



Vides aizsardzības un reģionālās attīstības ministrija

Ministry of Environmental Protection and Regional Development of the Republic of Latvia

**MANAGING AUTHORITY
LATVIA – RUSSIA CROSS BORDER COOPERATION PROGRAMME 2014–2020**

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Riga, 23.10.2019.

No. ETS/5-29/21/2019

Expenditure and Revenue Verification GUIDELINES



LATVIA-RUSSIA
CROSS-BORDER
COOPERATION PROGRAMME
  



Co-funded by the European Union, the Republic of Latvia and the Russian Federation

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ABBREVIATIONS

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| address of the MA/JTS | Latvia – Russia Programme Division, Development Instruments Department, The Ministry of Environmental Protection and Regional Development of the Republic of Latvia Peldu street 25, Riga, LV1494, Latvia |
| Communication and visibility guidelines | Communication and visibility guidelines for project beneficiaries |
| EU | European Union |
| ERV guidelines | Latvia-Russia Cross-Border Cooperation Programme 2014-2020 Expenditure and Revenue Verification Guidelines |
| ERVR | Expenditure and Revenue Verification Report |
| Financing Agreement | Agreement on Financing and Implementation of Cross Border Cooperation Programme "Latvia-Russia" 2014-2020 |
| FR | Project implementation Final Report – providing information about implementation of project activities, achievements made and expenditures in the last period of reporting as well as providing information about overall achievement of planned project outputs and results and general implementation of project's budget |
| IR | Project implementation Interim Report – providing information about implementation of project activities, achievements made and expenditures at least after every six month period of reporting. |
| Individual IR/ FR | Individual Interim Report or Final Report – prepared by each beneficiary of the project, to be verified by the public officer or auditor and submitted to the lead beneficiary for preparation of consolidated report |
| Consolidated IR/ FR | consolidated Interim Report or Final Report to be prepared by the lead beneficiary summing up information of all beneficiaries' individual reports |
| Implementing Regulation | Commission Implementing Regulation (EU) No 897/2014 of August 2014 laying down specific provisions for the implementation of cross-border cooperation programmes financed under regulation (EU) No 232/2014 of the European Parliament and the Council establishing a European Neighborhood Instrument |
| JTS | Joint Technical Secretariat |
| MA | Managing Authority |
| lead beneficiary | A beneficiary designated to represent the partnership. The lead beneficiary shall inter alia sign the grant contract on behalf of the other beneficiaries and receive Programme's co-financing from the Managing Authority |

| | |
|----------------------|--|
| beneficiary | Each partner of the project, responsible for implementation of part of the activities, in accordance to the application form and to the Partnership Agreement signed with the lead beneficiary |
| Practical guidelines | Practical Guidelines for Project Implementation |
| Programme | Latvia-Russia Cross-Border Cooperation Programme 2014-2020 |

1. Introduction and purpose

These ERV guidelines set the obligatory requirements and procedures for verification of expenditure and revenue in the Programme projects. They must be used by auditors/public officers when performing expenditure and revenue verification. These ERV guidelines must be read together with the Practical guidelines, which contain crucial information about rules and procedures of the Programme, as well as Communication and visibility guidelines which provide crucial information about information and communication requirements to be observed by beneficiaries. In addition, the Programme provides information on matters of general management and implementation.

According to the Article 32 of the Implementing Regulation, each beneficiary is responsible for ensuring that expenditure declared by the beneficiary in support of a payment request to the MA/JTS (except for pre-financing request) is examined by an auditor or by a competent public officer **being independent** from the beneficiary. Auditors/public officers shall have all necessary knowledge, competence and expertise in order to carry out its tasks, including, in fields of public procurement, implementation of construction works, tax policy, employment policy etc.

NB! *the auditor/public officer performing the agreed-upon procedures undertakes to follow the GDPR¹ rules and national legislation on data protection.*

For auditors/public officers the verification subjects are individual IRs and individual FR produced by each beneficiary accompanied by supporting financial and non-financial documents evidencing each declared cost and, as the case may be, the revenue. Also, the compliance with non-profit principle shall be checked.

NB! ***100% of project expenditure²** included in the individual IR or individual FR must be verified by auditor/public officers and the results of the verification shall be reflected in the ERVR.*

The auditor/public officer shall examine whether the costs declared by the beneficiary and the revenue of the project are:

- real (expenditure was really incurred and revenues are identified and quantified),
- accurately recorded (amounts are stated and recorded according to the supporting documents), and
- eligible (in line with eligibility criteria) in accordance with the provisions of grant contract, the latest approved project application, the Practical guidelines, Communication and visibility guidelines, Financing Agreement, national rules and EU regulations.

In Latvia financial control is centralized and its functions are carried out by public officers from Investments Supervision Department of Ministry of Environment Protection and Regional Development. Expenditure verification by public officer is free of charge.

¹ Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC) (General Data Protection Regulation)

² Except flat rates.

In Russia decentralized system applies, which means that each beneficiary from Russia is responsible for procuring auditor independent from beneficiary selected using appropriate procurement procedure in compliance with the relevant provisions of the Financing Agreement. The auditor can be same for lead beneficiary and all or some of the project beneficiaries from Russia; or separate for lead beneficiary and each beneficiary from Russia. The costs for auditor shall be included in the project budget.

NB!: expenditure verification shall be done for each beneficiary separately!

The auditor shall meet **at least one** of the following requirements:

- (a) be a member of a national accounting or auditing body or institution which in turn is member of IFAC;
- (b) be a member of a national accounting or auditing body or institution. Where this organisation is not a member of IFAC, the auditor shall commit to undertake the work in accordance with IFAC standards and ethics;
- (c) be registered as a statutory auditor in the public register of a public oversight body in a Member State in accordance with the principles of public oversight set out in Directive 2006/43/EC of the European Parliament and of the Council³;
- (d) be registered as a statutory auditor in the public register of a public oversight body in a CBC partner country, provided this register is subject to principles of public oversight as set out in the legislation of the country concerned.

2. General principles, legal basis and scope of expenditure and revenue verification

2.1. Legal Basis

- Financing Agreement;
- The Latvia-Russia Cross-border Cooperation Programme 2014-2020 approved by the governments of the Republic of Latvia, the Russian Federation and adopted by the EC on 18 December, 2015, decision No C(2015) 9181
- Grant contract for implementation of the project;
- Partnership agreement for the implementation of the project;
- Practical guidelines
- Communication and visibility guidelines;
- Any amendments in the aforementioned legal basis;
- Any other guidance on the Programme website www.latruscbc.eu

Regulatory framework:

- Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action;
- Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument;

³ Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and repealing Council Directive 84/253/EEC (JO L 157, 9.6.2006, p. 87).

- Commission Implementing Regulation (EU) No 897/2014 of 18 August 2014 laying down specific provisions for the implementation of cross-border cooperation programmes financed under Regulation (EU) No 232/2014 of the European Parliament and the Council establishing a European Neighbourhood Instrument (Implementing Regulation);
- Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union.

2.2. Roles and responsibilities

Each beneficiary is responsible for

- providing project individual IR or individual FR (for corresponding reporting period) to the auditor/public officer for verification within the set deadline;
- ensuring that project individual IR or individual FR can be reconciled to accounting and bookkeeping system of each beneficiary in question and to the underlying accounts and records;
- providing sufficient and adequate financial and non-financial information, including documents in support of the project individual IR or individual FR⁴;
- ensuring that the work of auditor/public officer to perform the expenditure and revenue verification is done effectively and thus depends upon each beneficiary; each beneficiary should therefore provide full and free access to all documents and databases concerning the related operational and financial management of the project, its accounting and bookkeeping system, underlying accounts and records, including financial and non-financial documentation relevant to implementation of the project, as well as access to the premises, places, location, etc. where project activities are taking place.

The auditor/public officer is responsible for

- performing the agreed-upon procedures with regard to the project beneficiaries' individual IR or individual FR, and for issuing an ERVR to each beneficiary;

NB! ERVR form to be used and issued by the auditor/public officer is included in beneficiaries' individual IR or individual FR submitted to the auditor/public officer. Instruction for auditor/public officer on how to fill it in is also available there. Note that all of the documents indicated in these ERV guidelines shall be filled in by the auditor/public officer in English.

- undertaking the agreed-upon procedures as stated in these ERV guidelines;
- keeping any documents related to verification process for five years after the receipt of balance payment to the Programme. Provide any related documents to the MA/JTS on request.

2.3. Engagement type and objective

Expenditure and revenue verification is organised on the basis of an agreed-upon procedure which is undertaken in accordance with:

⁴ According but not limited to the List of required supporting documents for expenditure and revenue verification, available on the Programme website www.latruscbe.eu.

1. the International Standard on Related Services 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by International Federation of Accountants (IFAC);
2. IFAC Code of Ethics for Professional Accountants, developed and issued by IFAC's International Ethics Standards Board for Accountants⁵;
3. procedures described in these ERV guidelines and within the framework of the following obligatory documents, which are a part of these ERV guidelines:
 - Expenditure and revenue verification report;
 - Checklist for the expenditure and revenue verification;
 - On-the-spot Check Report;
 - Possible Irregularity Report (also to be used for cases of fraud or suspected fraud).

The objective of the expenditure and revenue verification is for the auditor/public officer to examine the factual information in the beneficiary's individual IR or individual FR and compare it with the terms and conditions of the grant contract, applicable legal framework and by completing Checklist for the expenditure and revenue verification (Annex 1). As a result of the verification, the auditor/public officer reports all factual findings and exceptions in the ERVR, including those for which the amount cannot be quantified.

Auditor/public officer indicates the amount of verified expenditure, amount of ineligible expenditure and expenditure that are accepted as eligible.

NB! *The auditor/public officer does not provide an audit opinion and expresses no assurance. The MA assesses for itself the factual findings reported by the auditor/ public officer and draws its own conclusions from these factual findings.*

In case the auditor/public officer detected possible **irregularity** (by definition of the Programme and Practical guidelines), the Possible Irregularity Report (Annex 4) is drafted and submitted together with supporting documents (such as project on – the – spot check documentation, bookkeeping documents, payment orders, bills, etc.) evidencing possible irregularity case for further investigation to the MA/JTS in paper original/or electronically signed and also sent to the email lat-rus.cbc@varam.gov.lv.

Only MA is authorized to deduct amount of irregularities from the future reports if irregularity is identified in reports which have already been accepted by the MA/JTS and the related payment claim has been reimbursed to the lead beneficiary.

NB! *The Possible Irregularity Report, indicating possible irregularity of fraud, needs to be sent directly to the MA/JTS, without any need of informing the concerned beneficiary.*

3. Overview of the expenditure and revenue verification process and deadlines

3.1. Reporting process and deadlines

Project implementation period is divided into the 6-months reporting periods, resulting in IR, but at the end of the project -the FR. In exceptional and duly justified cases, the reporting period can be extended or shortened upon prior approval of the MA/JTS.

⁵ For public officers, the above procedures and standards as stated in point 1 and 2 shall be laid down at national level taking account of international standards

Within **2 weeks** after the end of reporting period, each beneficiary within the project prepares individual IR or individual FR in English using the report template provided by the Programme and submits it together with supporting documents for expenditure verification to its auditor/public officer.

The report is submitted to the auditor/public officer:

- always electronically in MS Excel format,
- plus, it is either already signed with electronic signature or the MS Excel form is printed out and signed in paper,
- beneficiary statement for the report is added signed either with electronic signature or in paper,
- supporting documents may be submitted either by e-mail, as paper copies or scanned copies in a data carrier.

The auditor/public officers must have **4 weeks** after the IR or FR is submitted to auditor/public officer to perform expenditure and revenue verification.

NB!: *In cases where auditor/public officers needs additional information or clarifications from the beneficiary, the 4-week period time stops and commences once the beneficiary has submitted to the auditor/ public officer all the explanations/documentation requested.*

NB!: *In case no costs have been incurred by a beneficiary in a reporting period, beneficiary informs about it the relevant auditor/ public officer with an informative letter.*

Detailed procedure and conditions for submission of the IR and FR is described in Section 5.1. of Practical guidelines.

3.2. Preparation for the assignment

Prior to expenditure and revenue verification process the auditor/public officer obtains understanding of:

- terms and conditions of the grant contract by reviewing the grant contract, partnership agreement, their annexes, if applicable and other relevant information, and by inquiry of the beneficiary;
- latest approved project application form (and initially approved application form(-s)) by reviewing its worksheets;
- relevant provisions of the Programme and legal basis mentioned in Section 2.1. of these ERV guidelines;
- individual IR or individual FR.

In addition to documentation listed above auditor/public officer performing expenditure and revenue verification is recommended to get acquainted and take into account following materials:

- European Commission guidelines No Ares(2017)6254403 - 20/12/2017 "Fraud in Public Procurement. A collection of Red Flags and Best Practices" (https://ec.europa.eu/sfc/sites/sfc2014/files/sfc-files/Fraud%20in%20Public%20Procurement_final%2020.12.2017%20ARES%282017%296254403.pdf);

- Annex 1 "Contract and public procurement fraud" of the Information Note on Fraud Indicators for ERDF, ESF and CF, No COCOF 09/0003/00 - 18/02/2009 (https://ec.europa.eu/regional_policy/sources/docoffic/cocof/2009/cocof_09_0003_0_0_en.pdf);
- Article 4.2 "Red flags in public procurement procedure" of the OLAF practical guide "Identifying conflicts of interests in public procurement procedures for structural actions" (https://www.esfondi.lv/upload/02-kohezijas_fonds/Lielie_projekti/EK_vadl_par_interesu_konflikta_identif_publ_iepirk_EN.pdf).

The latest approved application form, as well as initially approved application form (-s) of the project are available on the dedicated restricted area of the Programme website www.latruscbb.eu

For auditors from Russia access to the restricted area of the website (login and password) will be assigned to the auditor by the responsible JTS employee only after original of Certificate of an auditor (Annex 2) is signed and delivered to the official address of the MA/JTS and the MA/JTS has verified that for the respective auditor notification of compliance has been submitted from the beneficiary.

NB!: *Certificate of an auditor shall be submitted for each beneficiary whose expenditure and revenue verification auditor is performing separately.*

For public officers in Latvia, access to the above mentioned restricted area is subject to the internal procedure of the Ministry of Environmental Protection and Regional development of the Republic of Latvia.

NB!: *in case the auditor from Russia performing expenditure and revenue verification is changed, the new auditor should submit the Certificate of an auditor as well.*

As additional support, the MA/JTS will organize Programme training event(s)/seminars for auditors/public officers directly engaged with expenditure and revenue verification.

3.3. Expenditure and Revenue Verification process

Auditor/public officer reviews the submitted individual IR or individual FR and supporting documents ensuring effective performance of expenditure and revenue verification.

When performing the expenditure and revenue verification, the auditor/public officer may apply techniques such as inquiry and analysis, (re)computation, comparison, other clerical accuracy checks, observation, inspection of records and documents, inspection of assets and obtaining confirmations.

NB!: *The auditor/public officer is responsible for maintaining professional scepticism throughout the expenditure and revenue verification, considering the potential fraud risks, assessing and identifying risks of irregularities due to fraud, including conflict of interest.*

During the expenditure and revenue verification the auditor/public officer follows the Checklist for the expenditure and revenue verification (Annex 1). The evidence used for performing the procedures is all financial and non-financial information, which makes it

possible to examine the expenditure and revenue, declared by each beneficiary in the individual IR or individual FR.

After finalization of the clarification process regarding individual IR or individual FR or if no clarifications and/or additional documentation is needed auditor/public officer issues an ERVR, which is compiled on basis of evidences obtained and detected factual findings.

Any expenditure that auditor/public officer considers ineligible must be listed in the ERVR and described in the list of factual findings. For ineligible expenditure, relevant evidences are attached to the ERVR and/or references to exact document/s are given. Auditor/public officer records observations regarding each entry of the detected factual finding and reflects opinion and comment of the audited beneficiary, in cases where the beneficiary disagrees with the conclusions of the auditor/public officer. In case of non-compliance with public procurement rules and project publicity rules, the auditor/public officer shall define amount of financial corrections to be applied, according to Section 8.2. of the Practical guidelines.

Therefore, as a result of expenditure and revenue verification the auditor/public officer shall issue to the respective beneficiary the following documents:

- 1) ERVR signed with electronic signature or printed out and signed in paper,
- 2) ERVR, including other parts of beneficiary's individual IR or FR, always electronically in MS Excel format,
- 3) checklist for Expenditure and Revenue Verification (Annex 1),
- 4) for ineligible expenditure detected auditor/public officer attaches relevant evidences/supporting documents;
- 5) on-the-spot Check Report (Annex 3), if applicable.

3.4. Evidence and Documentation

MA/JTS, Control Contact Points of the country of the concrete beneficiary and any other competent EU body or organization duly authorized by the aforementioned structures, may have access to the working papers of the auditor/public officer to verify the quality of work carried out.

4. General Procedures

4.1. Expenditure and Revenue Verification Evidences

The requirements that relate to verification evidence are:

- beneficiary keeps accurate and regular accounts for the implementation of the project using an appropriate accounting and double-entry bookkeeping system. All project related expenditures and receipts are clearly identified and verifiable (except cases when flat rates are applied), they are easily traced. Beneficiary maintains either one of these:
 1. separate accounting system or
 2. adequate accounting code

for all transactions related to project without prejudice to national accounting rules (except cases when flat rates are applied).

Moreover, supporting documents for expenditure and revenue verification, also listed in respective section of the Practical guidelines must:

- be easily accessible, sorted and filed so as to facilitate their examination. If supporting documents are scanned or sent electronically their file name should clearly identify the content of the document;
- be available in documentary form, whether paper, electronic or other medium (e.g. a written record of a meeting is more reliable than an oral presentation of the matters discussed); electronic documents can be accepted only where:
 - the documentation was first received or created (e.g. an order form or confirmation) by the beneficiary in electronically; or
 - the auditor/public officer is satisfied that the beneficiary uses electronic archiving system, which meets established standards (e.g. certified system which complies with national legislation).
- preferably be in the form of originals rather than photocopies or facsimiles. Yet, the auditor/public officer shall gain confidence that originals are available;
- preferably derive directly from goods, service, work providers, i.e. original invoice or contract is more reliable than an internally approved receipt note produced by the beneficiary;
- preferably to be obtained directly by the auditor/public officer (e.g. inspection of assets), it is more reliable than evidence obtained indirectly (e.g. inquiry about the asset).

The following rules are of especial importance for the auditor/public officer when performing expenditure and revenue verification. Further information on all these topics can be found in the Practical guidelines.

4.2. Use of Euro

The auditor must verify that for Russian beneficiaries, expenditure incurred in RUB is converted into EUR using the monthly accounting exchange rate set by the European Commission in the month, during which that expenditure was paid (for the reference please see: <http://ec.europa.eu/budget/infocure/index.cfm?language=en>) with an accuracy of four digits after the comma (e.g. 0.1234).

4.3. Project changes

The Programme allows for certain modifications in project activities, deliverables, budget and outputs, which do not question the purpose of the project and award decisions. In some cases minor changes may be introduced without prior approval of the MA/JTS and can be reported via IR or FR.

The procedure on project modifications is explained in Article 4 of the Practical guidelines.

If auditor/ public officer identifies that changes made in the project are not in accordance with the requirements of procedure of project changes in Practical guidelines, the auditor/public officer shall inquire the beneficiary and gain evidence that the relevant changes process has been started and the project lead beneficiary has submitted to the MA/JTS request for changes. In such case expenditure should not be marked as ineligible if no other requirements of Programme legal framework are breached.

4.4. On- the- spot checks

On-the-spot check means that auditor/public officer actually visits the project and verifies that certain activities, purchases of services and products, and infrastructure works have actually taken place in accordance with the latest approved application form, requirements of audit trail are fulfilled, and that relevant Programme rules, requirements of the Financing Agreement, national rules and EU regulations have been respected.

Auditors from Russia during the project lifetime shall go to at least one on-the-spot check for each beneficiary of each project for which expenditure and revenue verification is performed.

Public officers from Latvia undertake on-the-spot checks on a sample basis, if sampling is foreseen in national legal acts for functioning of the public officers.

On-the-spot checks should take into account the progress of projects activities; therefore, it is recommended that such checks take place when the project and beneficiaries have reported around 50% of planned expenditure or on a case by case basis, depending of specific nature of the project. In addition, it is recommended to perform additional on-the-spot within verification of individual FR.

NB!: For Direct Award Projects' it is strongly recommended to the auditor/public officer to perform on-the-spot checks at least twice for each beneficiary per project life cycle.

Following the on-the-spot check the auditor/public officer completes the On-the-spot Check Report (Annex 3). On-the spot check report should be attached to the ERVR.

As a result of on-the spot check, if respective irregularities are detected, auditor/public officer might have to prepare Possible Irregularity Report.

4.5. Procurements and rules of nationality and origin

Where applicable the auditor/public officer examines the compliance of expenditures declared by the beneficiary with **procurement rules** and **rules of nationality and origin**.

Beneficiaries from Latvia must comply with national legislation and, where relevant, EU rules for procurement.

Beneficiaries, which are public entities and public equivalent bodies from the Russian Federation, must comply with national legislation. Private beneficiaries from the Russian Federation, must comply with Annex II (Award of procurement contracts by Russian private beneficiaries) of Financing agreement.

Rules of nationality and origin are regulated by Articles 8 and 9 of Regulation (EU) No 236/2014⁶ and by Article 7 of Annex 1 (General Conditions) to the Financing Agreement.

Where the auditor/ public officer finds non-compliance with rules of nationality and origin, financial impact in terms of ineligible expenditure is stated as factual finding.

⁶ Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action

4.6. Non- profit principle

Grants awarded shall not have the purpose or effect of producing a profit defined a surplus between costs and receipts at the moment of closure of the project. However, if beneficiary gets a contribution from a third party (e.g. state contribution) or revenue deriving from project implementation (e.g., interest generated by pre-financing, charges for the use of infrastructure developed in the project, fees for service provision, etc.) it does not by default mean that non-profit principle is breached.

NB!: Beneficiary shall provide a proof that contribution from a third party or revenue deriving from project implementation is not a profit.

4.7. Flat rates and retroactive costs

- flat rate is used for BH "Office and administration costs", meaning that beneficiary does not need to document that the expenditure has been incurred and paid, or to prove that the reported amount using the flat rate would correspond to the real costs for office and administration.
- Retroactive costs – costs included under BH 7 for the development of studies and of documentation that are directly related to infrastructure development (investment project, technical project, environmental impact assessment etc.) for each infrastructure and works object, are covered as real costs up to 7% of the relevant, planned in the project infrastructure and works object's costs.
- Preparatory costs – costs for travel, translation and other costs for preparation of project full application. They are covered as a lump sum of EUR 1800 (Programme financing) per project and shall be indicated in the full application. They will be paid to lead beneficiaries that have signed grant contract.

Documents serving as evidence for eligibility of retroactive costs must be verified with the first individual IR.

ANNEXES

Annex 1 Checklist for Expenditure and Revenue Verification

Annex 2 Certificate of an Auditor

Annex 3 On-the-spot Check Report

Annex 4 Possible Irregularity Report

DOCUMENT IS SIGNED WITH SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME MARK