

The methodology for checking expenditure documents of the Estonia-Russia CBC Programme 2014–2020 by the financial control bodies

This document provides guidance on how to verify the declared expenditures by the project partners on a random sample basis and which principles shall be followed during on-the-spot checks.

Basic principles of the methodology

Pursuant to Article 125(5) of Regulation (EU) No 1303/2013 of the European Parliament and of the Council, the verifications comprise two key elements namely, administrative verifications (i.e. desk-based verifications) in respect of each partner report and on-the-spot checks of operations.

In order to accelerate the management verification of the partner reports and focus on risks there is an option to use simple random sampling. Sample items are selected so that the sample can be expected to be representative of the population. Therefore, all items in the population have an equal chance of being selected. In this case simple random sampling is applied as a sample selection method. Sampling unit is an invoice, a cost report etc.

1. Desk-based verification

1.1. 100% verification is done for:

- All cost descriptions in the list of expenditures under field Description in eMS;
- First partner report¹;
- Public procurements;
- High value items with the value from 5000 euros² (excluding VAT). A cost line can be omitted from the sample in case of similar cost line of the related contract has been previously verified or is planned to verify within the same payment;
- Staff costs of a newly recruited person;
- In case flat-rate is used in the report, the FLC / auditor verifies the correctness of calculation of flat-rate.

1.2. Random sampling³

Random sampling of 10 % of value of expenditures not verified according to point 1.1.

- At least once during the project duration, every budget heading must be included in the sample.
- If the report includes cost lines, where previously have been shortcomings (ineligible costs, irregularities etc.), they may be further included in the sample.

¹ Full report with real costs

² With the exception of Staff cost that is presented as one sum for the reported period – in that case Staff cost will be verified according to point 1.2.

³ Sample is made using Excel

- The costs defined as “other” within each budget heading (if applicable) must be included in the sample.

In case **ineligible cost** (except for calculation mistakes, missing documents etc.) in the verified expenditures is found:

- up to 2%, the sample will not be extended;
- in the amount of 2,01 % – 9,99 %, the sample will be extended to 50 % of costs based on the content of the error or in the specific budget heading⁴, using the random sampling;
- in the amount of 10% or more, the sample will be extended to 100 % of costs based on the content of the error or in the specific budget heading, using the random sampling .

For expenditures of Russian beneficiaries the auditors must pay attention to the currency exchange rate.

For the purpose of an adequate audit trail, the financial controller must compile and document a precise description of how every sample was taken when using the sample-based methodology for checking the eligibility of the costs declared in the partner report. This description should indicate to the details of the methodology followed by the financial controller and also refer to the main results and the type of errors detected during desk-based verification.

In the technical assistance reports only items with the value from 5000 euros (excluding VAT) that have not been previously controlled in the frames of other procedures in State Shared Service Centre are verified by the financial controller. Branch Office expenditures are checked in accordance with project sampling methodology.

2. On-the-spot checks

On-the-spot checks are carried out complementary to the desk-based check in order to verify in particular the reality of the operation, delivery of the product/service. On-the-spot checks can also be conducted to check whether the project partner is providing accurate information regarding the physical and financial implementation of the operation.

On-the-spot checks by Russian auditors are carried out complimentary to the desk-based check or compulsory to those aspects that are either not possible or are difficult to verify through desk administrative verification. For example, confirming the reality of accounting entries in the official accounts of the beneficiary, checking the reality of the activity, the physical progress, respect of rules on publicity, the delivery of the product or service in full compliance with the terms and conditions of the contractual agreements. For compulsory on-the-spot checks the random sampling method may apply.

If either equipment will be purchased or investments made by a project partner during the implementation of project activities, on-the-spot checks of the respective project partner should be conducted at least once during the lifetime of the project before the final payment to the respective project partner is made. The need to carry out on-the-spot checks is decided by the FLC / auditor depending on the content of the project as well as type and value of equipment (e.g. if only laptop is purchased, it does not acquire on-the-spot check). If for some reason it is not possible to carry out on-the-spot check with a

⁴ The sample should be extended to costs where there is a risk of same error(s).

partner, another way must be found to make sure that the costs have been done and items are present.

In the event of risks or shortcomings (i.e. problems with reporting, eligibility, procurements) are found by the financial controller during the desk-based check of partner reports, it may lead to on-the-spot check, even if it was not initially planned.