



# ***Methodology for sample checks of the actions***

*This methodology was produced with the assistance of the European Union, INTERACT, RCBI, MWH and its Partners and can in no way be taken to reflect the views of the European Union.*

## ***How to use this Methodology***

The Methodology is organised in two parts:

Understanding the legal framework;

Detailed description of the procedures to be carried out.

As an annex, we provide a tool to support the auditors' work in the form of a check-list.

Therefore, the Guide is designed to be a reference manual with users being able to find practical support on particular topics when it is needed.

Before starting their work, auditors need to have a clear understanding of the legal framework and the applicable rules. As ENPI-CBC is an instrument of the neighbourhood policy of the European Union, the programmes are using the rules of the external actions. Auditors in Partner Countries and Russia may be used to these rules, but the ones from Member States probably not. For both of them, ENPI-CBC includes a number of relevant specificities which deserve to be looked in detail. Previous experience is a good back-ground, but not enough for carrying out a reliable work.

On a second stage, we focus on the details of Terms of Reference for the work of the auditors and includes templates for the check lists. This is the key reference document for the work and we try to support a shared understanding on what it is expected from it.

# Legal Framework

## Introduction to legal framework

Let us start with the definition of a grant, according to the EU's guide for implementing EU funded projects, the *Practical Guide to contract procedures for EC external actions* (PraG)<sup>1</sup>.

### DEFINITION OF A GRANT

**A grant is a direct financial contribution, by way of donation from the EU budget, in order to finance an action (project) intended to help achieve an objective forming part of a European Union policy<sup>2</sup>.**

Therefore:

- A grant is a payment of a non-commercial nature to implement an action, in accordance with a Grant Agreement between the contracting authority and the beneficiary. A grant can only be made for an operation whose immediate objective is non-commercial. Under no circumstances may the grant give rise to profits
- A grant is made for a project which is proposed by the Beneficiary and falls within the normal framework of the beneficiary's activities, while in a procurement contract, the terms of reference are drawn up by the contracting authority
- The beneficiary is responsible for implementing the operation and retains ownership of the results
- The grant beneficiary and partners generally contribute to the financing of the action

In the case of ENPI-CBC:

The "Contracting Authority" is the Joint Managing Authority (JMA) based in an EU Member State, the objectives are defined in the Joint Operational Programme (prepared by the regions and countries participating in the Programme), the Annual Work Programme for Grants and the Calls for Proposals, and

the Programme objectives in turn reflect those of the relevant EU Policy framework namely the European Neighbourhood Policy (ENP), and the Partnership Agreement with Russia as outlined in the ENPI CBC Strategy Paper<sup>3</sup>.

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<sup>1</sup> [http://ec.europa.eu/europeaid/work/procedures/implementation/practical\\_guide/](http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/)

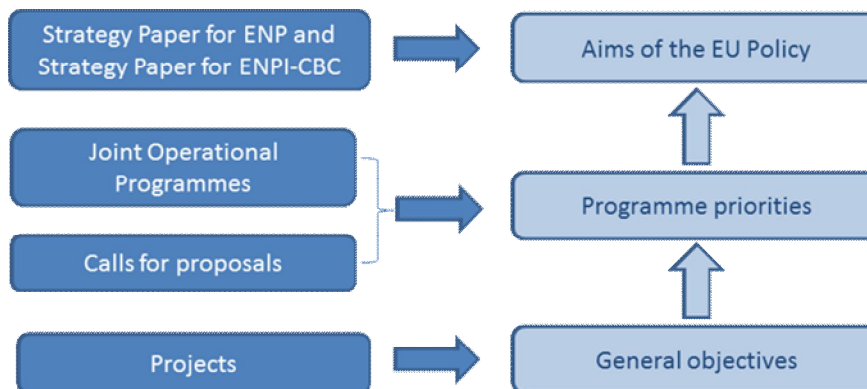
The PraG is updated periodically. More information on PraG requirements are given throughout this manual.

<sup>2</sup> PraG Section 6.1.1.

**So, why was a project awarded with a grant?**

Because it contributes to the Programme priorities and these priorities contribute in turn to the aims and goals of the European Neighbourhood Policy (ENP) as illustrated in Figure 1 below.

Fig.1

**Relevant Regulations**

All EU financial instruments have specific regulations from the Council and the European Commission which establishes the management modes and specific rules for implementation. Despite being partly financed by ERDF funds, ENPI-CBC programmes are only concerned by the following ones:

**Relevant Regulations**

- 1) Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the European Budget of the European Communities and its later amendments
- 2) Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules on the Implementation of the Council Regulation (EC, Euratom) 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the European Budget of the European Communities and its amendments
- 3) Regulation (EC) No 1638/2006 of the European Parliament and the of Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument
- 4) Commission Regulation (EC) No 951/2007 of 9 August 2007 laying down **implementing rules** for cross-border cooperation programmes financed under Regulation (EC) No 1638/2006 of the European Parliament and the of Council of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument.

**An overview of applicable EU rules and regulations is available on [www.estlatrus.eu](http://www.estlatrus.eu).**

## **Other Relevant Documents**

The following documents are relevant for the execution of the services and for the contract:

Practical Guide to contract procedures for EU external actions. Available for download on:

[http://ec.europa.eu/europeaid/work/procedures/implementation/practical\\_guide/index\\_en.htm](http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm)

Most in particular:

- Annex II General Conditions applicable to European Community-financed grant contracts for external actions
- Annex VII Special Conditions Grant Contract (BUDG and EDF) – Expenditure Verification: Terms of Reference for an Expenditure Verification of a Grant Contract – External Actions of the European Community

For the purposes of defining the concept of “origin”, which is relevant in procurement of supplies and materials, the Customs Code (Council Regulation 2913/1992) has to be taken into account. Directive 2004/18 on coordination of public procurement rules is also applicable to public authorities and bodies governed by public law in Member States.

COMMISSION INTERPRETATIVE COMMUNICATION on the Community law applicable to contract awards not or not fully subject to the provisions of the Public Procurement Directives (2006/C 179/02) on coordination of public procurement rules is also applicable.

Article 23 of the Implementing Rules states that “The procedures and related standard documents and contract templates to be used shall be those included in the Practical Guide to contract procedures for EC external actions with annexes in force at the time of the launching of procurement procedures or calls for proposals”; the so-called ‘PraG’<sup>4</sup>.

## **Overview on ENPI Estonia–Latvia–Russia CBC Programme**

### ***Purpose of the European Neighbourhood and Partnership Instrument and its Cross-Border-Cooperation Component***

The European Neighbourhood and Partnership Instrument (ENPI) was established in order to provide assistance for the development of an area of prosperity and good neighborliness involving the European Union and its partner countries<sup>5</sup>. Part of it is implemented via Cross-Border Cooperation

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<sup>4</sup> [http://ec.europa.eu/europeaid/work/procedures/implementation/practical\\_guide/index\\_en.htm](http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm)

<sup>5</sup> Article 1 Reg (EC) No 1638/2006 of 24 October 2006 laying down general provisions establishing a European Neighbourhood and Partnership Instrument. For partner countries and territories see Annex.

(CBC) programmes, multi-annual programmes covering cooperation for a border or a group of borders and comprising multi-annual measures which pursue a consistent set of priorities and which may be implemented with the support of Community assistance (so-called joint operational programmes).

Joint operational programmes are implemented through shared management by a Joint Managing Authority, usually located in a Member State, which is responsible for managing and implementing the joint operational programme in accordance with the principle of sound technical and financial management, and for ensuring the legality and regularity of its operations<sup>6</sup>.

ENPI CBC uses an approach based on principles such as multiannual programming, partnership and co-financing, adapted to take into account the specificities of the EC's external relations rules and regulation. The programmes - involving regions on both sides of the EU's border - share one single budget, common management structures, a common legal framework and implementation rules giving the programmes a fully balanced partnership between the participating countries<sup>7</sup>.

The core policy objectives of ENPI CBC are to support sustainable development along both sides of the EU's external borders, to help ameliorate differences in living standards across these borders, and to address the challenges and opportunities following on EU enlargement or otherwise arising from the proximity between regions across land and sea borders.

In particular, CBC is intended to help :

- promote economic and social development in regions on both sides of common borders;
- address common challenges, in fields such as environment, public health;
- prevention of and fight against organised crime;
- ensure efficient and secure borders;
- promote local cross-border "people-to-people" actions<sup>8</sup>.

Further information can be found on: [www.estlatrus.eu](http://www.estlatrus.eu)

### ***Introduction to the Estonia–Latvia–Russia CBC Programme***

Programme area:

1. The Programme area includes the following NUTS III regions:
2. Latvia: Latgale, Vidzeme; adjoining areas: Riga City and Pieriga

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<sup>6</sup> Articles 6, 9, 10 Reg (EC) No 1638/2006. For details on involved programme bodies see section 4.1 of these TOR.

<sup>7</sup> European Neighbourhood & Partnership Instrument, Cross-Border Cooperation Strategy Paper 2007-2013 Indicative Programme 2007-2010. download available at: [http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/enpi-cross-border/documents/summary\\_of\\_straregy\\_paper\\_en.pdf](http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/enpi-cross-border/documents/summary_of_straregy_paper_en.pdf)

<sup>8</sup> European Neighbourhood & Partnership Instrument, Cross-Border Cooperation Strategy Paper 2007-2013 Indicative Programme 2007-2010.

3. Estonia: Kirde-Eesti (North-East Estonia), Lõuna-Eesti (South Estonia), Kesk-Eesti (Centre Estonia); adjoining area: Põhja-Eesti (North Estonia)
4. Russia: Leningrad region, Pskov region, St.-Petersburg City.

Priorities of the programme:

Priority I. Socio-economic development

Measure 1.1 Fostering of socio-economic development and encouraging business and entrepreneurship

Measure 1.2 Transport, logistics and communication solutions

Measure 1.3 Tourism development

Priority II: Common challenges

Measure 2.1 Joint actions aimed at protection of environment and natural resources

Measure 2.2 Preservation and promotion of cultural and historical heritage and support of local traditional skills

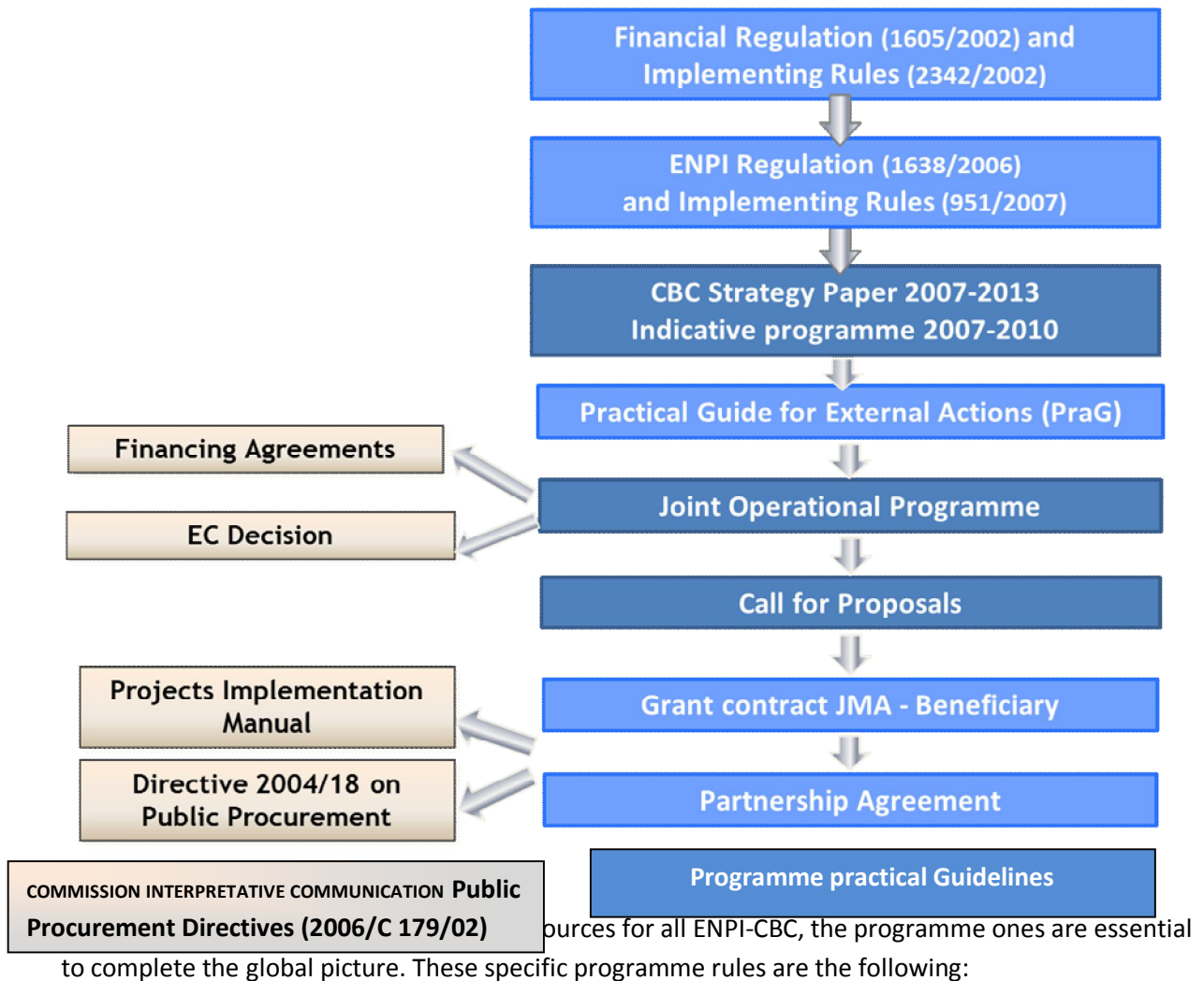
Measure 2.3 Improvement of energy efficiency and promotion of renewable energy sources

Priority III: Promotion of people to people cooperation

Measure 3.1 Development of local initiative, increasing administrative capacities of local and regional authorities

Measure 3.2 Cooperation in spheres of culture, sport, education, social and health

We can summarise the legal framework in the following chart:



<ul style="list-style-type: none"> <li>• <i>Joint Operational Programme</i></li> </ul>	<ul style="list-style-type: none"> <li>• Jointly prepared by the national and regional representatives of the participating countries in each programme and approved by EC Decision.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Financing Agreement</i></li> </ul>	<ul style="list-style-type: none"> <li>• Agreement signed between each partner country and the European Commission. It is the legal basis for the application of the rules in the country.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Calls for proposals</i></li> </ul>	<ul style="list-style-type: none"> <li>• The whole application pack is also legally binding, as it contains specific rules which apply to project implementation. The main documents, on top of the text of the call are the Guidelines for Applicants, the Application Form and the annexes.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Contract between Joint Managing Authority (JMA) and the Beneficiary</i></li> </ul>	<ul style="list-style-type: none"> <li>• It is the main document indicating the legal requirements for project implementation. It is composed of Special Conditions, General Conditions and annexes.</li> </ul>
<ul style="list-style-type: none"> <li>• <i>Partnership Agreement</i></li> </ul>	<p>It is the legal link between the partners and the programme bodies. The Beneficiary is obliged by the contract to get the partners' engagement in respecting the applicable rules through this document.</p>



- *Programme  
practical Guidelines*

Available in programme web page [www.estlatrus.eu](http://www.estlatrus.eu)

## The contract

### Overall principles

The grant contract is signed only between the JMA (the ‘Contracting Authority’) and the Beneficiary (Lead Partner), who takes overall responsibility for the implementation of the project (the “Action”)<sup>9</sup>. However, contract provisions apply to the whole project in particular, those regarding eligibility of costs, procurement procedures and visibility.

• Partners should be fully aware of the contract conditions!	
General Conditions Art. 1.3	<ul style="list-style-type: none"> <li>Partners take part in the implementation of the Action, and <b>the costs they incur are eligible in the same way as those incurred by the Beneficiary.</b></li> </ul>
General Conditions Art. 1.3	<ul style="list-style-type: none"> <li><b>The Beneficiary (...) shall undertake that the conditions applicable to it under Articles 1, 3, 4, 5, 6, 7, 8, 10, 14, 16 and 17 shall also apply to its partners,</b> and those applicable under Articles 1, 3, 4, 5, 6, 7, 8, 10 and 16 to all its contractors. It shall include provisions to that effect, as appropriate, in its contracts with them.</li> </ul>
Special Conditions Art. 7.	<ul style="list-style-type: none"> <li>Check further programme specific <i>provisions regarding partner obligations!</i></li> </ul>

### ENPI CBC AND PRAG

The contractual procedures and templates under ENPI CBC are based on the *Practical Guide to contract procedures for EC external actions (PraG)* and relevant annexes<sup>10</sup>. All programmes have adapted these templates to better reflect their particular requirements and the specific scope of ENPI CBC projects.

Therefore if you have a previous experience of using PraG as auditor, please pay particular attention to Article 7 of your grant contract Special Conditions, where these adaptations are reflected.

If you have previous experience as auditor for projects financed under other EU financial instruments, please take into account that the contractual requirements may be different.

<sup>9</sup> General conditions Art. 1

<sup>10</sup> As required under the ENPI CBC Implementing Rules (REGULATION (EC) No 951/2007 of 9 August 2007) Art. 23.

See <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2007:210:0010:0025:EN:PDF>

## Contract structure

### Where can you find information about your contractual obligations?

Let's look into the details of the grant contract. Below you will find a model outline of your contract, with key '*read-me-first*' elements underlined in bold. In the relevant chapters of this guide we will refer to, and further explain, these legal provisions.

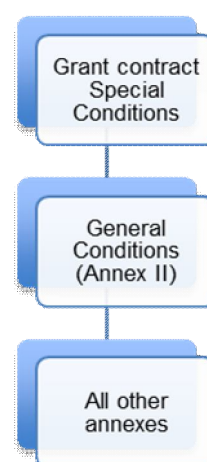
• <b>CONTRACT OUTLINE</b>	
• <b>SPECIAL CONDITIONS</b>	<ul style="list-style-type: none"> <li>• Art. 1 - Purpose</li> <li>• Art. 2 - <b>Implementation period of the Action (project)</b></li> <li>• Art. 3 - <b>Financing the Action</b></li> <li>• Art. 4 - <b>Narrative and financial reporting and payment arrangements</b></li> <li>• Art. 5 - Contact addresses</li> <li>• Art. 6 - Annexes</li> <li>• Art. 7 - <b>Other specific conditions applying to the Action</b></li> </ul>
• <b>ANNEX I: DESCRIPTION OF THE ACTION</b>	<ul style="list-style-type: none"> <li>• <i>Extract from the project proposal, describes the project funded by the grant and the results you commit to achieve with your partners</i></li> </ul>
• <b>ANNEX II: GENERAL CONDITIONS</b>	<ul style="list-style-type: none"> <li>• Art. 1 - General obligations</li> <li>• Art. 2 - Obligation to provide information and financial and narrative reports</li> <li>• Art. 3 - Liability</li> <li>• Art. 4 - Conflict of interests</li> <li>• Art. 5 - Confidentiality</li> <li>• Art. 6 - Visibility</li> <li>• Art. 7 - Ownership/use of results and assets</li> <li>• Art. 8 - Evaluation/monitoring of the Action</li> <li>• Art. 9 - Amendment of the Contract</li> <li>• Art. 10 - Assignment</li> <li>• Art. 11 - Implementation period of the Action, extension, suspension, force majeure and end date</li> <li>• Art. 12 - Termination of the contract</li> <li>• Art. 13 - Applicable law and dispute settlement</li> <li>• Art. 14 - <b>Eligible costs</b></li> <li>• Art. 15 - Payment and interest on late payment</li> <li>• Art. 16 - <b>Accounts and technical and financial checks</b></li> <li>• Art. 17 - Final amount of financing by the Contracting Authority</li> <li>• Art. 18 – Recovery</li> </ul>

<ul style="list-style-type: none"> <li>• <b>ANNEX III: BUDGET FOR THE ACTION</b></li> </ul>	<ul style="list-style-type: none"> <li>• <i>The project budget, as agreed with the JMA at contract signature (please note that the budget in force may be different, as it may be amended during project implementation - always check the last budget agreed)</i></li> </ul>
<ul style="list-style-type: none"> <li>• <b>ANNEX IV: CONTRACT- AWARD PROCEDURES</b></li> </ul>	<ul style="list-style-type: none"> <li>• Art. 1 - <b>General principles</b></li> <li>• Art. 2 - <b>Eligibility for contracts</b></li> <li>• Art. 3 - Rules common to all tender procedures</li> <li>• Art. 4 - Rules applicable to service contracts</li> <li>• Art. 5 - Rules applicable to supply contracts</li> <li>• Art. 6 - Rules applicable to work contracts</li> <li>• Art. 7 - Use of the negotiated procedure</li> <li>• Art. 8 - <b>Special cases</b> (such as public bodies in Member States)</li> </ul>
<ul style="list-style-type: none"> <li>• <b>ANNEX V: REQUEST FOR PAYMENTS</b></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Compulsory template to be used by the Beneficiary to request pre-financing or payment of the balance</i></li> </ul>
<ul style="list-style-type: none"> <li>• <b>ANNEX VI: MODEL REPORTS</b></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Compulsory templates to be used to prepare project narrative and financial reporting<sup>11</sup></i></li> </ul>
<ul style="list-style-type: none"> <li>• <b>ANNEX VII: EXPENDITURE VERIFICATION</b></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Model Terms of Reference for the expenditure verification of the grant, list of procedures to be performed by the auditor and model report</i></li> </ul>
<ul style="list-style-type: none"> <li>• <b>ANNEX VIII: MODEL FINANCIAL GUARANTEE</b></li> </ul>	<ul style="list-style-type: none"> <li>• Financing Guarantee for the repayment of pre-financing (if required)</li> </ul>
<ul style="list-style-type: none"> <li>• <b>ANNEX IX: TRANSFER OF ASSETS</b></li> </ul>	<ul style="list-style-type: none"> <li>• Template to transfer ownership of assets to partners or final beneficiaries</li> </ul>

Also be aware of the hierarchy of your contract components (shown in Figure 2 to the right):

Grant contract Special Conditions take precedence over all annexes. Article 7 of the Special Conditions recapitulates all modifications and derogations to the other annexes, read it carefully!

Annex II, General Conditions takes precedence over the other annexes.



<sup>11</sup> Some programmes have modified these annexes after the signature of the contract. Check which is the template in force

## Timeline

**When the grant contract is signed, what is the timeline for its execution and the implementation of your project?**

Timing and contractual obligations are shown below in Figure 4 and further explained in the following text.

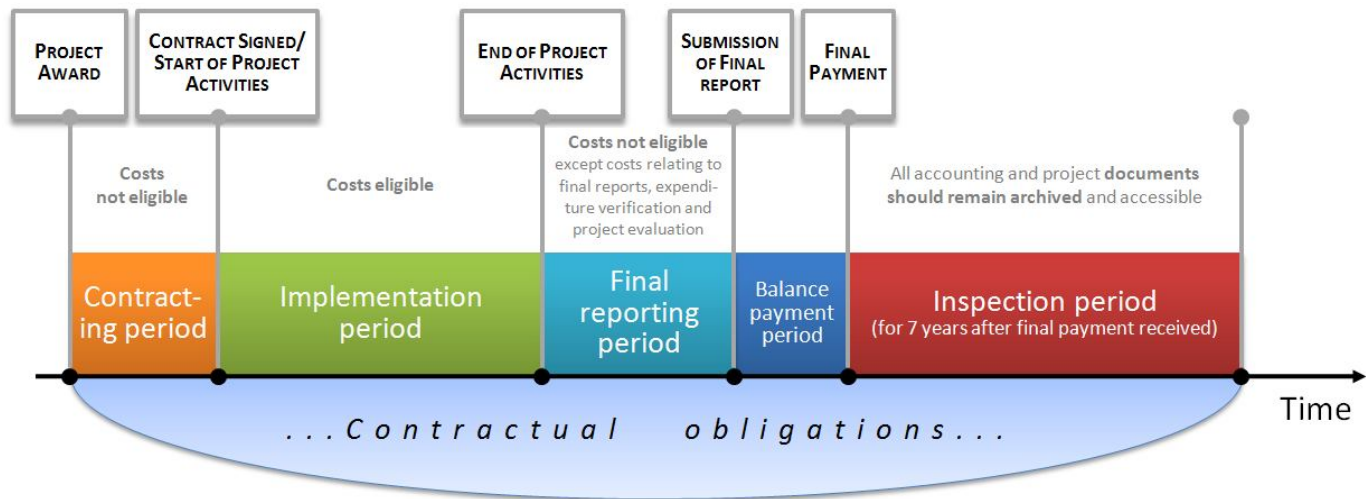


Fig.3

Distinguish between:

**When the grant contract takes effect** = The date of the last signature on the grant contract.

**When the activities can be implemented and when costs are eligible** = Only during 'the implementation period' as described under Article 2 of the grant contract Special Conditions. **Costs are eligible only during the implementation period** except for those costs relating to final reports, expenditure verification and evaluation of the project which can be incurred after the implementation period.

**When the execution period of the Grant contract ends** = When final payment is made or at the latest, 18 months after the implementation period.<sup>12</sup>

**When all contractual obligations end** = 7 years after final payment<sup>13</sup>. During this period the Beneficiary and Partners may be subject to verifications, including on-the-spot checks and a full audit, by EC relevant bodies or auditors authorized by the JMA (and in the case of programmes with the involvement of Russia, Competent Authorities of the Russian Federation as described in the relevant Financing Agreements).

<sup>12</sup> Special Conditions Art. 2.

<sup>13</sup> General conditions Art. 16.

## Amendments to the contract

Article 9 of the grant contract General Conditions describes the conditions for the revision of the project activities and budget and defines when an **amendment to the contract** is needed.

### AMENDMENTS TO THE GRANT CONTRACT

Article 9.1 of the grant contract General Conditions indicates that “**Any amendment** to the Contract, including the annexes, **must be set out** in writing **in an addendum**. This Contract can be modified only during its **execution period**”.

If an amendment is requested by the Beneficiary, it must submit that request to the JMA thirty days before the date on which the amendment should enter into force, unless there are special circumstances duly substantiated by the Beneficiary and accepted by the JMA.”

However, Article 9.2 gives the option of **minor amendments without an addendum**.

**Minor modifications in activities** are changes in the description of the action which do not affect the basic purpose of the project and which have a limited financial impact.

**Minor modifications in the budget** are the:

**Transfer of funds between items within the same main budget heading** including the cancellation or introduction of an item (e.g. transfer of funds from ‘conferences’ to ‘publications’ under Budget Heading 5. Other costs, Services);

**Transfer of funds between Project Partners involving a variation of 15% or less**

**Transfer between main budget headings** (e.g. between ‘2. Travel’ and ‘3. Equipment and supplies’) **involving a variation of 15% or less** of the amount originally entered (or as modified in an addendum) in relation to the relevant budget headings for eligible costs.

In case of minor amendments, the Beneficiary may amend the activities and the budget and **inform** the JMA/JTS **in writing without delay**. This method may **not** be used to amend the amounts under the headings for administrative costs or contingency reserve. Thus, there is **no need for prior authorisation** by JMA/JTS, but it is safer to inform the JMA/JTS before initiating the expenditure, as they **may require further clarifications and/or object to the amendment**. **The JMA/JTS may object to an amendment** if:

There is an error in the calculation. For example, the 15% variation has not been calculated on the approved budget, but on a previous minor amendment.

The change may affect the purpose of the project.

Let's see an example involving the following two Budget Headings: 1. Human Resources and 2. Travel. Let's say a project has an approved budget as shown below.

<b>Annex III. Approved budget</b>		<b>All Years (24 months)</b>		
<b>Costs</b>	<b>Unit</b>	<b># of units</b>	<b>Unit rate (in EUR)</b>	<b>Costs (in EUR)<sup>3</sup></b>
<b>1. Human Resources</b>				
1.1 Salaries (gross salaries including social security charges and other related costs, local staff)				
1.1.1 Technical	Per month	60.00	2,500.00	150,000.00
1.1.2 Administrative/ support staff	Per month	18.00	1,800.00	32,400.00
1.3 Per diems for missions/travel				
1.3.1 Abroad (staff assigned to the Action)	Per diem	28.00	200.00	5,600.00
1.3.3 Seminar/conference participants	Per diem	6.00	200.00	1,200.00
<b>Subtotal Human Resources</b>				<b>188,000.00</b>
<b>2. Travel</b>				
2.1. International travel	Per travel	24.00	300.00	7,200.00
<b>Subtotal Travel</b>				<b>7,200.00</b>

Changes between lines, new lines and removal

15% up to €28,140

15% up to €1,080

The JMA organises an unforeseen training seminar for Beneficiaries in a location close to its headquarters and funds are needed to cover travel and accommodation. The Beneficiary makes the changes outlined below and informs JMA in writing.

<b>Annex III. Amended budget</b>		<b>All Years (24 months)</b>		
<b>Costs</b>	<b>Unit</b>	<b># of units</b>	<b>Unit rate (in EUR)</b>	<b>Costs (in EUR)<sup>3</sup></b>
<b>1. Human Resources</b>				
1.1 Salaries (gross salaries including social security charges and other related costs, local staff)				
1.1.1 Technical	Per month	60.00	2,500.00	150,000.00
1.1.2 Administrative/ support staff	Per month	18.00	1,800.00	32,400.00
1.3 Per diems for missions/travel				
1.3.1 Abroad (staff assigned to the Action)	Per diem	20.00	200.00	4,000.00
1.3.2. Local (staff assigned to the Action)	per diem	2.00	100.00	200.00
1.3.3 Seminar/conference participants	Per diem	6.00	200.00	1,200.00
<b>Subtotal Human Resources</b>				<b>186,400.00</b>
<b>2. Travel</b>				
2.1. International travel	Per travel	24.00	288.75	6,930.00
2.2. Local transportation	Per travel	1.00	70.00	70.00
<b>Subtotal Travel</b>				<b>7,000.00</b>

New lines within headings

Changes in estimated unit rate

The Beneficiary included one line under 'Travel' to cover the cost of train tickets to the seminar for two people, together with the corresponding per diems under 'Human Resources'. As the total project budget cannot be increased, the estimated unit cost for international travel was reduced from €300.00 to €288.75. The variation of €200 between budget lines was obviously below the threshold of 15%.

### **Important remark on the 15% threshold**

*Please note that the 15% variation threshold is the **maximum in relation to each relevant heading**, so that the smaller amount of the two budget headings should always be taken into account (not the average!). For the example above, the maximum amount that could be transferred from both 'Travel' to 'Human resources' or from 'Human resources' to 'Travel' would be €1,080. When you need to transfer money from one budget heading to another, carefully consider what the maximum variation is allowed for each budget line so that it can still be treated as a minor change.*

The following changes to the grant contract are **not** considered **an amendment**:

- Changes to your organisation's address
- Changed bank account details
- Nomination, or changes in the nomination, of the auditor, of the project staff.

These changes simply need to be notified to the JMA, although this does not stop the JMA from opposing the Beneficiary's choice of bank account or auditor. Moreover, **JMA reserves the right to require that the auditor be replaced** if considerations which were unknown when the grant contract was signed cast doubt on the auditor's independence or professional standards.



## ***Eligibility rules for expenditure***

### **Definitions and general principles**

Not all of the expenditure incurred for project implementation is necessarily acceptable for the calculation of the total grant amount. The total grant amount will be calculated as a percentage only of **eligible costs**. So what does the word 'eligibility' mean in the context of a grant?

#### **ELIGIBILITY IS:**

**The conditions under which a cost can be accepted in a financial report and taken into account for the calculation of a grant.**

The costs incurred during the implementation of a project have to fulfil certain conditions in order to be acceptable for financing

The relevant legal framework covering eligibility criteria for costs in ENPI-CBC projects is:

• Source	• Text
• <b>ENPI CBC Implementing Rules</b>	<ul style="list-style-type: none"> <li>• <b>Article 36. Eligible costs at project level:</b></li> <li>• Expenditures shall be incurred during the execution period of each relevant contract</li> <li>• Eligible costs, non-eligible costs and the possibility of contributions in kind at project level shall be described in the contracts concluded with the Beneficiaries or contractors (i.e. between the Beneficiary and the JMA).</li> </ul>
• <b>PraG section 6.1.1</b>	<ul style="list-style-type: none"> <li>• The grant is expressed by ways of a percentage and a maximum amount of the eligible costs of the action actually incurred by the Beneficiary.</li> </ul>
• <b>PraG section 6.4.10.3</b>	<ul style="list-style-type: none"> <li>• The Community finances a specific percentage of the total eligible costs rather than a particular part of the action. If at the end of the action, the actual eligible cost is lower than anticipated, the grant will be reduced proportionately.</li> </ul>
• General Conditions of the <b>grant contract</b> between Beneficiary and JMA (Annex II)	<ul style="list-style-type: none"> <li>• Article 14 (see below)</li> </ul>

*The general principles for eligible costs and the description of eligible costs are given below, but we strongly recommend you to read carefully Article 14 of the grant contract General Conditions, as it gives the actual legal requirements and this article prevails over the information given in this*

*manual. Please check whether this article is modified by provisions in Article 7 of the grant contract Special Conditions or other programme documents.*

According to Article 14.1 of the grant contract General Conditions, eligible costs are costs actually incurred by the Beneficiary or Partners when they meet **all** the following criteria. For costs to be eligible, they:

Have been **incurred during the implementation period**

Are **indicated in the estimated overall budget** of the action

Are **necessary** for the implementation of the action

Are **identifiable and verifiable, recorded in the accounting** of Beneficiary and Partners and backed-up by originals of supporting documents, and

Are **reasonable, justified and comply with the principles of sound financial management**, in particular regarding economy and efficiency.

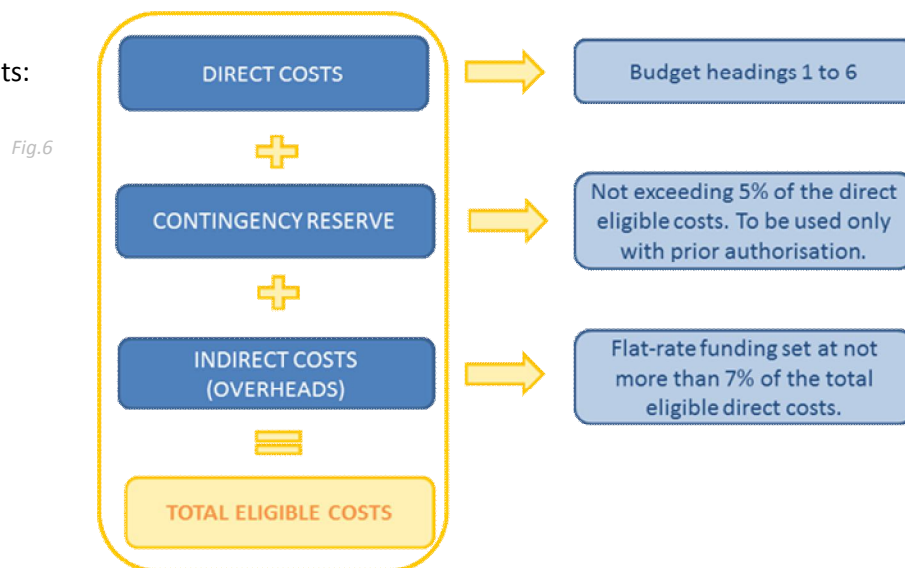
• Some remarks on these legal requirements for costs	
<ul style="list-style-type: none"> <li>• <b>Have been incurred during the implementation period</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Except</b> for the costs related to expenditure verification, the evaluation of the project (if relevant) and the preparation of the final report</li> <li>• “Regardless of the time of actual disbursement”, but always before the submission of the relevant financial report, that is, <b>all expenditure included in any financial report has to be paid</b>.</li> <li>• Procedures for awarding contracts by the Beneficiary or Partners may be initiated but not concluded (i.e. signed) before the start of the implementation period of the project; that is, <b>any cost deriving from contracts signed before the start date of the project will be ineligible</b>.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Are indicated in the estimated overall budget for the project</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Only the costs explicitly indicated in the budget</b> can be considered as eligible. If the Beneficiary or partner needs to spend money on anything not yet included in the budget, JMA/JTS must be informed immediately (when the financial impact is limited<sup>14</sup>), or a formal addendum is required.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Are necessary for the implementation of the project</b></li> </ul>	<ul style="list-style-type: none"> <li>• This is a quite subjective criterion. You need to ensure that all costs correspond to activities as described in the ‘Description of the action’ component of the project or are necessary for achieving the expected project results.</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Are identifiable and verifiable</b></li> </ul>	<ul style="list-style-type: none"> <li>• The accounting and archiving system have to allow traceability of the costs, which have to be backed by adequate supporting documents.</li> </ul>

<sup>14</sup> See article 9.2 of General Conditions

<ul style="list-style-type: none"> <li>• <b>Are reasonable, justified and comply with the requirements of sound financial management, national legislation</b></li> </ul>	<p>See article 27 of Financial Regulation 1605/2002:</p> <p>The principle of <b>economy</b> requires that the resources used by the institution for the pursuit of its activities shall be made available in due time, in appropriate quantity and quality and at the best price.</p> <p>The principle of <b>efficiency</b> is concerned with the best relationship between resources employed and results achieved.</p>
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The three different types of eligible costs are show in Figure 6 below and described in the following sub-sections.

Three types of eligible costs:



## Eligible direct costs

Direct costs are described in Article 14.2 of the grant contract General Conditions. Naturally, they are subject to the above-mentioned conditions and, with the exception of staff and subsistence costs. They are also subject to the relevant provisions of Annex IV of the grant contract, which describes the applicable procurement rules. The following types of direct costs are indicated in the above-mentioned article:

Staff costs

Travel and subsistence costs

Purchase or rental costs for equipment and supplies

Consumables

Subcontracting expenditure

Other costs

All types of direct eligible costs, mainly following the prescribed budget headings, are described below together with an indicative list of supporting documents needed for each. This list does not derive directly from any legal source, but is based on experience. Article 16.3 of General Conditions also gives an indication on the eligibility of costs.

## Staff Costs

### Definition:

Staff costs are the cost of the actual time worked for the implementation of the project by the employees of the Beneficiary and Partners.

These costs are included under **Budget Heading 1: Human resources**. Subsistence costs are usually also included under the same budget heading, but will be described later.

1. Human Resources	
1.1 Salaries (gross salaries including social security charges and other related costs, local staff) <sup>4</sup>	
1.1.1 Technical	Per month
1.1.2 Administrative/ support staff	Per month
1.2. Salaries (gross salaries including social security charges and other related costs, expat/int. staff)	Per month

Fig.7

### How can I distinguish between employees and external experts or other consultants?

<ul style="list-style-type: none"> <li>• <b>Employees</b> (to be included under <i>Budget Heading 1: Human resources</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Experts</b> (to be included under <i>Budget Heading 5: Other costs, Services</i>)</li> </ul>
<ul style="list-style-type: none"> <li>• Have a <b>working (labour) contract</b> with the Beneficiary or Partners and are usually subject to specific national or organisational rules regarding salary, timetable, holidays, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Have a <b>service contract</b> which is subject to the relevant procurement rules. The specific conditions for the delivery of the service are described in the contract.</li> </ul>
<ul style="list-style-type: none"> <li>• Receive a <b>monthly salary</b> supported by salary slips.</li> </ul>	<ul style="list-style-type: none"> <li>• Receive <b>fees</b> after the submission of invoices, in accordance with the payment conditions in their contract.</li> </ul>
<ul style="list-style-type: none"> <li>• Their <b>social charges</b> are paid by the <b>employer</b>.</li> </ul>	<ul style="list-style-type: none"> <li>• Their social charges are paid by <b>themselves</b>.</li> </ul>

<ul style="list-style-type: none"> <li>Usually <b>work in the premises of the employer</b> and use its facilities (telephone, computers, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Usually <b>work in their own premises</b>, or on-site where the services are to be delivered, and use their own resources (such as computers) which are included in their fee rate and cannot be included as incidental costs in their contracts.</li> </ul>
<ul style="list-style-type: none"> <li>Travel and subsistence costs for project missions can be included under the respective budget lines 1.3 and 2.1 and 2.2.</li> </ul>	<ul style="list-style-type: none"> <li>Travel and subsistence costs for project missions are included in their contract as incidental costs and included in Budget Heading 5.</li> </ul>

According to Article 14.2 of your grant contract General Conditions, the cost of staff (employees) assigned to the action (project) should not exceed those **normally borne** by the organisation in question, unless justified when a higher salary is essential for the implementation of the action. Be careful with exceptional cases, as “being essential” does not mean “the usual practice when getting European funds”. Any additional cost that is not duly justified may be considered ineligible during a financial control by the auditor, the programme management bodies or other competent bodies. For such exceptional cases, we strongly recommend a prior consultation with JMA/JTS.

The calculation of the cost of an employee includes the following:

Gross salaries

Social security costs

Other remuneration-related costs.

#### **How do I check the calculation of staff costs?**

This is described below, but take into account:

The specific subcategories used in the approved budget

The unit of time (months, days or hours) explicitly mentioned in the approved budget.

**Steps in calculating staff costs:**

Have a **list of the employees** who are working for the project and check the assignment them to one of the subcategories in the budget

Get a **copy of their working contract** and any applicable rules in the organisation affecting their work (working hours per day, timetable, payment of extra time if applicable, etc.)

Get the **number of time units per year** according to their contract or the organisation rules, that is:

- Number of working months or
- Number of working days or
- Number of working hours per year
- The calculations take into account annual and public holidays and may vary according to each country and type of organisation.

Check the **timesheet** template to be filled in by each person and identify who is the relevant responsible person in the organisation who will sign it

Calculate the **costs per unit rate** (monthly, daily, or hourly costs). You will need to do this at least once per year and every time that there is a change in the costs (increases in salary, etc.).

**Check that the financial report** has the same unit rate that the budget

Let's see an simple example in Figure 6 to the right:

**Calculation of monthly cost  
John Smith. Year 2010**

Fig.8

<b>Annual Costs</b>	24960
Gross salary	19500
Social charges	5460
<b>Number of working month in year</b>	10,50
<b>Monthly Costs</b>	2377,143

We can only calculate the cost of the **actual time** devoted to the project when there is a detailed record of the time and tasks performed by each employee during the implementation of the project. Please do not forget that general calculations are not acceptable, e.g. a flat-rate of 20% of the employee's time.

The key document for supporting staff costs is the **timesheet**. All other documents can be obtained from the Human Resources Department or the Financial Services of the organisation. In many organisations, the timesheet is not used and has to be introduced when EU funding is received.

### **Important Last Remarks on staff:**

*In the time sheet, a short description of tasks for each day is needed. General descriptions, such as "project coordination" have to be avoided. More specific ones like "meeting with stakeholders" or "preparation for the partners meeting (date)" are needed.*

*Only paid hours can be included in time sheets*

*Timesheets have to be signed by the employee and the relevant responsible person in the organisation. They should also be stamped.*

*Employees not working full time for the project, may also be requested to account for the time not spent on the project (regardless whether this time is devoted to other EU-funded projects or to other tasks) so to check the correctness of the timesheet and prove there is no double-funding or artificially inflated co-financing.*

*It is not possible to report staff costs from non-partner organisations. Only the cost of the staff directly employed by the Beneficiary and Partners is eligible. Not even organisations fully-owned by any Partner can charge their staff costs to the project.*

*The recruitment of staff (employees) is not subject to procurement rules, as described in Annex IV of the grant contract between the JMA and Beneficiary and Chapter 3 below.*

•

### **Indicative list of supporting documents for Staff costs**

- ☒ Contracts with employees
- ☒ Timesheets
- ☒ Monthly pay-slips
- ☒ Social charges
- ☒ Proofs of payment
- ☒ Evidence of the calculation of the monthly costs for each year or relevant reporting period
- ☒ Relevant applicable rules at national or organisation level

## Travel and Subsistence Costs

Travel and Subsistence costs are those incurred by staff or any other person taking part in the project (e.g. participants at events, etc.) and may not exceed those normally borne by the Beneficiary or Partners.

In addition, any flat-rate for subsistence costs must not exceed the rates (per diems) published by the European Commission at the time of signing the grant contract.<sup>15</sup>

• **Subsistence costs** for staff or people participating in project activities are usually included under **Budget Heading 1: Human resources**,<sup>16</sup> while travel costs are included under **Budget Heading 2: Travel** (see Figure 8).

<b>2. Travel<sup>6</sup></b>	
2.1. International travel	Per travel
2.2. Local transportation	Per month
<b>Subtotal Travel</b>	
<b>1.3 Per diems for missions/travel<sup>5</sup></b>	
1.3.1 Abroad (staff assigned to the Action)	Per diem
1.3.2. Local (staff assigned to the Action)	Per diem
1.3.3 Seminar/conference participants	Per diem
<b>Subtotal Human Resources</b>	

Fig.9

As a general rule, for international travel, the most economic form of transport must be used, i.e. economy class air fares or first class in the case of international train travel. In projects implemented on land borders, the means might not be flights. **Note, 'economic' does not mean the 'cheapest'** (see the definition of the principle of economy above). The usual national and organisational rules for the use of private cars by persons participating in the project have to be applied.

**Subsistence costs** for staff or participants in seminars and conferences should be included under budget line 1.3 of Human Resources. Any subsistence costs for external experts should be described in their contract and included under Budget Heading 5: Other costs, services.

**Subsistence costs** should be paid according to the usual rules of the organisation, which may be:

Reimbursement of actual costs

Payment of a flat-rate for each night on mission

A mixed system (for example, hotel paid through travel agency and a flat-rate allowance for meals and taxis etc).

<sup>15</sup> These can be found at: [http://ec.europa.eu/europeaid/work/procedures/implementation/per\\_diems/index\\_en.htm](http://ec.europa.eu/europeaid/work/procedures/implementation/per_diems/index_en.htm)

<sup>16</sup> The budget line for subsistence can vary from programme to programme depending on eventual derogations from PraG.



Any flat-rate reimbursement must not exceed the rates published by EC at the time of signing your grant contract. These rates can be found at:

[http://ec.europa.eu/europeaid/work/procedures/implementation/per\\_diems/index\\_en.htm](http://ec.europa.eu/europeaid/work/procedures/implementation/per_diems/index_en.htm) (see the screen snapshot below).



### **Important Last Remarks on travel and subsistence:**

*The documentation proving the link between the trip and the project activities is as important as other supporting documents (invoices, payments, etc.). Beneficiary and partners have to keep information and documentation for all who travelled and why (e.g. for employees, a short mission report for each mission including the objective of the mission, places/persons visited and outcomes).*

*There are several ways to calculate and pay subsistence costs according to national legislation and/or the organisation rules and you should report them as they were foreseen in the project budget. When checking that these rates do not exceed the rates published by the EC for reimbursement of mission costs (referred to as 'per diem'), you need to understand that the EC maximum per diem rates:*

- *Include costs related to accommodation (hotel), meals (or daily allowances) and local transportation (bus, taxi) in the mission location*
- *Are calculated **per overnight stay** on mission*
- *For example, for a mission from Tuesday to Thursday under your organisation's rules you may pay as subsistence costs 3 'daily allowances' + 2 nights in a hotel + taxis during the mission (e.g. to/from the airport). However, the total of these costs should still be below the amount of two 'per diem' according to the published EC rate.*

***Indicative list of supporting documents for Travel and Subsistence costs***

- ✓ *Invoice from travel agency (or hotel, etc.) including proof of payment*
- ✓ *Original transportation tickets (plane, train, boat)*
- ✓ *Boarding passes*
- ✓ *Meeting or event related documents such as reports, agendas, lists of participants, materials, photographs, etc.*
- ✓ *Reimbursement sheets in case of payment directly to the relevant persons for the use of a private car or other means of transportation, including proof of payment*
- ✓ *Reimbursement sheet or salary slip for subsistence costs, including proof of payment to the relevant person*

## Equipment and Supplies

Purchase or rental costs for equipment and supplies (new or used) **specifically for the purpose** of the project, as well as the costs of services linked to the transportation and installation, provided they **correspond to market rates**, as included under Budget Heading 3: Equipment and Supplies (shown in Figure 9 below).

Fig.10

<b>3. Equipment and supplies<sup>7</sup></b>	
3.1. Purchase or rent of vehicle	per vehicle
3.2. Furniture, computer equipment	Per month
3.3. Machines, tools	
3.4. Spare parts / equipment for machines, tools	
3.5. Other (please specify)	
<b>Subtotal Equipment and supplies</b>	

There are two main eligibility requirements in addition to respecting appropriate procurement procedures:

That the equipment and supplies included under this heading are **specifically used for the project** e.g. equipment located in the dedicated local office. The narrative report to the JMA should include a description of the need and use of the equipment and supplies for the implementation of the project.

That the **prices** paid **correspond to market rates**. When the equipment and supplies are not purchased through an open tender, it is essential to keep documentation proving what the markets rates are at the time of purchase.

Remember that to be eligible, the equipment purchased also has to respect the rule of origin requirements (see section below).

### **Indicative list of supporting documents for equipment and supplies**

- ☑ Invoice from the supplier , including proof of payment
- ☑ Proof of delivery
- ☑ Proof of origin for equipment and supplies with a unit cost of more than €5,000 (according to section 2.2 of Annex IV of your grant contract)<sup>17</sup>
- ☑ Documents related to the award procedure, including the Terms of Reference, proof of publication, all the bids, evaluation documents, contract, etc.
- ☑ Photographs

<sup>17</sup>

For equipment bought in currencies other than euro, the threshold has to be checked using the Infoeuro published exchange rate for the month of the launch of the contracting procedure. More information on this is given below.

## Local Office

Expenditure linked to costs of any office specifically devoted to the work of the project is included under Budget Heading 4: Local Office (see Figure 21 below).

Fig.11

<b>4. Local office</b>	
4.1. Vehicle costs	Per month
4.2. Office rent	Per month
4.3. Consumables - office supplies	Per month
4.4. Other services (tel/fax, electricity/heating, maintenance)	Per month
<b>Subtotal Local office</b>	

This kind of expenditure is exceptional in cross-border cooperation projects. Beneficiaries and Partners using it have to ensure that there is **no duplication with the administrative costs** included under Budget Heading 10: Administrative Costs. In any case, all office costs for offices located in the headquarters of the Beneficiary or Partners, or other offices not exclusively for the work of the project, cannot be included under the budget heading for local office.

Activity reports from the Beneficiary to the JMA will have to indicate which staff are working in the local office. The costs linked to the work of this staff have to be reasonable and according to the principle of efficiency.

### **Indicative list of supporting documents for a local office**

- ☒ *Invoices from suppliers, including proofs of payment*
- ☒ *Documents related to the award procedures, including the Terms of Reference, proof of publication, all the bids, evaluation documents, contract, etc.*
- ☒ *Photographs*

## Other Costs, Services

Other Costs and Services refer to expenditure linked to costs entailed in service contracts awarded by the Beneficiary and Partners for the purpose of the project as included under Budget Heading 5: Other costs, services (see Figure 22). It also includes costs deriving directly from requirements in the grant contract (such as dissemination, evaluation, expenditure verification, translation, etc.) including the financial service costs (i.e. the cost of fund transfers and financial guarantees).

Fig.12

<b>5. Other costs, services<sup>8</sup></b>	
5.1. Publications <sup>9</sup>	
5.2. Studies, research <sup>9</sup>	
5.3. Expenditure verification	
5.4. Evaluation costs	
5.5. Translation, interpreters	
5.6. Financial services (bank guarantee costs, etc.)	
5.7. Costs of conferences, seminars <sup>9</sup>	
5.8. Visibility actions <sup>10</sup>	
<b>Subtotal Other costs, services</b>	

The costs included in this category have to be clearly identified in the project budget. The costs which may be, by nature, assimilated into one of the eight sub-categories indicated in the standard budget template are only eligible if explicitly included.

### **Indicative list of supporting documents for Other costs, Services**

- ☒ Invoice from the service provider, including proof of payment
- ☒ Documents related to the award procedures, including the Terms of Reference, proof of publication, all the bids, evaluation documents, contract, etc.
- ☒ Proof of delivery of the services
- ☒ Any material published (on paper or by electronic means)
- ☒ Proof that the EU visibility rules have been respected<sup>18</sup>.
- ☒ In case of events, all related documents and pictures, as in the case of travel costs

### **Important last remarks:**

Do not forget to ensure that all documentation in electronic format has to be kept for seven years after project closure. For example, in case of web-sites, other Internet-based tools or databases which are sustained after the EU financing, they will not be available unless you keep adequate back-ups.

### **Other Costs**

Expenditure linked to costs which by their nature cannot be included in any of the previous categories such as re-granting (if applicable) is listed under Budget Heading 6: Other.

18

See section 4.4, *Visibility Requirements*

The documents and rules applicable to the expenditure under this category will depend on the nature of the expenditure. Any re-granting expenses (if allowed under your programme) would be included here.

### ***Indicative list of supporting documents for re-granting***

- ☑ *Sub-grant application forms*
- ☑ *Documents related to the award of sub-grants*
- ☑ *Contracts with the sub-grant Beneficiaries*
- ☑ *Proof of payment to the sub-grantee*
- ☑ *Financial and activity reports submitted by the sub-grantee and any other documents required under the grant contract between the JMA and the Beneficiary.*

## **Taxes**

For projects financed under calls for proposals launched after November 2010 (which are subject to PraG 2010) the budget may include a separate line for taxes, Budget Heading 12: Taxes.

This budget line includes taxes linked to project expenditure, including VAT. These taxes can be included and considered as eligible costs only when the Beneficiary or Partner is not able to claim them back.

Organisations in Partner Countries have to take into account the Financing Agreement/s between their national government and the EC which usually include/s conditions by which Beneficiaries and Partners can reclaim VAT and other taxes. As a consequence, for Beneficiaries and Partners from these countries, usually there should not be any expenses listed under this Budget line as taxes will normally be considered as ineligible expenditure.

## **Contingency reserve**

The contingency reserve is described in Article 14.3 of General Conditions. This reserve cannot exceed 5% of direct eligible costs and it is included under Budget Heading 8: Provisions for Contingency Reserve. For projects subject to PraG 2010 (i.e. those financed under calls for proposals launched after November 2010), taxes have to be excluded from the calculation of 5%.

The contingency reserve can be used only when there is an unforeseeable circumstance and when there is prior approval by the JMA/JTS. The request for the use of the contingency reserve has to indicate which categories of expenditure (from Budget Headings 1 to 6) need the extra resources. The reallocation will be shown in the financial report and no **accounting entries should be shown under this budget heading.**

Projects subject to PraG 2008 will need to show the reallocation in the financial report, as shown in Figure 23 below.

Fig.13

Interim financial report: period (dd/mm/yyyy-dd/mm/yyyy)	Budget as per contract/rider				Reallocation and use of contingencies	
	Unit	# Units (a)	Unit cost (in EUR) (b)	Costs (in EUR) (a)*(b)	allowed reallocation	Use of contingencies
<b>Expenditures</b>						
<b>1. Human Resources</b>						
1.1 Salaries (gross amounts, local staff)						
1.1.1 Technical	Per month					

Projects subject to PraG 2010 have a specific template for the use of contingencies in the budget (see Figure 24 below).

Fig.14

Separate template on use of contingencies									
Expenditures	Contract n°								
	Implementation period of the contract (dd/mm/yyyy-dd/mm/yyyy)								
	Budget as per contract/rider				Use of contingencies	Budget as per new rider signed			
	Unit	# Units (a)	Unit cost (in EUR) (b)	Costs (in EUR) (a)*(b)	Use of contingencies	Unit	# Units (a)	Unit cost (in EUR) (b)	Costs (in EUR) (a)*(b)
<b>1. Human Resources</b>									
1.1 Salaries (gross amounts, local staff)									
1.1.1 Technical	Per month					Per month			
1.1.2 Administrative/ support staff	Per month					Per month			
1.2 Salaries (gross amounts, expat/int. staff)	Per month					Per month			
1.3 Per diems for missions/travel									
1.3.1 Abroad (staff assigned to the Action)	Per diem					Per diem			
1.3.2 Local (staff assigned to the Action)	Per diem					Per diem			
1.3.3 Seminar/conference participants	Per diem					Per diem			
<b>Subtotal Human Resources</b>									
<b>2. Travel</b>									
2.1. International travel	Per flight					Per flight			
2.2 Local transportation	Per month					Per month			
<b>Subtotal Travel</b>									
<b>3. Equipment and supplies</b>									
3.1 Purchase or rent of vehicles	Per vehicle					Per vehicle			
3.2 Furniture, computer equipment									
3.3 Machines, tools...									
3.4 Spare parts/equipment for machines, tools									
3.5 Other (please specify)									
<b>Subtotal Equipment and supplies</b>									
<b>4. Local office</b>									
4.1 Vehicle costs	Per month					Per month			
4.2 Office rent	Per month					Per month			
4.3 Consumables - office supplies	Per month					Per month			
4.4 Other services (tel/fax, electricity/heating, maintenance)	Per month					Per month			
<b>Subtotal Local office</b>									
<b>5. Other costs, services</b>									
5.1 Publications									
5.2 Studies, research									
5.3 Auditing costs									
5.4 Evaluation costs									
5.5 Translation, interpreters									

## Administrative costs

Administrative Costs are described in Article 14.4 of your grant contract General Conditions and are intended to cover the administrative overheads incurred by the Beneficiary and Partners.

These costs, included under **Budget Heading 10**, are claimed as **indirect costs**.

They are calculated as a fixed, maximum rate of 7% of the total amount of direct eligible costs (categories 1 to 6). For projects subject to PraG 2010, take into account that any eligible taxes are in **Heading 12** and cannot be included in the calculation.

This flat-rate funding **does not need to be supported** by accounting documents.

These indirect costs are incompatible with the receipt of an **operating grant** financed by the EC. When the Beneficiary or a Partner receives this type of grant, intended to finance its 'regular operating costs', no additional administrative costs can be accepted as eligible costs as this would be considered **double funding**.

## **Ineligible costs**

Finally, Article 14.6 of your grant contract General Conditions indicates the type of costs which are not eligible. These are:

Debts and debt service charges

Provisions for losses or potential future liabilities

Interest owed

Costs declared by the Beneficiary or the Partners but covered by other EU funds

Purchases of land or buildings, except where necessary for the direct implementation of the project, provided that Special Conditions do not explicitly exclude this possibility

Currency exchange losses

Taxes, including VAT, unless the Beneficiary or Partners can show they cannot reclaim them and the applicable regulations do not exclude coverage of taxes. Financing Agreements between the EC and Partner Countries National Governments include the provisions by which the Beneficiaries and Partners are exempted from certain taxes and the procedures to reclaim them. Please consult your national authorities for further information.

Credits to third parties unless otherwise specified in the Special Conditions.



## Procurement rules

There are specific rules and procedures that must be followed for procurement for Beneficiaries and partners receiving a grant in aENPI-CBC programme.

### Which rules apply?

#### So which rules should you follow for procurement?

Article 23 of the ENPI CBC Implementing Rules states:

*"The procedures and related standard documents and contract templates to be used shall be those included in the **Practical Guide to contract procedures for EC external actions (PraG)**<sup>19</sup> with annexes in force at the time of the launching of procurement procedures or calls for proposals"*

Although PraG provides a full set of procedures and templates, grant Beneficiaries and Partners will find the procurement rules applicable to them in **Annex IV of their grant contract**: *"Procurement by grant Beneficiaries in the context of European Community external actions"*.

**Annex IV of the grant contract is applicable to the Beneficiary and all Partners**, regardless of their legal status (public or private) or nationality (EU Member State or Partner Country).

#### What is in Annex IV of your grant contract? See the list below.

- |  |   |
|--|---|
| 1. General principles  | 5. Rules applicable to supply contracts |
| 2. Eligibility for contracts (rules of nationality & origin) | 6. Rules applicable to work contracts   |
| 3. Rules common to all tender procedures                     | 7. Use of negotiated procedure          |
| 4. Rules applicable to service contracts                     | 8. Special cases                        |

Annex IV includes terminology which is defined in the main chapters of PraG, as we will see in the section below.

#### Are all sections of Annex IV applicable to everybody?

Sections 1 and 2 are applicable to all Beneficiaries and Partners

Sections 3 to 7 are **not applicable to public bodies (contracting authorities) in EU Member States or to public entities in Russia** (as outlined in Section 8: Special cases and in the Financing Agreement between the Russian Federation and the EU). These bodies should apply their own national rules,

<sup>19</sup>

*Practical Guide to contract procedures for EC external actions,*

[http://ec.europa.eu/europeaid/work/procedures/implementation/practical\\_guide/index\\_en.htm](http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm)

except when they contradict Article 1 (general criteria) and Article 2 2 (rule of nationality and origin) which has to be respected in all cases.

### **How should you understand Section 8: Special cases and what organisations are considered as a public body in an EU Member State?<sup>20</sup>**

**Under Section 8: Special Cases, Contracting Authorities** refers to State, regional or local authorities, bodies governed by public law, associations formed by one or several of such authorities or one or several of such bodies governed by public law.

**A body governed by public law** is a body:

Established for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character,

having a legal personality, and

is financed, for the most part, by the State, Regional or Local authorities, or other bodies governed by public law; or subject to management supervision by those bodies; or having an administrative, managerial or supervisory board, more than half of whose members are appointed by the State, regional or local authorities, or other bodies governed by public law.

This does not mean that the Beneficiaries and Partners, other than public bodies in EU Member States, will have to use procedures described in chapter 3, 4 and 5 of PraG and its templates. Annex IV indicates that **tender documents** have to follow **best international practice**. Annex IV indicates that the Beneficiary or Partner **may use PraG models** when they do **not have their own models**.

In the case of public bodies in Partner Countries, they can use their own national procedures, provided they are not in contradiction with the principles and thresholds indicated in Annex IV.

## **Procurement procedures**

Which procurement procedures to apply and under which conditions are mentioned in Annex IV and more details may be found in section 2.4 of the main body of PraG. These procedures are:

Open procedure

Restricted procedure

Negotiated procedure no publication (three offers)

Negotiated procedure on the basis of a single tender.

These are described in the boxes below.

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<sup>20</sup>

According to Art. 1.9 of the public contracts directive: DIRECTIVE 2004/18/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 31 March 2004 on the coordination of procedures for the award of public works contracts, public supply contracts and public service contracts

### **OPEN PROCEDURE**

Calls for tenders (publicised internationally or locally) are open when all interested economic operators may submit a tender. Therefore:

- The call should be given maximum publicity
- Any natural or legal person wishing to tender receives the tender dossier upon request
- When the received tenders are examined, the contract is awarded by conducting:
  - A selection procedure (i.e. verification of the eligibility and of the financial, economic, technical and professional capacity of tenderers), and
  - a procurement procedure (comparison of tenders).
- No negotiation is allowed

### **RESTRICTED PROCEDURE**

Calls for tenders are restricted when all interested economic operators may ask to take part (in response to a procurement notice) but only candidates satisfying the selection criteria may submit a tender. Therefore the contracting body:

- Uses a selection procedure to examines all responses to the procurement notice
- Draws up a short list of candidates based on their qualifications according to the selection criteria
- The contracting body invites the shortlisted candidates to submit a tender
- No change in the identity or the composition of the tenderer is permitted (there are some exceptions)
- The successful tenderer is chosen by a procurement procedure
- No negotiation is allowed

### **NEGOTIATED PROCEDURE WITHOUT PUBLICATION (THREE OFFERS)**

The contracting body chooses at least three candidates with competence in the relevant field, invites them to submit tenders and negotiates the terms of the contract with one or more of them.

### NEGOTIATED PROCEDURE ON THE BASIS OF A SINGLE TENDER

The contracting body may **exceptionally** use a negotiated procedure on the basis of a single tender when:

- There is extreme urgency which is in no way attributable to the Beneficiary or Partner
- The contract extends activities already under way because of unforeseen circumstances
- The tender procedure has been unsuccessful
- For technical reasons, the contract can be awarded only to a particular provider

**(see full list in section 7 of Annex IV of your grant contract)**

## General principles and common rules in Annex IV

The **general principles** applicable to all Beneficiaries and Partners are described in section 1 of Annex IV to your grant contract. They are linked to the principles of sound financial management described in 4.1 below.

**Contracts must be awarded:**

to the **most economically advantageous** tender i.e. to the tender offering the best price-quality ratio, and

in accordance with the principles of **transparency and fair competition** for potential contractors, taking care to avoid any conflicts of interest even below the thresholds for direct award<sup>21</sup>.

### **Definition of "most economically advantageous tender:**

**Article 53 of the Directive 2004/18**, which is applicable in all Member States, states that *when the award is made to the tender most economically advantageous from the point of view of the contracting body, the base of the award shall be various criteria linked to the subject matter of the public contract in question, for example, quality, price, technical merit, aesthetic and functional characteristics, environmental characteristics, running costs, cost-effectiveness, after-sales service and technical assistance, delivery date and delivery period or period of completion.*

<sup>21</sup>

That is ≤ €10,000 as described below in *Thresholds and procedures for procuring services, supplies and works*.

**Very important remarks**

- tenders cannot be awarded on the basis of the **lowest price only**
- **experience** cannot be an award criterion, as there is jurisprudence indicating that it is against the Directive 2004/18. However, experience can be taken into account to assess the technical proposal

To this end, the Beneficiary and Partners must comply with the rules set out in sections 2-7 of Annex IV with the exceptions explained above.

In the event of a **failure** to comply with the rules referred to above, **the expenditure is not eligible**. The compliance with the rules will be verified by the auditor carrying out the expenditure verification needed for the payment requests. It may also be verified by JMA, EC and other authorized bodies.

The **common rules applicable to all tender procedures** are described in section 3 of Annex IV (and therefore not applicable to public bodies in EU Member States):

The tender documents must be drafted in accordance with **best international practice**. The Beneficiary and Partners **may** use the models relating to external actions published on the EC website, namely PraG Chapters 3 (Services), 4 (Supplies) and 5 (Works) and related annexes (note, this is not compulsory). In case of doubt, you could compare your procedures to the EC best practice as described in these chapters and annexes and adapt as needed.

The **time-frames** for receipt of tenders and requests to participate must be long enough to allow interested parties a reasonable and appropriate period to prepare and submit their tenders (e.g. in PraG: 60 days for Supplies and 90 days for Works for international tenders, 30 for Supplies and 60 for Works for local tenders).

All requests to participate, and tenders which are declared as satisfying requirements, must be **evaluated and ranked by an evaluation committee** on the basis of exclusion, selection and award criteria announced in advance.

This **committee** must have an **odd number of members**, and at least three members, with all the technical and administrative capacity necessary to give an informed opinion on the tenders.

**Rule of nationality**

Both the ENPI Regulation (Article 21) and Annex IV (section 2) of the grant contract oblige all Beneficiaries and Partners to respect the rule of nationality (described below).

**ENPI REGULATION ARTICLE 21**

Participation in the award of procurement contracts financed under this Regulation shall be open to all natural persons who are national of, and legal persons established in, a Member State, a country that is a beneficiary of this Regulation, a country that is beneficiary of an Instrument for Pre-Accession (IPA) or a member State of European Economic Area (EEA). It will also be open to International Organisations.

The rule is applicable for Beneficiaries and Partners in EU Member States even if it is in contradiction with national procurement rules, as these rules derive from the EC Public Contracts Directive which is lower in the legal hierarchy than the ENPI Regulation.

Regardless of the eligible area of the programme, all natural persons (such as experts, interpreters, etc.) and legal persons (service providers and suppliers, etc.) from the countries listed in the ENPI Regulation can participate in a tender and sign a contract with a Beneficiary or Partner.

The countries listed in the ENPI Regulation are given in the table below.

• <i>'Rule of nationality' countries listed in the ENPI Regulation</i>	
• <i>EU Member States</i>	• Portugal, Spain, France, Italy, Malta, Greece, Cyprus, Bulgaria, Romania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Austria, Germany, Lithuania, Latvia, Estonia, Finland, Sweden, Denmark, The Netherlands, Belgium, Luxemburg, United Kingdom and Ireland
• <i>ENPI Partner Countries</i>	• Russia, Belarus, Ukraine, Moldova, Georgia, Armenia, Azerbaijan, Algeria, Egypt, Libya, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territories, Syria and Tunisia
• <i>IPA Countries</i>	• Croatia, Turkey, Albania, Bosnia, Montenegro, Serbia, Kosovo and FYROM
• <i>EEA</i>	• Norway, Iceland and Liechtenstein

The fact that some of these countries do not participate in the ENPI CBC Programmes does not affect their eligibility for procurement procedures.

Those submitting tenders must state in the tender which country they are nationals of and present the usual proof of nationality under their national legislation.

The same rule however, does not apply to experts proposed by service providers taking part in tender procedures or service contracts financed under the grant. For example, a Beneficiary or Partner can sign a service contract with a Dutch company which includes a Japanese expert in the team of experts providing the services.

**EXCEPTIONS TO THE RULE**

In duly substantiated exceptional cases, the JMA may allow the participation of nationals from countries other than those previously referred to (e.g. when the expert is the only one available with the required expertise). In this case, ensure you have written confirmation of the derogation to the rule before launching the procurement procedure.

**Rule of origin**

Both the ENPI Regulation (Article 21) and Annex IV (Section 2.2) of the grant contract oblige all Beneficiaries and Partners to respect the rule of origin when procuring supplies, regardless of the amount of equipment purchased.

**ENPI REGULATION ARTICLE 21**

**All** supplies and materials purchased under contracts financed under this Regulation shall originate in the community or a country eligible under this article.

The rule is also applicable to Beneficiaries and Partners in EU Member States even if it is in contradiction with national procurement rules, also because as they derive from the EC Public Contracts Directive which, as described above, is lower in the legal hierarchy than the ENPI Regulation.

Regardless of the eligible area of the programme, all supplies purchased (such as equipment, furniture and material etc.) shall originate in the same list of countries as for the nationality rule (listed again below).

• <i>'Rule of origin' countries listed in the ENPI Regulation</i>	
• <i>EU Member States</i>	• Portugal, Spain, France, Italy, Malta, Greece, Cyprus, Bulgaria, Romania, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Austria, Germany, Lithuania, Latvia, Estonia, Finland, Sweden, Denmark, The Netherlands, Belgium, Luxemburg, United Kingdom and Ireland
• <i>ENPI Partner Countries</i>	• Russia, Belarus, Ukraine, Moldova, Georgia, Armenia, Azerbaijan, Algeria, Egypt, Libya, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territories, Syria and Tunisia
• <i>IPA Countries</i>	• Croatia, Turkey, Albania, Bosnia, Montenegro, Serbia, Kosovo and FYROM
• <i>EEA</i>	• Norway, Iceland and Liechtenstein

•

**SO, WHAT IS MEANT BY THE TERM 'ORIGIN'**

For the purpose of Annex IV, the term 'origin' is defined by Council Regulation<sup>22</sup> as the **economic nationality of goods** in international trade:

- Goods originating in a country shall be those wholly obtained or produced in that country (Article 23)
- Goods whose production involved more than one country shall be deemed to originate in the country where they underwent their last, substantial, economically justified processing or working in an undertaking equipped for that purpose and resulting in the manufacture of a new product or representing an important stage of manufacture (Article 24)

Supplies and materials affected by the rule of origin:

Include the materials to be used in construction

Do not include the Contractor's own equipment (machines, tools, etc.) to be used during construction.

For equipment and vehicles with **a unit cost on purchase of more than €5,000**, the contractors providing the supplies must present **proof of origin** no later than when they present their first invoice. The certificate of origin must be made out by the competent authorities in the country of origin for the supplies (e.g. Chamber of Commerce, Government Ministry etc.). Remember to request this certificate from your supplier and clearly insert it as a requirement in the tender dossier.

For supplies with a unit cost on purchase of less than **€5,000**, **a statement from your supplier specifying the origin** of the equipment is enough. Still, remember that the rule of origin applies to all supplies so in the absence of this statement, the cost of the supplies may be considered ineligible. Note, the origin is also often inscribed on the equipment itself (e.g. 'made in' or 'assembled in').

Both the ENPI Regulation (Article 21.7) and Annex IV (section 2.3) allow for derogations in duly substantiated exceptional cases as described in the box below.

<sup>22</sup>

COUNCIL REGULATION (EEC) No 2913/92 of 12 October 1992 establishing the Community Customs Code and other Community legislation governing non-preferential origin



**EXCEPTIONS TO THE RULE OF ORIGIN**

Exceptions may be justified in certain circumstances:

- **Unavailability** of the products in the markets of the countries concerned
- For reasons of extreme urgency
- If the rule were to make the realisation of a project, a programme or an action impossible or exceedingly difficult.

The exception is **not** applicable just because a product that does not meet the rule of origin is cheaper than one that does.

The exception is only applicable when the derogation has the **prior approval** of the JMA.

**Important last remarks:**

*All Beneficiaries and Partners, whatever their status (public, private) or nationality (EU or Partner Country) must respect the rule of origin of supplies or the cost will be ineligible. **This applies even if the equipment is bought with own resources as part of co-financing!***

*It is only needed to produce an official certificate of origin for supplies above €5,000 per unit so for instance, if the Beneficiary or partner buys five computers of €1,050 each, the supplier does not need to provide an official certificate. In this case the Beneficiary or partner should ask the supplier to state in writing the origin of supplies as this is a formal requirement under Annex IV Article 2.2 to make the cost eligible. The same statement should be requested from construction companies regarding the materials used for works paid by the project.*

**Types of contracts**

Three types of contracts are mentioned in Annex IV of the grant contract, each with specific procurement procedures to be carried out by the Beneficiary or Partner (as relevant). These are described in PraG as follows:

**Service contracts concluded with a service provider** could include:<sup>23</sup>

- **Study contracts** such as feasibility studies, economic and market studies, technical studies, evaluations and audits.

Study contracts generally specify an outcome, i.e. the contractor must provide a given product. The technical and operational means by which it achieves the specified outcome are irrelevant. These are therefore lump-sum (global-price) contracts and the contractor will be paid only if the specified outcome is achieved.

<sup>23</sup>

See PraG 3.1

- *Technical assistance contracts* for example, when an expert is needed in an advisory role or to provide the experts specified in the grant contract.

Technical assistance contracts are fee-based. Technical assistance contracts often only specify the means i.e. the contractor is responsible for performing the tasks entrusted to it in the Terms of Reference and ensuring the quality of the services provided. The budget consist of fees (daily fee rate for the days experts work under the contract) and incidental expenditure which covers all actual expenses incurred by the expert which are not included in the fees (travel costs, etc.).

*Supply contracts concluded with a supplier*<sup>24</sup> cover the purchase, leasing, rental or hire purchase, with or without the option to buy, of products (equipment, material, etc.). Supply contracts include incidentally, the transport to site and installation of the supplies bought.

*Works contract concluded with a construction or engineering company.*<sup>25</sup> Works contracts cover either the execution, or both the execution and the design, of works or the realization by whatever means of a work. A 'work' is the outcome of building or civil engineering works taken as a whole that is sufficient of itself to fulfil an economic or technical function e.g. infrastructure for a border crossing point.

#### **Can the contract be a hybrid (mix) of the types of contracts?**<sup>26</sup>

Usually contracts are split according to the types defined above. When necessary, some contracts may cover two or more components, works, supplies and services.

In this case the Beneficiary or partner must determine *the procurement procedure to be used depending on which of the components prevails*. This assessment is to be made on the basis of:

- the value, and
- the strategic importance of each component relative to the contract as a whole.

***Make sure that the procurement cannot be considered as artificially mixed to circumvent procurement thresholds as described in the table below! For example, if the Beneficiary or partner applies the procedures for works when there are also large amounts of equipment or services.***

## **Thresholds and procedures for procuring services, supplies and works**

Annex IV of your grant contract provides different thresholds for procurement procedures, depending on the type of contract. The thresholds for Services are found in Section 4, Supplies in Section 5 and Works in Section 6. Check 3.2 above to clarify the different kinds of procurement procedures.

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<sup>24</sup> See PraG 4.1

<sup>25</sup> See PraG 5.1

<sup>26</sup> See PraG 2.4.9

The thresholds, which are not applicable to public bodies in Member States, are given in the table below.

• <i>SERVICES</i>	• $\geq$ €200,000 <b>International restricted tender procedure</b>	• $<$ €200,000 but $>$ €10,000 <b>Negotiated procedure without publication (three offers)</b>	• • • • • • $\leq$ €10,000 • <b>Single tender (direct award)</b>
• <i>SUPPLIES</i>	• $\geq$ €150,000 <b>International open tender procedure</b>	• $<$ €150,000 but $\geq$ €60,000 <b>Local open tender procedure</b>	• $<$ €60,000 but $>$ €10,000 <b>Negotiated procedure without publication (three offers)</b>
• <i>WORKS</i>	• $\geq$ €5,000,000 <b>International open tender procedure</b>	• $<$ €5,000,000 but $\geq$ €300,000 <b>Local open tender procedure</b>	• $<$ €300,000 but $>$ €10,000 <b>Negotiated procedure without publication (three offers)</b>

Annex IV sets the compulsory scope for sub-contracting but it does not provide detailed procedures or templates for tender documents. Therefore for what is **not** described in Annex IV, **Beneficiary and Partners may use:**

**Either their own procedures**, as long as these are compliant with the rules in Annex IV in particular, 'best international practice' (see section 3.3 for general principles)

**Either PraG Chapters 3 (Services), 4 (Supplies) or 5 (Works)**, and related annexes, which describe detailed procedures for the whole procurement process and may also provide useful templates.

#### **What to include in the tender and how to calculate the contract value?**

The thresholds given in the table above are based on the maximum budget for the contract in question (including any co-financing). Where contracts are subdivided in lots, the value of each lot shall be taken into account when calculating the overall threshold.

**A budget line is not in itself a sufficient ground for splitting contracts!** For instance, in the budget under the title 'equipment' may have listed under separate lines 'computers' and 'printers' as they had different unit prices, but when the tender is organized, the Beneficiary or partner should include them be in the same contract - all office equipment should normally be supplied under one contract.

Contracts can only be split when fully justified by the different categories of service/supply/work requested, or when their delivery must occur at different time in the project. For instance in an environmental project separate procurements under supplies may be found, e.g. office equipment and waste water treatment equipment.

### **Remember**

**Beneficiary/Partner should never artificially split the procurements, as the whole amount of the split contracts will become ineligible!**

**National thresholds** also have to be applied when national procurement rules are compulsory for the Beneficiary or Partner. In case of a contradiction between Annex IV of your grant contract and national thresholds, the lower one has to be used! Remember that the thresholds described in sections 3 to 7 of Annex IV, are not applicable to public bodies in EU Member States or to public entities in the Russian Federation.

# **Terms of reference for auditors**

Audit Services in compliance with Article 30 and 37 of Commission Regulation (EC) No 951/2007 of August 2007 laying down implementing rules for cross – border cooperation programmes financed under Regulation (EC) No 1638/2006 of the European Parliament and of Council laying down general provisions establishing a European Neighbourhood and Partnership Instrument

These Terms of Reference are based on International Auditing Standards, with a special reference to ISA 800 (Audits of Financial Statements prepared in accordance with Special Purpose Frameworks)

## **Introduction**

These Terms of Reference (TOR) intend to provide all necessary information to the tenderers for a service contract with the Joint Managing Authority (JMA) of the Estonia–Latvia–Russia Cross Border Cooperation Programme. The service contract has a duration of the whole programme implementation period until 31.05.2016.

The purpose of the public procurement procedure is to select a qualified and registered audit company having the administrative capacity, the technical capacity and the necessary experience to deliver the work involved in fulfilling the legal obligations of Articles 30 and 37 of Commission Regulation (EC) No 951/2007 (Annual audit plan for projects). This document provides the information necessary to prepare an offer for this procurement procedure.

## **Programme Management and Control Structures**

### ***Actors involved in Management and Control***

#### **The Joint Managing Authority**

The Joint Managing Authority (JMA) is the Ministry of Environmental Protection and Regional Development. It is responsible for managing and implementing the joint operational programme, and for carrying out any controls necessary in accordance with the rules and procedures provided for by the relevant regulations (Article 15 I Regulation (EC) No 951/2007).

Among others, the JMA fulfils the following functions and is responsible for:

- Drawing up annual operational and financial reports and sending them to the Joint Monitoring Committee and the Commission
- Implementing, through its internal audit service, an audit programme to check internal circuits and to ensure that procedures are properly applied within the JMA
- Signing the contracts for the various projects with the beneficiaries and contractors
- Carrying out operational follow-up and financial management of the projects
- Immediately notifying the JMC of all contentious cases of recovery
- Ensuring that the funds paid out under grant agreements or procurement contracts are used only for the purposes for which they were granted

See Section 2 of Regulation (EC) No 951/2007 for further functions and responsibilities.

The reporting obligations of the JMA are defined by Article 28 of Regulation (EC) No 951/2007. Among others, the annual report of the Joint Managing Authority shall contain:

“a declaration signed by the representative of the JMA giving an assurance that the management and control systems set up by the programme in the course of the previous year continue to comply with the model approved by the Commission and that they have operated in such a way as to warrant a reasonable degree of confidence in the correctness of the financial report and in the legality and regularity of the transactions to which it relates.”

This declaration is supported by:

- The annual report of the internal audit service of the JMA (Article 29 of Regulation (EC) No 951/2007)
- The annual report on implementation of the audit plan for the projects (Article 30 of Regulation (EC) No 951/2007)
- The external audit report on an ex post verification of the revenue and expenditure presented by the JMA in its annual financial reports (Article 31 of Regulation (EC) No 951/2007)

These reports are annexes to the annual report of the JMA (Article 28 of Regulation (EC) No 951/2007). The JMA stays ultimately responsible for all audit work carried out for the joint operational programme within the framework of these legal requirements.

### **The Joint Technical Secretariat**

The Joint Technical Secretariat (JTS) is hosted by the State Regional Development Agency . It assists the JMA with the day-to-day management of the activities under the joint operational programme (Article 16 I Regulation (EC) No 951/2007).

### **The Joint Monitoring Committee**

The Joint Monitoring Committee (JMC) is the supervisory body of the joint operational programme. It comprises representatives from each country participating in the joint operational programme, a chairperson and a secretary, which is a member of the JMA. Among others it is responsible for:

- appointing project selection committees
- taking the final decision on projects and on the amounts granted to them
- review all reports submitted by the JMA

- examine any contentious case of recovery brought to its attention by the JMA

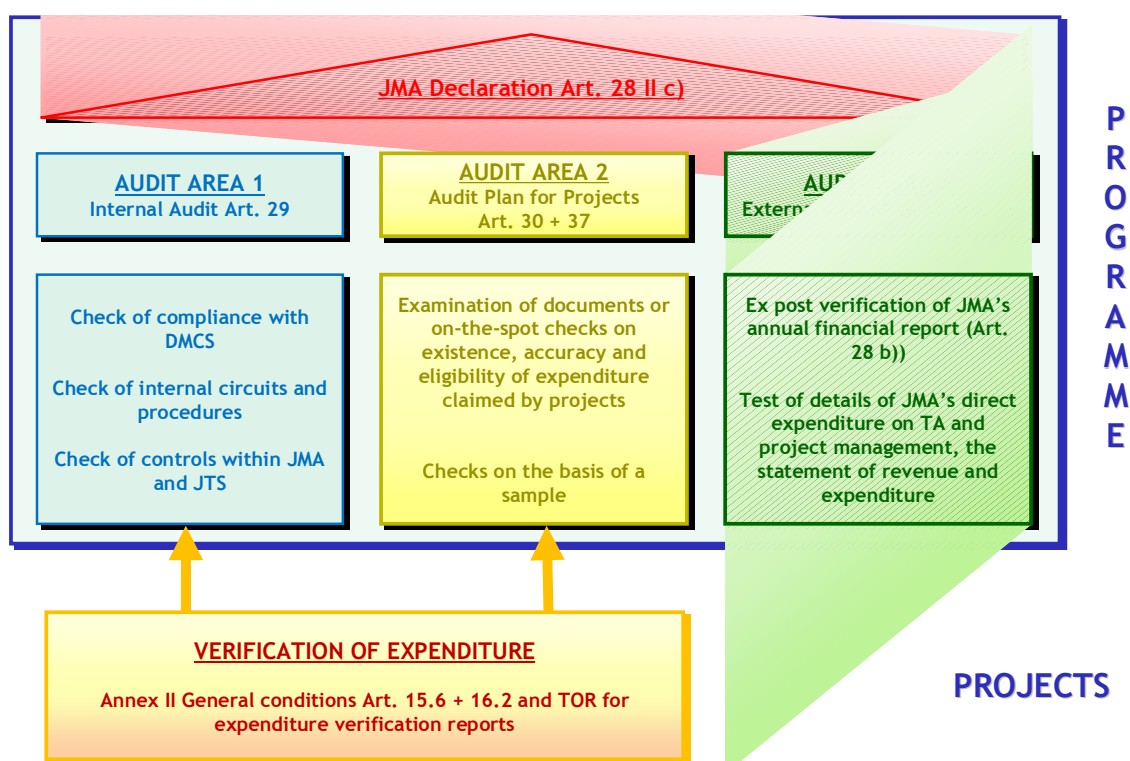
See Section 1 of Regulation (EC) No 951/2007 for further details.

### Audit Task Force

It is responsible for approval of audit methodology, review of the audit results and making proposals for the necessary actions related to the recoveries, based on audit results. This Audit Task Force consist of the representatives of the national responsible bodies of the Member States and Russia. The EC representative will be invited to all the meetings of the Audit Task Force, will be informed of all its activities and will have the same status as its members.

### Control Structures

The control structures for the ENPI CBC Joint Operational Programmes can be visualised as follows:



All controls which are executed are done within the responsibility of the JMA and ultimately serve the objective to provide the JMA with the assurance necessary to sign the declaration foreseen in Article 28 II c) of Regulation (EC) No 951/2007. Consequently, it is the JMA's responsibility to



decide who performs the audit work for each of the three areas of programme audit and to determine the extent of audit work as well as the audit methods to be used.

### **Verification of Expenditure**

According to Article 14.8 of Regulation (EC) No 951/2007, the JMA shall ensure that the funds paid under grant agreements or procurement contracts are used only for the purposes for which they were granted. This provision relates to the project level.

A report on the verification of project expenditure must be attached to the second and any following pre-financing request and to the final payment request.

The expenditure verification report is a report of factual findings based on an agreed-upon procedures audit as specified in Annex VII Special Conditions Grant contract (Terms of Reference for an expenditure verification of a grant contract) and in accordance with the International Standard on Related Services (ISRS) 4400. Consequently, it is the JMA's responsibility to determine the total amount of eligible expenditure based on the expenditure verification report.

Within the framework of the audit approach for ENPI CBC programmes, the project expenditure verification represents the most important and basic level of control. It is the objective of this assignment to verify its functioning.

### **Annual Internal Audits by the Internal Audit Service**

According to Article 29 of Regulation (EC) No 951/2007, the JMA's internal audit service shall implement each year a control programme to check the internal circuits and to ensure that procedures have been correctly applied within the JMA. The internal audit service provides the JMA with an annual report and sends it to the representative of the JMA.

The annual report of the internal audit service is an attachment to the JMA's annual report to the Commission. It is the JMA's responsibility to integrate the internal audit service's results in the declaration according to Article 28 II c) of Regulation (EC) No 951/2007.

Within the framework of the audit approach for ENPI CBC programmes, the annual internal audit serves the purpose of risk assessment for inherent risk and control risk on the level of the programme implementing body (JMA). *Only limited* assurance is obtained regarding the reliability of expenditure verification reports, as these are not expressly covered by the internal audit.

### **Annual Implementation of the Audit Plan for the Projects**

According to Article 37 of Regulation (EC) No 951/2007, the JMA shall draw up an audit plan for the projects that it finances.

The controls shall be conducted by examining the documents and conducting on-the-spot checks of a sample of projects. The JMA shall select the sample based on a random statistical sampling method taking account of internationally recognised audit standards, in particular having regard of risk factors related to the projects' value, type of operations, type of beneficiary or other relevant elements. The sample shall be sufficiently representative to warrant a satisfactory level of confidence in relation to the direct controls carried out by the JMA on the existence, accuracy and eligibility of expenditure claimed by the projects.

The JMA shall report on the previous year's implementation of the audit plan for the projects each year according to Article 30 of Regulation (EC) No 951/2007. The report shall describe in detail the methodology used by the JMA for selecting a representative sample of projects, as well as the controls carried out, the recommendations made and the conclusions drawn by the JMA in relation to the financial management of the projects concerned.

The annual report on the previous year's implementation of the audit plan for the projects is an attachment to the JMA's annual report to the Commission. It is the JMA's responsibility to integrate the results in the declaration according to Article 28 II c) of Regulation (EC) No 951/2007.

Within the framework of the audit approach for ENPI CBC programmes, the implementation of the annual audit plan for projects serves the purpose of obtaining assurance on the project expenditure and on the functioning of the project expenditure verification controls. It is the objective of this assignment to verify its proper functioning.

### **External Audit of the Annual Financial Report**

According to Article 31 of Regulation (EC) No 951/2007, the JMA call upon an independent public body or contract an independent approved auditor who is a member of an internationally recognised supervisory body for statutory auditing to carry out each year an ex post verification of

the revenue and expenditure presented by the JMA in its annual financial report, in accordance with the standards and ethics of the International Federation of Accountants (IFAC).

This external audit shall cover the JMA's direct expenditure on technical assistance and project management (payments). The external audit report shall certify the statement of revenue and expenditure presented by the JMA in its annual financial report, and that stated expenditure has actually been incurred and is accurate and eligible.

The external audit report is an attachment to the JMA's annual report to the Commission. It is the JMA's responsibility to integrate the results in the declaration according to Article 28 II c) of Regulation (EC) No 951/2007.

Within the framework of the audit approach for ENPI CBC programmes, the external audit report serves the purpose of obtaining assurance on the financial information available on programme level.

### **Summary annual timetable for Audit Work and Reporting<sup>27</sup>**

The basic time table of the JMA's audit work for implementation of the annual audit plan for projects and reporting in line with Article 28 Reg (EC) No 951/2007 is as follows:

Implementation period	1 January to 31 December N-1
Audit period	1 January 2012 to 30 April N
Reporting period for contractor	1 May 2012 to 31 May N
Reporting deadline for the JMA according to Article 28 Reg (EC) No 951/2007	30 June N

## **Roles and Responsibilities of the Contracting Authority and the Contractor**

### ***Role and Responsibility of the Contracting Authority***

The JMA is ultimately responsible for fulfilling the legal obligations regarding the implementation of the annual audit plan for projects (Articles 30 and 37 Reg. (EC) No 951/2007). The JMA (Contracting Authority) has decided to contract a qualified audit company with the aim to obtain support in fulfilling its legal obligations.

<sup>27</sup> Please refer to section 7.1 - Deadlines for the submission of documents and reports - for further details.

The audit work to be contracted with this procurement procedure is part of the overall audit approach of the JMA. Within this overall audit approach, the implementation of the annual audit plan for projects (on a sample basis, if the population is big enough) represents the substantive audit work needed to address the detection risk. Furthermore, the JMA must endorse the audit approach of the contractor, especially with a view on nature, timing and extent of audit procedures, and regarding the location of the audit execution, that is document examinations on-the-spot checks at the beneficiaries and/or partners premises.

It is the responsibility of the JMA to facilitate the work of the contractor, especially by providing guidance on all matters related to the assignment, by providing all information necessary to execute the audit work and by providing feedback to and approving deliverables of the contractor. Representatives of the JMA/ATF have the right to take part in the audit work as observers.

### ***Role and Responsibility of the Contractor***

The contractor supports the Contracting Authority in fulfilling its legal obligations regarding the audit plan for projects (Article 30 and 37 Reg. (EC) No 951/2007). It acts on behalf of the Contracting Authority. In delivering the service, the contractor follows its professional standards, internationally recognised audit standards and the IFAC Code of Ethics for Professional Accountants.

It is the responsibility of the contractor to prepare, implement and report on the audit work in line with these Terms of Reference, the contract, its proposal and the applicable audit standards. Furthermore, it is the responsibility of the contractor to respect internationally recognized audit standards throughout its work. Bearing in mind that responsibility for the implementation of the annual audit plan for projects rests with the JMA, the contractor is responsible for following the JMA's advice and obtaining the approval for deliverables, within the scope of internationally recognized audit standards. If requested by the JMA, the audit work must be adapted, within the scope of internationally recognized audit standards and ethical standards.

The contractor is obliged to give access to its working papers upon the JMA's request within a reasonable time at the JMA's premises in Latvia. It has to follow the filing policy as defined by the JMA, in particular the duration of archiving working papers.

### ***Content of the Audit Service Contract***

**Preparation of the Assignment**

A kick-off meeting is to be held *within 10 working days after signature of the contract*. During the kick-off meeting, the contractor should inform the JMA on its audit approach, including the audit methods he/she intends to use for checks of documents and on-the-spot checks, their extent and their scope. The contractor should furthermore present the foreseen project management structure for the assignment to the JMA, including intended communication arrangements, team structure and responsibilities. The kick-off meeting should be attended by the audit coordinator and the senior expert on behalf of the contractor<sup>28</sup>.

The JMA will provide the contractor with documentation regarding the joint operational programme, the projects and the beneficiaries, as well as the results of other audits, after the signature of the contract. During the course of the engagement, the JMA will provide the auditor with the financial reports and the expenditure verification reports of the projects that are selected for the audit.

The contractor should develop all the templates and forms that are needed in order to execute the contract, in particular:

- the announcement letter template for on-the-spot checks
- the document request template from partners and beneficiaries for document examinations
- a project controlling document enabling the JMA to verify progress of the audits

**Announcement letter template for on-the-spot checks:**

The announcement letter template should contain:

- a short information on the purpose of the on-the-spot check
- the name of the audit company, the foreseen auditor, the time/time frame for the audit
- a list of documents needed
- a request that persons responsible for the project and the project accounting are available during the on-the-spot check
- information that missing information or missing documents are considered as an error and cannot be accepted after the on-the-spot check has been completed

<sup>28</sup> Please refer to section The contractor's team - for further details on these professional figures.

The JMA may consider to include extra information on the necessary content of the announcement letter template. Due to the tight time frame, it is very important that on-the-spot checks can be done efficiently. This is only possible if the auditees prepare all necessary documents and if the responsible persons are available during the on-the-spot check.

**Document request template from partners and beneficiaries for document examinations:**

In order to realize the efficiency gains that can be achieved by pooling audit work in one location, the documents available for document examinations must be as complete as possible. As this causes probably considerable preparation effort on behalf of the partners and beneficiaries, they should be thoroughly informed on the nature and purpose of the audit as well. Therefore, the document request template should contain:

- a short information on the purpose of the document examination
- the name of the audit company, the foreseen auditor, the time/time frame for the audit, including the deadline until when the documents must be received by the auditor/made available to the auditor
- the address and the name of the person who will be responsible for receiving the documents, their appropriate archiving for the time frame of the audit and their re-sending to the auditee
- a list of documents needed, including an indication on whether originals or copies must be provided
- a request that persons responsible for the project and the project accounting and their contact details are communicated to the auditor, so that the auditor can address questions directly to the relevant personnel
- information that missing information or missing documents are considered as an error and cannot be accepted after the time frame for the document examination has passed

**Audit protocols per project (see Annex 2)**

These TOR foresee audit protocols per project as the deliverable provided by the contractor every time the audit of a project is finalized. Using protocols instead of reports is important. As this audit engagement will be performed in the framework of internationally recognized audit standards, each REPORT will be subject to extensive internal checks by the audit company, and it must be printed, signed and sealed. An audit PROTOCOL or EMO reports in a standard way on the audit results, however, it is not an “official” report and therefore the internal quality assurance and the effort to have the protocol finalized and delivered to the client is much lighter. Please note that the auditor should still do a working paper review of each project audit before finalizing and delivering the audit protocol. Furthermore, the aggregated audit results will be compiled, analyzed and included once a year in the Annual Report on the Implementation of the Annual Audit Plan for Projects, which should in any case undergo the complete set of quality assurance measures, be signed and sealed/stamped. (See ISA 800, 805, 700 regarding various models of audit reports).

### ***Sampling***

According to Article 37 II of Regulation (EC) No 951/2007, the controls of paragraph 1 shall be conducted by examining the documents and conducting on-the-spot checks of a sample of projects selected by the JMA based on a random statistical sampling method taking account of internationally recognized audit standards, in particular having regard of risk factors related to the projects' value, type of operations, type of beneficiary or other relevant elements. The sample shall be sufficiently representative to warrant a satisfactory level of confidence in relation to the direct controls carried out by the JMA on the existence, accuracy and eligibility of expenditure claimed by the projects.

Following the legal provisions and the general audit setup of the ENPI CBC Programmes, the purpose of the sample of projects is to obtain sufficient assurance about the project expenditure verifications while maintaining audit efficiency. Also in this case, the JMA remains ultimately responsible for the sample selection.

The population is defined as those projects for which expenditure was declared to the JMA by handing in financial reports accompanied by expenditure verification reports during the implementation phase (i.e. 1 January to 31 December of the previous year).

When assessing the effort needed for the assignment, tenderers must take into consideration that each project has several actors, i.e. at least a beneficiary who signs the grant contract with the JMA, and at least one partner, stemming from another country of the programme area than the one of the beneficiary. Expenditure may occur for the beneficiary and for the partner(s). For every selected operation, the expenditure of the beneficiary and the way in which it consolidates the expenditure of its partners shall be checked. Moreover, the expenditure of one or more partners selected within the operation shall be audited.

Furthermore, as the implementation phase of projects may be longer than one year, it is possible that projects are selected not in their first year of implementation, but in subsequent years. If the auditor detects ineligible expenditure during his audit, he/she is expected to extend audit work to expenditure which was declared in earlier periods.

### ***Treatment of Conflict of Interest***

The tenderer shall describe in the cooperation and implementation model, how he/she intends to solve any conflict of interest.

After sampling has been completed, the contractor shall check whether for the audit team conflicts of interest regarding the sampled projects and regarding the beneficiaries and project partners exist. The contractor shall inform the JMA about each existing conflict of interest, including a proposal on how to solve the conflict of interest. The information shall be provided when sample have been presented by the JMA. Whatever the case, the replacement of the

project(s)/beneficiary(ies)/partner(s) for which a conflict of interest exists in the sample is not possible.

The Code of Ethics of the International Federation of Accountants (IFAC) contains a guideline for professional treatment of conflicts of interest for auditors. See sections 120 (Objectivity) and 220 (Conflicts of Interest). These sections give a short and concise guidance which is easy to follow.

Possible solutions used for similar engagements are:

- If the conflict of interest exists for the company: The audit company could delegate the audit work to another audit company which is not conflicted. However, the JMA is asked to consider whether such a solution is possible according to applicable procurement rules.
- If the conflict of interest exists for the company and another audit partner: putting up so-called “chinese walls” between the audit partners and their audit engagement teams. Chinese walls means that the audit company will not share any information between the audit engagement teams that are conflicted (i.e. one team doing the statutory audit of beneficiary X, the other team doing the on-the-spot check for the JMA of the beneficiary X’s project).
- If the conflict of interest exists for a specific audit engagement team member, this team member can be replaced.

An additional measure might be that a representative of the JMA participates in the audit work or observes the audit work in order to ensure that no influence is executed on the audit results due to the conflict of interest.

The following issues shall be taken into consideration for performing the audit work:

- The objective of the annual audit of projects is to provide a satisfactory level of confidence in relation to the direct controls carried out by the JMA on the existence, accuracy and eligibility of expenditure claimed by the project. Concrete objectives derived from this overall objective are:
  - o To obtain a satisfactory level of confidence whether the expenditure verification reports did reliably identify eligible and ineligible expenditure<sup>29</sup>
  - o To obtain a satisfactory level of confidence whether the JMA’s decision on eligible and ineligible expenditure was adequate

However, it is the responsibility of the auditor to plan and design the audit in line with internationally recognized audit standards. It is the responsibility of the JMA to verify if the audit approach and methodology is in line with its own overall audit approach, to give guidance with a view of securing that the audit work brings about the required assurance and to support the auditor in developing an efficient and high quality audit approach which it can endorse.

Please refer to ISA 330 “The Auditor’s Responses To Assessed Risks”.

<sup>29</sup> For further details on expenditure verification reports see section Verification of Expenditure.



**“Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level:**

A4. (b) Performing only substantive procedures is appropriate for particular assertions and, therefore, the auditor excludes the effect of controls from the relevant risk assessment. This may be because the auditor’s risk assessment procedures have not identified any effective controls relevant to the assertion, or because testing controls would be inefficient and therefore the auditor does not intend to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures; ...

A5. The nature of an audit procedure refers to its purpose (that is, test of controls or substantive procedure) and its type (that is, inspection, observation, inquiry, confirmation, recalculation, reperformance, or analytical procedure). ...

A6. Timing of an audit procedure refers to when it is performed, or the period or date to which the audit evidence applies.

***Annual Implementation of the Audit Plan for Projects***

This part of the service consists of:

- preparation for the audit work
- Execution of the audit work
- Quality assurance and reporting per project

**Preparation**

The tenderer should briefly outline in its proposal, which worksteps it foresees in order to prepare for the audit work. In particular, proposal should specify, which information is needed from the beneficiaries and partners, depending on the audit work foreseen.

**The tenderer should respect the following requirements.**

**Preparation for On-the-spot Checks**

In order to prepare for the execution of the on-the-spot checks, the auditor should announce the audits to beneficiaries and partners who will be audited on the spot by sending announcement letters, including the foreseen date of the checks and the documents that should be available during on-the-spot checks. It is expected that the auditor calls the beneficiaries and partners to finally fix the dates of the checks and to clarify any unclear issue in the run-up to the checks.

The JMA should be notified in regular intervals on any possible changes of dates, i.e. by receiving an updated annual audit plan for projects or another project controlling sheet.

**Preparation for Document Examinations**

In order to prepare for the execution of document examination, the auditor should obtain all relevant documents from either the JMA or the partner or beneficiary who will be audited with a document examination by sending letters requesting documentation. The letters should list in detail the documents required and the purpose of the document examinations. It is expected that the auditor calls the beneficiaries and partners to clarify any unclear issue and to ensure the complete delivery of all documents in time.

Tenderers should provide a short description on how they intend to manage the process or obtaining the documents for document examinations. Tenderers are reminded that not all information is available at the JMA/JTS. Especially documents relating to single expenditure items (invoices, bank account statements and other payment proofs, payslips etc.) or documentation of procurements, work contracts and contracts for goods and services, as well as information related to project accounting are not available from the JMA/JTS and must be obtained from the beneficiaries and partners.

### ***Execution of the Audit Work***

According to Article 37 II Reg. (EC) No 951/2007, the annual audit plan for projects shall be implemented by examining documents and conducting on-the-spot checks of a sample of projects. The audit work carried out shall warrant a satisfactory level of confidence in relation to the direct controls carried out by the Joint Managing Authority on the existence, accuracy and eligibility of expenditure claimed by the projects.

The audits shall cover at least the following objectives, derived from the objectives named above:

- Obtaining an understanding of the project, the beneficiary and the partners
- Compliance of reports with the grant contracts and its annexes
- Plausibility of financial reports and expenditure verification reports
- Eligibility of expenditure and proper treatment of project revenue
- Correctness/accuracy of project reporting (narrative reports, financial reports and expenditure verification reports)
- Correctness/accuracy of project accounting information
- Existence of the project

Furthermore, the evidence obtained with the audit should be such that a comparison of the audit results with the results of the expenditure verification of the beneficiary's or partners' auditor is possible. Therefore, the contractor shall bear the work programme of Annex VII Special Conditions Grant Contract (BUDG and EDF) – Expenditure Verification “Terms of Reference for an Expenditure

Verification of a Grant Contract – External Actions of the European Community” in mind when planning the audit.

<i>Table 1 : Document examinations</i>			
Audit objective	Audit procedure		Expected results
	Purpose	Type	
Obtaining an understanding of the project, the beneficiary and the partners	Risk assessment procedure	Inspection of documents, e.g. the application, the grant contract, reports, other documents	The auditor gets familiar with the project, the beneficiary and the partners
Compliance of reports with the grant contracts and its annexes	Substantive procedure	Inspection of documents, e.g. the grant contract, its annexes, reports, and supporting documents	The auditor concludes whether reports comply with contractual requirements
Plausibility of financial reports and expenditure verification reports	Substantive procedure	<ul style="list-style-type: none"> <li>- Inspection of documents, e.g. of financial reports and expenditure verification reports</li> <li>- Reconciliation of project information with itself, with other information (e.g. from other projects, similar auditees, other benchmarks)</li> <li>- Recalculation of financial information</li> </ul>	The auditor can conclude on the plausibility of the financial reports and expenditure verification reports with professional judgment
Eligibility of expenditure	Substantive procedure	<ul style="list-style-type: none"> <li>- Test of details of invoices, delivery documents, bank account statements, payslips, time sheets etc., travel documents etc.</li> <li>- Reconciliation with financial report</li> </ul>	The auditor concludes on the eligibility of expenditure
Proper treatment of project revenue	Substantive procedure	<ul style="list-style-type: none"> <li>- Test of details of revenues, e.g. of issued invoices and bank account statements</li> <li>- Reconciliation with project accounting printout</li> <li>- Reconciliation with financial report</li> <li>- Reconciliation with expenditure verification report</li> </ul>	The auditor concludes on the accuracy of project revenue accounting

Correctness/accuracy of project reporting (narrative reports, financial reports and expenditure verification reports)	Substantive procedure	Reconciliation of reports with underlying documentation, e.g. <ul style="list-style-type: none"> <li>- project accounting printouts, invoices, payslips, time sheets and calculation of hourly rates, ...</li> <li>- evidence of project output</li> </ul>	The auditor concludes <ul style="list-style-type: none"> <li>- whether project reporting is based on actual expenditure</li> <li>- whether project reports are based on actual project output</li> </ul>
Correctness/accuracy of project accounting information	Substantive procedure	<ul style="list-style-type: none"> <li>- Inspection of project accounting information, e.g. project accounting printouts or electronic files, manual on accounting</li> <li>- Reconciliation with underlying documentation, e.g. invoices and revenue documents,</li> <li>- Recalculation of cost shares (e.g. part-time personnel, split invoices) allocated to the project cost centre/accounting number</li> </ul>	The auditor concludes whether project accounting contains only expenditure that belongs to the project
Existence of the project	Substantive procedure	<p>Inspection of project evidence, e.g. evidence of project events (participant lists,...) or project outputs (photos, press articles,...)</p> <p>External confirmation on the existence of the project from a third party</p>	The auditor concludes whether the project really exists

**Table 2 : On-the-spot checks**

Audit objective	Audit procedure		Expected results
	Purpose	Type	
Obtaining an understanding of the project, the beneficiary and the partners	Risk assessment procedure	<ul style="list-style-type: none"> <li>- Inspection of documents, e.g. the application, the grant contract, reports, other documents</li> <li>- Interviews with responsible persons of the auditee (e.g. project manager)</li> </ul>	The auditor gets familiar with the project, the beneficiary and the partners
Compliance of reports with the grant contracts and its annexes	Substantive procedure	Inspection of documents, e.g. the grant contract, its annexes, reports, and supporting documents	The auditor concludes whether reports comply with contractual requirements

Plausibility of financial reports and expenditure verification reports	Substantive procedure	<ul style="list-style-type: none"> <li>- Inspection of documents, e.g. of financial reports and expenditure verification reports</li> <li>- Reconciliation of project information with itself, with other information (e.g. from other projects, similar auditees, other benchmarks)</li> <li>- Recalculation of financial information</li> <li>- Inquiry of responsible personnel (e.g. project accountant)</li> </ul>	The auditor can conclude on the plausibility of the financial reports and expenditure verification reports with professional judgment
Eligibility of expenditure	Substantive procedure	<ul style="list-style-type: none"> <li>- Test of details of invoices, delivery documents, bank account statements, payslips, time sheets etc., travel documents etc.</li> <li>- Reconciliation with financial report</li> <li>- Reconciliation with expenditure verification report</li> <li>- Inquiry of responsible personnel (e.g. project accountant, project manager)</li> </ul>	The auditor concludes on the eligibility of expenditure
Proper treatment of project revenue	Substantive procedure	<ul style="list-style-type: none"> <li>- Test of details of revenues, e.g. of issued invoices and bank account statements</li> <li>- Reconciliation with project accounting printout</li> <li>- Reconciliation with financial report</li> <li>- Reconciliation with expenditure verification report</li> <li>- Inquiry of responsible personnel (e.g. project accountant, project manager)</li> </ul>	The auditor concludes on the accuracy of project revenue accounting
Correctness/accuracy of project reporting (narrative reports, financial reports and expenditure verification reports)	Substantive procedure	<p>Reconciliation of reports with underlying documentation, e.g.</p> <ul style="list-style-type: none"> <li>- project accounting printouts, invoices, payslips, time sheets and calculation of hourly rates, ...</li> <li>- evidence of project output</li> <li>- Inquiry of responsible personnel (e.g. project accountant, project manager)</li> </ul>	<p>The auditor concludes</p> <ul style="list-style-type: none"> <li>- whether project reporting is based on actual expenditure</li> <li>- whether project reports are based on actual project output</li> </ul>

Correctness/accuracy of project accounting information	Substantive procedure,  Substantive analytical procedures <sup>30</sup>	<ul style="list-style-type: none"> <li>- Inspection of project accounting information, e.g. project accounting printouts or electronic files, manual on accounting</li> <li>- Reconciliation with underlying documentation, e.g. invoices and revenue documents,</li> <li>- Recalculation of cost shares (e.g. part-time personnel, split invoices) allocated to the project cost centre/accounting number</li> <li>- Inquiry of responsible personnel (e.g. project accountant, project manager)</li> </ul>	The auditor concludes whether project accounting contains only expenditure that belongs to the project
Existence of the project	Substantive procedure	<ul style="list-style-type: none"> <li>- Inspection of project evidence, e.g. evidence of project events (participant lists,...) or project outputs (photos, press articles, physical output)</li> <li>- External confirmation on the existence of the project from a third party</li> <li>- Observation of project events</li> <li>- Field visits (e.g., infrastructure)</li> </ul>	The auditor concludes whether the project really exists

The auditor shall document the audit work in an adequate way. In the tender, he/she shall outline the intended documentation instruments.

Standard documentation and work organisation tools used by audit companies should be:

- Audit files/working papers (i.e. copies of documents bearing signs of the audit work done and the conclusions drawn)
- Audit work programmes
- Checklists
- Audit memos

### ***Workflow of Document Examinations and On-the-spot Checks***

The auditor is free to design the workflow of document examinations according to his/her needs, as long as the reporting deadlines are respected.

<sup>30</sup> Def.: "Evaluations of financial information made by a study of plausible relationships among both financial and non-financial data. Analytical procedures also encompass the investigation of identified fluctuations and relationships that are inconsistent with other relevant information or deviate significantly from predicted amounts. See ISA, Glossary of Terms.

When executing the on-the-spot checks, the contractor's staff shall complete the following worksteps:

- Opening meeting with the auditee
- Performance of audit work and documentation on the spot
- Closing meeting with the auditee

The auditor shall do a short opening meeting with the auditee at the beginning of the on-the-spot check. The aim is to inform the auditee on the nature and purpose of the on-the-spot check, to get an introduction to the project and the documents available at the auditees premises as well as to identify relevant personnel of the auditee. In addition, the auditor shall inform the auditee about the next steps of the audit process and reporting.

The auditor shall inform the auditee on the process and deadlines of the contradictory procedure. He/she shall make clear that the audit must be completed on the spot, including the audit of all supporting documents, and that the contradictory procedure serves only the purpose of ensuring a common understanding of the audit results, giving the auditee the opportunity to present his/her point of view.

For ENPI CBC, the actual audit period is very limited in time. The auditor must do all checks, from preparation to execution, to reporting, and subsequently to the aggregated reporting until end of May. In order to be able to deliver the Annual Report in due time, the management of the reporting process per project (the audit protocols) is vital.

The auditor shall do a short closing meeting with the auditee in order to inform him/her on the immediate results of the on-the-spot check and in order to clarify any open issue.

The tenderer shall provide in proposal, for both document examinations and on-the-spot checks, a short description of the workflow from the preparation through execution of the audit work to documentation, analysis of audit results, review and reporting.

## ***Specific procedures to be performed for individual reports***

There are three types of procedures, which cannot be changed, listed in Annex 2a of Annex VII of the grant contract:

- General Procedures
- Conformity of Expenditure with the Budget and Analytical Review
- Procedures to verify selected expenditure

### **General procedures**

There are five general procedures covering the general information the auditor collects about the grant contract, the form and content of the financial report, the underlying accounting system and the record keeping rules that are applied, confirming that the financial report agrees with the accounting records and the exchange rates applied. These are:

**Understanding the terms and conditions of the grant contract** and its annexes and any other relevant documentation like the partnership agreement.

**Examining the financial report** to verify that it complies with the conditions set out in Article 2 of the grant contract General Conditions (possibly modified by Article 7 of your grant contract Special Conditions). The first issue is to verify that the proper model for the financial report has been used.

**Checking the accounting and record keeping system** that is being used.

**Confirming that the information in the financial report agrees with the information in the accounting system.** This is achieved by checking the reconciliation of the financial report to the underlying accounts, usually through a review of the trial balance and the control accounts.

**Checking the currency exchange rates** used in producing the financial report.

Two important underlying rules apply to these procedures; one on the **accounting** and the other on the **exchange rate** to be used:

*A simple list of expenditure and revenue in an Excel file **is not** an accounting system!*



**According to Article 16.1 of your grant contract General Conditions:**

*The Beneficiary and Partners shall keep accurate and regular accounts of the implementation of the project, using an appropriate accounting and double-entry bookkeeping system. The system:*

*May be either part of the Beneficiary and Partner regular system or separate from that system*

*Shall be run in accordance with the accounting and bookkeeping policies and rules that apply in the country concerned*

*Accounts, expenditure and revenue relating to the project must be identifiable and verifiable*

*Details on interest accruing on funds paid by EC have to be provided*

*The financial report has to be properly and easily reconciled to the accounting and bookkeeping system and to the underlying accounting and other relevant records.*

*For this purpose, the beneficiary shall prepare and keep appropriate reconciliations, supporting schedules, analyses and breakdowns for inspection and verification.*

- Some remarks on these legal requirements**

<ul style="list-style-type: none"> <li><i>Double entry</i></li> </ul>	<ul style="list-style-type: none"> <li>This is a standard PraG requirement and an important requirement to fulfil although it is not usually requested in other EU funded programmes such as European Territorial Cooperation.</li> </ul>
<ul style="list-style-type: none"> <li><i>National rules are to be followed</i></li> </ul>	<ul style="list-style-type: none"> <li>The project accounts have to be in national currency. They have to follow the national bookkeeping rules, but also those of the Beneficiary and Partner organisations.</li> </ul>
<ul style="list-style-type: none"> <li><i>Identifiable and verifiable</i></li> </ul>	<ul style="list-style-type: none"> <li>This is a key eligibility criterion. All expenditure and revenue has to be identifiable in the accounts of Beneficiary and Partners and has to be verifiable through adequate supporting documents.</li> </ul>
<ul style="list-style-type: none"> <li><i>Interest accrued</i></li> </ul>	<ul style="list-style-type: none"> <li>Interest obtained thanks to the received pre-financing has a specific treatment. Therefore, it has to be easily identifiable in the project accounts.</li> </ul>

The exchange rate to use is the **arithmetical average of the rates published on the EC Infoeuro website<sup>31</sup>** for the concerned period (i.e. sum of the exchange rates of the months of the reporting period divided by the number of months)

## Conformity of expenditure with the budget and analytical review

The second group of procedures in an Expenditure Verification assignment are to verify the conformity of expenditure with the budget and to make an analytical review of the expenditure.

<sup>31</sup> :Infoeuro website: <http://ec.europa.eu/budget/infoeuro/index.cfm?Language=en>

**Carrying out an analytical review** of the expenditure headings in the Financial Report. In this review, the auditor will note areas of high or low expenditure and he will make a quick comparison between actual and budgeted expenditure and note any high or unusual variances.

**Checking the budget of the grant contract.** The auditor will verify the authenticity and authorisation of the budget and that the actual expenditure was indicated (i.e. foreseen) in the budget.

**Checking to see if there were amendments to the budget** (see section on the rules for amending contracts).

### **Expenditure verification procedures**

The third group of procedures are concerned with the **verification of the specific expenditure items** reported in the financial report. The objective of the expenditure verification is to collect the factual evidence to support the incurrence, accuracy and eligibility of the expenditure included in the financial report. The focus of the verification of expenditure is on examining the documentary evidence supporting each category of expenditure that is reported.

*What is done to check the eligibility of costs?*

There are nine criteria used by the auditor to check the eligibility of costs as explained in the table below.

• Eligibility criteria	• What it means	• Comment
• <i>Costs actually incurred</i>	• <i>The expenditure is real and relates to the Beneficiary/ Partner.</i>	<ul style="list-style-type: none"> <li>This is established through examining supporting accounting transaction documents and proof of payment. The documents should support the proof of work done or supplies and services received, establishing the quantity and description of supplies and services and the prices and taxes paid. This procedure also extends to confirming the existence of assets (through supporting documentation or site visits.)</li> <li>If sufficient supporting evidence is not available, the expenditure will be considered ineligible.</li> </ul>
• <i>Cut-off implementation period</i>	• <i>The expenditure was incurred within the implementation period.</i>	<ul style="list-style-type: none"> <li>The period of incurrence will be established through the documentary evidence of when the work, supplies or services were ordered, delivered, invoiced and paid for.</li> <li>Note: the expenditure is incurred at the time the supplies or services are delivered.</li> </ul>
• <i>Budget</i>	• <i>There is a budget for the expenditure.</i>	<ul style="list-style-type: none"> <li>The availability of a budget supports the necessity, justification and valuation of the expenditure. The verification work involved for this is the examination of documents.</li> </ul>
• <i>Necessary</i>	• <i>The expenditure was needed in the project.</i>	<ul style="list-style-type: none"> <li>The Annex VII wording is whether it is plausible that the expenditure was necessary and had to be incurred for the contracted activities.</li> <li>The factual necessity of the expenditure will depend on what was expected and provided for in the project proposal. For this reason, it is important that the project plan should identify the necessary expenditure items.</li> </ul>
• <i>Records</i>	• <i>The expenditure is properly recorded in the accounting system.</i>	<ul style="list-style-type: none"> <li>Only expenditure recorded in the accounting systems in accordance with applicable accounting standards and usual cost accounting principles is eligible. The reference to cost accounting principles refers to expenditure which is apportioned to the project e.g. the rent of office space.</li> </ul>
• <i>Justified</i>	• <i>The expenditure is supported by evidence.</i>	<ul style="list-style-type: none"> <li>Expenditure is considered justified when it is substantiated by evidence. This is a check on the sufficiency of the supporting evidence.</li> </ul>

<ul style="list-style-type: none"> <li>Valuation</li> </ul>	<ul style="list-style-type: none"> <li>The monetary amounts are properly stated.</li> </ul>	<ul style="list-style-type: none"> <li>In checking the monetary amounts, the auditor will look at quantities, unit prices (including salary rates) and the final amounts recorded. The exchange rates used will also be checked.</li> </ul>
<ul style="list-style-type: none"> <li>Classification</li> </ul>	<ul style="list-style-type: none"> <li>The expenditure is recorded in the proper category.</li> </ul>	<ul style="list-style-type: none"> <li>The financial report has defined expenditure categories. This check ensures the expenditure is recorded under the correct category. It is also important that the categorisation of expenditure is consistent from one financial reporting period to another.</li> </ul>
<ul style="list-style-type: none"> <li>Compliance with procurement, nationality and origin rules</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with procurement, nationality and origin rules is essential for expenditure to be eligible.</li> </ul>	<ul style="list-style-type: none"> <li>Annex VII of your grant contract specifically refers to checking the pro-curement, nationality and origin rules for expenditure headings, classes of expenditure items and individual expenditure items. Documents supporting the procurement process will be examined for this and the procurement risk factors (listed in Annex VII) should be considered.</li> <li>Where non-compliance with the rules is established, the auditor must determine and report the financial effect on the eligibility of expenditure.</li> </ul>

### Note on the quality of the evidence available

*In an expenditure verification assignment, the quality of the evidence (proof) available is very important for establishing the incurrence, accuracy and eligibility of the expenditure reported. Annex VII provides further specific comments on the quality of evidence. It states that evidence:*

*Must be available in documentary form, whether paper, electronic or another medium,*

*Must be available in the form of original documents rather than photocopies or facsimiles*

*Should preferably be obtained from independent sources outside the entity*

*Which is generated internally is more reliable if it has been subject to control and approval*

*Obtained directly by the auditor is more reliable than evidence obtained indirectly*

The nine eligibility criteria are verified for all expenditure items. In addition, further verification procedures are specified for each specific expenditure category.

*This guide has an annexed check-list, which can be used as a tool for these verifications.*

Other checks to be carried out are:

**Verification of the contingency reserve:** the auditor verifies that the Beneficiary has obtained written prior authorisation for its use.

**Administrative costs:** the auditor checks the correct application of the flat-rate indicated in the budget in force, included in the contract

**Contribution in kind:** the auditor checks that no contribution in kind is included

**Non-eligible costs:** the auditor verifies that no ineligible costs, as defined in article 14.6, are included in the financial report.

**Revenues of the project:** the auditor examines whether revenues which should be attributed to the project are included in the financial report.

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### **Note on revenues**

*Different rules are applied on revenues by each programme. Check the programme manuals on the issue, as the rules have not been included in the Special Conditions of the contract*

*The auditor inquires the Beneficiary or partner on the revenues and examines only the documentation obtained. The auditor is not expected to examine the completeness of the revenues reported*

## ***Specific procedures to be performed for consolidated reports***

### **General procedures**

The Auditor obtains the draft of Consolidated Financial Report, the underlying working papers for the compilation of the draft Consolidated Financial Report, the individual financial reports that are to be included in the Consolidated Financial Report and the individual expenditure verification reports that are also the basis for data compilation of the Consolidated Financial Report. The Auditor reviews the Consolidated Financial Report to establish compliance with the following conditions:

- The Consolidated Financial Report must conform to the model in Annex VI of the Grant Contract;
- The Consolidated Financial Report should cover the combined expenditure for the Action of the Beneficiary and all its Partners, regardless of which part of it is financed by the Joint Managing Authority;
- The Consolidated Financial Report should be drawn up in the language of the Grant Contract;
- The Consolidated Financial report shows that there is no financial deviations requiring the using of article 9.2 of General Conditions

### **Specific procedures**

#### ***Completeness and accuracy of the compilation***

- 1) The Auditor traces each budget and actual amount stated in the Consolidated Financial Report to the total amounts in an underlying working paper that compiles the information from the individual verified financial reports for the Beneficiary and its Partners
- 2) The Auditor re-performs all calculations and additions in the Consolidated Financial Report and in the underlying working paper
- 3) The Auditor re-performs all calculations and additions in the Consolidated Financial Report and in the underlying working paper
- 4) The Auditor reviews each expenditure verification report to identify any findings that may affect the presentation of the Consolidated Financial Report and that should be reported by him as exceptions

**Consistency of presentation**

- 1) The Auditor checks that the Consolidated Financial Report uses the same revenue and expenditure headings as the underlying financial reports for reporting both budget and actual amounts
- 2) The Auditor checks that in compiling the Consolidated Financial Report, the budget and actual amounts recorded under each revenue/ expenditure heading in the underlying verified financial reports have been consistently included under the same headings in the Consolidated Financial Report

**Financial impact**

- 1) The Auditor compares the Consolidated Financial Report with approved budget and verifies that there is no deviation exceeding the limits set out in article 9.2 of General Conditions requiring either communication to the Joint Technical Secretariat or even an amendment of the contract. If the expenditure in any heading exceeds the limits for amendment, the Auditor will indicate the amount of ineligible expenditure in its report

**Important remark**

*As indicated before, the auditor of the Beneficiary is not responsible for the work of his/her colleagues having performed the agreed-upon procedures for each partner. He has to indicate in the report the findings and financial impact of each expenditure verification report, together with the audit firm and auditor having carried out the work.*

## ***Model of report***

### ***Preparation of Audit Protocols per Project***

After audits for one project partner have been completed, the auditor shall analyse the audit results of document examinations and on-the-spot checks performed for the project. Amounts of eligible and ineligible expenditure as well as any other error or misstatement detected during the audits shall be aggregated.

The auditor shall draft an audit protocol (Annex 2) and fill in check list (Annex 1) summing up the audit work performed, the scope of the audit, and the audit results. Material misstatements or audit results with a potential effect for the whole joint operational programme should be especially indicated. The audit protocol shall contain an assessment:

- whether the expenditure verification reports<sup>32</sup> did reliably identify eligible and ineligible expenditure, and
- whether the JMA's decision on eligible and ineligible expenditure was adequate.

The auditor shall submit the draft audit protocol (Annex2) and filled in check list (Annex 1) to the JMA/ATF members and the project beneficiary [5] working days after the last on-the-spot check or document examination was completed. The beneficiary/ATF member shall submit his statement or comments until 10 working days to the auditor. If no statement or comments are received at this deadline, the draft audit protocol is considered final. The auditor shall submit the final audit protocol to the JMA and the project beneficiary until 5 working days after reception of the beneficiary's statement or comments. Audit protocol validation process done by ATF see Annex 3.

For ENPI CBC, the actual audit period is very limited in time. The auditor must do all checks, from preparation to execution, to reporting, and subsequently to the aggregated reporting (Annual Report) until end of May. In order to be able to deliver the Annual Report in due time, the management of the reporting process per project (the audit protocols) is vital.

The usual workflow for audits of EU projects foresees a contradictory procedure for the auditee (beneficiary or partner who was audited) and a contradictory procedure for the contracting authority (JMA). This would take at least 10 working days, plus some days for the

<sup>32</sup> For further details on expenditure verification reports see section      Verification of Expenditure.



auditor to review feedback provided, and to consider and check documents provided by the auditees.

We therefore recommend to stress the importance of a good and complete preparation for the on-the-spot checks towards the auditees already with the announcement letter and in the communication with auditees.

### ***Quality Assurance***

The tenderer should sum up the quality assurance measures that he/she intends to apply in order to ensure the reliability of information included in the audit protocols and the Annual Report on the implementation of the Annual Audit Plan for Projects.

Regarding quality assurance: The following measures are common:

- a review process for audit files, protocols, reports and any other deliverable
- peer reviews (i.e. internal: partners or managers not involved in the assignment review the working papers; external: audit companies have installed a review process amongst each other)
- internal and external training of staff
- knowledge databases and knowledge management processes
- an internal expert or expert group responsible for the respect of laws and standards
- internal tools for the management of business interests and conflicts of interest

### ***Accessibility of Documents***

The JMA must be granted access to the working papers at any time, within a reasonable announcement period. Working papers should be made available preferably at the JMA's premises, alternatively in the local office of the contractor.

Working papers must be archived at least until 31.12.2025. The JMA's approval must be obtained, before removing files from the company's archives.

### ***Management of the Audit Service Contract***

As the JMA's reporting deadline for the annual report to the European Commission is a legal obligation, and considering the cross-border nature of the service, a strong project management on behalf of the contractor is a precondition for the successful completion of the service contract.

Conclusion of the service contract	First quarter 2013
Kick-off meeting, including discussion and agreement on the audit methodology	March 2013
Annual audit plan for projects	January year N
Audit protocols for audits of projects	Within 1 week after completion of the audit (audit period January - May year N)

### ***Cooperation with the Joint Managing Authority***

In order to manage the assignment efficiently and in order for the JMA to be able to take over the responsibility for the audit work executed in its name, the contractor should cooperate with the JMA/ATF in a reliable way, ensure transparent audit implementation and extensive communication regarding the progress of the assignment and audit results. (Annex 3)

The JMA will name a contact person who will be in charge of day-to-day coordination of the engagement with the contractor.

The contractor should inform the JMA in regular intervals on the progress of the audit work. For this, the contractor should attend a jour fixe every month/every second week and should provide for this occasion an updated project controlling document, including an indication on the status of the audit work and reporting, and update of the document aggregating the audit results.

The JMA/ATF is the only bodies to which the auditor reports. The auditor is responsible for keeping all information obtained in the framework of this engagement secret, during the engagement and after its completion. The contractor must grant the JMA access to the working papers as stipulated in section Accessibility of Documents.



## CHECKLIST

For audits in compliance with Article 30 and 37 of Commission Regulation (EC) No 951/2007 of August 2007 laying down implementing rules for cross – border cooperation programmes financed under Regulation (EC) No 1638/2006 of the European Parliament and of Council laying down general provisions establishing a European Neighbourhood and Partnership Instrument

### Reference: For projects approved under 1<sup>st</sup> Call for Proposals

Version of the checklist / date

Version No	Date
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### 1 ENGAGEMENT DETAILS

Time of engagement	Start date	dd	mm	year	
	End date	dd	mm	year	
Place of engagement					
Name of the external auditor responsible for the verification					
Is the organisation Beneficiary or Partner?					
Persons present in the verification work					
Engagement objectives	To carry out the specific procedures listed in Annex 2A to the ToR (Annex VII of Grant Contract) and to submit to the Beneficiary a report of factual findings with regard to the specific verification procedures performed. or To check the accuracy and consistency of the compilation of the Consolidated Financial Report				
Engagement scope	Period covered by this Expenditure Verification Report: Amount of checked Expenditure:				
Signature of the external auditor responsible for the verification:					

**2 PROJECT IDENTIFICATION**

Name of the project	
Acronym	
Name of Beneficiary and Partner	
Contact information of Beneficiary and Partner	

**3 GENERAL PROCEDURES****3.1. Terms and Conditions of the Grant Contract and the Partnership Agreement**

Date of Grant Contract ( <i>last signature in the Grant Contract</i> )	dd	mm	year	
Approved start/closure of the implementation period of the project	Start	dd	mm	year
	End	dd	mm	year
Date of Partnership Agreement ( <i>last signature in the Partnership Agreement</i> )	dd	mm	year	
Did the Beneficiary request amendment to budget and obtained an addendum to the Grant Contract and Partnership Agreement?	dd	mm	year	
Did the Beneficiary inform Joint managing Authority about the amendment in case the amendment was limited (Article 9.2. of the General Conditions) and addendum to the Grant Contract/ Partnership Agreement was not required?	dd	mm	year	

**3.2. Reporting form**

Verifications by the Beneficiary's auditor	Yes/No/NA	Comments
<p>Has the Beneficiary submitted to their auditor the following documents:</p> <ul style="list-style-type: none"> <li>- Together with the first Consolidated Financial Report original Grant Contract and its annexes (paying special attention to Annexes I Description of the Action, II General Conditions and IV Rules for Procurement)</li> <li>- full set of partners' Expenditure Verification Reports,</li> <li>- Consolidated Financial Report ,</li> <li>- the interim or final report (including both the narrative and financial reports),</li> <li>- supporting documents for the eligibility of expenditure</li> <li>- the supporting documents required by the Joint Managing Authority (for example, a statement of accumulated interest from the bank, acquisition lists, etc.)?</li> </ul>		<i>Please specify documents and dates</i>

Does the Consolidated Financial Report conform to the model in Annex VI of the Grant Contract? (Ref. Article 2.1 of the General Conditions)		
Does the Consolidated Financial Report includes the table of eligible expenditure drawn in the same form as approved Project budget as per Article 2.1 of the General Conditions and Article 9 of Partnership Agreement? (Ref. Article 2.1 of the General Conditions)		
Does the Consolidated Financial Report cover the Project as a whole, regardless of which part of it is financed by the Joint Managing Authority? (Ref. Article 2.1 of the General Conditions)		
Is the Consolidated Financial Report drawn up in the language of the Grant Contract? (Ref. Article 2.3 of the General Conditions)		
Is there a proof of the transfers of ownership of equipment, vehicles and supplies (Article 7.3 of the General Conditions of the Grant Contract and Article 9 of Partnership Agreement) annexed to the table of eligible expenditure? (Ref. § 9 Partnership Agreement)		
Is the information in Consolidated Financial Report traceable to the individual Partner's financial reports? Are calculations correct?		
Are there any factual findings in Partners Expenditure Verification Reports that may affect the presentation of the Consolidated Factual Report and that should be reported as exceptions?		
Does the Consolidated Financial Report uses the same revenue and expenditure headings as the underlying financial reports for reporting budget and actual amounts?		
Is there deviations exceeding the limits set out in Article 9.2. of General Conditions requiring either communication to the Joint Managing Authority or amendments of the Contract?		<i>If the expenditure in any heading exceeds the limits for amendment auditor indicates the amount of ineligible expenditure</i>
<b>Verifications by the Partner's auditor</b>	Yes/No/NA	Comments
Has the project partner submitted to their auditor the following documents: - copy of the original Grant Contract and its annexes (paying special attention to Annexes I Description of the Action, II General Conditions and IV Rules for Procurement) - the supporting documents for eligibility of expenditure		
Does the table of eligible expenditure conform to the model of the approved Project budget? (Ref. § 9 Partnership Agreement)		
Does the table of eligible expenditure cover the Project as a whole, regardless of which part of it is financed by the Joint Managing Authority? (Ref. § 9 Partnership Agreement)		
Is the table of eligible expenditure drawn up in English? (Ref. § 9 Partnership Agreement)		
Is there a proof of the transfers of ownership of equipment, vehicles and supplies (Article 7.3 of the General Conditions of the Grant Contract and Article 9 of Partnership Agreement) annexed to the table of eligible expenditure? (Ref. § 9 Partnership Agreement)		
<b>Observations etc. / Effects on eligibility of the expenditure reported in Partner's/ Beneficiarie's Financial Reports:</b>		
Describe factual findings and specify errors and exceptions.		

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### 3.3. Rules for Accounting and Record keeping

Verifications by the partner's/ Beneficiarie's auditor	Yes/No/N/A	Comments
Has a separate accounting system or / an adequate accounting code been kept on the Project properly? Is appropriate accounting and accrual based double-entry (debit/credit) bookkeeping system used? (Ref. Article 16.1 of the General Conditions)		Please shortly describe accounting system
Is all expenditure <sup>33</sup> correctly, up to date and accurately recorded in the partner's computerized accounting system (in accordance with the applicable accounting standards)? (Ref. Article 16.3 of the General Conditions)		
Is it ensured that project expenditure and revenue is easily identifiable and traceable in the accounting system? (Ref. Article 16.1 of the General Conditions)		
Is the expenditure supported by adequate documentation (evidence)? (Ref. Article 16.3 of the General Conditions)		
Do the accounts provide details of interest accrued on funds paid by the Joint Managing Authority? (Ref. Article 16.1 of the General Conditions)		
<b>Observations etc. / Effects on eligibility of the expenditure reported in Partner's/ Beneficiarie's Financial Reports:</b>		
Describe factual findings and specify errors and exceptions.		

### 3.4. Reconciling the table of eligible expenditure to the Beneficiary/ Partner's Accounting System and Records

Verifications by the Partner's/ Beneficiarie's auditor	Yes/No/N/A	Comments
Does the information in the financial report (and in the consolidated financial report) reconcile to the accounting systems and records? Is there a clear audit trail from the financial report (and from the consolidated financial report) to the accounting records (Ref. Art. 16.3; 14.1 (d) of the General Conditions)		Please shortly describe audit trail
Are the reconciliations of the accounting to the financial report documented?		
Is the evidence obtained from independent sources outside the entity (an original supplier's invoice or contract rather than internally approved receipt note)?		<i>Checked in accordance with Annex B2 of the Terms of Reference for an Expenditure verification of s Grant Contract (Annex VII of the Grant Contract)</i>
<b>Observations etc. / Effects on eligibility of the expenditure reported in Partner's/ Beneficiarie's Financial Reports:</b>		
Describe factual findings and specify errors and exceptions.		

<sup>33</sup> In case of unpaid voluntary work no payment must be made and the documentation is in line with the Guidelines for Grant Applicants Page 21.

**3.5. Exchange Rate**

Verifications by the partner's/ Beneficiarie's auditor	Yes/No/N/A	Comments
Does the expenditure incurred in a currency other than Euro have been transferred at the exchange rate made up by the average of the rates of the European Commission? Has the correct monthly exchange rate of the European Commission been used? <sup>34</sup> See <a href="http://ec.europa.eu/budget/inforeuro/index.cfm?language=en">http://ec.europa.eu/budget/inforeuro/index.cfm?language=en</a> . (Ref. Article 15.8 of the General Conditions)		
<b>Observations etc. / Effects on eligibility of the expenditure reported in Partner's/ Beneficiarie's Financial Reports:</b>		
Describe factual findings and specify errors and exceptions.		

**4. Conformity of Expenditure with the Budget and Analytical Review**

Verifications by the Partner's/ Beneficiarie's auditor	Yes/No/N/A	Comments
Does the budget in the Financial Report correspond with the Application Form Annex IV Budget per Partners/ amendments to budget of the Grant Contract ?		
Does the expenditure correspond to the planned expenditure in Application Form Annex IV Budget per Partners/ amendments to the Budget of the Grant Contract? (Ref. Article 14.1 b). of the General Conditions)		<i>if not, please specify expenditure that does not correspond to the planned expenditure in AF Annex IV</i>
Does the analytical review per heading show any significant deviation, both in amount of expenditure or in rate per unit?		
<b>Observations etc. / Effects on eligibility of the expenditure reported in Partner's/ Beneficiarie's Financial Reports:</b>		
Describe factual findings and specify errors and exceptions. Procedures 2.1 – 2.2 in Annex 2A		

<sup>34</sup> The monthly exchange rate is the rate of the month during which the expenditure was registered in the accounts of the project partner.

**5. Verification on eligibility of Expenditure**

Verifications by the Partner's/ Beneficiarie's auditor	Yes/No/NA	Comments
Is every item of expenditure directly linked to the implementation of the project this report refers to? is it plausible that it is necessary for its implementation? (Ref. Article 14.1.c of the General Conditions)		<i>if not, please specify expenditure that is not directly linked to the implementation of the project</i>
Is the expenditure item incurred according to the contracts? - In order to verify this is the nature of expenditure and the supporting documents examined? (Ref. Article 14.1.c of the General Conditions)		
Does the Financial Reprot contain only expenditure that was actually paid? (Ref. Article 14.1.d of the General Conditions)		<i>please specify advance payments</i>
Did the expenditure incurred during the implementation period of the Project as specified in Article 2 of the Special Conditions with the exception of costs relating to final reports, expenditure verification and evaluation of the action, whatever the time of actual disbursement by the Beneficiary and/or its partners. (Ref. Article 14.1.a of the General Conditions)		
In case the Estonian and Latvian project partner's organisation is entitled to VAT recovery is the expenditure declared in the Financial Report without VAT? (Ref. Article 14.6. of the General Conditions) In case the Russian partner's organisation is the expenditure declared in the Financial Report without VAT? (Ref. Article 14.6. of the General Conditions)		
Is there evidence that the activities for which the expenditure is reported have taken place and was not double financed, the delivery of services, goods and works are in progress or have been completed? (Ref. Article 14.6. of the General Conditions)		<i>Please describe evidence</i>
In order to verify whether the expenditure is actually incurred by and pertain to the project, are: - supporting documents (e.g. invoices, contracts and receipts) examined? (see indicative list in Article 16.3 of General Conditions) - payments (e.g. bank statements, debit notes, proof of settlement by the contractor) examined? - work done (e.g. acceptance certificates) examined? - goods received (e.g. delivery slips from suppliers) examined? - services rendered (e.g. approved reports, time sheets, transport tickets, boarding passes) examined? - commitments (e.g. contracts, order forms) examined? - procurements (e.g. tendering documents, bids from tenderers, evaluation reports) examined? - attendance in seminars, conferences and training courses (e.g. relevant documentation, material, certificates) examined? - existence of assets examined?		<i>Please describe evidence</i>
Does the monetary value of the selected expenditure item agree with underlying documents? (Ref. Article 14.1. e of the General Conditions)		



Has every expenditure item been classified under the correct (sub) heading of the Financial Report?		
Is the expenditure reasonable, justified, and does it comply with the sound financial management, particularly regarding economy and efficiency? (Ref. Article 14.1. e of the General Conditions and article 27 of EC Regulation 1605/2002 for the definition of sound financial management, economy and efficiency))		<i>Please describe evidence</i>
Does the verified expenditure comply with Programme eligibility rules stated in respective Call Guidelines for Grant Applicants for the respective Open Call.?		<i>Please specify, if there are discrepancies</i>
<b>Observations etc. / Effects on eligibility of the expenditure reported in partners' Financial Reports:</b>		
<b>Reality check</b>	Yes/No/N/A	Comments
Has the project been verified on-the-spot?		<i>Checked in accordance with Section 3.1. of the Terms of Reference for an Expenditure verification of Grant Contract (Annex VII of the Grant Contract)</i>
Are the delivered products and services verifiable / identifiable?		<i>Checked in accordance with Section 3.1. of the Terms of Reference for an Expenditure verification of Grant Contract (Annex VII of the Grant Contract)</i>
<b>Observations etc. / Effects on eligibility of the expenditure reported in partners' Financial Reports:</b>		
Please shortly describe performed controls including on-the-spot checks in all locations of the project partner receiving ENPI co-financing, and where activities of the particular project partner take place as well as results of on the spot checks.		
<b>Public Procurement</b>	Yes/No/N/A	Comments
In case of public Beneficiary or partner, are the purchase processes and procurement documents in accordance with the national rules for public procurement, as well as the applicable sections of "Annex IV Procurement by grant Beneficiaries in the context of European Union external actions" (sections 1 & 2)? (Detailed public procurement checklists in national language should be developed and used for each applicable case.) (Ref. Article 7.3.1. of the Special Conditions)		<i>Checked in accordance with Section 3.1. of the Terms of Reference for an Expenditure verification of Grant Contract (Annex VII of the Grant Contract)</i>
In case of private Beneficiary or partner, are the purchase processes and procurement documents in accordance to best international practices (Section 3 of "Annex IV Procurement by grant Beneficiaries in the context of European Union external actions"? (Ref. Article 7.3.1. of the Special Conditions) which ones?		
Is it ensured that the equipment or service has not been acquired from a partner of the project? (Ref. Section 2.1.3.4 Heading 5 Guidelines for Grant applicants)		
Is it ensured that the expenditure item (e.g. the purchased or used equipment) has not been financed through another public financial instrument (no double financing)? (Ref. Article 14.6. of the General Conditions)		

NB: Public financial instrument (EU, international, national or regional financing)		
Is it ensured that the procurements are not artificially divided into smaller entities in order to avoid competitive bidding? (Ref. Article 7.3.1. of the Special Conditions)		
Are the procurement procedures and competitive biddings documented (tender documentation) for works, services, equipment and supply? - tendering documents, bids from tenderers, evaluation reports, acquisition decision, etc. (Ref. Article 7.3.1. of the Special Conditions)		
Are the invoices in accordance with the contract? (Ref. Article 7.3.1. of the Special Conditions)		
Are any of the following risk indicators met in the procurement process: - inconsistencies in the dates of the documents or illogical sequence of dates? - unusual similarities in offers of candidates participating in the same tender? - financial statement or other information indicating that two tenderers participating in the same tender are related or part of a same group (e.g. ownership information)? - inconsistencies in the selection and award decision process (award decision not consistent with the selection and award criteria, errors in the application of the selection and award criteria, a regular supplier of the Beneficiary /partner/project participates as a member of a tender evaluation committee)? - risk of privileged relationship with tenderers (e.g. same tenderer invited to different tenders with unusual frequency or wins an unusual high proportion of the bids, the tenderer is frequently awarded contracts for different types of goods or services, the winning tenderer invoices additional goods not foreseen in the offer)? - risks of irregularities (e.g. use of photocopies instead of original documents, use of pro-forma invoices instead of official invoices, manual changes on original documents, use of non-official documents) (Ref. Article 7.3.1. of the Special Conditions)		
Are the correct rules of nationality and origin applied for the expenditure? If a derogation is needed, have it been requested and obtained in written from JMA? (Ref. Article 7.3.1. of the Special Conditions)		
Is the type of procedure used correct in accordance with the applicable thresholds (national rules for public bodies and Annex IV for private)?		
- Is the tender documentation: - providing the terms of reference and the technical specifications of the procurement (e.g. specification of the goods, services or works to be procured, technical and quality requirements, timing of delivery, ...)? - Specifying the eligibility to tender (e.g. nationality rule)? - Specifying the eligible origin of the goods and the means of proof required? - Indicating the information and documents which the candidates have to provide to prove their technical and financial offers? - Indicating the time limit and the place of submission of		

offers? - Specifying the exclusion, selection and award criteria that will be used for the evaluation of the tenders?		
Does this tender documentation: <ul style="list-style-type: none"> <li>- Present the technical and administrative specifications in a way that avoids unjustified obstacles to access by certain candidates?</li> <li>- Ensure that all candidates are treated on an equal ground?</li> <li>- Fix the submission due date and time so that all candidates have a reasonable time to prepare and submit their offers?</li> </ul>		
Are the selection and award criteria: <ul style="list-style-type: none"> <li>- Determined at preparation stage of the tender?</li> <li>- Objective, precise and non-discriminatory?</li> <li>- Ensure that the contract is awarded to the most economically advantageous tender?</li> <li>- Including a precise formula setting the weight of the scores of the different evaluation criteria?</li> </ul>		
Has an evaluation committee been formed, ensuring that: <ul style="list-style-type: none"> <li>- The committee has an odd number of members?</li> <li>- The committee members are formally appointed and their responsibilities (president/member) are duly defined?</li> <li>- The committee members are independent from each other, are independent from the candidates and have no conflict of interest?</li> </ul>		
Has procurement notice been published (when it is required by the applicable rules)?		
If published in several media, are all these publications made simultaneously? or If invitations are sent to tenderers, have they been dispatched simultaneously to all candidates?		
When clarifications are issued to candidates during the tender process, is identical information sent to all of them simultaneously or published in the same media where the tender notice was initially published?		
Are all tenders received immediately registered and kept unopened until the date set for the opening session?		
Have measures been taken to guarantee the confidentiality and safeguarding of the tender?		
Are all tenders opened simultaneously in presence of the committee?		
Do the minutes of the tender opening session evidence: <ul style="list-style-type: none"> <li>- The date and time of opening session and the persons attending it?</li> <li>- The list of offers received?</li> <li>- That the offers received have been examined for completeness, eligibility of the tenderer and compliance with the administrative specifications?</li> <li>- The list of offers considered suitable for evaluation?</li> <li>- Any problem encountered during the process and the decisions taken regarding these problems?</li> </ul>		
Are the minutes of the opening session signed and dated by all the members of the committee?		
Have the persons participating in the committee signed a written declaration of impartiality and confidentiality?		
Has an evaluation report been prepared, disclosing: <ul style="list-style-type: none"> <li>- The date and time of the evaluation session(s) and the</li> </ul>		

<p>persons attending it?</p> <ul style="list-style-type: none"> <li>- The list of tenders evaluated?</li> <li>- The evidence that all tenders have been examined to check there is no ground for exclusion?</li> <li>- The evidence that all tenders have been checked to ensure that no tenderer has a conflict of interest or is a related party of another tenderer?</li> <li>- The evidence that the selection has been made in accordance with the pre-determined selection and award criteria?</li> <li>- the evidence of the technical and the financial criteria evaluated separately, when applicable?</li> <li>- The conclusion of the evaluation committee concerning the recommended award?</li> <li>- The names and signatures of the evaluators?</li> </ul>		
Have the tenders of successful and unsuccessful candidates, as well as any other relevant documentation, been kept on file so as to allow subsequent verification?		
<p>Have the results of the tender been notified in writing to the successful tenderer?</p> <p>Have these results been notified in writing to unsuccessful candidates as soon as the contract is signed by the parties?</p>		
<p>Where guarantees were required, have they been obtained?</p> <p>Are they valid over the required period of time?</p>		
If subsequent amendments are made to the contract with the supplier/contractor, are they duly justified in writing and do they respect the information and conditions of the initial tenders		
<b>Observations etc. / Effects on eligibility of the expenditure reported in partners' Financial Reports:</b>		

**6 Invoice checklist by budget Headings**

<b>Human Recourses (Budget Heading 1)</b>			
Please indicate all supporting documents for the exceptions found under this Budget Heading			
<b>Date</b>	<b>Payment Doc. No. Name of person/month</b>	<b>€</b>	<b>Explanation for potential impact on the EC contribution (Eligibility)</b>
<b>Questions</b>		<b>Yes/No/NA</b>	<b>Comments</b>
Is the expenditure only related to project personnel listed in the approved Application Annex XIV? (Ref. Art. 14.1 b General Conditions)			Please indicate personnel
Is the calculation based on the actual salary costs (employees' gross salary + employer's contributions incl. compulsory social security costs+other remuneration-related costs)? (Ref. Art. 14.2 General Conditions)			Please indicate calculation method and supporting documents, carry out recalculation
If the project personnel is employed only part-time of the actual working time for the project: (Ref. Art. 14.2 General Conditions)			

- Is the calculation based on an hourly rate resulting from the actual salary rate divided by the total number of hours worked by the staff member (as registered in the institution's time recording system)?		Please indicate calculation method and supporting documents, carry out recalculation
- Has the hourly rate afterwards been multiplied by the number of hours actually worked on the project activities?		
- Are the timesheets for the part-time personnel adequately used and filled in? do these timesheets include the 100% of the time of the personnel, including the time devoted to other EC-financed projects or to other activities?		
Is it ensured that the worked days and hours of work are consistent with <ul style="list-style-type: none"> <li>- the laws, regulations and customs of the country concerned, and</li> <li>- the requirements of work?</li> </ul> (Ref. Art. 14.2 General Conditions)		
Is it ensured that the salaries and costs do not exceed those normally borne by the Beneficiary /partner organization? (Ref. Art. 14.2 General Conditions)		
Are the personnel costs supported by documents such as the working contract, payslips, payment proofs, calculation evidence for the determination of the personnel time/hourly rate, time recordings and record of tasks, project specific timesheets? (Ref. Section 2.1.3.4. of Guidelines for Grant Applicants)		Please indicate supporting documents
Is the salary and social charges paid out clearly traceable from the bookkeeping system? (Ref. Art. 14.1 d) General Conditions)		
Are the timesheets for the part-time personnel contributing to the project adequately used and fulfilled? Does the timesheet indicate the following: <ul style="list-style-type: none"> <li>- total monthly salary,</li> <li>- salary cost per hour,</li> <li>- total hours worked for the project per day and per month,</li> <li>- total hours worked for other project(s) per day and per month</li> <li>- short description of what kind of work has been done for this project?</li> <li>- the percentage worked for the project in question and for other project(s)</li> </ul> NB: The salary cost per hour is based on the actual monthly salary. NB: The percentage is calculated from the total time worked in that specific month. (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
In case the organization already has its own internal time recording system, is it ensured that the timesheets for the project comply with the organization's internal time recording system and no double financing is ensured? (Ref. Art.14.1. d) General Conditions)		
Is it ensured that the share of the holiday leave accruing to the project is the same whether the holiday leave is taken during the period of the project or after the project ends? (Ref. Art. 14 d) General Conditions)		

**Unpaid voluntary work**

Is the value based on minimum monthly or hourly official national net salary level and assessed adequately? (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
Is the unpaid voluntary labor contribution based on written agreement? (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
Are the timesheets for the unpaid voluntary labor contribution adequately used and fulfilled? (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
Are the amounts of the unpaid voluntary labor contributions in accordance with the amounts of the approved application and Annex 6 (Ref. Art. 14.1 a) General Conditions)		

**Travel and accommodation (Budget Heading 2)**

Please indicate all supporting documents for the exceptions found under this Budget Heading			
Date	Invoice No / Reimbursement sheet No	€	Explanation for potential impact on the EC contribution (Eligibility)

Questions	Yes/No/N/A	Comments
Were the travel and accommodation costs reported in respect of the national or internal rules of the respective partner organization? (Ref. Art.14.2 General Conditions)		Please indicate corresponding national or internal rules for travel and accommodation costs
Has/have the Beneficiary and its partners submitted to their auditor the following documents: <ul style="list-style-type: none"> <li>- programme/agenda of the event?</li> <li>- travel report, memo and/or travel invoice?</li> <li>- receipts/tickets that authenticate the expenditure?</li> </ul> (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
Is it ensured that the accommodation costs and allowances are not exceeding the normally borne costs by the organization and the national maximum compensation levels? (Ref. Art.14.2 General Conditions)		
In case private cars are used for the travel, is the reimbursement request (mileage sheet) according to the national procedures and are agreed values used? (Ref. Art.16.3 General Conditions)		
Is evidence of participation in an event or activity documented?  Documentation: registration form, list of participants, attendance certificate, material obtained, etc.? (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
Is it ensured that the financial report (and the consolidated financial report) do not cover travels in first or business class unless it can be established that no other options were available or that this was the most economical option? (Ref. Art.14.1. e) General Conditions)		
Are the trips that these costs refer to justified by the project's activities as foreseen in the Application Form? (Ref. Art.14.1. b) General Conditions)		

**Equipment and supplies (Budget Heading 3)**

Please indicate all supporting documents for the exceptions found under this Budget Heading			
Date	Invoice No	€	Explanation for potential impact on the EC contribution (Eligibility)

<b>Questions</b>	<b>Yes/No/N/A</b>	<b>Comments</b>	
Have the purchased equipment items been initially planned in the Application Form? (Ref. Art.14.1. b) General Conditions) Do the costs correspond to the market rates? (Ref. Art.14.1. e) General Conditions)		Please list the equipment	
Has the PP/Beneficiary provided sufficient information that the items			
<ul style="list-style-type: none"> <li>- are not already included as indirect costs in another category such as the administration cost budget heading? (Ref. Art.14.6 General Conditions)</li> <li>- Every co-financed piece of equipment complies with the information and publicity rules (see sections 3.1.4 and 3.1.5 of the Guidelines). (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )</li> <li>- Are they specifically for the purpose of the project? (Ref. article 14.2 General Conditions)</li> </ul>			
Does the equipment purchase also fulfil the following criteria?			
- The purchase has been made well before the end of the project. If not, is the late purchase still justified? (Ref. Art.14.1 e) General Conditions)			
An inventory of the purchased items as well as the documentation of the method for reporting them has been kept for accounting, control and audit purposes. (Ref. Art.14.1 d) General Conditions)			
Are adequate certificates of origin provided for purchased equipment over 5.000€ per unit? (Ref. section 2.2. of Annex IV and Article 7.3.1. of the Special Conditions) are adequate proofs of origin provided for purchased equipment under 5.000€ per unit?			
Is it ensured that the PP/Beneficiary has provided information on possible financing from other EU-funds (No double financing)? (Ref. 14.6. General Conditions)			

#### Direct Local Office Costs (Budget Heading 4)

Please indicate all supporting documents for the exceptions found under this Budget Heading			
<b>Date</b>	<b>Invoice No</b>	<b>€</b>	<b>Explanation for potential impact on the EC contribution (Eligibility)</b>

Questions	Yes/No/N/A	Comments
Were the office and rent costs actually borne and paid out by the organization for a separate office that is rented for the needs of the project? Is ensured that the premises aren't rented from the Beneficiary /partner's own organization? (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
Does a rental contract, describing details and conditions (e.g. duration of the contract, calculation basis for the rent, amount of rent), exist? (Ref. Art. 14.1 d) General Conditions)		
These costs (Ref. Art. 14 General Conditions)		
- are clearly justified, and distributed to the project according to the rental contract?		
- have been calculated on the basis of actual costs and capable of verification, i.e. based on factual elements in the accounting system which can be verified by an auditor.		
- show a direct link to the project's activities;		
- have not already been included in other budget lines or cost items.		
<b>NB! For all expenditure items, it should be ensured that the PP/Beneficiary has provided information on possible financing from other EU-funds (No double financing)</b>		

#### Other costs and External services (Budget Heading 5)

Please indicate all supporting documents for the exceptions found under this Budget Heading			
Date	Invoice No	€	Explanation for potential impact on the EC contribution (Eligibility)
Questions	Yes/No/N/A	Comments	
Were the 'external expertise and services' expenses paid by the partner on the basis of: (Ref. Art. 14 General Conditions)			
- contracts			
Are the contracts with the service providers or with the external experts clearly explaining:			
- the type of service/task/activities to be provided/developed,			
- duration of the contract, and			
- the total cost?			
- invoices/request for reimbursement?			
Is proof of delivery of services provided?			
- approved reports, time sheets, transport tickets (including boarding passes), etc.			
Is the expenditure related to items foreseen under this budget line in the specifications provided in the Application Form? Are the costs distributed to			



the project according to the contract? (Ref. Art.14.1. a) General Conditions)		
In case seminars are organized, are attendance lists kept?		
Are the purchasing procedures in compliance with public procurement rules as stated in Annex IV, the Guidelines for Grant of Applicants and as set out by the EU and national rules?		
<b>NB! The Beneficiary/PP cannot subcontract own project partners or employees of project partners</b>		

### Infrastructure (Budget Heading 6)

Please indicate all supporting documents for the exceptions found under this Budget Heading

[illegible]

Questions	Yes/No/N/A	Comments
Is the nature of the investments for infrastructure in accordance with the approved application? (Ref. Art.14 General Conditions)		
Have all the necessary documents related to the infrastructure been made available? (Ref. Art.14 General Conditions)		
Have all the relevant permits and licences required by the EU and national rules regarding the investment in infrastructure been made available? (Ref. Art.14.1. General Conditions)		
Are the public procurement procedures carried out according to the rules stated in Annex IV, the Guidelines for Grant Applicants and as set out by the EU and national regulations? Is required documentation available? (Ref. Article 7.3.1. of the Special Conditions)		

Provision for Contingency Reserve	Yes/No/N/A	Comments
Has the Beneficiary/Partner obtained prior written authorisation of the Joint Managing Authority for the use of contingency reserve.		

Administrative costs	Yes/No/N/A	Comments
Were the costs presented calculated on percentage or pro rata basis according to justified and clear method. (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
Are they in accordance with the approved application and do not include costs assigned to another heading of the Project budget? (Ref. Section 2.1.3.4. Guidelines for Grant Applicants)		

The indirect costs to cover the administrative overheads do not exceed 7% of the total amount of eligible direct costs of the Project (Ref. Art.14.4. General Conditions)		Please specify the amount in EUR and %
If the applicant/ partner is in receipt of an operating grant financed from the EU budget no indirect costs have been claimed within the proposed budget for the project. (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		

<b>In-kind contributions (use of the Beneficiary's and/or the project partner's own premises for implementation of the project activities)</b>	<b>Yes/No/N/A</b>	<b>Comments</b>
Is the nature of the presented in-kind contributions in accordance with the approved application? (up to 10% of its total eligible) (Ref. Section 2.1.3.4. Guidelines for Grant Applicants )		
Is the value of the reported in-kind contribution in accordance with the approved application and not exceeded? (Ref. Art.14.1. a) General Conditions)		

<b>Income (Revenues and interests)</b>	<b>Yes/No/N/A</b>	<b>Comments</b>
Has income/revenues been attributed to the Project and properly disclosed in the financing report? (Focus both on the accounting records and in the examination of the project deliverables.) (Ref. Section 3.2.6. Guidelines for Grant Applicants )		
Are the interests accrued by the pre-financing recorded in the financial report (and in the consolidated financial report)? Does the bank account statement indicate the amount of interest accrued to the project during the reporting period? (Ref. Section 3.2.6. Guidelines for Grant Applicants )		
In case of no bank account statement, is the method of calculating the interest for the reporting period in question indicated? (Ref. Section 3.2.6. Guidelines for Grant Applicants )		
Is that method of calculating the interest accurate and reliable? (Ref. Section 3.2.6. Guidelines for Grant Applicants )		

## 6 Summary of factual findings and exceptions resulting from verifications

Date	Invoice No	Amount of verification exceptions found €	Explanation for potential impact on the EC contribution (Eligibility)

Date and place dd mm year \_\_\_\_\_

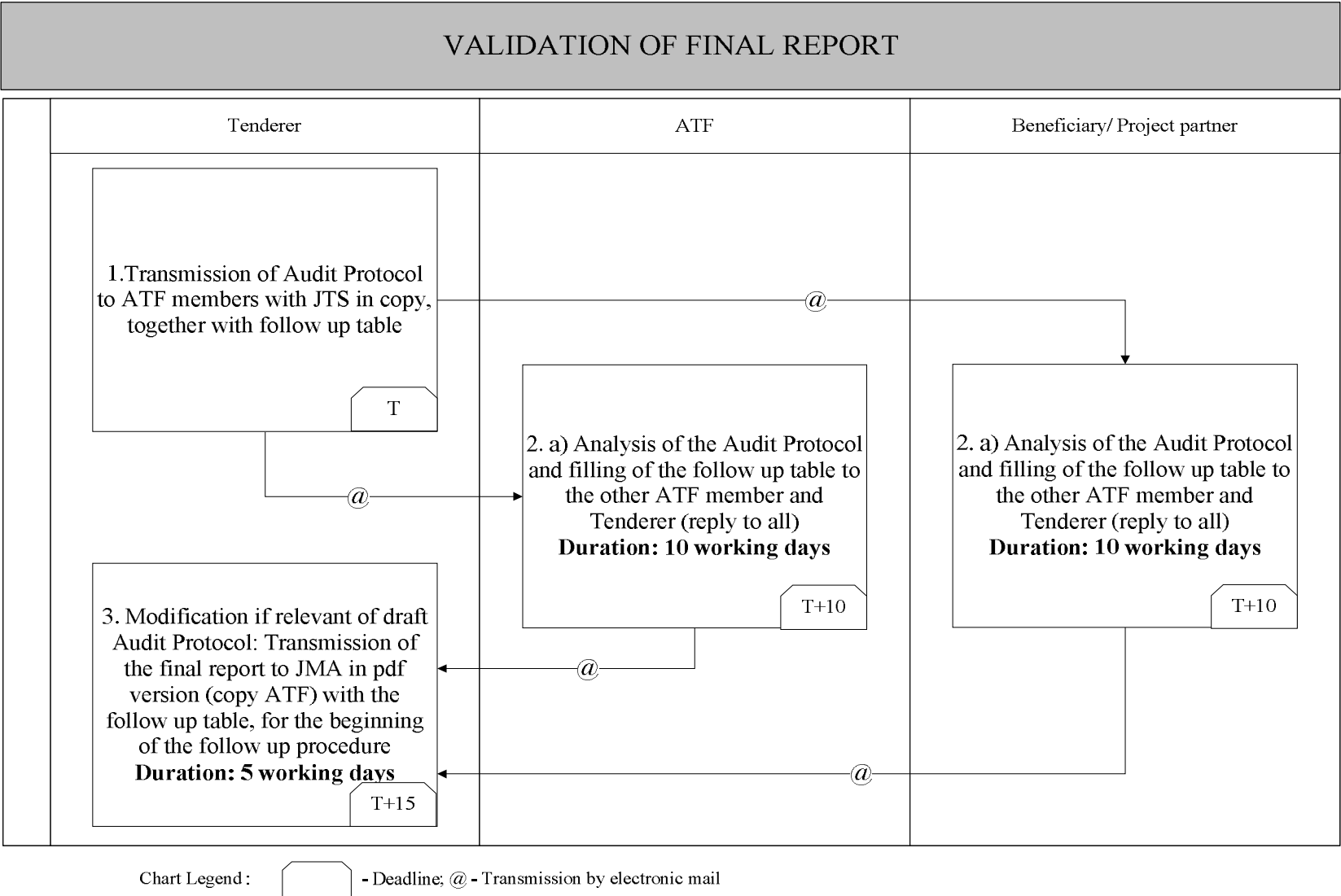
Signature \_\_\_\_\_

Name \_\_\_\_\_

Institution \_\_\_\_\_

**Stamp** *(if available)*







**Model Audit Protocol for Factual Findings**

**HOW TO USE THIS MODEL Audit Protocol? All text highlighted in yellow in this model Audit Protocol is for instruction only and auditors should remove it after use. Information requested in the following form <.....> (e.g. <name of the contractor> must be completed by the auditor.**

**<To be printed on AUDITOR'S letterhead>**

**Audit Protocol of Factual Findings**

**Estonia-Latvia-Russia cross border cooperation Programme within European Neighborhood and Partnership instrument 2007-2013**

**<Title and number of the Grant contract >**

For audits in compliance with Article 30 and 37 of Commission Regulation (EC) No 951/2007 of August 2007 laying down implementing rules for cross – border cooperation programmes financed under Regulation (EC) No 1638/2006 of the European Parliament and of Council laying down general provisions establishing a European Neighbourhood and Partnership Instrument

< *Name of contact person(s)* >, *Position*>

< ***Contractor's name*** >

<*Address*>

<dd Month yyyy>

Dear Head of the Joint Managing Authority< *Name of person in position* >

In accordance with the terms of reference dated <dd Month yyyy> that you agreed with us, we provide our Audit Protocol of Factual Findings ("the Audit Protocol"), with respect to the accompanying Financial Report for the period covering < dd Month yyyy - dd Month yyyy> (Annexes 1 of this Audit Protocol). You as a Contracting Authority requested certain procedures to be carried out in connection with Financial Report and the European Union financed Grant Contract concerning [*title and number of the contract*], the 'Grant Contract'.

### **Objective**

Our engagement was an audit according to Article 37 of Regulation (EC) No 951/2007 which is an engagement to perform certain agreed-upon procedures with regard to the Financial Report for the Grant Contract between you and < *the name of contracting Beneficiary*>. The objective of this expenditure verification is for us to carry out certain procedures to which we have agreed and to submit to you a Audit Protocol of factual findings with regard to the procedures performed.

### **Standards and Ethics**

Our engagement was undertaken in accordance with:

- International Standard on Related Grants ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the International Federation of Accountants ('IFAC);
- the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Contracting Authority requires that the auditor also complies with the independence requirements of the Code of Ethics for Professional Accountants.

### **Procedures performed**

As requested, we have only performed the procedures listed in Methodology for sample checks of the actions (Audit Methodology).

These procedures have been determined solely by the Contracting Authority and the procedures were performed solely to assist the Contracting Authority in evaluating whether the fees and expenditure claimed by " the name of contracting Beneficiary/ Project Partner " in the Financial Report are eligible in accordance with the terms and conditions of the Grant Contract.

Because the procedures performed by us did not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Financial Report.

Had we performed additional procedures or had we performed an audit or review of the financial statements of the " *the name of contracting Beneficiary/ Project Partner* " in accordance with International



Standards on Auditing, other matters might have come to our attention that would have been reported to you.

### **Sources of Information**

The Audit Protocol sets out information provided to us by " *the name of contracting Beneficiary/ Project Partner* " in response to specific questions or as obtained and extracted from " *the name of contracting Beneficiary/ Project Partner* " accounts and records.

### **Factual Findings**

The total expenditure which is the subject of this audit amounts to <xxxxxx>€. This amount corresponds to the total amount of fees and expenditure claimed by " *the name of contracting Beneficiary/ Project Partner* Financial Report. We have carried out a complete and exhaustive verification of the fees and expenditure reported in the Financial Report.

We report the details of our factual findings which result from the procedures that we performed in Chapter 2 of this Audit Protocol.

### **Use of this Audit Protocol**

This Audit Protocol is solely for the purpose set forth above under objective.

This Audit Protocol is prepared solely for your own confidential use. This Audit Protocol may not be relied upon by you for any other purpose, nor may it be distributed to any other parties.

The Contracting Authority may only disclose this Audit Protocol to others who have regulatory rights of access to it in particular the European Commission, the European Anti Fraud Office and the European Court of Auditors.

This Audit Protocol relates only to the Financial Report specified above and does not extend to any of financial statements.

We look forward to discussing our Audit Protocol with you and would be pleased to provide any further information or assistance which may be required.

Yours sincerely

**Auditors' signature** [person or firm or both, as appropriate and in accordance with firm policies]

**Name of Auditor signing** [person or firm or both, as appropriate]

**Auditors' address** [office having responsibility for the engagement]

**Date of signature** <dd Month yyyy> [date of when the final Audit Protocol is effectively signed]

## General Information

**Project**

Title:	
No. and acronym:	
Priority:	

**Audited project partner**

Project partner no.:	
Organisation:	
Contact person:	
Department:	
Address:	
Town:	
Country & Postal code:	
Tel. / Fax:	
Email:	

**External auditor**

Organisation:	
Contact person(s):	
Department:	
Address:	
Town:	
Country & Postal code:	
Tel. / Fax:	
Email:	

## Information about the Grant Contract

<b>Lead partner</b>	
Organisation:	
Country:	
Number of project partners:	
<b>Preparation cost period:</b>	
<b>Implementation period:</b>	
<b>Closure period:</b>	
<b>Project partner's legal status:</b>	
Note: according to the project partner status the Programme funds are considered either as public or private co-financing.	

### Project budget

Max. amount of ENPI co-financing:	
Max. amount of partners' contribution:	
<b>Total project budget:</b>	

### Project partner's budget

ENPI co-financing rate:	
Amount of ENPI co-financing:	
Amount of partner's contribution:	
<b>Total project partner's budget:</b>	

Audit was launched by: Date of on-the-spot check: Specification of on-the-spot check (e.g. physical monitoring of project outputs, events):   Audit report draft: Contradictory procedure: Date of auditees comments: Date of final version:	
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## Procedures performed and Factual Findings

**We have performed the specific procedures listed in Audit Methodology These procedures are:**

- 1 General Procedures
- 2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review
- 3 Procedures to verify Fees and Expenditure

We have applied the principles and criteria for the audit as set out in Audit Methodology for sample checks.

*[Explain here difficulties or problems encountered if any]*

**The total expenditure verified by us amounts to <xxxx> € and is summarised in the table below.**

*[Provide here a summary table of the Financial Report in Annex 1 presenting for each (sub) heading the total fee and expenditure amount reported by the " the name of contracting Beneficiary/ Project Partner "]*

We have verified the fees and expenditure as shown in the above summary table. For this purpose we have carried out the verification procedures specified in Audit Methodology. We report our factual findings resulting from these procedures below.

### 1 General Procedures

#### 1.1 Terms and Conditions of the Grant Contract

We have obtained an understanding of the terms and conditions of Grant Contract in accordance with Methodology for sample checks.

*[Describe the factual findings that have arisen from filled in check list.. **If there are no factual findings this should be explicitly stated as follows for each issue:** 'No factual findings have arisen regarding this issue*

*- The Financial Report must conform to the model in Annex VI of the Grant Contract;*

*- The Financial Report should cover the Action as a whole, regardless of which part of it is financed by the Joint Managing Authority;*

#### 1.2 Financial Report for the Grant Contract

*- The Financial Report should be drawn up in the language of the Grant Contract;*

*- The proof of the transfers of ownership of equipment, vehicles and supplies (Article 7.3 of the General Conditions of the Grant Contract) should be annexed to the final Financial Report..*

#### 1.3 Rules for Accounting and Record keeping

*- The accounts kept by the Beneficiary for the implementation of the Action must be accurate, complete and up-to-date;*

*- The Beneficiary must have a double-entry book-keeping system;*

#### 1.4 Reconciling the Financial Report to the Accounts and Records -

*- The accounts and expenditure relating to the Action must be easily identifiable and verifiable;*

*The accounts must provide details of interest accrued on funds paid by the Joint Managing Authority.]*

## **1.5 Exchange Rates**

## **2 Procedures to verify conformity of Expenditure with the Budget and Analytical Review**

### **2.1 Budget of the Grant Contract**

*Budget in the Financial Report corresponds with the Action budget of the Grant Contract (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the Action budget of the Grant Contract.*

### **2.2 Amendments to the Budget of the Grant Contract**

*[Describe factual findings and specify errors and exceptions that have arisen]*

## **3 Procedures to verify Fees and Expenditure**

We have reported further below all the exceptions resulting from the verification procedures specified at Audit Methodology insofar these procedures did apply to the verification of fees and expenditure.

We have quantified the amount of the verification exceptions found and the potential impact on the EC contribution, should the Commission declare the fee or expenditure item(s) concerned ineligible. We have reported all exceptions found including the ones of which we cannot quantify the amount of the verification exception found and the potential impact on the EC contribution.

*[Specify for which fees and expenditure amounts / items exceptions between facts and criteria were found, the nature of the exception – this means which of the specific condition or conditions were not respected. Quantify the amounts of verification exceptions found and the potential impact on the EC contribution, should the Commission declare the expenditure item(s) concerned ineligible]*

### **3.1 Eligibility of Fees claimed**

We have verified the eligibility of fees claimed with the terms and conditions of the Grant Contract. We have performed procedures according to Audit Methodology.

*[Describe factual findings and specify errors and exceptions]*

*Example: we found that total expenditure for an amount of 7.000€ related to senior expert fees in the Financial Report was not eligible. An amount of 5.000€ for expert fees was not supported by timesheets and 2.500€ related to a timesheet for a period outside the implementation period of the Grant contract. (Note: relevant details such as timesheet references or documents should be provided)*

## **4. Overall conclusions**

*whether the expenditure verification reports did reliably identify eligible and ineligible expenditure*

*whether the JMA's decision on eligible and ineligible expenditure was adequate*

## **5. Recommendations to the Joint Managing Authority**

*Indicate necessary actions, that should be taken to improve programme administration system*

Annex 1 Financial Report for the Grant Contract

*[Annex 1 should include the copy of “the name of contracted Beneficiary/ Project Partner” financial Audit Report for the Grant Contract which has been the subject of the audit.]*

Annex 2 Filled in checklist

Aneex 3 Evidence supporting documents for exceptions found

**Kopsavilkums par XXXX. gadā veiktajiem auditiem**

Nr. p.k.	Projekta nosaukums/ identifikācijas Nr./ auditētais projekta partneris/ valsts	Konstatējumi/ ieteikumi
		<div>Auditētā summa EUR</div> <div>Datums pārbaudei uz vietas</div> <div>Secinājumi:</div> <div>Konstatētie trūkumi/nepilnības:</div> <div>Konstatētas neattiecināmas izmaksas EUR</div> <div>Ieteikumi:</div>
		<div>Auditētā summa EUR</div> <div>Datums pārbaudei uz vietas</div> <div>Secinājumi:</div> <div>Konstatētie trūkumi/nepilnības:</div> <div>Konstatētas neattiecināmas izmaksas EUR</div> <div>Ieteikumi:</div>

Izpildītājs \_\_\_\_\_

Datums: