

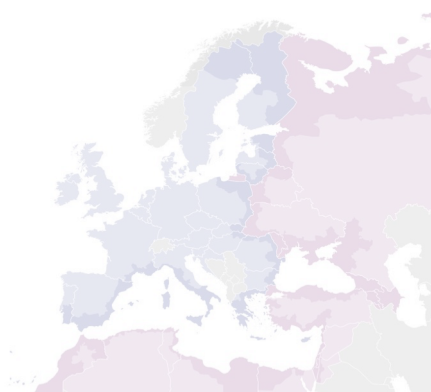


Technical support to the implementation and management of ENI CBC programmes

Expenditure verification in Practice

CBC Programme «Karelia»

Petrozavodsk, 16 April 2019



A project funded by the European Union

Implemented by a consortium led by



What is TESIM project?

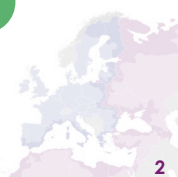


Overall objective

Technical support to the implementation and management of 16 ENI CBC Programmes

The **programme** level – management, implementation, the cooperation between Member States and Partner Countries

The **project** level – the project development/management capacity of local, regional authorities and private organisations



Plan for today



Expenditure verification in the CBC programmes

Practicalities of expenditure verification

Case study and discussion

3

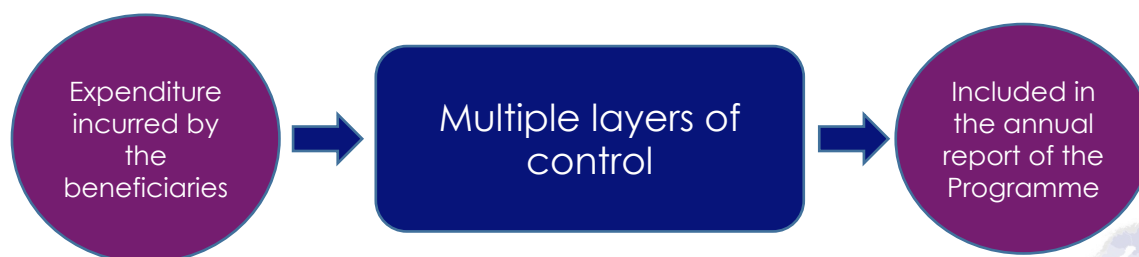
Expenditure verification in the CBC programmes



Part of the 'big picture'

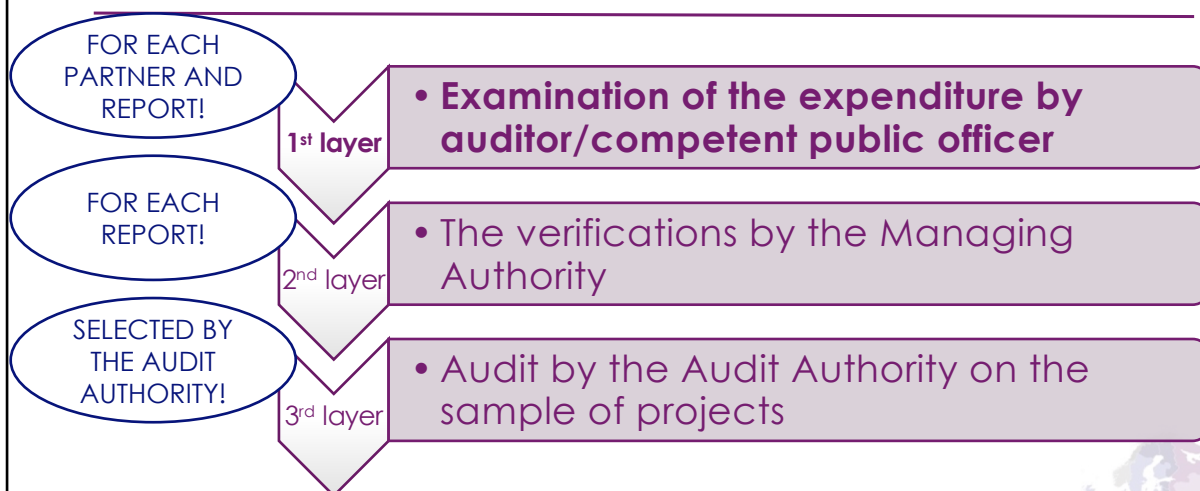


Objective - to verify whether the **costs** and the **revenue of the project are real, accurately recorded and eligible.**



5

Layers of control



6

Expenditure verification



"Expenditure declared by the beneficiary in support of a payment request **shall be examined** by an auditor or by a competent public officer being **independent from the beneficiary**."

"The **auditor** or the competent public officer shall examine whether the **costs** declared by the beneficiary and the **revenue** of the project are **real, accurately recorded and eligible** in accordance with the contract."

7

Expenditure verification



"This examination shall be performed [...] in accordance with:

- (a) the International Standard on Related Services 4400 Engagements to perform **Agreed-upon Procedures** regarding Financial Information [...] (IFAC);
- (b) IFAC **Code of Ethics** for Professional Accountants [...]."

8

Expenditure verification



"The auditor shall meet at least one of the following requirements: [...]"

- b) be a member of a national accounting or auditing body or institution. Where this organisation is not a member of IFAC, the auditor shall commit to undertake **the work in accordance with IFAC standards and ethics**;*
- d) be registered as a statutory auditor in the **public register** of a public oversight body **in a CBC partner country**, provided this register is subject to principles of public oversight as set out in the legislation of the country concerned."*

9

Practicalities of expenditure verification



QUALITY
is the minimum
EXPECTATION

11

Why quality is important?

Assurance to the partner and the MA

Less amount of follow-up work

Smaller risk of negative consequences (payment, change or exclusion) for the auditor

12

Why quality is important?



*“The auditor **should document matters** which are important in **providing evidence to support the report of factual findings**, and evidence that the engagement was carried out in accordance with this ISRS and the terms of the engagement.”*



Technical support to the implementation and management of ENI CBC programmes

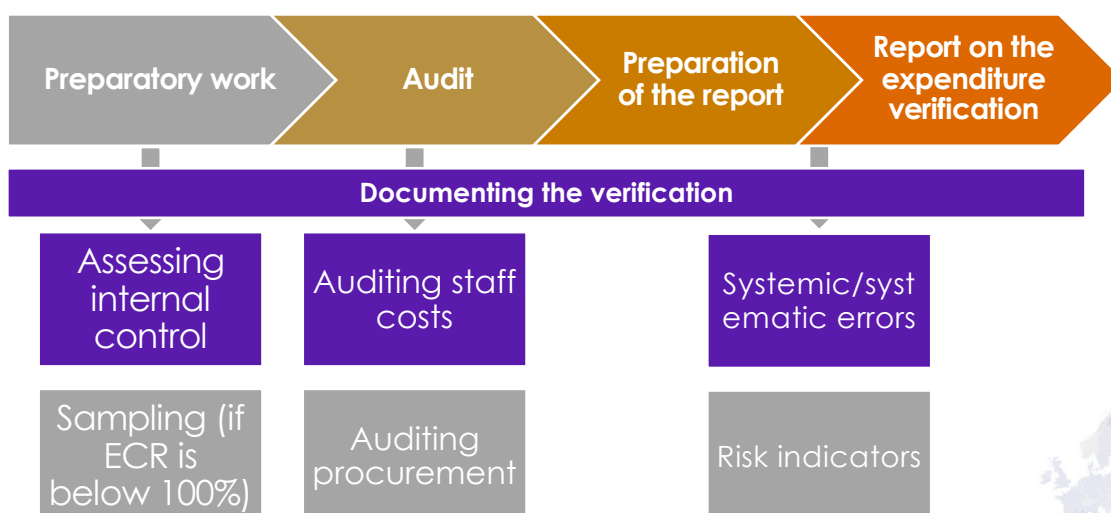
Toolkit with working papers for expenditure verification

Module for auditors and public officers carrying out expenditure verification

March 2019

13

Key aspects in practice



14

Assessing internal control



The auditor shall obtain an understanding of internal control relevant to the audit (ISA 315).

3. Please describe the method how the Partner organization ensures the **internal control** relevant to the Partner's preparation and fair presentation of the project accounting and Financial Reports.

In case of CBC project, what needs to be verified to conclude on internal control?

Lets see an example!

15

Assessing internal control



INTERNAL CONTROL CHECK-LIST				
Name of project beneficiary				
Name and acronym of the project				
Project code				
Period covered (from - to)				
File reference				
Cross-reference to other documents or working papers				
	Yes	No	N/A	Comments / Notes
A. INTERNAL CONTROL ENVIRONMENT				
B. CONTROL ACTIVITIES				
SEGREGATION OF DUTIES				
81	Has the beneficiary implemented measures to segregate duties between:			
	- custody of assets and verification tasks? (example : cash custody versus cash reconciliation)			
	- management tasks and authorisation tasks? (example : performing procurement procedures versus authorising the contract with a supplier)			
	- management tasks and accounting tasks? (example : approving purchase invoices versus accounting for these invoices)			
	- accounting tasks and payment tasks? (example : payment order preparation versus signature of the bank payment order)			
SUPERVISION ACTIVITIES				
82	For all functions impacting financial transactions, is there a review and control by an officer/employee of higher level than the one performing the task?			
ASSET MANAGEMENT - INVESTMENT ASSETS				
83	Is there a fixed assets register?			
84	Does this register include, for each asset, a unique description and a unique identification number?			
85	Are these identification numbers physically affixed on the assets themselves?			

Assessing internal control – preparing the fundament for audit:

- key step during audit of the 1st report;
- Supports the decisions to be made by auditor (for example, ECR size)!

16

Auditing of the expenditure incurred



Terms of Reference allows certain freedom, but with freedom comes responsibility:

- Decision of the size of Expenditure Coverage Ratio ('ECR')
- Documenting the decision, especially is ECR is below 100%

3. If less than 100% is verified, please indicate for which budget headings a sample has been applied and describe the sampling method.



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17

Auditing of the expenditure incurred



ANNEX 5. DETERMINATION OF THE SAMPLE

Name of project beneficiary	
Name and acronym of the project	
Project code	
Period covered (from - to)	
File reference	
Cross-reference to other documents or working papers	

How the sample was selected
(e.g. statistical/judgemental sampling, stratification, etc.)

What type of transactions were prioritised
(e.g. amount above xx EUR, staff expenditure, all procurement procedure above xx EUR and a sample of the ones via direct award)

Once the sample is determined, you can start the substantive tests stipulated in the applicable agreed-upon procedure.

The size of the sample

All the expenditure categories		
	Population	Audited sample
Number of transactions		
Value of transactions EUR		
Staff costs		
	Population	Audited sample
Number of transactions		

18

Case study No 1

Selecting the sample



Eligibility and treatment of errors



- Eligible services and works need to be **related to the activities performed during the implementation** period of the project.
- Services, supplies and works need to be **performed, delivered and installed** during the implementation period.

In case ineligible expenses are detected – are **these individual cases or systemic** errors?

Potential systematic errors



- *Consequences for the respective partner:*
 - Signals problems in the management and control systems of the partner/related risks;
 - Might require review of the ECR;
 - if systemic error is not corrected by auditor/partner/Lead Partner, it becomes an irregularity with **significant financial consequences!**
- *Consequences beyond individual partner:*
 - Lead Partner/auditor should analyse if there is a systemic errors accross partnership;
 - Issues that need to be addressed by the programme (lack of understanding of programme rules).

21

Risk indicators



2. Irregularities (one-time or systemic), difficulties, exceptions, deviation, material misstatements and/or **risk indicators** found:

- In case yes, description of it/them.

- In case no irregularities, difficulties, exceptions, deviations, material misstatements or **risk indicators** are found, a clear statement of it.

**Which are the risk indicators for a CBC project?
How to evaluate and communicate them to partner/the
MA?**

Lets see an example!

22

Risk indicators



RISK MATRIX

Name of project beneficiary	Organisation from Petrozavodsk
Name and acronym of the project	Best project
Project code	Karelia 01
Period covered (from - to)	
File reference	FR-1
Cross-reference to other documents or working papers	Report No...; Checklist No...

#	Description of risk	Comments by the auditor	Likelihood ¹	Consequence ²	Assessment ³
1	Financial report non-reliable		Rare		
2	Expenditure non-compliant	Some ineligible expenses detected (staff costs), partner likely has poor understanding of the programme eligibility rules	Likely	Moderate	High
3	Procurement non-compliant				
4	Revenue non-declared	Project activities do not have potential for revenue	Rare	Marginal	Low
5	Fraud and corruption present				

(add rows if you identify specific risks)

23

Case study No 2

Preparing the report



Case study No 3

Who is the sinner?



Scenario 1



Partner:	Organisation from Petrozavodsk
Total reported costs:	21 950 Eur
Financial error indicated:	1950 Eur (error - wrongly paid bonuses)
Total eligible costs:	20 000 Eur

Q: Who is the sinner?

Scenario 2



Partner: Organisation from Petrozavodsk
 Total reported costs: 21 950 Eur
 Financial error: 1 950 Eur

Error missed by the auditor and LP, but detected by the MA, thus **irregularity**.

Total eligible costs: 20 000 Eur

Q: Who is the 'sinner'?

27

Scenario 2



Partner: Organisation from Petrozavodsk
 Total reported costs: 21 950 Eur
 Financial error: 1 950 Eur

Error missed by the auditor, LP and the MA.

The project selected in annual sample, and the Audit Authority / Group of Auditors discovers **irregularity**.

Total eligible costs: 20 000 Eur

Q: Who is the 'sinner'?

28



TESIM

Technical support to the implementation
and management of ENI CBC programmes



Our goal:
reliable expenditure verification reports!

A project funded by the European Union



Implemented by a consortium led by:

