

# **Kolarctic CBC – Programme 2014-2020**

**Annex IV of the Grant Contract  
“ToR for an expenditure verification of a Grant contract”**

# **EV1 EXPENDITURE AND REVENUE VERIFICATION PROCEDURE**

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## FREQUENTLY USED ABBREVIATIONS

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| Audit Authority  | AA   |
| Control Contact Point                                    | CCP  |
| European Neighbourhood Instrument                        | ENI  |
| European Union   | EU   |
| European Commission                                      | EC   |
| Group of Auditors  | GoA  |
| Joint Monitoring Committee                               | JMC  |
| Joint Operational Programme                              | JOP  |
| Kolarctic Cross Border Cooperation 2014 – 2020 Programme | Kolarctic CBC Programme (or the Programme hereinafter) |
| Managing Authority (Regional Council of Lapland)         | MA   |

## 1. Introduction

Regulatory framework for the ENI CBC programmes sets the requirements for the verification procedures of declared expenditure and revenue. In particular, ENI CBC Implementing Rules (EC Regulation 897/2014) require that expenditure shall be examined by an auditor or by a competent public officer being independent from the beneficiary (hereinafter – the controller).

As a result of the verification, it should be possible to conclude that the costs declared by the beneficiary and the revenue of the project are:

- ✓ real (expenditure was really incurred and revenues are identified and quantified),
- ✓ accurately recorded (amounts are stated and recorded according to the supporting documents), and
- ✓ eligible (in line with eligibility criteria) in accordance with the contract.

Grants awarded shall not have the purpose or effect of producing a profit, thus the expenditure verification procedure should include check of compliance with 'no-profit principle'. Profit is defined a surplus between costs and receipts at the moment of the closure of the project.

If the beneficiary gets a contribution from a third party (like the State contribution) or generates revenues because of the project (for example, interest generated by pre-financing, charges for the use of the infrastructure developed in the project or fees for the use of services), it does not automatically mean that the no-profit principle is breached.

Each payment request (except the first pre-financing request according to the signed contract) has to be accompanied with expenditure and revenue verification report. This verification shall be performed on the basis of an agreed upon procedure stipulated in the grant contract.

The objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.

The subject of the verification is the financial report produced by a beneficiary where project expenditure and revenue is declared and reimbursement is sought for the eligible part of that expenditure, as well as checking the respect of the non-profit principle.

The expenditure and revenue verification is organised in accordance with the verification procedures defined in a checklist and template for list of findings, as well as templates for the reports: expenditure and revenue verification report and report on suspected and/or established fraud. The report on fraud needs to be sent directly to the Managing Authority, without any need of informing the concerned beneficiary.

The documents are available in the Kolarctic CBC programme's web pages.

## 2. Responsibilities of the Parties to the Engagement

The term "Beneficiary(ies)" refers collectively to all Beneficiaries of the project, including the Lead Beneficiary and Partners. Where applicable the term 'Beneficiary(ies) includes its affiliated entity(ies).

- ✓ The Beneficiary is responsible for providing a Financial Report for the project financed by the Grant Contract, which complies with the terms and conditions of the Grant Contract and for ensuring that this Financial Report reconciles to the Beneficiary's accounting and bookkeeping system and to the underlying accounts and records. The Beneficiary is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.
- ✓ The Beneficiary accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Beneficiary(ies), and as the case may be its affiliated entity(ies), providing full and free access to its (their) staff and its (their) accounting and bookkeeping system and underlying accounts and records.
- ✓ 'The Auditor' (or public officer, if relevant) is responsible for performing the agreed-upon procedures as specified in this procedure. 'Auditor' refers to the audit firm contracted for performing this engagement and for submitting a report of factual findings to the Beneficiary. 'Auditor' can refer to the person or persons conducting the verification, usually the engagement partner or other members of the engagement team. The engagement partner is the partner or other person in the audit firm who is responsible for the engagement and for the report that is issued on behalf of the firm, and who has the appropriate authority from a professional, legal or regulatory body.

### 3. Engagement Type and Objective

This expenditure and revenue verification is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract. The objective of this expenditure verification is for the Auditor to carry out the specific procedures listed in the annex with the control checklist and to submit to the Beneficiary a report of factual findings with regard to the specific verification procedures performed.

Verification means that the Auditor examines the factual information in the Financial Report of the Beneficiary and compares it with the terms and conditions of the Grant Contract. As this engagement is not an assurance engagement the Auditor does not provide an audit opinion and expresses no assurance. The Managing Authority assesses for itself the factual findings reported by the Auditor and draws its own conclusions from these factual findings.

### 4. Standards and Ethics

The Auditor shall undertake this engagement in accordance with:

- ✓ the International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- ✓ the IFAC Code of Ethics for Professional Accountants, developed and issued by IFAC's International Ethics Standards Board for Accountants (IESBA), which establishes fundamental ethical principles for Auditors with regard to integrity, objectivity, independence, professional competence and due care, confidentiality, professional behaviour and technical standards. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the ENI CBC Implementing Rules requires that the

Auditor is independent from the Beneficiary(ies) and complies with the independence requirements of the IFAC Code of Ethics for Professional Accountants.

## 5. Evidence and Documentation

The Auditor plans the work so that an effective expenditure and revenue verification can be performed. The evidence to be used for performing the procedures in the control checklist is all financial and non-financial information which makes it possible to examine the expenditure and revenue declared by the Beneficiary in the Financial Report.

The Auditor uses the evidence obtained from these procedures as the basis for the report of factual findings. The Auditor documents matters, which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with ISRS 4400 and these procedures. The Managing Authority, the Control Contact Points of the country of the beneficiary and any other competent body of the European Union or duly authorised by them, may have access to the working papers of the Auditor to verify the quality of the work carried out.

## 6. Reporting

The report on this expenditure and revenue verification shall describe the purpose, the agreed-upon procedures and the factual findings of the engagement in sufficient detail to enable the Beneficiary and the Managing Authority to understand the nature and extent of the procedures performed by the Auditor and the factual findings reported by the Auditor.

The use of the Model Report for the expenditure and revenue verification (EV3) is compulsory.

## 7. General Procedures

### 7.1. Terms and Conditions of the Grant Contract

The Auditor:

- ✓ obtains an understanding of the terms and conditions of the Grant Contract by reviewing the Grant Contract and its annexes and other relevant information, and by inquiry of the Beneficiary;
- ✓ obtains a copy of the original Grant Contract and the Partnership Agreement;
- ✓ obtains and reviews the Financial Report (which includes a narrative and a financial section);
- ✓ verifies whether there is (are) an affiliated entity(ies)<sup>1</sup> to the Beneficiary(ies).

### 7.2. Verification evidence

When performing the specific procedures listed in control checklist, the Auditor may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations.

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<sup>1</sup> In accordance with the conditions of article 122 of the Financial Regulation (Regulation 966/2012)

The Auditor obtains verification evidence from these procedures to draw up the report of factual findings. Verification evidence is all information used by the Auditor in arriving at the factual findings and it includes the information contained in the accounting records underlying the Financial Report and other information (financial and non-financial).

The contractual requirements that relate to verification evidence are:

- ✓ Expenditure should be identifiable, verifiable and recorded in the accounting records of the Beneficiary;
- ✓ The Beneficiary will allow any external auditor to carry out verifications on the basis of supporting documents for the accounts, accounting documents and any other document relevant to the financing of the project. The Beneficiary gives access to all documents and databases concerning the technical and financial management of the Action;
- ✓ Moreover, for the purpose of the procedures listed in control check-list, records, accounting and supporting documents:
  - shall be easily accessible and filed so as to facilitate their examination;
  - shall be available in the original form<sup>2</sup> or in the form of copies, including in electronic form.
  - records and accounting and supporting documents should be available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting is more reliable than an oral presentation of the matters discussed). Electronic documents can be accepted only where:
    - the documentation was first received or created (e.g. an order form or confirmation) by the Beneficiary(ies) in electronic form; or
    - the Auditor is satisfied that the Beneficiary uses an electronic archiving system which meets established standards (e.g. a certified system which complies with national law).
    - should preferably be obtained from independent sources outside the entity (an original supplier's invoice or contract is more reliable than an internally approved receipt note);
    - which is generated internally is more reliable if it has been subject to control and approval;
    - obtained directly by the Auditor (e.g. inspection of assets<sup>3</sup>) is more reliable than evidence obtained indirectly (e.g. inquiry about the asset).
    - If the Auditor finds that the above criteria for evidence are not sufficiently met, he/she should detail this in the factual findings.

### **7.3. Verification coverage of expenditure and selection of expenditure items**

The Auditor applies the principles and criteria set out below when planning and performing the specific verification procedures for selected expenditure. Value should be the principal factor used by the Auditor to select expenditure items or classes of expenditure items for verification. The Auditor selects high-value expenditure items to ensure an appropriate coverage of expenditure.

<sup>2</sup> The auditor shall check the originals at least once in the lifetime of the project

<sup>3</sup> The auditor shall do a personal inspection of any assets acquired by the project (e.g. computers or infrastructure), at least once during the lifetime of the project

Verification by the Auditor and verification coverage of expenditure items does not necessarily mean a complete and exhaustive verification of all the expenditure items that are included in a specific expenditure heading or subheading. The Auditor should ensure a systematic and representative verification. Depending on certain conditions (see further below) the Auditor may obtain sufficient verification results for an expenditure heading or subheading by looking at a limited number of selected expenditure items.

The Auditor may apply statistical sampling techniques for the verification of one or more expenditure headings or subheadings of the Financial Report. The Auditor examines whether 'populations' (i.e. expenditure subheadings or classes of expenditure items within expenditure subheadings) are suitable and sufficiently large (i.e. are made up of large numbers of items) for effective statistical sampling.

If applicable, the Auditor should explain in the report of factual findings for which headings or subheadings of the Financial Report sampling has been applied, the method used, the results obtained and whether the sample is representative.

The Expenditure Coverage Ratio ('ECR') is the total amount of expenditure verified by the Auditor, expressed as a percentage of the total amount of expenditure reported by the Beneficiary in the Financial Report.

The Auditor ensures that the overall ECR is at least 65 %. If he/she finds an exception rate of less than 10 % of the total amount of expenditure verified (i.e. 6.5 %) the Auditor finalizes the verification procedures and continues with reporting.

If the exception rate found is higher than 10 % the Auditor extends verification procedures until the ECR is at least 85 %. The Auditor then finalizes verification procedures and continues with reporting regardless of the total exception rate found. The Auditor ensures that the ECR for each expenditure heading in the Financial Report is at least 10 %.

#### **7.4. Findings**

The Auditor verifies the selected expenditure items by carrying out procedures listed in the control checklist and reports all the factual findings and exceptions resulting from these procedures. Verification exceptions are all verification deviations found when performing the procedures.

The Auditor quantifies the amount of verification exceptions found and the Managing Authority declares the expenditure item(s) concerned ineligible (taking into account the percentage of funding by the Commission and the impact on indirect expenditure). The Auditor reports all exceptions found, including those for which he/she cannot quantify the amount of the verification exception found and the potential impact on the eligible costs.

## 8. Components of the expenditure verification procedure

| Component   | Explanation   |
|---|---|
| <b>1. General procedures</b>  |   |
| <b>Access to the grant contract and partnership agreement</b>   | The controller should require and access all necessary information and documentation for his/her duties.<br>Provisions should be in place that the controller has access to the grant contract and related documents, such as amendments and correspondence with Managing Authority.  |
| <b>The rules for selection of expenditure and the principles and criteria for verification coverage</b> | The rules for selection of expenditure should be described, including sampling rules if allowed by the programme, as well as the principles and criteria for verification coverage. The coverage should provide Managing Authority with reasonable assurance of the objectives of the verification, taking into account adequate risk management.   |
| <b>Financial Report for the Grant Contract</b>  | The controller should verify that the Financial Report complies with the conditions of the Grant Contract, the Partnership Agreement and the compulsory reporting templates published by the programme.   |
| <b>Rules for Accounting and Record keeping</b>  | The controller should verify whether beneficiaries maintain either a separate accounting system or a suitable accounting code for all transactions relating to a project in accordance to the Grant Contract.   |
| <b>Exchange rates</b>   | Consistency of the method for currency conversion shall be checked. Expenditure incurred in a currency other than the euro shall be converted into euro by using the monthly exchange rate published by InforEuro. <a href="http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm">http://ec.europa.eu/budget/contracts_grants/info_contracts/inforeuro/index_en.cfm</a>  |
| <b>2. Examination whether costs declared are real, accurately recorded and eligible</b>                 |   |
| <b>2.1. Whether the costs are real?</b>   |   |
| <b>Examination of supporting documents</b>  | Costs shall be actually incurred by and pertain to the beneficiary and should not double-financed. The avoidance of double funding should be checked in the accounting system, taking into account that supporting documents, such as invoices, are nowadays usually provided in electronic form (e.g. pdf files) and beneficiaries may easily produce several original. Therefore, stamps in the originals are not any more a proof of non-double funding. Other means of checking the double funding, like verification of the accounting of the beneficiary, may be more adequate. |



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|  | <p>Supporting documents (e.g. invoices, contracts) and, if available, proof of payment should be examined. The controllers should check the originals at least once in the project lifetime.</p> <p>Checking the reality of the incurrence should be mainly focussed in examining the proof of work done, goods received or services rendered; the controller verifies the existence of assets. Incurred costs shall be supported by adequate documents, both of financial and technical nature.</p> <p>Note: While the ENI CBC Implementing Rules require that 'costs incurred should be paid before the submission of the final reports'<sup>4</sup>, the Managing Authorities applies a general principle for the reports that costs incurred and reported with interim report shall be paid before the report is submitted.</p> <p>It shall be examined whether the costs are necessary for the project implementation. A good understanding of the project activities and expected results is essential for this examination.</p> |
| <b>2.2. Whether the costs are accurately recorded?</b>                             |  |
| <b>Examination of the accounting system</b>  | <p>Information in the financial report should be reconciled with the accounting records and documents of the beneficiary – i.e. costs are in the accounting records of the beneficiary and determined according to the accounting standards and the usual cost accounting practices applicable to the beneficiary.</p>   |
| <b>2.3. Whether the costs are eligible?</b>  |  |
| <b>Compliance with budget of the Grant Contract (check of the budget in force)</b> | <p>An analytical review of the expenditure headings in the Financial Report should be carried out, as well as to verification that the budget in the Financial Report corresponds with the project budget (partner budget) and that the expenditure incurred was indicated in the project budget.</p> <p>In addition, the amendments (with and without addendum) to the budget of the Grant Contract should be verified.</p>   |
| <b>Compliance with direct cost categories</b>                                      | <p>It should be verified whether incurred direct costs are imputed in the appropriate budget line</p>  |
| <b>Compliance with implementation period</b>                                       | <p>It shall be verified whether costs incurred during the implementation period of the project are in compliance with conditions and exceptions described in Article 48.2(c) of ENI CBC Implementing Rules.</p> <p>In case the costs incurred will be paid after the submission of the final report, it should be checked</p>  |

<sup>4</sup> Article 48.2(a)(ii) of ENI CBC Implementing Rules also stipulates that "they may be paid afterwards, provided they are listed in the final report together with the estimated date of payment"

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|   | <p>whether they are listed in the 'Annex 5 Reporting templated for the last interim reporting period' together with an estimated date of payment (Article 48.2(a)(ii) of ENI CBC Implementing Rules).</p> <p>In case of preparation costs (costs incurred before submission of the grant application for the preparation of strong partnerships), the controller should verify that they comply with the approved budget and Project implementation manual. Preparatory costs are reported in the 'Annex 4 Preparatory costs'.</p> |
| <b>Compliance with sound financial management principles</b>                  | It shall be verified whether the costs are reasonable, justified and comply with sound financial management principles (in particular regarding economy and efficiency).   |
|   | The principle of economy requires that expenditure needed for the performance of planned activities is made available in due time, in appropriate quantity and quality and at the best price.  |
|   | The principle of efficiency requires that the activities and outputs are carried out by ensuring the best relationship between resources employed and results achieved.  |
| <b>Compliance with tax and social legislation</b>                             | It shall be verified that the relevant tax and social legislation is observed for the costs declared.  |
| <b>Retroactive award in infrastructure projects (LIP projects)</b>            | It should be verified whether the costs declared are in line with Article 48.3 of ENI CBC Implementing Rules.  |
| <b>3. Examination of non-eligibility, indirect cost and procurement rules</b> |  |
| <b>Indirect costs</b>   | It shall be verified whether the indirect costs are calculated according to a flat rate (e.g. maximum 7% of direct costs) and that it's coherent with amount approved in the partner budget.   |
| <b>Compliance with procurement</b>  | It shall be verified whether the procurement was carried out in line with the national legislation and Programme regulations.  |
| <b>Non-eligible costs</b>   | It should be verified whether the cost categories declared are not considered as non-eligible by Article 49 of ENI CBC Implementing Rules and Programme's regulations.   |
| <b>4. Examination to confirm non-profit character of the project</b>          |  |
| <b>Revenues, income and profit</b>  | It should be verified whether the contributions from third parties and revenues are related to the project, recorded properly and treated according to the provisions of the Grant Contract.   |

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|   | <p>It also should be checked whether there is a balance between expenditure and income, so the non-profit principle is respected.</p> <p>Interest generated by pre-financing payments shall not be considered as revenue, unless specifically defined by the respective Programme. In cases in which the Programme describes the treatment of interest generated by pre-financing payments, such interest shall either be re-used for the corresponding project, deducted from payment requests or recovered. For details, please see Article 8.4 of Financial Regulation (EU 966/2012).</p> |
| <b>5. Examination of compliance with contractual conditions</b> |  |
| <b>Compliance with visibility rules</b>                         | It shall be checked whether the visibility rules were taken into account in line with the provisions of the Grant Contract and Project implementation manual.  |
| <b>Other contractual conditions</b>                             | Other contractual conditions, related to the cost eligibility (for example, simplified cost options such as lump sums, unit costs, flat rate financing and others...), should be covered by the expenditure verification procedure.  |

## 9. List of the documents

### EV1 Expenditure and revenue verification procedure

- Instructions for the auditor and project partners
- Annex IV of the Grant Contract

### EV2 Service contract for the expenditure and revenue verification

- Contract between the partner and auditor
- To be filled in if the separate contract is done for project purposes
- To be submitted to the Managing Authority (a copy)

### EV3 Expenditure and revenue verification report

- To be filled in by the auditor
- Mandatory template model for the auditor's report
- To be submitted to the Managing Authority (duplicate original or a signed copy)

### EV4 Checklist for the expenditure verification

- To be filled in by the auditor
- To be submitted to the Managing Authority (duplicate original or a signed copy)

### EV5 List of factual findings

- To be filled in by the auditor
- To be submitted to the Managing Authority (duplicate original or a signed copy)

### EV6 Report on suspected fraud and/or established fraud

- Must be submitted direct to the Managing Authority (signed original copy)