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Expenditure and revenue verification procedure

ENI CBC MED PROGRAMME 2014-2020



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Introduction

The Regulatory framework for the ENI CBC programmes sets the requirements for the verification procedures of declared expenditure and revenue. In particular, the 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 Lead beneficiary / partner (hereinafter – the controller).

As a result of the verification, it should be possible to conclude that the costs declared by the Lead Beneficiary / partner 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 Grant 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 as a surplus between costs and receipts at the moment of the closure of the project.

If the Lead Beneficiary / partner 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 has to be accompanied with the expenditure and revenue verification report. This verification shall be performed on the basis of an agreed upon procedure as 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 Lead Beneficiary / partner 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 check-list and template for list of findings, as well as templates for the reports: expenditure and revenue verification report (consolidated and/or individual lead beneficiary / partner, as relevant) 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 Lead Beneficiary / partner.

These provisions and documents are included as annexes to the contract between the Lead Beneficiary / partner institution and the auditor.

Responsibilities of the Parties to the Engagement

The Lead Beneficiary / partner is responsible for providing a Financial Report for the project financed by the Programme, which complies with the terms and conditions of the Grant Contract and for ensuring that this Financial Report reconciles to the Lead Beneficiary / partner(s)’ accounting and bookkeeping system and to the underlying accounts and records. The Lead Beneficiary / partner is responsible for providing sufficient and adequate information, both financial and non-financial, in support of the Financial Report.



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The Lead Beneficiary / partner accepts that the ability of the Auditor to perform the procedures required by this engagement effectively depends upon the Lead Beneficiary / partners' commitment (and as the case may be its affiliated entity/ies) to provide 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 document. 'Auditor' refers to the audit firm contracted for performing this engagement and for submitting a report of factual findings to the Lead Beneficiary / partner.

'Auditor' can refer to the person or persons conducting the verification, usually a member of the audit team 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.

Engagement Type and Objective

The objective of the expenditure verification is for the Auditor to carry out the specific procedures listed in this annex through the control check-list and to submit to the Lead Beneficiary / partner 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 Lead Beneficiary / partner 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.

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.

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 check-list is all financial and non-financial information which makes it possible to examine the expenditure and revenue declared by the Lead Beneficiary / partner 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 Lead Beneficiary /



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partner 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.

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 Lead Beneficiary / partner 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 Report for the expenditure and revenue verification annexed to the service contract with the Lead Beneficiary / partner is compulsory.

General Procedures

1.1 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 Lead Beneficiary / partner;
- obtains a copy of the original Grant Contract and the Partnership Agreement;
- obtains and reviews the Interim / Final Report (which includes a narrative and a financial section);
- verifies whether there is (are) an affiliated entity(ies)¹ to the Lead Beneficiary / partner (s).

1.2 Verification evidence

When performing the specific procedures listed in control check-list, 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.

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 Lead Beneficiary / partner;
- The auditor shall check in situ the supporting documents for the accounts, accounting documents and any other document relevant to the financing of the project;
- The Lead Beneficiary / partner 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 Lead Beneficiary / partner gives access to all documents and databases concerning the technical and financial management of the project;

¹ In accordance with the conditions of article 187 of the Financial Regulation (Regulation 1046/2018)



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- 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 and / or electronic form².
 - 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 Lead Beneficiary / partner in electronic form; or
 - the Auditor is satisfied that the Lead Beneficiary / partner 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 assets³) 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.

1.3 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.

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 Lead Beneficiary / partner in the Financial Report.

² Electronic documents (i.e. invoices, e-tickets) are not copies or scanned originals.

³ The auditor shall do a personal inspection of any assets acquired by the project (e.g. computers or infrastructure).



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The Auditor ensures that the overall ECR is 100% for EU and Lebanese Lead beneficiaries/partners.

Concerning the other MPCs Lead beneficiaries/partners, the requirements are:

- at least 65% of expenditure verified per each cost category
- an overall ECR of 100% for all procurement procedures above 60.000 Euros.

If the Auditor finds an exception rate of less than 10 % of the total amount of expenditure verified (i.e. 6.5 %) he/she finalises 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 finalises the verification procedures and continues with reporting regardless of the total exception rate found.

1.4 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 potential impact on the EU contribution, should the Managing Authority declare the expenditure item(s) concerned ineligible (taking into account the percentage of funding by the Programme and the impact on indirect expenditure, e.g. administrative costs). 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 EU contribution.

List of main findings and applicable deductions to reported expenditures:

GENERAL ISSUES CONCERNING THE MANAGEMENT AND CONTROL SYSTEM (THESE ISSUES ARE NOT NECESSARILY PROBLEMS AND DO NOT NECESSARILY IMPLY FINANCIAL CONSEQUENCES)			
FINDING	APPLICABLE CUT	RECOVERABLE	COMMENTS
1100 Organization issues (e.g., confusion of functions, lack of internal control, ineffective management of conflicts of interest, no effective system for preventing double financing)	warning if it may lead to other irregularities	N.A.	low quality score of the report, high risk mark for the project, possible on the spot check
1200 Activity issues: lack of standard procedures, usual lack of competitive (open) procedures, etc.	warning if it may lead to other irregularities	N.A.	low quality score of the report, high risk mark for the project, possible on the spot check



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1300 Staff issues (e.g., staff inadequacy or incompetence, questionable managers' integrity, missing formal job descriptions and task assignments)	warning if it may lead to other irregularities	N.A.	low quality score of the report, high risk mark for the project, possible on the spot check
1400 Violation of communication plan and other information and visibility issues	warning if it may lead to other irregularities	N.A.	low quality score of the report, high risk mark for the project, possible on the spot check
1500 Refuse of audit	100% of the report	YES	
1600 Legal matters issues: bankruptcy, bribes and/or corruption, material fraud	suspension or termination of the contract and penalties, as the case may be	NO	
1700 Other issues concerning the management and control system	warning if it may lead to other irregularities	N.A.	low quality score of the report, high risk mark for the project, possible on the spot check

GENERAL ISSUES CONCERNING THE PROJECT (THESE ISSUES ARE PROBLEMS AND USUALLY IMPLY FINANCIAL CONSEQUENCES)

FINDING	APPLICABLE DEDUCTION TO THE EXPENDITURE	RECOVERABLE	COMMENTS
2100 Project not implemented	financial deduction up to 10% of the total amount of the ENI Contribution	NO	if the project is not implemented or is implemented poorly, partially or late, according to the scoring system adopted by the MA (crosscheck narrative report)
2200 Difformity of reports with the grant contract, inaccurate or incomplete reports	N/A	N/A	low quality score of the report, high risk mark for the project, possible on the spot check



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FINDING	APPLICABLE DEDUCTION TO THE EXPENDITURE	RECOVERABLE	COMMENTS
2300 Information and visibility issues: lack, incorrect use, wrong design or insufficient space of European flag, Programme logo, information on European financing, display panels, commemorative plaques, links and web sites, templates or disclaimers	financial deductions from 2% to 10% of the value of the ENI contribution	NO	breach of the obligations under Article 21 of the Grant Contract. Financial deduction applies also in case of absence of national publicity requirements and unless the breach could be recovered (es. plaques, panels)
2400 Insufficient activity in the southern shore	warning if it may lead to other irregularities	N.A.	
2500 Non respect of other contract rules including conflict of interest, state aid	100% of the amount reported	NO	including breach of obligations related to the payment of social security contributions or the payment of income tax, or any other substantial obligation set by the legal provisions of the country in which the beneficiary organisation is established. In such cases, ineligible expenses are recoverable if the national legislation allows regularisation measures.
2600 Wrong calculation of exchange rate	amount wrongly reported	NO	
2700 Bank account not in € or other contract provisions about accounts not respected, confused accountancy for the project			Costs must be identifiable and verifiable, in particular being recorded in the accounting records of the LB and partners and determined according to the accounting standards and the usual accounting practices applicable to the LB and PPs.
- bank account not in €	N/A	N/A	Programme requirement for LBs and partners according to the national provisions. National Authorities will be informed
- expenditures not properly coded in the accounting system	if relevant, up to 100% of the expenditure	YES	applicable also in case the auditor does not have access to the records



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FINDING	APPLICABLE DEDUCTION TO THE EXPENDITURE	RECOVERABLE	COMMENTS
- expenditures not traceable	100% of the report	NO	applicable also in case the auditor does not have access to the records
2800 Actual credit notes by suppliers/providers	ineligible expenditure reported	NO	a credit note has been issued referred to a specific invoice. Consequently, the expenditure has been deleted and it does not exist.
2900 One entry accounting system	100% of the report	YES	applicable also in case the auditor does not have access to the records

SPECIFIC ISSUES CONCERNING ELIGIBILITY OF SINGLE COST ITEMS IN ONE INTERIM PACKAGE (THESE ISSUES ARE PROBLEMS AND DO IMPLY FINANCIAL CONSEQUENCES)			
FINDING	APPLICABLE DEDUCTION TO THE EXPENDITURE	RECOVERABLE	COMMENTS
3100 Findings relating to reality (actually not incurred expenses), such as staff or goods not available, services not provided, insufficient proof of participation in the activity, etc.	ineligible amount reported	NO	unless proof can be supplied. Applicable also in case of wrong calculation of staff costs hourly/daily rate (eg. inclusion of allowances which are not considered as fixed allowances, miscalculations of NI and tax payments)
3200 Ineligible period	all expenditures reported in the ineligible period	unless they are out of the project implementation period (with the exceptions of preparatory costs and final audit)	
3300 Budget in force not respected (specify whether in unit rate, quantity or total)	no cut, unless significant differences lead to other serious issues	N.A.	
3400 Unnecessary expense or connection to the project not demonstrated	ineligible amount reported	NO	



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FINDING	APPLICABLE DEDUCTION TO THE EXPENDITURE	RECOVERABLE	COMMENTS
3500 Findings relating to records, such as reconciliation between budget accounts and ordinary accounting system incorrect or proved impossible or violation of national applicable accounting standards	ineligible amount reported	NO	
3600 Unjustified expense or materiality issues: missing or not corresponding supporting documents and similar	ineligible amount reported	YES	to be used in case of incomplete or unclear information preventing the verification of the eligibility of expenditures
3700 Wrong classification of expenditure in the heading	ineligible amount reported	YES	unless it is in the final report (heading = cost category)
3800 Findings relating to the decision to hire (including staff), buy, rent or make, including missing explicit reasons, inconsistent reasons, inadequate requirements - please specify	25% of the amount reported	NO	referred to motivational deficiencies of the individual act
3900 Incorrect selection procedure, such as wrong procedure, errors in the procurement procedure, rule of origin not respected, rule of nationality not respected	See C(2019) 3452 of 14.05.2019 Other selection procedure For experts and subgrantees selection <u>100% of the amount reported</u> in case of serious deficiency that puts at risk the legality and regularity of all related expenditure items of one or more beneficiaries. For example, a project hiring an external expert or a subgrant without going through a public and transparent procedure. <u>25% of the amount</u>	NO	See C(2019) 3452 of 14.05.2019 https://ec.europa.eu/regional_policy/sources/docgener/informat/2014/GL_corrections_pp_irregularities_EN.pdf



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FINDING	APPLICABLE DEDUCTION TO THE EXPENDITURE	RECOVERABLE	COMMENTS
	<u>reported</u> – A serious deficiency that puts at risk the legality and regularity of a part of the expenditure concerned. For example, absence of publication and transparent criteria		

OTHER SPECIFIC ISSUES CONCERNING SINGLE COST ITEMS IN ONE INTERIM PACKAGE (THESE ISSUES ARE PROBLEMS AND DO IMPLY FINANCIAL CONSEQUENCES)

FINDING	APPLICABLE DEDUCTION TO THE EXPENDITURE	RECOVERABLE	COMMENTS
4100 Disagreement between monetary value reported and underlying documents, including wrong exchange rate applied for a single expenditure	ineligible amount reported	NO	unless proof can be supplied
4200 Use of contingency without a previous authorisation of the MA	amount of contingency funds used	NO	
4300 Wrong percentage of administrative costs	ineligible amount reported	NO	
4400 Contributions in kind	ineligible amount reported	NO	
4500 Ineligibility kind of expense, such as debts, items already financed, exchange-rate losses, VAT and other taxes, purchase of buildings, fines, etc.	ineligible amount reported	NO	including non-eligible expenses specifically related to the Programme, such as website costs, expenses for activities outside the eligible area, etc.
4600 Findings related to contract management, including technical rules not respected and not eligible subcontracting	ineligible amount reported and 100% of the subcontract	NO	referred to contracts and subcontracts
4700 Interests, revenues and other income not reported or reported incorrectly	reduction of the grant by the amount of revenues/income	NO	bank interests are not considered income



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FINDING	APPLICABLE DEDUCTION TO THE EXPENDITURE	RECOVERABLE	COMMENTS
4800 Other issues concerning single budget lines	ineligible amount reported	case by case analysis	other (example wrong calculation of the hourly rate; errors in per diem expense report)