procurement checks on a sample basis the PMB developed the internal procedure No 1-11/22 (approved on 21.12.2018) describing how the PMB ensures ex-ante procurement checks in the projects and predefined projects on a sample basis and inspects on a sample basis ex-ante procurement checks carried out by POs and agencies (provides supervision function) . The PMB also developed a Methodology of performance of ex-ante procurement checks for POs and agencies (approved on 21.12.2018).

## **3 Procedures governing certification and legality and regularity of expenditure included in the interim financial and final reports of the Programmes**

All programmes, including payments to the project promoters, are pre-financed from the state budget.

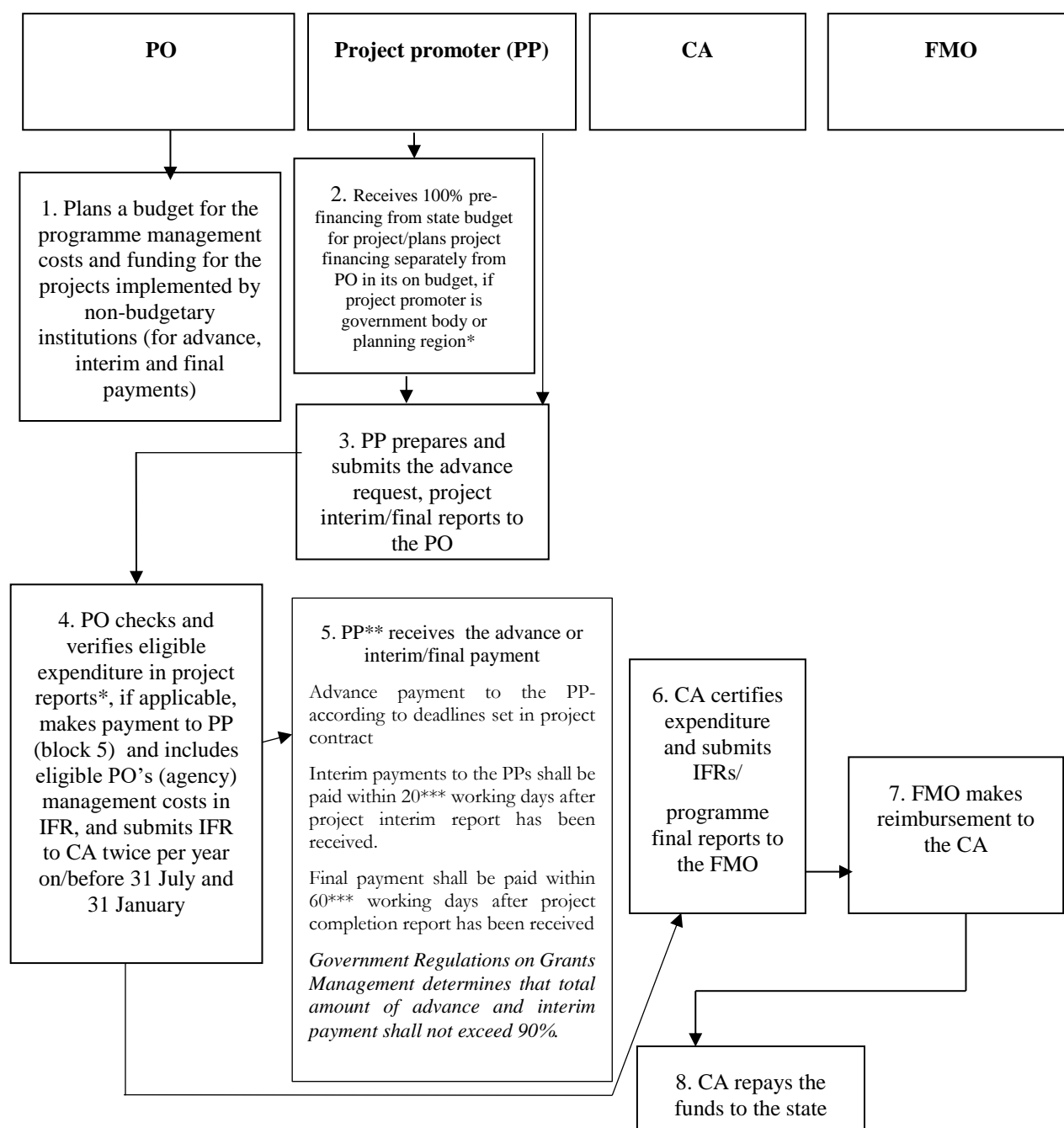
The PO or the agency shall review and approve the project reports by the EEA/NFM project promoters, including expenditures, in accordance with Subparagraph (e) of Paragraph 1 of Article 5.6 of the Regulations. The PO shall make a payment to the project promoter, if applicable. The PO in cooperation with the agency shall prepare the IFR or programme final report and submit it to the CA. The CA shall examine the above report, shall certify expenditures and submit to the FMO. After the EEA/NFM funds are reimbursed by the Donor

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States, the CA shall provide for a refund to the state budget. Please see the flow of payments in the scheme below.

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### *Payments flow scheme*



\* In the case where government bodies or planning regions are PPs, PO checks project reports and approves eligible expenditures of projects, no interim/final payments are made to PPs. There are 5 planning regions in Latvia – Riga, Zemgale,

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*Latgale, Kurzeme un Vidzeme Planning Region. Each planning region is government bodies established in accordance with Regional Development Law and their activities are financed from state budget.*

*\*\* Where the PP is not a governmental institution or a planning region, the PO pays to the PP an advance payment (if foreseen in the project contract) and, based on the approved project report, reimburses to PP approved project eligible expenditures (considering also used amount of advance payment).*

*\*\*\* The payment deadline might be prolonged for 15 working days if there are some errors or missing documents.*

#### **4 Electronic documentation, reporting and information system**

CA ensures the accounting of received and spent EEA/NFM funds in accounting system SAP ERP (Treasury Management System) separately for each programme/project. Institutions involved in the management of financial mechanisms must provide for the storage of information in electronic form<sup>23</sup> in compliance with Reg No. 683 which defines procedures for submitting the reports to the NFP, CA and AA (AA Finding No. 13, recommendation implemented in November 2018).

Accounting records of the MoF (NFP, AA and IA), including TA and BF: ensured through a licensed centralised resource management system Horizon (CRVS -Horizon). The data backup is ensured in the internal procedures.

Accounting records of the Treasury (CA) regarding the funds received from the Donor States and paid to the PO as well as regarding the funds recovered/to be recovered are organised SAP ERP, which is maintained based on the requirements set forth in the Law On State Information Systems. In addition, to provide for the CA functions, the EAD of the Treasury maintains records of expenditure certified for Donor States in electronic format. Internal procedures provide for data backup; moreover, information management system of the institution is certified according to the international IT security management standard ISO 27001:2013.

NFP ensures data storage in computerized form (Irregularity Register, Risk Register, Complaints Register, Register of Audits' Recommendations) and also will use data and information available in IT system GRACE.

Additionally, Government's Regulations No. 473 (adopted on 28.06.2005) determine procedures for preparation, storage and workflow of electronic documents between the state and local government institutions or between these institutions and natural and legal persons. According to these Regulations each institution shall ensure electronic storage of documents according to institution's approved internal procedure. For example, at the MoF, internal procedure "Classification of Files" (updated on 19.12.2018) is in place, which determines process, how all received documents and correspondence is registered and stored in MoF within Electronic Recordkeeping System.

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<sup>23</sup> Reports, correspondence, other documents circulation are ensured by/registered within electronic data storage system of each institution.

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## 5 Audit trail

### 5.1 Description of how the requirements set forth in Article 5.1.2 g) of the Regulations (Audit trail) will be implemented

NFP is responsible for sufficient and appropriate audit trail in general. Conditions to ensure appropriate audit trail have been included in the national laws and regulations and internal procedures.

The main requirements relating to audit trail are:

- all accounting entries and other documentation about the programmes, including documents relating to the project application selection criteria, granting funding, public procurement procedures and audit and verifications reports are stored in accordance with the requirements of the EEA/NFM and national laws and regulations;
- to ensure consistency of payments within the programmes and projects with detailed accounting documents and supporting documents, which are kept in the institutions in respect of operations financed from the EEA/NFM;
- while performing project's on the spot verifications responsible institution shall verify whether project promoter ensures appropriate audit trail. In addition, procedures with respect to audit trail are examined within the system audits carried out by the internal audit departments.

### 5.2 Instructions for the beneficiaries regarding storage of the attached documents

According to the Regulations and conditions set within Programme Agreements , institutions and persons involved in the EEA/NFM management shall keep the originals of all documents related to the EEA/NFM, programmes and projects for **five years** after approval of the final programme report. According to the European Commission regulation No. 1407/2013, the documentation regarding receipt of *de minimis* aid shall be kept for 10 years after the receipt of aid.

At the MoF documents related with EEA/NFM programmes will be stored until 31.12.2028 and documents related with Fund for Bilateral Relations – until 31.12.2030 (MoF's internal procedure "Classification of Files" (updated on 19.12.2018)).

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## 6 Reporting on irregularities and recovery of ineligible expenditure

The NFP, AA, CA and PO (including the agency, to which functions have been delegated, and the national programme partner) shall take all possible steps to prevent and detect any irregularity.

### 6.1 Laws and regulations determining the procedures for reporting on irregularities and recovery of ineligible expenditure

Procedures on reporting irregularities detected in the EEA/NFM, as well as writing-off, withholding or recovering of ineligible expenditure and applying the proportional financial correction is specified in the Government Regulations on grants management (adopted on 13 November 2018).

### 6.2 Written procedures determining reporting on irregularities and recovery of ineligible expenditure

The NFP has developed the following procedures and guidelines:

- Procedure in which the National Focal Point identifies and evaluates potential irregularities and information on irregularities detected in the implementation of the EEA/NFM period 2014-2021 (approved on 12.06.2019.);
- Guidelines for reporting and informing the NFP about irregularities, recording of irregularities and applying financial corrections in the projects financed from the EEA/NFM (approved on 27.05.2019).

Regardless of the amounts involved, the PO, shall report the suspected and actual irregularities to the NFP.

#### 6.2.1. Types of irregularity reports submitted by the PO:

1. quarterly report (incl. follow-up report) on irregularities shall be submitted to the NFP for each quarter by the 15th date of the first month of the subsequent quarter regarding each suspected and actual irregularity in the projects and programme, which has been found during the current quarter by the institution involved in the management of financial mechanisms;
2. suspected or actual irregularity detected according to the provisions of Article 12.5.1 of the Regulations shall be submitted to the NFP immediately.

Detailed procedure on reporting of suspected and actual cases of irregularities together with their progress is described within Government Regulations on grants

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management. Please find detailed information within Scheme “Procedures for reporting on new irregularities and their follow-up” enclosed in Annex 26.

According to the provisions of Chapter 12 of the Regulations, the IMD:

- performs the functions of the Irregularities Authority (including verifying information provided in the PO irregularity reports listed above in 6.2.1);
- establishes and maintains the Irregularities Register in electronic form, including recording of information regarding every suspected and actual irregularity in the programmes and projects and the measures taken to eliminate the identified irregularity;
- provides submission of irregularity reports to the Donor States in the procedure specified in Article 12.5 and 12.6 of the Regulations.

Irregularities Register is developed and operational in “Test mode” since March 2019 and, in parallel, the NFP developed Irregularities Register instruction/manual for POs and agency, which describes in details each step to be done during entering data in Irregularities Register. Irregularities Register as online system is available on the MoF’s based webpage. POs and agency has a permission to enter or edit data in the Irregularities Register. The NFP is responsible for overall monitoring of the Irregularities Register/owner of the Irregularities Register (reviews, revises and acknowledges the data, returns for editing to PO/agency, if necessary). The CA and AA will have also permanent access to the Irregularities Register. The other institutions performing audits will receive access to the Irregularities Register on request. The Irregularities Register will generate reminders<sup>24</sup> for the POs and agency when the data shall be filled in or updated.

According to Government Regulations on grants management, the NFP assesses data and information on every irregularity on a regular basis (1- 1,5 months after each quarter or immediately accumulates data filled in the Irregularities Register by PO/agency, verifies irregularity reports, may return them back and request to correct data, information). Please find detailed process of reporting of new irregularities (quarterly/immediate) and, how irregularities are followed up in Scheme “Procedures for reporting on new irregularities and their follow-up” enclosed in Annex 26.

7.2.2. Recovery of ineligible expenditure made:

1. withholding from the next or current repayment of expenditure;
2. voluntary repayment;
3. recovery in civil procedure.

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<sup>24</sup> On the first month’s date after completion of each quarter



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7.2.3. Closing of irregularities. An irregularity is closed in cases when:

1. a decision is made that the identified case should not be considered as irregularity;
2. all ineligible expenditure made has been recovered and/or withheld from the programme financial report.

If it is not possible to recover payments due to objective reasons, for example, the project promoter has ineligible expenditure, however, due to exceptional and unforeseen circumstances (such as flood, storms, fire, etc.) they can not be recovered.

If Donor States require reimbursement of ineligible expenditure, such reimbursement is planned in the state budget (according to Government decision) and refund to the Donor States is ensured (reimbursement shall be made by the Treasury based on the payment order of the PO/NFP).

## **7 Risk management procedures**

### **7.1 Laws and regulations governing the procedure of risk management, its establishment, monitoring and improvement**

– 08.05.2012 Cabinet of Ministers (Government) Regulation No. 326 "Regulations regarding the internal control system in institutions of direct administration".

### **7.2 Guidelines and written procedures that determine risk management procedure and have been prepared for use by the employees of the National Focal Point and other institutions involved in the EEA/NFM management**

- EEA/NFM 2014-2021 risk management strategy approved by the Donor States on 27.02.2016 (hereinafter the Donor States' Risk Management Strategy);
- Results Guidelines for result evaluation approved by the Donor States on 02.09.2017 (hereinafter - the Results Evaluation Guidelines);
- Annex 4 of the Donor States' 09.12.2017 Results Guidelines, Mandatory risk assessment and mitigation analysis template;
- 11.01.2018 Procedure No. 3.6 "Procedure for carrying out risk management during the EU Funds 2014-2020 programming period and in management of other foreign financial assistance mechanisms" (hereinafter - the NFP Procedure for Risk Management);
- 23.02.2017 Methodology for managing the risks of the EU funds and other foreign financial assistance mechanisms in the National Focal Point.

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Subject to national laws and the requirements and instructions of Donor States<sup>25</sup>, authorities involved in the EEA/NFM management should perform active and regular risk management (including risk identification, assessment/reassessment, implementing risk mitigation measures, monitoring, reporting) regularly and at least once a year to ensure attaining the planned EEA/NFM objectives and the results of programmes and the Fund for bilateral relations.

### 7.2.1 *Risk management in the National Focal Point*

By MoF order of 29.12.2017 No 607, the EU Structural Funds, the Cohesion Fund, the EEA/NFM, Latvian-Swiss Cooperation Programme Risk Management Working Group (hereinafter - Risk Management Working Group) has been established and it includes also representative from the EEA/NFM NFP, CA, PMB and IAD. The main tasks of the working group are:

1. to identify the risks;
2. to evaluate and coordinate the information included in the "Risk registers of the EU funds period 2007-2013, EU funds period 2014-2020 as well as other foreign financial assistance mechanisms";
3. to deal with issues related to risk management, to ensure the effectiveness of risk management and provide proposals for improvement of the risk management process;
4. to provide proposals for the necessary human resources capacity building in the area of risk management, including in the area of anti-fraud and anti-corruption measures;
5. to determine and approve risk appetite and risk tolerance level for the main risk groups.

Risk management of the EEA/NFM administration system includes the following stages:

1. analysing the related processes and risk identification by applying methods specified in the NFP Procedure for Risk Management;
2. risk assessment, classification and management, including choosing the risk management strategy, defining the planned controls and their implementation deadlines, determining the responsible risk owner and holder in line with the methodological instructions, risk probability and impact assessment scale included in the NFP Procedure for Risk Management and the defined EEA/NFM risk classification;

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<sup>25</sup>Regulations; Donor States' Risk Management Strategy; Results Evaluation Guidelines (including Annex 4, Risk Assessment and Mitigating Activity Register);

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3. identification, execution of risk prevention or mitigation measures and evaluation of monitoring controls, introduction of new/additional controls as well as regular reviews of the risk management measures.

In order to obtain a systemic, integrative and evaluative view of the Risk Management System, the EU Structural Funds and the Cohesion Fund 2014-2020 and other foreign financial assistance mechanisms' risk register is developed, which contains information about the risks, controls, monitoring and the responsible persons and which is completed and updated by the NFP at least once a year.

In respect of the EEA/NFI, risks in the Risk Register are documented in accordance with the risk categories defined by the Donor States for the 2014-2021 implementation period<sup>26</sup>, which are adapted to the classification defined in the NFP Procedure for Risk Management: strategic and operational risks.

Risk management, according to the provisions in Table 8 of Annex 3 of the NFP Procedure for Risk Management, includes the following risk management strategies: risk mitigation, risk transfer, risk acceptance and risk aversion.

The NFP (SMD<sup>27</sup>) performs management of risks identified by the Donor States and those identified in national level in the EEA/NFM management (regulatory document level, MCS functioning, including the complaint register) and the EEA/NFM supervision (general supervision of programmes, the Fund for bilateral relations and the results achieved by those). With regard to the programme level risks, the NFP (IMD) compiles and analyses the information received from the POs and agencies, and carries out a programme risk assessment once a year when preparing the annual EEA/NFM Strategic Report, and reports such to the Donor States on annual meetings. Based on the programme-level risk assessment, the IMD informs the SMD at the annual risk identification and assessment meeting<sup>28</sup> organised by the SMD before the EEA/NFM risks are discussed by the Risk Management Working Group, or more often if necessary. At the above meeting, the IMD and the SMD identify, evaluate and re-evaluate both the risks of national level and key risks of programme level to be included in

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<sup>26</sup>Defined in Annex 4 of the Donor States' 09.12.2017 Results Evaluation Guidelines, Risk Assessment and Mitigating Activity Register

<sup>27</sup> Starting from 2 July 2018 IMD ensures elaboration of MCS description, coordination of the MCS and system audits and risk management process (according to the order of the MoF No 201 of 12 June 2018).

<sup>28</sup> Meeting of the SMD and the IMD (EEA, Norway and Swiss Investments Division) on identification and assessment of risks in other foreign financial assistance mechanisms

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the national-level risk register<sup>29</sup>, and discuss other issues related to the EEA/NFM risks as well.

### 7.2.2 *Risk management in the Certification Authority*

Risk management is carried out in accordance with the Risk Management Policy of the Treasury, the latest version of which has been approved on 20.01.2017. Risk Management Policy establishes uniform and coherent principles for risk management in the Treasury. Requirements of the Risk Management Policy cover all existing business processes, projects, information security management system and working environment of the Treasury. Requirements set forth in the Risk Management Policy are binding on all employees of the Treasury.

Risk Management Policy of the Treasury defines the authority, responsibility, duties in the area of risk management of the Treasurer, the Quality and Risk Management Committee, the Quality and Risk Management Department, process managers, Heads of departments, project managers, information resource owners and for all employees of the Treasury.

Measurements of processes of the Treasury are carried out regularly, on a quarterly basis, including the process “Implementation of functions of the EU Funds and foreign financial assistance payment and certification authority”, risks of the process are assessed not less than twice a year, risk mitigation measures, their performance deadlines and persons responsible for implementation are defined. Repeated risk assessment is carried out after completion of risk mitigating measures.

Two employees of the Treasury regularly participate in the work of the EU Structural Funds, the Cohesion Fund, EEA/NFM, Latvian-Swiss cooperation programme risk management group.

### 7.2.3 *Risk management in the Procurement Monitoring Bureau*

EEA/NFM risk management in the PMB is carried out in accordance with the PMB Risk Management Manual of 26.02.2016. Risks are identified and reviewed at least once a year (responsible unit - Risk Management Committee).

The PMB Risk Management Manual covers all current operational processes of the PMB (responsible unit - Control Department). By the end of October 2019, the Risk Management manual will include the processes concerning the EEA/NFM ex-ante

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<sup>29</sup>Risk registers of the EU funds period 2007-2013, EU funds period 2014 2020 as well as other foreign financial assistance mechanisms

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procurement check function (including provision of opinions and carrying out ex-ante procurement checks).

#### 7.2.4 *Risk management in the Programme Operator institutions*

Risk management at the programme level is carried out by the relevant PO, national programme partner and agency, subject to information contained in the risk management strategy of the Donor States. Programme risk management covers all processes related to programme planning, implementation, including monitoring of objectives related to the programme performance indicators and bilateral cooperation. Allocation of functions as well as internal risk management procedures of the institution will be determined in the DMCS of the programme concerned.

According to Paragraph 6.3.1 of the Regulations and Paragraph 3 of the Donor States' performance measurement guidelines, upon developing the programme concept, the PO shall perform the initial risk assessment and analysis of their mitigation measures in accordance with the form developed by the Donor States<sup>30</sup>, submission of which the FMO may require during the period of preparation of the programme agreement.

POs and agency report on the programme level risks to both the NFP and the Donor States once a year by submitting the annual programme report. The PO must submit the annual programme report to the NFP for coordination before it is submitted to the Donor States<sup>31</sup>, the CA and the AA. When coordinating the annual programme report, the NFP makes sure that its quality and content meets the requirements of Donor States. In addition, the PO provides information on the progress of the programme (including the risks) to the NFP and the Donor State programme partners in the programme Cooperation Committees.

Several substantial processes have been defined for the PO and the agencies by laws and regulations with respect to monitoring and control of project implementation (such as developing and approving the project application selection criteria, evaluation and selection of project applications, drafting and entering into the project contracts). For the POs and agencies to ensure the required supervision and control over the project promoter in the defined processes, they are entitled to request all the necessary information from the project promoter. Thus, the POs and agency play a vital role in the project level risk management as well, and are responsible for identifying the project level risks, and use the results of the performed risk assessment in the project monitoring (for example, base the project verifications on those and select the scope of verifications). In identification and management of the project-level risks, the POs consider the information available to them, experience from the previous EEA/NFM

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<sup>30</sup>Annex 4 of the Donor States' 09.12.2017 Results Evaluation Guidelines, Risk Assessment and Mitigating Activity Register;

<sup>31</sup> In GRACE system, when it is created.

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period, including that POs and agencies ensure that the risks related to the project application selection and project implementation are identified and mitigated, especially illegal or corrupt activity risks as well as counterproductive and inefficient use of project funding.

### 7.3 Submission of complaints

#### 7.3.1 *Laws and regulations that determine the complaint procedures*

- Article 12.7 of the Regulations;
  - Section 22, Part four of Section 23 and Chapter V of the Law;

01.01.2008 Law On Submissions<sup>32</sup> Subject to instructions from the Donor States, one of the most significant corruption risk mitigation measures in the EEA/NFM management is an understandable and accessible complaints mechanism as well as information on the possibilities for submitting complaints.

In accordance with the principles of good governance (openness, transparency, traceability) in the implementation of the EEA/NFM, a section Submission of Complaints has been developed on the NFP EEA/NFM websites ([www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv)), which specifies **the procedure and deadlines** for the submission of complaints on suspicion of mismanagement or corruption in the EEA/NFI implementation.

#### 7.3.2 *Procedure and deadlines for submission of information (complaint)*

7.3.2.1. In case if the potential mismanagement of funds, conflict of interest or corruption is being suspected, the information provider shall act as described within EEA/NFM websites ([www.eeagrants.lv](http://www.eeagrants.lv) and [www.norwaygrants.lv](http://www.norwaygrants.lv)) thereby ensuring easy access to information and guide for preparing and submission of complaints. The submitter of complaint shall take the following actions:

- a) contact the Transparency International<sup>33</sup> Latvian branch, if a consultation is necessary prior to the submission of complaint: **Association "Sabiedrība par atklātību – Delna"**;

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<sup>32</sup> The *Saeima*<sup>1</sup> has adopted and the President has proclaimed the following law: <https://likumi.lv/ta/en/en/id/164501> .

<sup>33</sup> International non-governmental organisation fighting corruption and trying to draw public attention to the problems of corruption.

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- b) Submit information<sup>34</sup> in person, in writing by post or e-mail to one of the following institutions: NFP, AA, the Ombudsman, Corruption Prevention and Combating Bureau<sup>35</sup>, FMO
- c) or make a phone call using free hotline number<sup>36</sup> of the Corruption Prevention and Combating Bureau.

7.3.2.2. According to the Law on Submissions, the Latvian institutions shall respond to the application (complaint) in a month<sup>37</sup> (as maximum), if it is not stipulated otherwise within the particular institution's Regulations.

7.3.2.3. In case the complaint is not in the competence of the particular institution it shall be forwarded to an appropriate institution and the complainant should be informed within 7 working days.

7.3.2.4. The complainant may submit an appeal about decision made by the public institution in accordance with the procedure set in in [the Administrative Procedure Act](#).

### ***7.3.3. Role of the NFP/IA concerning complaints***

NFP as entity as responsible for complaints received by the NFP reviews any information (complaints) regarding the potential mismanagement of funds, conflict of interest, corruption or potential irregularity:

- received in accordance with Law on Submissions;
- received from entities involved in the management of Grants or other entities;
- gained from mass media, meetings etc.

NFP as entity responsible for complaints received by the NFP establishes and maintains Complaints Register in electronic form, including various information on complaints (data when complaint is received, submitter of complaint, institution that submits complaint, justifications for complaint, essence of complaint, responsible department for follow-up etc.).

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<sup>34</sup> information confirming the identity of the information provider can not be disclosed; if the information provider does not want the facts specified in the application to be disclosed, such must be stated in the application;

<sup>35</sup> Information provider may use an application form for the reporting on corruption available on the Corruption Prevention and Combating Bureau's website (<http://www.knab.gov.lv>) in Section "Report here about corruption"

<sup>36</sup> Twenty-four hours hotline for information regarding the committed or initiated corruptive offenses by public officials and conflicts of interest: + 371 80 00 20 70

<sup>37</sup> The NFP responds to information submitter within 10 working days

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NFP once in a quarter reviews status of complaints according to Complaints Register and, if necessary, requires information from involved parties (for example, POs).

If NFP/IA receives information (complaint) related to specific Programme, NFP forwards complaint to respective PO with request to evaluate it, provide opinion, and respond to submitter of complaint. If necessary, PO performs on the spot check and informs competent authority (for example, police). PO submits irregularity report to NFP/IA, if irregularity was identified as well as enters data in Irregularity Register. Detailed information regarding irregularities is described in Section 6 “Reporting on Irregularities and recovery of ineligible expenditures” and in Annex 26 “Procedures for reporting on new irregularities and their follow-up”.