

ANNEX 1

Guidelines for the Expenditure Verification

Karelia CBC Programme 2014-2020

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The terms and conditions of the '**Grant Contract**' and its annex '**Annex II Conditions** applicable to Grant Contracts financed by the Karelia CBC Programme' describe the contractual requirements that relate to the verification evidence, such as that

- the expenditure should be identifiable, verifiable and recorded in the accounting records of the Partner
- the expenditure must be easily identifiable and verifiable and traced to and within the Partner's accounting and bookkeeping systems

The '**Programme Manual**' ('Part C: Financial Management') describes in more detail about the eligibility and ineligibility of project expenditure. The Auditor shall refer to the documents '**Annex II Conditions** applicable to Grant Contracts financed by the Karelia CBC Programme', '**Contract-award procedures / Award of procurement contracts by Russian private beneficiaries**' and '**Programme Manual**' when performing the expenditure verification and reporting the results of it.

These '**Guidelines for the Expenditure Verification**' explain the procedures to select expenditure items for the verification, the procedures based on which the expenditure verification is performed and the principles of reporting the results of the factual findings in the '**Annex 2 Report for Expenditure Verification and Factual Findings**'. The '**Annex 3 Checklist for the Expenditure Verification**' annexed to the aforementioned report of factual findings further assists the Auditor in his/her expenditure verification work by listing supporting questions.

1. Terms and conditions of the Grant Contract

The Auditor obtains an understanding of the terms and conditions of the Grant Contract and the Partnership Agreement, and he/she should pay particular attention to the following annexes of the Grant Contract: Annex I which contains the project description, Annex II which determines the obligations of partners and Annex III which determines the project budget. In addition, the Auditor shall pay attention to the document describing the contract-award procedures for Russian private partners.

- Failure to comply with these rules makes expenditure ineligible for programme financing.
- If the Auditor finds that the terms and conditions to be verified are not sufficiently clear he/she should request clarification from the Partner.

2. Verification technique, criteria and evidence

2.1. Verification technique

When performing the expenditure verification the Auditor may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets (e.g. computers) and obtaining confirmations.

2.2. Verification criteria for evidence

For the purpose of the expenditure verification procedures, evidence:

- Must be available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting). Electronic documents can be accepted only where:
 - the documentation was first received or created by the Partner in electronic form (e.g. an order form or confirmation) or
 - the Auditor is satisfied that the Partner uses an electronic archiving system which meets the established standards (e.g. a certified system which complies with national law);
- Must be available in the form of original documents (the Auditor shall check the originals at least once in the lifetime of the project) or in the form of copies, including in electronic form;
- Should preferably be obtained from independent sources outside the entity (an original supplier's invoice or contract is more reliable than an internally approved receipt note);
- Which is generated internally is more reliable if it has been subject to control and approval;
- Obtained directly by the Auditor (e.g. inspection of assets instead of inquiry about the asset).

- If the Auditor finds that the above criteria for evidence are not sufficiently met, he/she should detail this in the factual findings

2.3. Verification evidence

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

3. Verification methods of expenditure

The Auditor applies the principles and criteria set out below when planning and performing the specific verification procedures for selected expenditure.

3.1. Principle of selecting expenditure items for verifications

Verification by the Auditor and verification coverage of expenditure items does not necessarily mean a complete and exhaustive verification of all the expenditure items that are included in a specific cost heading.

- In this case, the Auditor indicates in the Financial Report the invoices that he/she has selected in the sample and verified.

3.2. Value as principle factor

Value should be the principal factor used by the Auditor to select expenditure items or classes of expenditure items for verification. The Auditor selects high value expenditure items to ensure an appropriate coverage of expenditure.

- However, the Auditor ensures that different type and different value of expenditure items are selected for the verification in order to obtain reasonable assurance about the eligibility of the Partner's expenditure.
- The verification coverage of expenditure items should not mean a selection of high value expenditure items only as the Auditor shall seek to cover all expenditure when selecting items for verification.

3.3. Systematic and representative verification

The Auditor should ensure a systematic and representative verification. Depending on certain conditions (see further below) the Auditor may obtain sufficient verification results for a cost heading by looking at a limited number of selected expenditure items.

3.4. Statistical sampling technique

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

- If applicable, the Auditor should explain in the report of factual findings the cost headings of the Financial Report where sampling have been applied, the method used, the results obtained and whether the sample is representative.

4. Expenditure Coverage Ratio ('ECR')

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

- The Auditor ensures that the overall ECR **is at least 65%**.
- If he/she finds an exception rate¹ of less than 10% of the total amount of expenditure verified (i.e. 6,5 %) the Auditor finalises the verification procedures and continues with reporting.

- If the exception rate¹ found is higher than 10% the Auditor extends verification procedures until the ECR **is at least 85%**.
- The Auditor then finalises verification procedures and continues with reporting regardless of the total exception rate found.

- The Auditor ensures that the ECR for each cost heading in the Financial Report **is at least 10%**.

¹ The exception rate expressed as a percentage represents the total amount of *ineligible expenditure* of the total amount of expenditure verified by the Auditor in the Partner's Financial Report. The exception rate shall include all exceptions found in the Financial Report including the ones of which the Auditor cannot quantify the amount of verification exception found. In that case the Auditor shall include in the calculation the total amount of the expenditure according to the original invoice, the accounting records and the Financial Report.

5. Procedures to verify selected expenditure

The Auditor verifies the selected expenditure items by carrying out procedures listed under the headline '**8 Performing expenditure verification and reporting the results**' on pages 13 to 31, and reports all the factual findings and exceptions resulting from these procedures in his/her report of factual findings.

Verification exceptions are all verification deviations found when performing the procedures

- The Auditor lists the ineligible expenditure clearly: description of invoice, number and date of invoice, amount of invoice (in rouble and in euro) and grounds for ineligibility.
- The Auditor reports all exceptions found including the ones of which he/she cannot quantify the amount of the verification exception found.

6. Irregularity, fraud, corruption and the risk indicators

The Auditor should verify whether the expenditure, especially expenditure regarding the procurements and staff, include any risks of irregularity, fraud and corruption.

6.1. Reporting irregularity, fraud, corruption and the risk indicators

The Auditor shall report the *findings regarding irregularity* (one-time or systemic irregularity) and the *risk indicators* in the 'Annex 2 Report for Expenditure Verification and Factual Findings'.

The Auditor shall report the *findings regarding fraud and corruption* directly to the Managing Authority, without any need of informing the Partner. This report 'Annex 5 Report on suspected and/or established fraud' shall not be submitted to the Partner.

6.2. One-time and systemic irregularity

Irregularity shall mean any infringement of the Grant Contract, EU or national law resulting from an act or omission by anyone who has, or would have, the effect of prejudicing the funds of the Programme by charging an unjustified item of expenditure in the Financial Report. Irregularity means e.g. VAT reported in the Financial Report even though the VAT is not an eligible expenditure for the project, insufficiencies of invoices and supporting documents (e.g. timesheets of part-time employees), audit trail not ensured, violation of procurement rules. Irregularities can be a one-time event or systematic by nature.

One-time irregularities are abnormalities that only appear once for the Partner and not regularly in expenditure of the same type. They emerge out of intentional or unintentional mistakes, and are isolated incidences.

Systemic irregularities are recurrent errors due to serious failings in management and control systems of the Partner. These reoccur frequently, affecting many expenditure items of a specific type.

In case the expenditure related to the irregularity (one-time or systemic) is deducted in the Partner's Financial Report by the Partner concerned, by the Auditor or by the Lead Partner, it is considered a *financial error*, not an irregularity.

6.3. Fraud

Fraud shall mean any intentional act or omission concerning the use or presentation of false, incorrect or incomplete, statements or documents which has as its effect the misappropriation or wrongful retention of Programme's financial contributions; non-disclosure of information in violation of a specific obligation, with the same effect; the misuse of such funds for purposes other than those for which they are originally granted.

6.4. Passive and active corruption

Corruption shall be defined as follows

'*Passive corruption*' shall mean the deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the Programme's financial interest.

'*Active corruption*' shall mean the deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official, for himself or for a third party, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the Programme's financial interests.

6.5. Risk indicators

When examining the procurement and labour cost documents the Auditor takes into account the following **risk indicators** and he/she reports, if applicable, which of these indicators were identified.

RISK INDICATORS PROCUREMENT

(EQUIPMENT AND SUPPLIES, INVESTMENTS, EXTERNAL EXPERTISE AND SERVICES)

Documents relating to the opening of tenders, the assessment of the eligibility of tenderers and conformity of tenders, the evaluation of the offers and the decisions with regard to the awarding of the contract.

The risk indicators relate to e.g. the inconsistencies in the dates of the documents or illogical sequences 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, inconsistencies in the selection and award process, same tenderer (or small group of tenderers) is invited to different tenders with unusual frequency or wins an unusually high proportion of the bids, a tenderer is frequently awarded contracts for different types of goods or services, use of non-official documents not showing the compulsory information such as company tax number

Risk indicators:

- **Avoidance of required competitive procedures** (e.g. not organizing a tender process, splitting the purchase into two or more purchase orders or contracts, unjustified single source award)
- **Non-compliance with the procurement procedures** (e.g. lack of publication of contract notice, extended time limits for receipt of tenders or requests to participate, insufficient time for potential tenderers to obtain documentation, failure to state (in sufficient detail) the selection and award criteria as well as their weighting, unlawful and/or discriminatory selection and award criteria, selection criteria which is not related and proportionate, modification of selection criteria after opening of tenders resulting in incorrect acceptance or rejection of tenderers, modification of a tender during evaluation, award criteria is not followed, discriminatory technical specification, insufficient definition of the subject-matter of the contract, lack of transparency and equal treatment, rejection of abnormally low tenders)



- **Defective pricing** (e.g. supplier fails to disclose current, complete and accurate expenditure or pricing data in the price proposals resulting in an increased contract price)
- **Lack of tendering process for favoured suppliers** such as pre-arranged specifications (e.g. tailoring requests for bids or proposals so that they contain specifications which are tailored to meet the qualifications of a particular bidder or which only one bidder can meet, drafting very narrow specifications in order to exclude other qualified bidders)
- **Extension and amendment of existing contracts to avoid retendering** (e.g. amendment made to a contract after it has been agreed between the Partner and the supplier, changing the contract terms/conditions to such an extent that the original procurement decision may no longer be valid, extending the original contract lengths via a contract amendment or additional condition, award of additional contracts including substantial modifications without competition in the absence of extreme urgency caused by unforeseeable events or an unforeseen circumstance for complementary works/services/supplies)

‘Substantial modifications’ means e.g. conditions which would have allowed for the admission of tenderers or the award of a tender to other than those initially admitted and accepted, extends the scope of the contract to works/services/supplies not initially covered, favours a contractor not provided for in the initial contract.

‘Unforeseen circumstances’ means e.g. new requirements or technical conditions that the Partner would not have foreseen despite of the Partner’s diligent technical investigation. Additional works/services/supplies caused by insufficient preparation of the tender/project are not considered ‘unforeseen circumstances’.
- **Leaking bid data** (e.g. the Partner leaks confidential information to help favoured bidder to formulate a superior proposal)
- **Manipulation of competitive procedure, bids and cost claims** (e.g. supplier with multiple similar work orders charge the same personnel costs or fees or expenses to several contracts, the Partner manipulates the bids after receipt, negotiation during the award process)
- **Late bids winning** (e.g. the bid received on the last day after the closing of the offering period expires wins the competition)
- **Winning bids being very close to the next lowest bid**
- **Evidence of the winning bidder communicating privately with the Partner**
- **‘Phantom’ suppliers** to submit complementary bids, inflate expenditure or generate fictitious invoices, the Partner authorizes payments to a fictitious supplier
- **Single supplier double claims expenditure**, such as false or inflated or duplicate invoices (e.g. multiple invoices with the same amount, the winning tenderer invoices additional goods not foreseen in the offer such as additional spare parts invoiced without clear justification or installation expenditure invoiced while not foreseen in the offer)
- **Product substitution** (e.g. suppliers substitute inferior quality items for those which are specified in the contract or otherwise fail to meet contract specifications and then knowingly misrepresent that they have)



- **Non-existence of products or operations not carried out in line with the agreement** (e.g. some or all products or services to be supplied as part of a contract may not be provided, oral agreements)
- **A team of adequately qualified personnel is proposed in a tender, only to implement the project with personnel that are inadequately qualified**
- **Undisclosed conflict of interests** (e.g. (sub)-contract is awarded to supplier in which a member or staff has an interest, whether financial or otherwise)
- **Kickback or bribes** to the Partner in order to influence the award of contracts

RISK INDICATORS LABOUR COSTS

Documents relating to e.g. work contracts, payroll data, social security details, time recording systems, overtime rules, general ledger

Risk indicators:

- Discrepancies between planned personnel against actual personnel
- Inadequately qualified personnel or a falsified descriptions of tasks performed by personnel in order to ensure that the expenditure claimed is considered eligible
- No prior authorization for significant changes in key personnel
- False labour costs (e.g. labour costs for activities that are not carried out, inflating the number of working hours, false documents supporting the existence of expenditure)
- Incorrect time rates claimed (e.g. misrepresentation of hourly rates or actual working hours)
- Excessive numbers of working hours for project staff
- Uncompensated overtime claimed as actual expenditure or overtime claimed where no credit for the extra hours is usually given to staff
- Labour costs are apportioned incorrectly between projects
- Fewer number of implementing staff than planned but all activities achieved
- Inaccurate descriptions of activities completed by personnel
- Labour costs claimed for personnel that do not exist or is not employed for the project
- Staff expenditure claimed for activities that took place outside the implementation period

7. Eligibility criteria

The Auditor verifies under each cost heading of the Financial Report that

- the expenditure selected for the expenditure verification fulfil the eligibility criteria set out below and in the 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme' under Article 15 Eligible costs.

The Auditor

- describes the exceptions found under the corresponding cost heading in the 'Annex 2 Report for Expenditure Verification and Factual Findings'
- lists the ineligible expenditure and the grounds for ineligibility in 'Annex 4 List of Ineligible Expenditure'

(1) Costs actually incurred (Article 15.1)

The Auditor verifies that the expenditure for a selected item was actually incurred by and pertains to the Partner. For this purpose the Auditor examines supporting documents (e.g. invoices, contracts) and proof of payment (i.e. all invoices must be paid by the date of submitting the Final Report). The Auditor also examines proof of work done, goods received or services rendered and he/she verifies the existence of assets (e.g. computers) if applicable.

(2) Cut-off - Implementation period (Article 15.1a)

The Auditor verifies that the expenditure for a selected item was incurred during the implementation period of the Project.

(3) Budget (Article 15.1b)

The Auditor verifies that the expenditure for a selected item was indicated in the Project budget.

(4) Necessary (Article 15.1c)

The Auditor verifies whether it is plausible that the expenditure for a selected item was necessary for the implementation of the Project and that it had to be incurred for the contracted activities of the Project by examining the nature of the expenditure with supporting documents.

(5) Records (Article 15.1d)

The Auditor verifies that expenditure for a selected item is recorded in the Partner 's accounting system and in the separate cost centre specifically established for the project and was recorded in accordance with the applicable accounting standards of the country where the Partner is established and the Partner 's usual cost accounting practices.

(6) Justified (Article 15.1e)

The Auditor verifies that selected expenditure is reasonable, justified and comply with the requirements of sound financial management, in particular regarding economy and efficiency.

(7) Fulfils the requirements of tax and social legislation (Article 15.1f)

The Auditor verifies that the selected expenditure is in compliance with the requirements of applicable tax and social legislation of the country where the Partner is established

(8) Supported by documents/ invoices (Articles 15.1 g, 17.1 and 17.3)

The Auditor verifies that the selected expenditure is supported by invoices or documents of equivalent probative value.

(9) Valuation

The Auditor verifies that the monetary value of a selected expenditure item agrees with underlying documents (e.g. invoices, salary statements) and that correct exchange rates are used where applicable.

(10) Classification

The Auditor examines the nature of the expenditure for a selected item and verifies that the expenditure item has been classified under the correct cost heading of the Financial Report.

(11) Compliance with Procurement Rules

Where applicable the Auditor examines which **procurement rules** apply for a certain cost heading, a class of expenditure items or an expenditure item. The Auditor verifies whether the expenditure was incurred in accordance with such rules by examining the underlying documents of the procurement and purchase process. Where the Auditor finds issues of non-compliance with procurement rules, he/she reports the nature of such events as well as their financial impact in terms of ineligible expenditure. When examining procurement documentation the Auditor takes into account the **risk indicators** listed in these guidelines for expenditure verification (pages 9 to 11) and he/she reports, if applicable, which of these indicators were found.

8. Performing expenditure verification and reporting the results

The Auditor shall perform the expenditure verification according to the guidance described under the headlines below. These headlines correspond to the headlines of the following two documents '**Annex 2 Report for Expenditure Verification and Factual Findings**' and '**Annex 3 Checklist for the Expenditure Verification**'. Therefore, the Auditor shall report the results of his/her expenditure verification under the corresponding headlines in 'Annex 2 Report for Expenditure Verification and Factual Findings' and 'Annex 3 Checklist for the Expenditure Verification'.

The following describes also the reporting principles of the results of expenditure verification. More details about the eligibility of expenditure is described in the 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme' and in the '**Programme Manual**' to which the Auditor shall refer to while performing the expenditure verification.

8.1. Headline '2 Expenditure, revenue and own contribution'

The Auditor fills-in the table '**Partner's Financial Report**' by reporting the total amount of expenditure, revenue and own contribution reported by the Partner under each cost, revenue and own contribution heading in its Financial Report.

In case the Reporting Partner's Financial Report include Invoicing Partner's expenditure, the Auditor shall fill-in the financial information of each Partner separately under each relevant heading in the table '**Partner's Financial Report**'.

The table 'Consolidated Financial Report' is filled in by the Lead Partner's Auditor in case of **decentralized accounting** model (the Lead Partner and at least one partner submit the Financial Reports). The Auditor reports under each cost heading the total amount of expenditure per cost heading, revenue and own contribution paid by external donors reported by the Lead Partner and each partner in their Financial Reports.

Both of these two tables shall report the following:

- '**Budget €**': total amount of each cost heading accepted in the valid budget of the Grant Contract and/or the Partnership Agreement
- '**Reported €**': total amount of expenditure reported by the Partner under each cost heading in its Financial Report
- '**Verified €**': total amount of expenditure verified by the Auditor under each cost heading in the Partner's Financial Report. In case of 'Consolidated Financial Report': total amount of expenditure verified by the Partner(s)' Auditor under each cost heading based on his/her 'Annex 2 Report for Expenditure Verification and Factual Findings'
- '**ECR %**' (amount of 'Verified' expressed as percentage): percentage of expenditure verified by the Auditor under each cost heading calculated from the total amount of expenditure reported by the Partner in its Financial Report

The Auditor ensures that the overall Expenditure Coverage Ratio ('ECR') is at least 65 % and that the 'ECR' of each cost heading is at least 10 %. Please look at the details regarding the 'ECR' under the headline '4 Expenditure Coverage Ratio ('ECR')' on page 7 of this document.

8.2. Headline '3 General procedures and analytical review to the budget and accounting records'

8.2.1. Headline '3.1 Budget-to-actual and amendments to budget and Grant Contract'

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme', Articles '1 General obligations', '2 Obligation to provide information and financial and narrative reports' and '9 Amendment of the Grant Contract'
- 'Programme Manual', 'Part A: Application' headline '2 Partnership' and 'Part B: Implementation' headline '12. Modifying the project'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the budget (e.g. cost and revenue headings, total

amounts of cost and revenue headings) reported in the Partner's Financial Report corresponds to the valid budget of the Grant Contract and/or the Partnership Agreement, whether the Partner has its own budget, whether the expenditure is reported consistently under the same cost headings in the Partner's Financial Reports, whether there has been made any amendment to the project budget, and whether there have been made any changes to the implementation period of the project.

The Auditor shall apply verification techniques such as reconciling the valid budget of the Grant Contract to the budget of the Partner's Financial Report, examining the amendment(s) made to the budget and reconciling it to the Partner's Financial Report.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the Grant Contract, valid budget, partner budget according to the Partnership Agreement, Partner's Financial Report
- **The results of the verification**, this means e.g. the Partner organization's method and internal control to manage the budget and to ensure that the budget and the cost, revenue and own contribution headings are correctly reported in the Partner's Financial Report. Examples of these are that the Partner reports in its Financial Report the cost and revenue headings according to the valid budget and that the Lead Partner has requested and obtained an addendum to the Grant Contract in case such an addendum is required by the provisions of the 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme'
- **Verification exception(s) found**, examples of these are that an amendment has been made to the project budget and the budget reported in the Financial Report is not the budget that has been amended, the Partner is reporting expenditure in its Financial Report under cost heading(s) that do not exist according to the valid budget

8.2.2. Headline '3.2 Financial Report'

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme', Articles '1 General obligations' and '2 Obligation to provide information and financial and narrative reports'
- 'Programme Manual', 'Part A: Application' headline '2. Partnership' and 'Part C: Financial management' headline '18. Financial reports and payment requests'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the financial reporting in the Partner's Financial Report is accurate, informative, free of arithmetical errors and covers the expenditure financed by the Programme contribution and by the Partner's own contribution, whether the Lead Partner and the Partner have signed a Partnership Agreement and does the Partnership Agreement describe in detail e.g. the partner's budget and own contribution, whether the Partner is submitting its Financial Report to the Lead Partner according to the deadlines defined in the

Partnership Agreement, and whether the financial transactions between the Lead Partner and the partners are made according to the Partnership Agreement.

The Auditor shall apply verification techniques such as reconciling the project's general ledger to the Partner's Financial Report, examining the compliance with the requirements of the Grant Contract and its annexes (e.g. model template) to the Partner's Financial Report, examining the Partnership Agreement and reconciling it to the Partner's Financial Report.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the general ledger, Partner's Financial Report, Grant Contract and the Partnership Agreement
- **The results of the verification**, this means e.g. the Partner organization's method and internal control to ensure that the Partner's Financial Report is drawn up on correct template, it is properly filled-in and drawn up for the correct reporting period, includes the necessary annexes and is submitted to the Managing Authority according to the deadlines defined in the Grant Contract. Examples of these are that the expenditure is reported in the Partner's Financial Report under correct cost headings, description of expenditure items is informative, the financial information and overall presentation of the Financial Report is accurate and free of arithmetical errors
- **Verification exception(s) found**, examples of these are that the rounding of amount(s) reported in Euro or in Rouble (two decimals) is not correctly applied, the expenditure is incurred before or after the implementation period, the Partner reports in its Financial Report only the share of expenditure financed by the Programme contribution

8.2.3. Headline '3.3 'Consolidated Financial Report'

NOTE! The following verifications under this headline are performed by the Lead Partner's Auditor

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Programme Manual', 'Part C: Financial management' headline '18. Financial reports and payment requests'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the Lead Partner has filled-in the Consolidated Financial Report properly and correctly (i.e. the financial information under cost and revenue headings in each partner's Financial Report is correctly transferred to the Consolidated Financial Report), whether it uses the same cost and revenue headings as the valid budget of the Grant Contract, whether the expenditure is consistently reported under the same cost headings in the Consolidated Financial Reports, whether the Lead Partner has made any corrections to the partners' Financial Reports (e.g. deducted expenditure as ineligible), whether it is ensured

that the total amount of administrative costs of the project does not exceed the percentage defined in the Article 4.3. of the Grant Contract (total eligible costs: headings 1-5, excluding heading 'Investments'), and whether the 'Annex 2 Report for Expenditure Verification and Factual Findings' of partners include any findings that should be reported as an exception.

The Auditor shall apply verification techniques such as reconciling the financial information (i.e. total amount per each cost and revenue heading) reported in the Lead Partner and partners' Financial Reports to the Consolidated Financial Report, to the valid budget and to the amounts actually incurred, reconciling the project budget to the Consolidated Financial Report, reconciling the total amount of revenues and own contributions paid by the external donors reported in the partners' Financial Reports and in the 'Annex 2 Report for Expenditure Verification and Factual Findings' to the Consolidated Financial Report.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the Consolidated Financial Report, Financial Reports of the Lead Partner and each partner, Partnership Agreement with each partner
- **The results of the verification**, this means e.g. the Lead Partner organization's method and internal control to ensure that only eligible and project-related expenditure is reported in the Consolidated Financial Report (Financial Reports of the Lead Partner and each partner). Examples of these are the Lead Partner's procedures (e.g. control and approval of expenditure) to ensure that all expenditure (Lead Partner and each partner) claimed and reported in the Financial Reports are project-related and according to the valid overall project and partner budgets
- **Verification exception(s) found**, examples of these are the verification exceptions stated in the 'Annex 2 Report for Expenditure Verification and Factual Findings' regarding partners' expenditure, the Lead Partner has not checked and approved the partners' expenditure, the Consolidated Financial Report does not reconcile to the Lead Partner and partners' Financial Reports, arithmetical errors in the Consolidated Financial Report, some of the partners' expenditure is reported under a wrong cost heading in the Consolidated Financial Report (the Consolidated Financial Report is not properly filled-in), the shares of realized own contribution is not reported in the Consolidated Financial Report according to the recording of it/them in the partners' Financial Reports

8.2.4. Headline '3.4 Rules for accounting and record keeping'

The form and nature of the supporting evidence (e.g. a payment, a contract, an invoice etc.) and the way expenditure is recorded (i.e. journal entries) vary with the type and nature of the expenditure and the underlying actions or transactions. However, in all cases expenditure items should reflect the accounting (or financial) value of underlying actions or transactions no matter the type and nature of the action or transaction concerned.

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:



- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Article '17 Accounts and technical and financial checks'
- 'Programme Manual', 'Part C: Financial management' headline '15. Accounting'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the expenditure is recorded in the project's accounting records in accordance with the national accounting principles and rules and to the organization's usual accounting practices, whether the Partner organization has established a separate cost centre or a suitable accounting code for all transactions relating to the project in its accounting system, whether the expenditure can easily be traced to and within the project's accounting system, whether the Partner organization's method of internal control is relevant to the preparation and fair presentation of the project accounting and Financial Reports, whether the Partner organization has a reliable method to accept invoices as project expenditure, whether the expenditure is supported by adequate documents (e.g. invoices or documents of equivalent probative value), whether the invoices are informative, detailed enough and indicate the name or identification number of the project, and whether it is ensured that the expenditure is not double-financed.

The Auditor shall apply verification techniques such as inspecting (e.g. inquiries and obtaining confirmation) the Partner organization's accounting practices and their compliance with the national accounting principles what concerns the recording of project expenditure in the Partner organization's accounting system, inspecting (e.g. inquiries and obtaining confirmation) the system how the Partner organization has established the project accounting, inspecting (e.g. inquiries and obtaining confirmation) the system of internal control relevant to the project accounting and financial reporting, inspecting the reliability of the financial information produced by the project's accounting system.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the accounting policies, accounting records, accounting programme, invoices, recording of the shares of own contribution paid by the external donors, incurred revenues, interests and ineligible expenditure
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure that the project accounting is organised according to the Programme requirements and that only project-related invoices are recorded in the project's general ledger and that there exists an audit trail from the Partner organization's accounting system to the project accounting. Examples of these are the Partner organisation's internal procedures (e.g. control and approval of invoices) to ensure that all invoices recorded in the project's general ledger and claimed and reported in the Partner's Financial Report are project-related and that all invoices related to the project are recorded in the project's general ledger only (not also elsewhere in the Partner organisation's accounting systems and records) and that all project invoices are easily identifiable and verifiable in the project's accounting system
- **Verification exception(s) found**, examples of these are ineligible expenditure recorded in the project's general ledger, double entry accounting system is not applied, financial value of invoice(s) does/do not reconcile to the project's general ledger, original invoice(s) does/do not exist or is not available, accounting system

does not produce an accurate and understandable general ledger of project expenditure (no list of invoices which can easily be traced to the expenditure items reported in the Financial Report) or that invoice has not been accepted as project-related by relevant superior or that the project's accounting practices deviate from the usual accounting practices of the Partner organization

The Auditor shall describe in the 'Annex 3 Checklist for Expenditure Verification' the system how the Partner organisation has established the project accounting within the Partner organisation. The Auditor shall also describe the name of the accounting programme used and the number of the project's accounting code in the Partner organization's accounting system.

The Partner shall submit to the Auditor a clarification on the systems the Partner organization is using for the main accounts of the Partner organization, the project accounts and for the payroll (heading "Staff costs").

8.2.5. Headline '3.5 Reconciling the Financial Report to the accounting system and records'

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Article '17 Accounts and technical and financial checks'
- 'Programme Manual', 'Part C: Financial management': headlines '15. Accounting', and '18. Financial reports and payment requests'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether there is an audit trail from the project's general ledger to the Partner's Financial Report, whether the project's general ledger can easily be reconciled to the Partner's Financial Report, and whether it is clearly indicated (e.g. by pen) in the project's general ledger under which cost heading the invoice in question is reported in the Partner's Financial Report.

The Auditor shall apply verification techniques such as reconciling the project's general ledger to the Partner's Financial Report, inspecting the audit trail from the project's general ledger to the Partner's Financial Report, reconciling the dates of invoices in the project's general ledger to the dates of invoices reported in the Partner's Financial Report.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the accounting records, invoices, Financial Report, document regarding the shares of own contribution paid by external donors and incurred revenues
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure that the expenditure reported in the Partner's Financial Report is eligible and that the financial information between the project's general

ledger and the Partner's Financial Report is consistent regarding both the reporting period and the implementation period. In other words, this means the Partner organisation's internal procedures to ensure that expenditure claimed and reported in the Partner's Financial Report is also recorded in the project's general ledger. Examples of these are that each invoice claimed and reported in the Partner's Financial Report can easily be traced to the project's general ledger and that the financial value of this invoice is consistent with the Partner's Financial Report and the project's general ledger

- **Verification exception(s) found**, examples of these are that the total amount of expenditure reported in the Partner's Financial Report is not consistent with the total amount of project's general ledger (e.g. a larger amount of total expenditure is claimed and reported in the Partner's Financial Report than what is recorded in the project's general ledger) or that there is expenditure reported in the Partner's Financial Report but not recorded in the project's general ledger for the correct reporting period (e.g. invoice that should be reported in the Partner's Financial Report during the next reporting period) or that the amount of an expenditure item reported in the Partner's Financial Report is different to the amount recorded in the project's general ledger (e.g. a larger amount of an invoice is reported in the Partner's Financial Report than what is recorded in the project's general ledger) or that the date of invoice reported in the Partner's Financial Report is not consistent with the date of invoice recorded in the project's general ledger

8.3. Headline '4 Eligibility of the reported expenditure'

The Auditor shall verify whether the Partner complies with the principle of sound financial management, particularly regarding the economy (expenditure incurred is in line with the planned activities and at a reasonable cost) and efficiency (the activities/outputs/results are achieved at the best price, i.e. the result to be achieved justifies the expenditure), as described in the 'Part C: Financial management' under the headline '16. Eligible and ineligible project costs' of the 'Programme Manual'.

The Auditor shall apply verification techniques such as inquiring the Partner (and obtaining confirmation) and inspecting relevant documents on how the Partner organization has organized the financial management of the project, its resources, internal circuits, systems and reporting in order to comply with the Programme requirement on the principle of sound financial management, and inspecting the documents (e.g. work contracts, procurement procedures) on how the requirement of cost-effectiveness of project expenditure is fulfilled.

8.3.1. Headline '4.1. Ineligible costs and use of currency exchange rate'

8.3.1.1. Headline '4.1.1 Ineligible costs, e.g. Value Added Tax, interests'

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Article '15 Eligible costs'



- 'Programme Manual', 'Part C: Financial management': headlines '16. Eligible and ineligible project costs' and '16.2 Value Added Tax (VAT)'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether there exists an official document about the eligibility of taxes and VAT for the project expenditure, whether the eligibility of the VAT is applied consistently in the Partner's Financial Report and in the accounting records of the project, and whether the expenditure reported in the Partner's Financial Report include ineligible costs.

The Auditor shall apply verification techniques such as inspecting the document proving the eligibility of the VAT for project expenditure and reconciling it to the Partner's Financial Report, reconciling the project's general ledger to the invoices and to the Partner's Financial Report, inspecting the documents (e.g. invoices) whether the expenditure includes any of the ineligible costs and reconciling it to the Partner's Financial Report.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the accounting records, invoices, Financial Report, document proving the eligibility of the VAT, proof of payment
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure that the ineligible costs are not reported in the Partner's Financial Report and not recorded in the project's general ledger. Examples of these are the Partner organisation's internal procedures to ensure that the VAT is not recorded in the project's accounting records and reported in the Partner's Financial Report in the case where the VAT is not an eligible expenditure for the Partner's expenditure in this project (in case it is recorded in the project's general ledger, the procedures to ensure that the VAT is not reported in the Partner's Financial Report)
- **Verification exception(s) found**, examples of these are that the VAT is included in the project expenditure and reported in the Partner's Financial Report even if the VAT is not an eligible expenditure or that the VAT is not applied and reported in the Partner's Financial Report consistently or that the expenditure item/invoice reported in the Partner's Financial Report includes interest on overdue payment or that there is no evidence (document) that the VAT is an eligible expenditure for the project or the reported expenditure includes debts, debt service charges (interest), fines or expenditure already financed by the public funding

The Partner (Lead Partner, reporting partner, invoicing partner) shall submit to the Auditor a document on the eligibility of the VAT for the project expenditure drawn up by the Tax Administration or some other official document explaining the eligibility of the VAT for the project expenditure. In the latter case the Auditor shall evaluate whether this other official document is reliable and acceptable in order to proof the eligibility of the VAT for project expenditure.

The Auditor shall give **a clear statement about the eligibility of the Value Added Tax ('VAT')** concerning the reported expenditure, and whether the Partner can reclaim them or not. The Auditor shall state this clearly in the 'Annex 3 Checklist for the expenditure verification'.

8.3.1.2. Headline '4.1.2 Currency exchange rate'

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Programme Manual', 'Part C: Financial management': headlines '16. Eligible and ineligible project costs' and '18.1. Drawing up a financial report'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the Partner has applied the InforEuro exchange rate correctly in its Financial Report, whether the invoices incurred in foreign currency are recorded in the project's general ledger according to the national regulations, whether it is ensured that the currency exchange rate losses are not reported in the Partner's Financial Report and when (which month) the expenditure is actually incurred.

The Auditor shall apply verification techniques such as inspecting the national regulations for recording invoices incurred in foreign currency to the project's accounting records, reconciling the table of the InforEuro exchange rates to the exchange rates used in reporting the invoices in the Partner's Financial Report.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the accounting records, invoices, Financial Report, tables of exchange rates used by the Partner
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure that the exchange rates are correctly applied within the Partner organisation what concerns the project expenditure. Examples of these are the rules and principles applied by the Partner organisation to record project expenditure incurred in foreign currency to the project's accounting system and to report this expenditure in the Partner's Financial Report
- **Verification exception(s) found**, examples of these are that the Programme requirement is not correctly applied (i.e. incorrect exchange rate or all decimals of the exchange rate are not used) or that the invoice incurred and paid in Euro is converted into Rouble for the accounting records and then converted from Rouble into Euro by using the exchange rate (InforEuro) required by the Programme in order to report the invoice in the Partner's Financial Report (in this case the invoice shall be reported in the Partner's Financial Report with the original financial value incurred and paid in Euro, no conversions Euro -> Rouble -> Euro) or that the month of cost originally incurred (e.g. signature of a contract) is not correctly applied in the Partner's Financial Report (this is important in the point of view of using the correct InforEuro exchange rates in the Partner's Financial Report)

8.3.2. Headline '4.2. Reported expenditure'

The Auditor carries out an analytical review of each cost, revenue and own contribution heading in the Partner's Financial Report.

The expenditure is eligible according to the criteria and conditions described in the Grant Contract, in its annexes and in the Programme Manual, such as that the expenditure must be real, reasonable, justified and transparently recorded in the project's accounting records. The Auditor shall verify under each cost heading in the Partner's Financial Report whether the reported expenditure is eligible and in accordance with the Grant Contract and the Programme rules and whether the expenditure include any of the ineligible costs or risk indicators.

8.3.2.1. Headline 'Staff' (Financial Report heading 1)

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Articles '12 Termination of the Grant Contract' and '15 Eligible costs'
- 'Programme Manual', 'Part C: Financial management': headlines '16. Eligible and ineligible project costs', '17.1. Staff' and '22. Irregularities, fraud and corruption'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the employment contracts of project staff describe the terms and conditions of project work in sufficient detail, whether the paid salaries (paid in national currency) and the length of the working day is consistent with e.g. the employment contract and the Partner organization's usual practices, whether the staff costs relate to the actual gross salaries including social security charges and other remuneration-related costs, whether the paid salaries (including holiday bonuses) of part-time project staff is correctly calculated as project expenditure, whether there exists rules, principles and methods for accepting the overtime work, whether there exists a method to monitor the working hours, and whether the expenditure under this cost heading includes ineligible expenditure such as bonuses and compensations which are not directly based on the national rules and laws or the expenditure include working hours which are based on e.g. estimation(s) of monthly working hours.

The Auditor shall apply verification techniques such as reconciling the payroll records to the supporting documents (employment contract, salary statements, timesheets for part-time employees), reconciling the timesheets of part-time employees to their salary statements and supporting documents (e.g. calculation basis), reconciling the holiday bonus calculations to the supporting documents and to the national law, and reconciling the calculations of the social security charges and other remuneration-related costs to the supporting documents, to the bank account statements (proof of payment) and to the relevant national social and tax legislation.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the employment contracts, job descriptions, list of employees working on the project, salary scale of the organization showing the normal salaries, pay slips, timesheets, proof of payment
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure the eligibility of staff costs. Examples of these are the

methods and processes by which the Partner organisation ensures that the share of part-time employee's salary cost (including social security charges and other remuneration-related costs) is correctly distributed as project expenditure, accurate monitoring system of project employees' working hours (working hours tally both on project and organization levels)

- **Verification exception(s) found**, examples of these are that the share of part-time employee's salary cost (including social security charges and other remuneration-related costs) is not distributed as project expenditure according to the timesheet (hours worked on the project in that specific month calculated from the total hours worked during that specific month) or that the monthly timesheet does not show the total amount of working hours the employee has worked during that month or that the calculation basis of the salary cost (including social security charges and other remuneration-related costs) is not correctly applied, i.e. based on the correct monthly salary (monthly salary according to the employment contract) or that no employment contract for the project work exists or it is not describing the terms and conditions (e.g. calculation basis for the salary) in sufficient detail or that some other risk indicators are met, e.g. inflating the number of working hours the employee has actually worked during the day or the month or that an uncompensated overtime work is claimed as actual expenditure or that the part-time employee's timesheet is not accepted and signed by the relevant superior

The Auditor shall check that the social security charges and other remuneration-related costs are paid according to the national law and that they are actually paid (proof of payment).

8.3.2.2. Headline 'Travel' (Financial Report heading 2)

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Articles '12 Termination of the Grant Contract' and '15 Eligible costs'
- 'Programme Manual', 'Part C: Financial management': headlines '16. Eligible and ineligible project costs', '17.2.Travel' and '22. Irregularities, fraud and corruption'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the daily allowances and km- reimbursement paid to the project staff is applied according to the national compensation rates and according to the Programme rules, whether it is ensured that those rates do not exceed the national compensational level of tax-exempt, whether those rates are applied and paid consistently as project expenditure, whether the travel costs are based on invoices and properly filled-in travel claims drawn up according to the rules and practices of the Partner organization and according to the requirements of national rules, and whether it is ensured that the expenditure does not include ineligible expenditure as described in the Programme Manual.

The Auditor shall apply verification techniques such as inspecting daily allowance and km-reimbursement documents (e.g. travel claims, mileage sheets) to the Programme rules and to

the project's general ledger, inspecting documents that prove the travel actually took place (e.g. agenda of the meeting, travel tickets) to the invoices and project's general ledger.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the travel tickets, agenda of the event or meeting, employee's travel claims, document regarding the reimbursement of kilometre and daily allowances (calculation basis), proof of payment
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure the eligibility of travel costs. Examples of these are the rules and principles on the compensation of travel costs applied by the Partner organisation, the process of producing travel claims (e.g. templates, compensation rates, approvals)
- **Verification exception(s) found**, examples of these are that the daily allowance is not correctly paid and applied (i.e. calculated for incorrect number of days or a some other different daily rate is applied or the daily rate used is not in national currency), or that the employee's travel claim is not informative and does not include the necessary financial and/or non-financial information in order to verify the eligibility of the travel cost or that travel claim does not exist or that the travel claim is not accepted by the relevant superior

8.3.2.3. Headlines 'Equipment and supplies' (Financial Report heading 3) and 'Small-scale investment' (Financial Report heading 4)

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Articles "4 Conflict of interest", '12 Termination of the Grant Contract' and '15 Eligible costs'
- 'Programme Manual', 'Part C: Financial management': headlines '16. Eligible and ineligible project costs', '17.3. Equipment and supplies and small-scale investments', '21. Procurement', '22. Irregularities, fraud and corruption'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the procurement procedures are performed in accordance with the national laws and the Programme requirements, whether a price comparison is made concerning low-value procurements and whether that price comparison is documented, whether the invoicing complies with the terms of the agreements/contracts and whether the goods are delivered accordingly, whether the equipment is in the possession of the Partner and used for the purposes of the project only, and whether there exist a clarification about equipment purchased as second-hand.

The Auditor shall apply verification techniques such as inspecting the procurement process and documents to the Programme rules on procurement, reconciling the invoices to the terms of payment of the contract/agreement, examining the delivery documents of the

equipment and supplies to the reception documents of it/them (proof of delivery) and to the contract/agreement, to the general ledger and bank account statements (proof of payment), inquiring and obtaining confirmation from the Partner that the equipment and supplies are in the possession of the Partner organization and used for the project activities only.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the procurement documents, invoices, documents related to the proof of delivery and proof of payment
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure the eligibility of expenditure related to the acquisition of equipment and supplies. Examples of these are the rules and principles applied by the Partner in procurement procedures and the evidence that the equipment is used by the Partner for the purposes of the project only
- **Verification exception(s) found**, examples of these are that the procurement procedure was not correctly applied and/or documented (i.e. the Programme rules were not applied or what concerns the low-value procurements, no price comparison is made and the purchase is based on direct award) or that the purchase of the equipment is not foreseen in the valid budget or that the invoicing does not agree with the terms of the agreement/contract or that the equipment is purchased after the implementation period of the project or the equipment is purchased or rented from another project partner or from the Partner organization or that some other risk indicators are met, e.g. specifications are tailored to meet the qualifications of a particular bidder or which only one bidder can meet, the winning tenderer invoices additional goods not foreseen in the offer such as additional spare parts

8.3.2.4. Headline 'External expertise and services' (Financial report heading 5)

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Articles '4 Conflict of interest' '12 Termination of the Grant Contract' and '15 Eligible costs'
- 'Programme Manual', 'Part C C: Financial management': headlines '16. Eligible and ineligible project costs', '17.4. External expertise and services', '21. Procurement', '22. Irregularities, fraud and corruption'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the procurement procedures are performed in accordance with the national laws and the Programme requirements, whether a price comparison is made concerning low-value procurements, whether the contract explains in detail the task/activities of the service/procurement, whether the payment is based on properly filled-in invoice and whether the expert delivered the report and other outputs of the agreed service.

The Auditor shall apply verification techniques such as inspecting the procurement process, documents and contract to the Programme rules on procurements, reconciling the invoices to the terms of payment of the contract/agreement, examining the reception of the documents (e.g. report, translation) of the services to the contract/agreement (proof of delivery) and to the general ledger and bank account statements (proof of payment).

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the procurement documents, contracts, invoices, documents related to the proof of delivery and proof of payment
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure the eligibility of expenditure related to the purchase of external expertise and services. Examples of these are the rules and principles applied by the Partner in procurement procedures and the evidence related to the reception of acquired services
- **Verification exception(s) found**, examples of these are that the procurement procedure was not correctly applied and/or documented or that the purchase of the service is not foreseen in the valid budget or that the invoicing does not agree with the terms of the contract or that the agreed service was not delivered to the Partner or that the payment to the service provider is not based on proper/properly filled-in invoice submitted by the service provider or that some other risk indicators are met, e.g. contract is awarded to a service provider in which a member of the staff has an interest, the service provider charges the same personnel costs or fees twice, oral agreements

8.3.2.5. Headline 'Investments' (Financial Report heading 7)

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Articles '4 Conflict of interest', '12 Termination of the Grant Contract' and '6 Visibility' and '15 Eligible costs'
- 'Programme Manual', 'Part C: Financial management' headlines '16. Eligible and ineligible project costs', '17.6. Investments', '21. Procurement', '22. Irregularities, fraud and corruption'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the procurement procedures are performed in accordance with the national laws and the Programme requirements, whether the invoicing complies with the terms of the contract and whether the goods are delivered accordingly, whether the necessary permits and legal documents exist.

The Auditor shall apply verification techniques such as inspecting the procurement process, documents and contract to the national law and to the Programme rules on procurements, reconciling the invoices to the terms of payment of the contract, examining the

delivery documents of the purchase (e.g. goods, materials, installation, labour work) to the reception documents of it/them (proof of delivery, proof of work) and to the contract, to the general ledger and to the bank account statements (proof of payment), inspecting other relevant documents (e.g. permits, legal documents) to the legal requirement(s).

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the procurement documents and procedures, contracts, invoices, documents related to the proof of delivery and proof of payment
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure the eligibility of expenditure related to the acquisition of investments. Examples of these are the rules and principles applied by the Partner in procurement procedures and in the process relating to permissions
- **Verification exception(s) found**, examples of these are that the procurement procedure was not correctly applied and/or documented or that no document specifying the ownership of the land where the works are carried out is provided to the Auditor for verification or that the building permission is not yet available even if the works are already carried out or that procurement indicated some other risk indicator(s) e.g. artificial splitting of the work contract in order to avoid the competitive procedures, some of the products to be supplied as part of the contract is not delivered or the supplier substituted the product with inferior quality while invoicing according to the contract or the award of additional contracts including substantial modifications without competition

8.3.2.6. Headline '4.3. Revenues (Financial Report headings 9) and own contribution'

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Articles '12 Termination of the Grant Contract' and '15 Eligible costs'
- 'Programme Manual', 'Part C: Financial management' headlines '18. Financial reports and payment requests' and '20. Own contribution, revenues and interest'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether there have been established specific accounts in the project's general ledger dedicated to record the project-related revenue and own contribution from external donors, whether the contributions from external donors and revenues are related to the project and whether there is a clear specification what kind of contribution is 'own contribution'.

The Auditor shall apply verification techniques such as reconciling the project's general ledger to the documents regarding revenues and own contribution paid by external donors and

to the Partner's Financial Report, examining documents whether there exist revenues that should be allocated to the project.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the project's general ledger, Partner's Financial Report, invoices, documents specifying the incurrence of revenue and own contribution paid by external donors, valid budget, Partnership Agreement, bank account statements
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure that any project-related revenue (allocated or not foreseen in the project budget) is recorded in the project's general ledger and reported in the Partner's Financial Report in correct financial value. The same concerns the shares of own contribution paid by external donors. Examples of these is the Partner's methods and processes to calculate, record and monitor the shares of own contribution paid by external donors
- **Verification exception(s) found**, examples of these are that revenues incurred during the reporting period is not reported in the Partner's Financial Report or that there is no revenue budgeted to the project, however project-related revenue is incurred but not recorded as revenue in the project's general ledger and not reported in the Partner's Financial Report

8.3.2.7. Headline '4.4. Final Financial Report'

The Auditor shall verify that the Partner's procedures and expenditure comply especially with the requirements and eligibility rules of the following documents when performing the expenditure verification work under this headline:

- 'Annex II Conditions applicable to Grant Contracts financed by the Karelia CBC Programme': Articles '12 Termination of the Grant Contract', '17 Accounts and technical and financial checks' and '18 Final amount of financing by the Managing Authority'
- 'Programme Manual', 'Part B: Implementation' headlines '14. Closing the project' and '14.3 Archiving' and 'Part C: Financial Management' headline '16. Eligible and ineligible project costs'
- 'Annex 3 Checklist for the Expenditure Verification'

The procedures performed by the Auditor in his/her expenditure verification work shall include verifications such as whether the equipment is delivered and installed during the implementation period of the project, whether there exists a reliable method how to calculate the amount of interest accrued on Programme contribution paid to the Partner (in case the Partner is not a non-public body or governmental department), whether the interest generated by the Programme contribution is reported in the Partner's Financial Report and deducted from the payment request, whether all the expenditure is paid by the date of submitting the Final Report, and whether there has incurred any profit deriving from the surplus of the receipts over the eligible expenditure in the project (non-profit principle).

The Auditor shall apply verification techniques such as reconciling the interest recorded in the accounting records to the bank account statements (in case the bank account produces interest), recalculating the interest based on bank account agreement (in case no bank account statement indicating the amount of interest is available), inspecting (inquiries and obtaining confirmation) the delivery and reception of goods and services (proof of delivery), inspecting the invoices in order to ensure that all expenditure is paid by the date of submitting the Final Report (proof of payment) and reconciling them to the project's general ledger and to the bank account statements/bank transfer confirmations, inspecting (inquiries and obtaining confirmation) the calculations showing the balance between expenditure and receipts and reconciling them to the project's general ledger and supporting documents.

Examples of verified documents, results of verifications and exceptions found:

- **What has been verified**, examples of these are the Grant Contract and/or Partnership Agreement, valid budget, Financial Report, invoices, bank account statements, archiving system of project-related documents, proof of payment
- **The results of the verification**, this means e.g. the Partner organisation's method and internal control to ensure that the project-related expenditure has incurred during the implementation period of the project and that the invoices are paid by the date of submitting the Final Report and that the project-related documents are properly archived as one file after the end of the implementation period. Examples of these are that only reasonable costs relating to the expenditure verification, Final Report and budgeted evaluation of the project incurred after the implementation period is reported in the Partner's Final Financial Report and that those invoices are recorded in the project's general ledger annexed to the Partner's Final Financial Report and the Partner's methods and processes to ensure that the shares of revenue and own contribution paid by external donors foreseen in the Grant Contract and in the valid budget is actually realized by the end of the implementation period of the project and that the non-profit principle is respected
- **Verification exception(s) found**, examples of these are that the own contribution paid by external donors is not realized as foreseen in the Grant Contract and/or Partnership Agreement or that the financial transactions between the Lead Partner and the partner(s) have not incurred as foreseen by the Partnership Agreement(s) or that the Partner has purchased an equipment (which has also been invoiced and recorded in the project's general ledger) few days before the end date of the implementation period even though the actual delivery of the equipment takes place after the end date of the implementation period or that there has incurred surplus of receipts (Lead Partner and partners) over the total amount of realized eligible expenditure (Lead Partner and partners) and the surplus is not deducted in the Consolidated Financial Report (i.e. the non-profit principle is not applied)