



TESIM

Technical support to the implementation and management of ENI CBC programmes

Expenditure verification pack

Adaptation for projects with subgrants of the “Factsheet on expenditure and revenue verification report”

July 2020

DISCLAIMER

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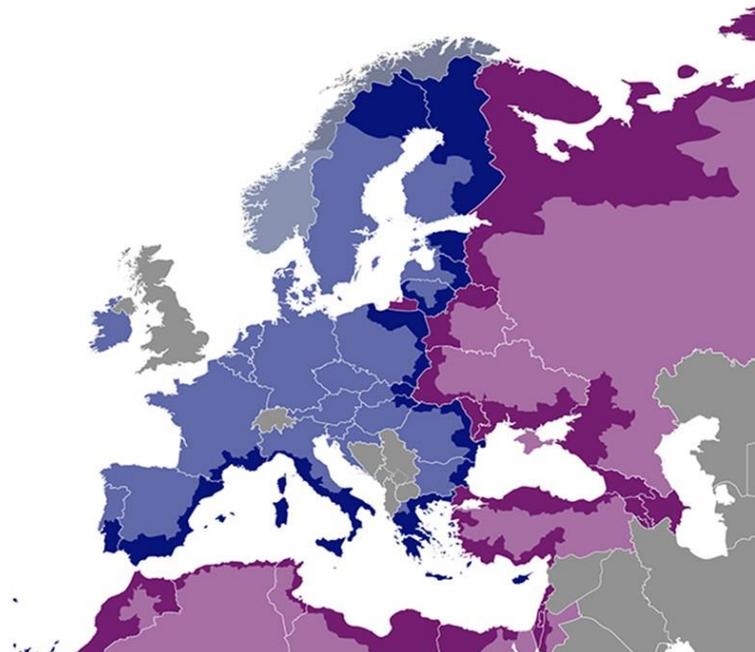


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Note to this factsheet

This document is an adaptation of the "[Factsheet on expenditure and revenue verification report](#)" issued by TESIM in April 2018. The factsheet has been adapted for the purpose of including the specific requirements for expenditure verification in the case of projects with subgrants, which is regulated by article 204¹ of the Omnibus Regulation (Regulation 2018/1046).

The applicable rules for this kind of financial support in the context of ENI CBC, together with templates and tools, have been recently published by TESIM in the document named "[Templates and tools for subgrants by ENI CBC project beneficiaries](#)". Please read this document before looking at the specific sections in this factsheet.

So, **what's new** in the factsheet and related annexes?

In the factsheet:

- A reference to the template of working papers for expenditure verification, which were published later (page 6),
- Reference to the work related to subgrants is added in chapter C:
 - Access to subgrant contracts (component 1)
 - Rules for accounting and record keeping (component 1),
 - Examination of supporting documents and accounting system (component 2),
 - Check of budget in force and correct classification of expenditure (component 2),
 - Non-applicability of no profit principle (component 4),
 - Check of visibility rules in subgrants (component 5),
 - New component 6 on specific procedures for subgrants.

In Annex 1:

- A reference to article 192 of the Omnibus Regulation on low-value grants in the introduction,
- A mention to subgrantees in the section 2, on responsibilities of the parties in the engagement.

In Annex 2:

- Addition of subgrants in article 3 on contract documents.

In Annex 3:

- Check on availability of documents related to subgrants in the section on formal checks,
- A final section on subgrants in the checklist.

¹ "Subgrant" is a term traditionally used by Europeaid. The Omnibus Regulation refers to them as "financial support to third parties".



A. Reminder of the legal framework and the applicable international standards (ISRS 4400)

The regulatory framework for the ENI CBC programmes sets the requirements for the verification procedures of declared expenditure.

Article 32 of ENI CBC Implementing Rules require that expenditure shall be examined by an auditor or by a competent public officer being independent from the beneficiary

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

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

In the annex 1 of this factsheet, the **template of the expenditure and revenue verification procedure** ('agreed-upon procedure') is presented.

Each payment request (except the first pre-financing request, according to the grant contract) has to be accompanied with an expenditure and revenue verification report. It has to be highlighted that the **preparation of the financial report**, including the list of expenditure, is the obligation and **sole responsibility of each beneficiary**. The responsibility of the auditor² is to carry out the expenditure verification procedure.

Expenditure verification shall be performed on the basis of an agreed-upon-procedure stipulated in the grant contract, in accordance with:

the International Standard on Related Services 4400 (ISRS4400) Engagements to perform Agreed upon Procedures regarding Financial Information as promulgated by International Federation of Accountants (IFAC); IFAC Code of Ethics for Professional Accountants.

According to the ISRS4400, the objective of an agreed-upon procedures engagement is for the auditor to carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings. In the case of ENI CBC programmes, agreed-upon procedures are procedures defined by the programme bodies and applied in practice by the auditor. In order to harmonise expenditure verification process and ensure adequate quality control means of the auditors' performance, programmes might also consider providing a template for the

² For the purpose of simplification, we will use the term auditor, even if the guide also applies to the work of competent public officers carrying out expenditure verification work.



contract between the beneficiary and the auditor. For this reason, the **annex 2** of this factsheet presents the **template of the contract between the auditor and the beneficiary**.

In the context of ENI CBC, this means procedures defined by the programme and mentioned in the Joint Operational Programme (JOP) and in the Description of the Management and Control Systems (DMCS). Expenditure verification is one of the procedures for ensuring the correctness and regularity of expenditure and revenues that every programme has to establish as part of the management and control system.

The subject of the verification is the financial report produced by a beneficiary in support for the payment request, where project expenditure and revenues are declared and programme contribution is sought for the eligible part of that expenditure. The expenditure verification is organised in accordance with the expenditure verification procedure required by the programme.

Grants awarded shall not have the purpose or effect of producing a profit within the framework of the ENI CBC programmes, thus the expenditure verification procedure should include the check of compliance with the 'no-profit principle'. If the beneficiary gets a contribution from a third party or generates revenues because of the project implementation (for example, interest generated by pre-financing, charges for the use of the infrastructure developed in the project or fees for the use of services) it does not automatically mean that the no-profit principle is breached. However, the beneficiary should be able to provide the calculations showing the balance between expenditure and income, to demonstrate that the non-profit principle is respected. The last expenditure and revenue verification should check the compliance with this non-profit principle, in addition to all the procedures for expenditure.



B. Content of the template for checklist of expenditure verification procedure

The ENI CBC Implementing Rules set a number of requirements in relation to the eligibility of expenditure that have to be addressed by the expenditure verification procedures. In order to help the Managing Authorities to define and describe the expenditure and revenue verification procedure, TESIM has developed a **checklist (annex 3)**, including proposals about the specific verification procedures to be carried out by the auditor.

There are two aspects to the expenditure verification procedure that should be taken into account:

- **Procedural:** expenditure verification as part of the management and control system;
- **Content:** what procedures expenditure verification should include to allow the auditor to examine whether costs declared are real, accurately recorded and eligible in accordance with the contract.

In relation to the procedural aspect of expenditure verification (i.e., assessment of the compliance of the management and control systems with the criteria defined in the annex of the ENI CBC Implementing Rules), the Managing Authorities are advised to use TESIM's [Guide for Compliance Assessment in ENI CBC programmes](#), especially the section on the verifications.

The proposed content for the template checklist aims at providing guidance on certain practical aspects of the application of Article 32 of ENI CBC Implementing rules, i.e. to assess whether the developed agreed-upon-procedures allow examining whether costs declared are real, accurately recorded and eligible. A more detailed checklist, including all provisions of the grant contract, linked to the specific categories in the budget included in the application pack, may be developed by the programme. Such detailed checklist is one of the key documents of the expenditure verification process and it could improve the reliability of the expenditure verification reports.

Apart from the changes in the grant contract brought by the new legal framework, programmes have also made changes in the model grant contract in order to render it shorter and more concentrated on the main provisions, leaving the details to the programme manuals or information sections on the web-site.

Reducing the number of annexes to the grant contract, compared with the former PraG templates, also seems reasonable. Previous grant contract's annexes - like reporting templates, and expenditure verification reports - may be now regarded as



implementation documents, which shall be available as soon as possible on the programme web-site but that at the same time do not need to be considered as grant contract annexes.

The checklist attached to this factsheet are documents to be filled in by the auditors, which must be sent to the Managing Authority as an annex to the expenditure verification report. As a complement to it, TESIM published in May 2019 a set of [templates of working papers for expenditure verification](#). These working papers are the supporting documents for the work carried out by auditors and may be checked by the programme bodies as part of the audits and controls, in line with the single audit approach promoted by the European Commission.



C. Suggested components of the expenditure verification procedure

| Suggested component | Explanation |
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| 1. General procedures | |
| Access to the grant and subgrant contracts and partnership agreement | The auditor should require and access all necessary information and documentation for his/her duties. Provisions should be in place that the auditor has access to the originals of the grant and subgrant contracts and related documents, such as amendments and correspondence with MA/JTS. |
| The rules for selection of expenditure and the principles and criteria for verification coverage | The rules for selection of expenditure should be described, including sampling rules if allowed by the programme, as well as the principles and criteria for verification coverage. The coverage should provide the MA with reasonable assurance of the objectives of the verification, taking into account adequate risk management. |
| Financial report for the Grant Contract | The auditor should verify that the financial report complies with the conditions of the Grant Contract, the Partnership Agreement and the compulsory reporting templates published by the programme. |
| Rules for accounting and record keeping | The auditor should verify whether beneficiaries maintain either a separate accounting system or a suitable accounting code for all transactions relating to a project in accordance to the Grant Contract. In case of subgrants using the reimbursement of costs as financial regime ³ , the auditor must also carry out the same verifications on accounting for the subgrantees. |
| Exchange rates | Consistency of the method for currency conversion should be checked. Expenditure incurred in a currency other than the euro shall be converted into euro by the beneficiary using one of the methods indicated in the JOP and/or in the Grant Contract. |
| 2. Examination whether costs declared are real, accurately recorded and eligible | |
| 2.1. Whether the costs are real | |
| Examination of supporting documents | Costs should be actually incurred by and pertain to the beneficiary and or the subgrantee and should not be double-financed. The avoidance of double-funding should be checked in the accounting system, taking into account that supporting documents, such as invoices, are nowadays usually provided in electronic form (e.g. pdf files) and beneficiaries may easily produce several original. Therefore, stamps in the |

³ See the relevant section in TESIM's document on subgrants.

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| | <p>originals are not any more a proof of non-double funding. Other means of checking the double-funding, like verification of the accounting of the beneficiary, may be more adequate.</p> <p>Supporting documents (e.g. invoices, contracts) and proof of payment should be examined. The auditors should check the originals at least once in the project lifetime.</p> <p>Checking the reality of the incurrence should be mainly focussed in examining the proof of work done, goods received or services rendered; the auditor verifies the existence of assets. Incurred costs should be supported by adequate documents, both of financial and technical nature.</p> <p>In the case of subgrants using simplified costs as financial regime, the conditions triggering the payment will be linked to the delivery of outputs and/or results. In this case, the check of the incurrence of the triggering condition become an essential part of the check.</p> <p>Note: While the ENI CBC Implementing Rules require that 'costs incurred should be paid before the submission of the final reports'⁴, the Managing Authorities can consider applying a general principle for the interim reports that costs incurred and reported with each interim report should also be paid in the relevant period of the report.</p> <p>It should be examined whether the costs are necessary for the project implementation. A good understanding of the project activities and expected results is essential for this examination.</p> |
| <p>2.2. Whether the costs are accurately recorded</p> | |
| <p>Examination of the accounting system</p> | <p>Information in the financial report should be reconciled with the accounting records and documents of the beneficiary – i.e. costs are in the accounting records of the beneficiary and determined according to the accounting standards and the usual cost accounting practices applicable to the beneficiary.</p> <p>The same check must be carried out in the case of subgrants under reimbursement of costs as financial regime.</p> |
| <p>2.3. Whether the costs are eligible</p> | |
| <p>Compliance with budget of the Grant and Subgrant Contracts (check of the budget in force)</p> | <p>An analytical review of the expenditure headings in the financial report should be carried out, as well as to verification that the budget in the financial report corresponds with the budget of the Grant Contract (authenticity and authorisation of the initial budget) and that the expenditure incurred was indicated in the budget of the Grant Contract.</p> |

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

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| | <p>In addition, the amendments (with and without addendum) to the budget of the Grant Contract should be verified.</p> <p>In the case of subgrants under reimbursement of costs as financial regime, the same check must be carried out in relation to the Subgrant Contract.</p> |
| Compliance with direct cost categories | It should be verified whether incurred direct costs are imputed in the appropriate budget line, in conformity with the definitions of each category in the Guidelines for Applicants and/or Grant Contract/Subgrant Contract. |
| Compliance with implementation period | <p>It should be verified whether costs incurred during the implementation period of the project are in compliance with conditions and exceptions described in Article 48.2(a) of the ENI CBC Implementing Rules.</p> <p>In case the costs incurred will be paid after the submission of the final report, it should be checked whether they are listed in the final report together with an estimated date of payment (Article 48.2(a)(ii) of the ENI CBC Implementing Rules).</p> <p>In case of preparation costs (costs incurred before submission of the grant application for the preparation of strong partnerships), the auditor should verify that they comply with the requirements indicated in the Grant Contract.</p> |
| Compliance with sound financial management principles | It should be verified whether the costs are reasonable, justified and comply with sound financial management principles (in particular regarding economy and efficiency ⁵). |
| | The principle of economy requires that expenditure needed for the performance of planned activities is made available in due time, in appropriate quantity and quality and at the best price. |
| | The principle of efficiency requires that the activities and outputs are carried out by ensuring the best relationship between resources employed and results achieved. |
| Compliance with tax and social legislation | It should be verified that the relevant tax and social legislation is observed for the costs declared. |
| Retroactive award in infrastructure projects | It should be verified whether the costs declared are in line with Article 48.3 of the ENI CBC Implementing Rules. |
| 3. Examination of non-eligibility, indirect cost and procurement rules | |
| Indirect costs | It should be verified whether the indirect costs are calculated according to a flat rate (e.g. maximum 7% of eligible direct costs, with the exception of infrastructure) and that it is |

⁵ The third principle of sound financial management, that is, effectiveness, should be checked through an evaluation or ROM, not through expenditure verification, as it is not a condition for eligibility of expenditure.

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| | coherent with the method defined by the programme or indicated in the project budget. |
| Compliance with procurement, nationality and origin rules | It should be verified whether the procurement was carried out in line with the provisions of Article 52 of the ENI CBC Implementing Rules and the Grant Contract. |
| Non-eligible costs | It should be verified whether the cost categories declared are not considered as non-eligible by Article 49 of the ENI CBC Implementing Rules. Additional categories, if defined by the programme, also should be covered by the procedure. |
| 4. Examination to confirm non-profit character of the project | |
| Revenues, income and profit | <p>It should be verified whether the contributions from third parties and revenues are related to the project, recorded properly and treated according to the provisions of the Grant Contract.</p> <p>It should also be checked whether there is a balance between expenditure and income, so the non-profit principle is respected.</p> <p>Interest generated by pre-financing payments shall not be considered as revenue, unless specifically defined by the respective programme. In cases in which the programme describes the treatment of interest generated by pre-financing payments, such interest shall either be re-used for the corresponding project, deducted from payment requests or recovered. For details, please see Article 8.4 of the Omnibus Regulation⁶.</p> <p>In accordance with article 192 of the Omnibus Regulation, the no-profit principle does not apply to low-value grants. Low-value grants are the ones below 60.000€, as stipulated in article 2(41) of the Omnibus Regulation. Therefore, it does not apply to subgrants.</p> |
| 5. Examination of compliance with contractual conditions | |
| Compliance with visibility rules | It should be checked whether the visibility rules were taken into account in line with the provisions of both the Grant and Subgrant Contracts. |
| Other contractual conditions | Other contractual conditions, related to the cost eligibility (for example, simplified cost options such as lump sums, unit costs, flat rate financing and others...), should be covered by the expenditure verification procedure. |
| 6. Examination of procedure for the calls for proposals and the evaluation, selection and contracting of subgrants | |
| Calls for proposals | The calls must comply with the principles and requirements stipulated in article 204 of the Omnibus Regulation, that is, the compliance with the “no margin of discretion” |

⁶ Please refer also to TESIM guidance on financial planning and budgeting.

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| Evaluation, selection and contracting | The auditor must also check all the supporting documents of the evaluation procedure, the final decision on the selection of the subgrantees and the subsequent contracting. In the case of simplified costs, the contracting procedure must ensure the compliance of the stipulation in article 50 of the ENI CBC Implementing Rules. |
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In addition to the suggested components, annex 3 presents the **template of the control checklist**.

D. Model of individual report

Annex 4 provides a **model of individual expenditure and revenue verification** report that can be used for the report on factual findings deriving from the verification procedures applied to the financial report of each project beneficiary (partner). The model report provides the auditor with standard headings and standard text. It also indicates the areas where specific information is to be inserted and provides instructions for the completion of the report. The actual substance of the report is the section on the procedures performed and factual findings (please see **template for the list of factual findings in annex 5**).

TESIM proposal derives from the ISRS 4400, examples from PraG rules and templates, and the practice of European Territorial Cooperation programmes. The idea behind the model report is to present the findings of the auditor in a streamlined and simplified way, so that both beneficiaries and Managing Authorities are able to have exact information for the further proceedings of the payment claim.

Because of that reasoning, it is proposed that the model report should present the result of the verification and describe the findings, but should not include other documents related to the work of the auditor, such as filled-in checklists for verifications, on-the-spot verification reports and other documents defined and required by the programmes. It is then up to the Managing Authorities to decide whether such additional documents should be submitted together with the expenditure verification report in all cases or only in case they are needed by the Managing Authority in order to take a final decision on the eligibility of one or more expenditure items.

In addition, the Managing Authority is responsible for putting in place effective and proportionate anti-fraud measures taking into account the risks identified (ENI CBC Implementing Rules, Art. 26.5). Therefore, as part of the wider anti-fraud policy at the programme level, a template of the **report on suspected and/or established fraud (annex 6)** is proposed, regulating the reporting responsibilities between the auditor and the Managing Authority. Taking into account the nature of the fraud, it is proposed that the auditor directly informs the programme bodies (for example, Managing Authority) about the suspicion and detection of the fraud, in order for the programme to apply appropriate measures in due time.



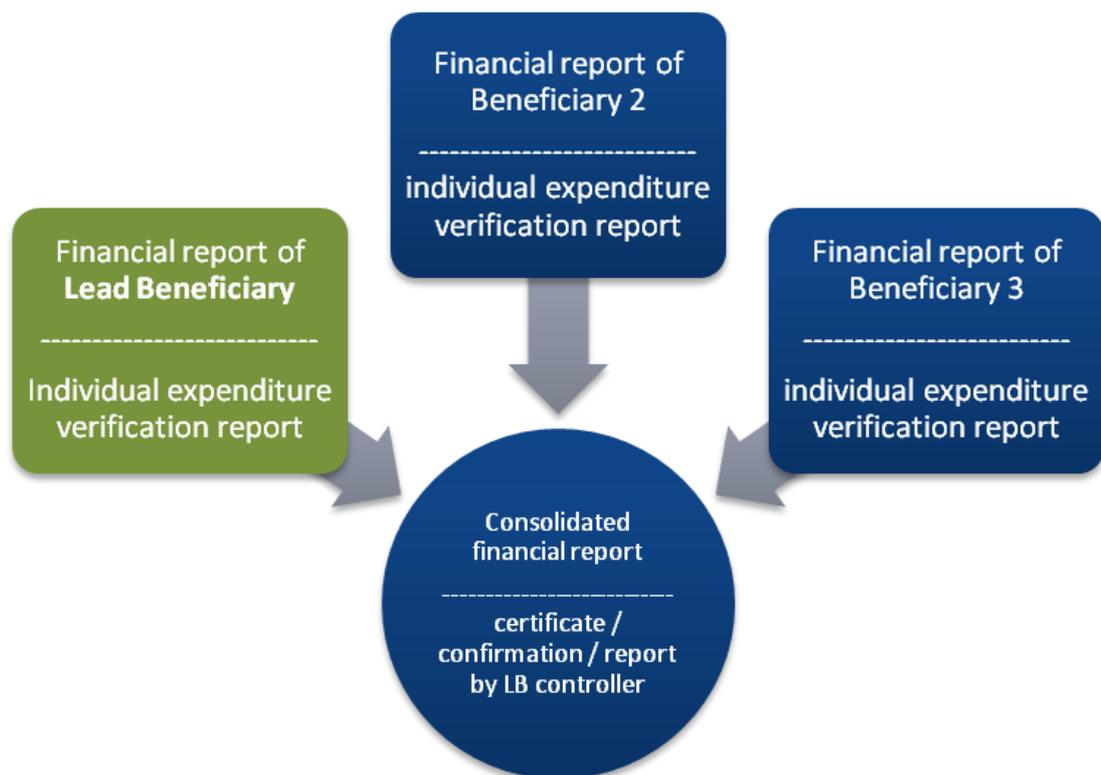
E. Check of the consolidated financial report

According to Article 46.3 of the ENI CBC Implementing Rules, the responsibilities of the lead beneficiary include:

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| <ul style="list-style-type: none"> - to ensure that the expenditure presented by the beneficiaries has been incurred for the purpose of implementing the project and corresponds to activities set in the contract and agreed between all beneficiaries; |
| <ul style="list-style-type: none"> - to verify that the expenditure presented by the beneficiaries has been examined pursuant to Article 32(1). |

Thus, in order to ensure compliance with this requirement, TESIM suggests that Managing Authorities establish a procedure about how lead beneficiaries should organize the process related to the so-called consolidation of all individual beneficiary reports and expenditure verification reports. **Annex 7** provides a **model of consolidated expenditure and revenue verification report**

While the consolidation of all individual reports is not an expenditure verification procedure, there are several aspects that might be checked by the auditor of the lead beneficiary.



The TESIM template describes these aspects and proposes the main components of the procedure of the consolidation. Consolidation is a process that the lead beneficiary's auditor is required to carry out when performing a verification of the consolidated expenditure verification report.

It is up to the Managing Authorities to decide whether they require for the lead beneficiary auditor to describe the consolidation process in a separate control report or a signed certificate/confirmation or other document accompanying the consolidated financial report. Regardless of the approach chosen, it should be ensured that lead beneficiaries comply with the requirements of Article 46.3.

| Suggested component | Explanation |
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| <p>Completeness and accuracy of the consolidation</p> | <p>The auditor should check whether the information from each individual financial report is correctly transferred to the consolidated financial report.</p> <p>The auditor should verify that indirect costs on the overall project level do not exceed the limitations set in the programme rules. If exceeded, the auditor should indicate the <u>amount of potentially ineligible expenditure</u> in the report.</p> <p>The auditor should check whether in the individual expenditure verification reports there are any findings that should be reported as an exception (in case of final reports for the costs that will be paid after the submission of the final report) and ensure that this is reflected in his/her consolidated report.</p> |
| <p>Consistency of the consolidation</p> | <p>The auditor should check that the consolidated financial report uses the same revenue and expenditure headings as the underlying individual financial reports both for budget and actually incurred amounts.</p> <p>The auditor should check that the expenditure reported and verified for each individual financial report is consistently included under the same budget headings also in the consolidated financial report.</p> |
| <p>Compliance with financial rules</p> | <p>The auditor should verify whether the consolidated financial report is in line with the approved budget or not and that, where existing, the deviations are in line with the Grant Contract, as well as with the programme rules.</p> <p>If the respective rules are not observed (for example, amendments are required, but have not been made), the auditor should indicate the <u>amount of potentially ineligible expenditure</u> in the report.</p> |
| <p>Summary</p> | <p>The auditor should state the reported amount of expenditure subject to the expenditure verification in the project.</p> <p>The auditor should state the reported project expenditure complying with requirements set in the expenditure verification procedures.</p> |

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| | <p>The auditor should state the reported project expenditure not complying with the requirements set in the verification procedures and potentially not eligible.</p> <p>If applicable, the auditor should state the total amount of revenues and contributions by third parties in the project.</p> <p>If applicable, the auditor should state the total amount of profit deriving from the surplus on income over expenditure in the project.</p> <p>In addition, the programmes may decide to request from the auditor to prepare consolidated factual finding sheet, presenting all findings in relation to the potentially not eligible costs in the project.</p> |
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