



7. FINANCIAL MANAGEMENT

7. FINANCIAL MANAGEMENT

This section deals with:

- Rules for eligible costs
- Rules by cost categories
- Rules for proper accounting for project expenditure
- Expenditure verification
- On-the-spot checks
- Audit on projects
- Anti-Fraud and anti-corruption policy

7.1. RULES FOR ELIGIBLE COSTS

According to art. 48 of the Implementing Regulation ENI IR 897/2014 and GC art.14, project eligible costs are only “actual” costs incurred by the LB and its PPs **during project implementation** (see chapter 3), compliant with the Programme rules and meet the 8 criteria indicated in art.14.

7.2. RULES BY COSTS CATEGORIES

The budget of the ENI CBC MED projects foresees **Direct and Indirect costs**.

7.2.1 Direct Costs

They are costs that will be incurred by the Lead Beneficiary and project partners. Direct costs belong to 7 (seven) cost categories as follow:

Preparatory Costs

Preparatory costs are those needed to prepare the project proposal, they are eligible provided that:

- I. They are incurred after the publication of the call for proposals and before the deadline for the submission of the proposal. They are eligible only if the project proposal has been selected by the Programme;
- II. They are limited **to travel and subsistence costs only for staff** employed by the Applicant and/or the Partners. Therefore, other types of costs (such as salaries of the staff, consultant services, etc.) and/or travels and subsistence costs related to consultants are not eligible;
- III. They cannot exceed the amount of **10,000 euro** per project;
- IV. The calculation method has to be supported by documents;
- V. Preparatory costs need to be included as reported expenditures in the first interim report.

Human resources (only staff costs)

They are costs related to the actual time worked for the implementation of the project by the permanent or temporary (ad hoc recruited) employees of the LB and PPs organisations. Only staff cost directly employed by the LB and PPs is eligible.

They shall be related to the costs of activities, which the LB and PPs would not carry out if the project were not undertaken. They correspond to actual gross salaries including social security charges and other components deriving from the national legislation of the country. Variable costs (such as performance bonus, incentives, etc.) cannot be included under the eligible staff costs. Overtime can be charged to the project only if the total job time of the concerned staff is devoted to the project implementation. Staff costs from non-partner organizations are not eligible. Organizations fully-owned by the LB or any PPs, but financially and functionally independent, can charge their staff costs to this cost category. However, the LB/PP organization shall pay back the staff costs to the controlled bodies, in order to ensure the actual payment of the expenditures from the project account.

Salaries and other costs must not exceed those normally borne by the LB and/or the PPs, unless it is proven and duly justified that higher amounts are essential to carry out project activities. Staff cost shall not include costs for consultancy services (such as the support to the technical and financial project management). Consultancy services fall under “Budget Line 6. Costs for services”.

The actual time devoted by each person at WP level and its actual cost will be reported through detailed timesheets and checked by the auditor when these costs are reported in the periodic financial reports of the project.

Travel and subsistence costs

They are foreseen to cover travel expenditures of staff and other people involved in the Project such as speakers or participants invited to specific events and having a clear link with project activities. Travels outside project activities areas need to be previously authorized by the MA through a request to be made to the JTS.

These costs should neither exceed those normally borne by the LB or its PPs according to its internal rules and regulations nor the EC rates published at the time of the mission. EC rates are available at the [following link](#). Therefore, the usual policy for such costs has to be documented, either through the internal regulation, or through the accounting for trips paid prior to project implementation. Usual policy of the LB or its PPs may also include that the same position could be implemented by more than one staff member.

Travel costs normally include:

- i. Fuel (for vehicle belonging to the Lead Beneficiary/Partner organization);
- ii. Kilometre costs (in case of private car rental);
- iii. Taxi or car rental, only when public transport means are not available or for other exceptional reasons;
- iv. Public transportation (planes, trains, buses, etc.);

Subsistence costs may include:

- i. Accommodation;
- ii. Meals;

- iii. Local travel within the place of mission and
- iv. Sundry expenses for subsistence costs.

These costs can either be reported as “reimbursed costs” or “per diem”.

Infrastructures and small-scale investments

Infrastructures and small Investments (e.g. solar, organic waste treatment plants, etc.) are expected to have been carefully described and justified in the relevant sections of the e-form. In particular, their potential environmental impact in the concerned territories have been already described (See Section 3 of the e-form). Public works for restoring/adapting existing infrastructures - to be exploited for project activities implementation – are considered in this cost category as well. Exceptionally and in duly justified cases, the MA may accept a later submission of the permits and design documents not more than 6 months from the start date of the contract.

Equipment and supplies

Equipment costs are defined only as purchasing or long term renting, for equipment and durables (new or used) specifically identified and exclusively devoted for the purpose of the project, as well as the costs of services for their transportation and installation, provided they correspond to market rates. It refers to all materials (durable goods with a lifetime of at least one year) that are used to perform the project actions and which have to be (after the purchase) listed in the “inventory of durable goods” of the organization.

Equipment for projects operations such as computers, office furniture, etc. has to be purchased within the first semester of project implementation since they are necessary for project running. Equipment related to project activities such as fishing nets, solar panels, water pumps, etc. could be purchased all over project life according to the approved GANTT chart (i.e. activities and outputs overviews). Rules of nationality and origin shall also apply. No restriction may be applied to the nationality of the contractors and the supplies may be originated from any country for purchases below 100,000 €. (GC. art.15).

Supplies. In accordance with article 10 par. 3 of ENI Common Implementing Rules (Regulation (EC) 236/2014), being the Programme operated through shared management and being the MA an Italian public administration, the MA will accept purchase of supplies as long as they are in line with the restrictive measures on trade established and regularly updated by the European Union.

A list of restrictive measures (sanctions) in force can be found [here](#). The map allows to verify if there are particular restrictions which may be relevant for the rule of origin (importing of products). In particular, if there are any embargoes on goods from the list of countries marked in the map. For the purposes of this Regulation, the term “origin” is defined in Article 36 and 37 of Council Regulation (EEC) No 450/2008 (1) and other legislative acts of the Union governing non-preferential origin.

According to GC art. 22.6 ownership of equipment, vehicles and supplies paid by the Project must be transferred to partners in the countries where the activities were carried out or to the final recipients of the Project, at the latest when submitting the final report. Copies of the proofs of transfers of equipment's and vehicles, the purchase cost of which was more than 5,000 € per item, must be attached to the final report. Proofs must be kept for control purposes according to contractual obligations.

Key issues:

- ✓ Some projects try to split one tender for a identified item (such as solar plant) in several tenders with the scope to remain below 100,000 €. This could be the case for one solar plant where the Beneficiary launches separate procurements for the photovoltaic modules, the combiner box and the inverter. This procedure is illegal. Expenses reported falling under this procedure will be considered as non-eligible.
- ✓ If the lifetime of the equipment extends after the project implementation period is over, the full cost of the equipment is eligible (and not the depreciated part of the equipment only), provided that the conditions indicated in this section are still met and, in particular, that the equipment is owned by the final recipients of the project.

External Services

They are costs to support technical and financial project management, Expenditure Verification Report (EVR)¹, studies, information and dissemination activities, short-term equipment rental² for events organisation, evaluations, translation, etc. and financial services costs such as the cost of bank transfers and financial guarantees. They have to be aligned with the current market rates. External services may only support the project, in no case the bulk of the project activities will be subcontracted.

Other costs

Other costs may include “Sub-grants” (GC art.3.5 and 16.6 L) to provide financial support to third parties involved in the project. They should be duly justified and compliant with the State Aid provisions (*de minimis* regime) (GC art.4.7). The selection process for the beneficiaries of “Sub-grants” such as researchers, entrepreneurs, local NGO's, etc. has to be properly detailed in the reporting documents, if not already detailed in the Full Application Form.³

As well, under this cost category, the project will indicate any eligible cost that meets the general eligibility criteria indicated at art. 14 of the Grant Contract and does not clearly fall under the other six cost categories of the project.

¹ Costs for external expenditures verification shall not exceed 3% of the total eligible budget costs.

² Such as, interpretation booths microphones for an event etc.

³ See the informative note on Sub-Grants.

7.2.2 Indirect Costs

Administrative costs

Administrative costs are the indirect costs incurred by the Lead Beneficiary and its partners. They shall be eligible for flat rate funding, up to a maximum of 7% for each partner direct costs excluding infrastructures costs according to e-form budget and as resulting from the “administrative cost calculation file” submitted with the e-form. No supporting documents have to be produced to justify these costs during reporting. However, the MA may request supporting evidence to verify the actual calculation method during the project implementation period. Administrative costs are not eligible, if the beneficiary received an “operating grant⁴” financed by the EC since this would be considered as “double funding”.

The auditor in charge of the expenditure verification, will need to check within the first interim report, the calculation method of the amounts indicated in the above mentioned “administrative cost calculation file”.

If the Lead Beneficiary or a partner is not entitled to receive any administrative costs, these will be deducted by the MA from the total accepted eligible costs included in the interim and final reports.

Contingency reserve

A contingency reserve not exceeding 3% of the direct eligible budgeted costs may be included in the Project budget⁵. It can only be used with the prior written authorisation of the MA.

The request must be addressed to the MA via JTS and it shall contain evidence of the unforeseen circumstances which lead the project to request for the use of the contingency reserve. Moreover, the request must contain the type of cost (cost category) and any justification on its calculation as well as the number of partner which will need to use it.

Delays in project implementation are not considered unforeseen circumstances if they are not fully independent from the Lead Beneficiary or the partner which is facing them.

7.3. PROPER ACCOUNTING FOR PROJECT EXPENDITURE

As anticipated in chapter 3, setting a proper accounting is an integral part of “project starts”. Accounting is the systematic recording, reporting and analysis of the financial transactions of an entity. To keep proper accounting records, partners must respect the following principles:

⁴ Operating Grant is a grant to finance the operating expenditures of a EU body that is pursuing a general European interest or an objective that forms part of a EU policy.

⁵ The use of the contingency reserve is allowed, for instance, in case of exceptional fluctuations in the exchange rates preventing the purchase of goods, works or services needed by the project.

- a. Accounting records must be double-entry (debit/credit);
- b. Accounting records must be based on a properly defined chart of accounts;
- c. The methods used must ensure that once an accounting entry is recorded, it can no longer be altered.

The person appointed to keep the project's accounts should have the skills needed for this job. An organisation may opt to keep a separate set of accounts specifically for the project, or to include the project's accounts in their own accounting system. In the latter case, they should have a method of ensuring that the project's records are easily identifiable. For example, the project transactions must be clearly identified through analytical codes in the accounting software.

LB and PPs shall ensure that requests for payments and financial reports are properly and easily reconciled to the Beneficiary's accounting and bookkeeping system. To this respect, the Beneficiary shall prepare and keep appropriate reconciliations, supporting schedules, analyses and breakdowns for inspection and verification.

Accounting records (computerised) from the LB and PPs accounting systems such as general ledger, sub ledgers and payroll accounts, fixed assets registers and other relevant accounting information may include proof of:

- Procurement procedures such as tendering documents, bids from tenderers and evaluation reports;
- Commitments such as contracts and order forms;
- Delivery of services such as approved reports, time sheets, transport tickets;
- Travel tickets and boarding passes, if any;
- Attendance to seminars, conferences and training courses (including relevant documentation and material obtained, certificates), etc;
- Receipt of goods such as delivery slips from suppliers;
- Completion of works, such as acceptance certificates;
- Purchase such as invoices and receipts;
- Payment such as bank statements, debit notices, proof of settlement by the contractor;
- VAT that has been paid cannot actually be reclaimed.

For fuel and oil expenses related to transport, summary list of the distance covered, fuel and maintenance costs;

Staff and payroll records such as contracts, salary statements, time sheets. For local staff recruited on fixed-term contracts, details of remuneration paid, duly substantiated by the person in charge locally, broken down into gross salary, social security charges, insurance and net salary.

7.3.1. Avoiding of double financing

The key concept is to avoid double funding from different co-financing sources of the same expenditure item. Whereas analytical accounting systems help in this respect,

more straightforward measures must also be foreseen, such as the annulling of paper original expenditure documents and other probative documents with a rubber-stamp, which should include the name of the Programme and the project reference number.

In case of electronic invoices or expenditure documents as well as electronic payments (bank transfers), the same information have to be included in the “reason for payment”.

As far as Human resources are concerned, in the event the organization does not have or use the electronic, each staff or similar will need to fill in monthly timesheets with a clear indication of the days and hours of the actual time devoted to the project, which will be verified by the auditor as well as by the MA as the case may be.

Finally, the MIS will combine the expenditure and payment information in order to detect potential risks of double financing.

7.3.2. Expenditure verification

According to article 32 of the ENI-CBC Implementing Rules *“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.”*

The appointed auditor shall meet the requirements set by the ENI-CBC Implementing Rules and shall be independent from the LB and PPs’ organisations as well as the programme bodies (MA/JTS/AA). Specific procedures have been set up in each participating country to ensure that the auditor selected by the LB or PP meets these requirements.

Such verifications are carried out at national level by the Control Contact Points which will have to endorse the choice by validating the selected auditor. Before signing the contract with the selected auditor, the LB and the PPs organizations shall have to send the documents required in order to allow the CCP of its respective country to verify the auditor’s requirements.

Once validated by the CCP, the LB and each PP shall conclude the agreement with the selected auditor setting the scope of tasks and the procedures which shall be fulfilled during the expenditure verification process.⁶

The participation of the person in charge of the expenditure verification in the training courses organised by the MA, prior to their contracting by project beneficiaries and partners, is considered as mandatory.

The Managing Authority, the Joint Technical Secretariat or the Control Contact Points may carry out quality control of the work carried out at any moment during the

⁶ A template of the contract between the Lead beneficiary/Partner and auditor and the Terms of References for the Auditors are available in Annex 4 and Annex 2.

execution period of the Grant Contract. Any project auditor may be replaced if considerations cast doubt on their independence, if their professional standards do not meet the requirements set in the Terms of Reference, or if substantial errors are detected in reports previously submitted that cast a reasonable doubt of their professional reliability.

The MA will immediately inform the CCP of the concerned country in order to take the appropriate actions and to remove from a long list of auditors the one/s concerned as the case maybe.

The tasks of the auditors appointed by the project Lead Beneficiaries and partners are, *inter alia*:

- a) to verify that goods and services have been delivered and the works have been performed;
- b) to verify that the expenditure declared by the beneficiaries relates to the eligible period or previous ones and it has been paid;
- c) to verify the compliance with applicable rules (including eligibility rules), also including procurement and visibility requirements;
- d) to verify the compliance of the expenditures with the approved project and the signed Grant Contract;
- e) to check the related documents and accounting on avoidance of possible double funding;
- f) to verify the adequacy of supporting documents;
- g) to check the registration of the expenditure in the accounting records of the beneficiary and that the expenditure is determined according to the accounting standards and the usual cost accounting practices applicable to the beneficiary;
- h) to check the record-keeping and archiving rules for the documentary evidence related to the implementation of the project;
- i) to notify irregularities and suspicion of fraud or corruption, as the case may be⁷.

Expenditure incurred and paid by LB or PP can be claimed within the project only after their respective independent auditor verified it.

The project auditors will check the documents through the ENI Monitoring System of the Programme. However, they must ensure to carry out *in situ* verification at least once in the lifetime of the project and most preferably during the verification of the final report, in order to verify the original supporting documents, the procurement procedures, the outputs of the project, the evidence of services, works, equipment, goods co-financed through the projects, the adequacy of the accounting systems. A list of project outputs will be produced and signed by the auditors as attachment to the EVR.

⁷ If an auditor identifies potential fraud or corruption, it will inform directly to MA via a specific report, which is not delivered to the concerned beneficiary.

The expenditure verifications shall be carried out according to formats and checklists agreed with the MA and their outcome will be the Expenditure Verification Report (EVR) that will be attached to each payment request following the initial pre-financing.

A copy of the project reports and the EVRs shall be also submitted to the concerned Control Contact Points, in order to allow them to carry out checks, as the case may be. The EVR could also be made available by the auditors in a specific section of the Monitoring and Information System (MIS).

A consolidated EVR, including the results of the verifications carried out by all partners' auditors shall be fill-in by the auditor of the Lead Beneficiary.

The Lead Beneficiary and the partners shall grant the auditors all access rights necessary for the verification under the same conditions than the ones mentioned in Art. 16.4 of the Grant Contract.

7.4. ADMINISTRATIVE VERIFICATIONS AND ON-THE-SPOT CHECKS

According to article 26 par.6 of the Implementing Regulation, the Managing Authority, will perform:

- (a) administrative verifications for each payment request by beneficiaries;
- (b) on-the-spot project verifications (which may be carried out on a sample basis).

The checks will be carried out in order to verify that services, supplies or works have been performed, delivered and/or installed and whether expenditure declared by the beneficiaries has been paid by them and that this complies with applicable law, programme rules and conditions for support of the projects.

The on-the-spot checks will be performed on the basis of a risk analysis taking into account the proportionate to the amount of the grant to a project and the level of risk identified by these verifications and audits by the Audit Authority for the management and control systems as a whole.

7.5. AUDIT ON PROJECTS

The Audit Authority (AA), eventually with the support of the members of the Group of Auditors, the European Commission, the European Anti-Fraud Office, the European Court of Auditors and any authorized institution may perform additional checks or . The audit may be carried out, on the basis of supporting documents for the accounts, accounting documents and any other document relevant to the financing of the activities.

As far as the annual audits on projects are concerned, they are performed during Programme lifetime on a sample basis. When the AA selects a project for an audit, the Lead Beneficiary as well as one or more Project Beneficiaries may be audited. The same Beneficiary might be audited more times if the same project is selected more than once or if the Beneficiary is involved in more than one project. During the audit,

auditors analyses a number of processes related to the implementation of the project, including inter alia:

- Compliance of the project with the Application Form;
- Compliance with obligations set in the grant contract and Partnership Agreement;
- Confirmation of eligibility of expenditure verified by Independent Auditors;
- Compliance with the applicable expenditure verification methodology performed by the Independent Auditors.

Audits may be carried out on the premises of the Beneficiary and/or in any other place where the project is being implemented. In case of detected non-compliances/infringements, “audit findings” are raised, which may result in financial corrections for the project. The amounts considered as ineligible by AA and leading to irregularities may not be re-used by the project.

7.6. ADDITIONAL INFORMATION

For an effective financial management it is interesting to recap the key issues identified by audits carried out on ENPI Projects. Even if ENPI contract differs from ENI one, it is useful to underline and to avoid recurrent issues and mistakes:

Key issues:

Which are the most recurrent “causes” for delays/rejection?

- 62% of the causes, are due to lack of documents: it shows a problem in the organisation as for document storage;
- 47% of the causes are violations of “rules on procurement”;
- 16% of the causes are violation to specific contract provisions, primarily mistakes in the calculation of the exchange rate. The exchange rate will be calculated automatically by the system, once the report has been validated and it is submitted to the auditor.

In addition to that, the LB and PPs were able to correct half of the identified issues. For instance, expenses incurred after the reported period could be recovered in the following report, expenses higher than the amount indicated in the budget line could be recovered after a budget modification and expenses reported in a wrong budget line could be recovered by inputting them in the correct line in a following report, typically subsistence costs reported in the budget lines for travels;

Which are the most recurrent “costs categories” involved?

- 40% of the causes refer to Human Resources. Therefore, pay utmost attention to the expenses related to this cost category;
- 26% of the causes refers to Travels;
- 14% of causes refer to subcontracted services expenses.